REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY [illegible]

DATE: 09 NOV 2022 Wednesday - Afternoon

REPORT

BY: Hon Kimani Ichungwa, MP Leader of the majority Party

[illegible] THE TABLE: Mainah Wanjohi

OF

THE AUDITOR-GENERAL

ON

KENYA PETROLEUM REFINERIES LIMITED

FOR THE YEAR ENDED 30 JUNE, 2019

International Financial Reporting Standards (IFRS)
Annual Financial Reporting Template for
Commercial Government Owned Entities

KENYA PETROLEUM REFINERIES LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019

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

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KEY ENTITY INFORMATION

Background information

The company is incorporated as a limited company in Kenya under the Companies Act Chapter 17 of the Laws of Kenya and is domiciled in Kenya. On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK. .
The entity is under the Ministry of Petroleum and Mining (Previously Ministry of Energy & Petroleum)

Vision

To be the number one supplier of integrated energy

Mission

We will maximise value addition to delight our customer and other stakeholders.

Principal Activities

The company's principal business activity is to refine crude oil into various petroleum products for sale to the oil marketing companies in Kenya. The company's business changed from toll refinery to merchant refining with effect from 1st July, 2012. The Government of Kenya (GoK) published Legal Notices No. 24, 25 and 26 dated 12th April 2012 to amend the energy regulations under the Energy Act to give legal effect to the company's merchant refining business.

However, the company's refining operations stopped on 4th September 2013. The main reason for the shutdown was that the prices of the products produced by the refinery were marginally higher than those of imported products. This was caused by lack of secondary refining capabilities that would optimise the production of fuel oil. The fuel oil accounted for more yields upto 30% prior to the shut down and conversion of Tops yield to petrol. The company has continued operating by rendering storage of imported petroleum products services and leasing its storage tanks and pipelines.

On 11 August 2016, the Cabinet of the GoK (as 100% shareholder of KPRL) directed that KPRL be taken over by the Kenya Pipeline Company Limited (KPC). Subsequently KPC initiated a due diligence process which was conducted by Price Water House Coopers, (PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision.

As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalization of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1 June, 2017.

KEY ENTITY INFORMATION (Continued)

KPRL Background (*Continued*)

Under the Lease Agreement, the consideration for using KPRL facility is that KPC would retain all the staff of KPRL and reimburse the company all operating expenses, exclusive of depreciation expense, which would fall due at the end of the lease period. The agreement further provides that KPC may at its option undertake any upgrading, modification, expansion and/or new investment within the facility at its cost, which shall be treated as KPC's cost of investment. In the unlikely event of termination of the agreement before the takeover is actualized, KPC would be entitled to a refund of the upgrading costs by the GoK. A further conditionality for KPC's takeover of the facility was that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 for the implementation of the joint proposed roadmap on takeover of KPRL by KPC. Both KPRL and KPC take note that the implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

Members of the steering committee consist of at least 2 members representing KPRL, KPC, SCAC, Ministry of Petroleum & Mining ,Office of the Attorney General and The National Treasury. The Steering Committee began sitting on 25th September, 2020.

Directors

1.	Ms. Lilian B. Mahiri Zaja	- (Appointed on 6th February 2017)
2.	Mr. Henry G. Karinga	- (Appointed on 6th February 2017)
3.	Mr. Hesbon O. Gondi	-(Appointed on 25th March 2003)
4.	Mr. Andrew N. Kamau	-(Appointed on 18th December 2015- Alternate Mr. J.Wafula)
5.	Mr. Henry K. Rotich	-(Appointed 15th May 2013- Alternate Mr. J. Kariuki)
6.	Mr. Charles Nguyai	-(Ag. Chief Executive Officer-Appointed on 1st Sept 2016)*

**** Mr. Charles Nguyai retired on 6th October 2019. Mr. Joseph B. Ndoti, Chief Finance Officer was appointed as Acting Chief Executive Officer.***

KEY ENTITY INFORMATION *(Continued)*

Corporate Secretary

Muthoni Gatere,
Ledger Registrars,
Certified Public Secretaries of Kenya (ICPSK)
Epic Business Park Bldg, Links Road Nyali,
P. O. Box 43085 – GPO 80100
Mombasa, Kenya.

Registered Officer

Kenya Petroleum Refineries Limited
Changamwe, off Refineries Road,
P.O. Box 90401- 80100 GPO,
Mombasa, KENYA.

Corporate Headquarters

Kenya Petroleum Refineries Limited
Changamwe, off Refineries Road,
P.O. Box 90401- 80100 GPO,
Mombasa, KENYA

Corporate Contacts

Chief Executive Officer,
P.O. Box 90401-80100 GPO,
Mombasa, KENYA.
Telephone :(254) 041-3433510-9
E-mail: refinery@kprl.co.ke
Website: www.kprl.co.ke

KEY ENTITY INFORMATION ***(Continued)***

Corporate Bankers

Absa Bank Kenya Plc,
Nkrumah Road Business Centre,
P.O. Box 90182,
Mombasa, Kenya.

Standard Chartered Bank Kenya Ltd,
Treasury Square,
P.O. Box 90170,
Mombasa, Kenya

Citibank, N. A.
Nkrumah Road Branch,
P.O. Box 83615,
Mombasa, Kenya.

NCBA Bank Plc
Moi Avenue Branch,
PO Box 90681,
Mombasa, Kenya.

National Bank of Kenya,
Nkrumah Road Branch,
P.O. Box 90363-80100,
Mombasa, Kenya.

Independent Auditors
Main Auditor
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084,
GPO 00100
Nairobi, Kenya

Principal Legal Advisors

The Attorney General,
State Law Office,
Harambee Avenue
P.O.Box 40112,
City Square 00200,
Nairobi, Kenya.

Coulson Harney Advocates,
ICEA Lion Centre, Chiromo Road,
West Wing, 5th Floor,
P.O. Box 10643,
GPO 00100,
Nairobi, Kenya.

Kaplan & Stratton Advocates
9th Floor, Williamson House
4thNgong Avenue
P. O. Box 40111- GPO 00100
Nairobi, Kenya.

Lumatete Muchai & Co. Advocates
Epic Business Park, 3rd Floor
Links Road, Nyali
P.O. Box 90565 – GPO 80100
Mombasa, Kenya.

Cootow and Associates Advocates
NSSF Building, 11th Floor
Nkrumah Road
P.O. Box 16858 – GPO 80100
Mombasa, Kenya.

Bowyer Mahihu & Co. Advocates
Mt. Kenya Road, Nyali
Opp. Bahari Beach Hotel,
P.O. Box 80735 – GPO 80100
Mombasa, Kenya.

THE BOARD OF DIRECTORS

Name of Director	**Provide a concise description of each Director's date of birth, key qualifications and work experience**	
1. Mr. Andrew Ng'ang'a Kamau (Alternate Mr. J.Wafula)	DOB-1966, Permanent Secretary, State Department of Petroleum. DOB-06/06/1975 Mr.Wafula is a Senior Economist at the State Department of Petroleum.	
2. Mr. Henry K. Rotich (Alternate Mr. J. Kariuki)	DOB-19/02/1969, Cabinet Secretary for The National Treasury. DOB-01/08/1963. Alternate Director, The National Treasury.	
3. Mr. Hesbon Gondi Olum	DOB-05/09/1941. He holds a M.Sc. in Economics (Kiev Institute, USSR 1969) and B.Phil. in Economics (UoN 1971). Formerly the CECM Trade, Industry & Co-op Devt Siaya County. A career civil servant, he has held senior positions in the Ministry of Planning & National Devt. and Ministry of Health as well as the Central Bureau of Statistics.	
4. Ms. Lilian B. Mahiri-Zaja	DOB-08/12/1964 Lilian B. Mahiri-Zaja is an advocate of the High Court of Kenya and holds a Master of Law Degree from the University of Reading, United Kingdom (2002); a post- graduate Diploma in Legal Education from the Kenya School of Law (1989); and an LL.B. (Hons.) degree from the University of Nairobi, Kenya (1988). She was previously the Vice Chairperson at the IEBC and has held various positions in the Department of Justice including Deputy Chief Legal Officer from 2004-2011. Ms Mahiri-Zaja is currently a Commissioner with the Energy & Petroleum Regulatory Authority (EPRA).	

Name of Director	Provide a concise description of each Director's date of birth, key qualifications and work experience	
5. Mr. Henry G. Karinga	DOB-13/03/1966 He holds a Bachelor of Science (UoN) 1990 and Global Executive MBA (USIU) 2016. Managing Director – H.K. Builders & General Contractors Ltd	
Mr. Charles Nguyai	DOB 06/10/1959 Currently the Acting Chief Executive Officer. He holds a Bsc. In Mechanical Engineering (UoN). He joined the refinery as a Planning Engineer and has over 32 years refinery experience gained working in various capacities within KPRL. He is a member of the Institute of Engineers of Kenya and a certified RBA Trustee.	
Ms. Muthoni Gatere	DOB-05/03/1963 Muthoni is a practising Advocate with 30years experience. She holds a Masters degree in International Maritime Law (IMO- IMLI Malta); a post- graduate Diploma in Legal Education from the Kenya School of Law (1987), LL.B. (Hons.) from UoN (1986) and is a Certified Public Secretary (ICPSK) and member of the Law Society of Kenya (LSK). She has previously worked at KPA as a Board Secretary for 15 years and has expertise in negotiating complex commercial contracts and Pension schemes set up and management. She is currently a Consultant with Ledger Registrars (Certified Public Secretaries).	

MANAGEMENT TEAM

Name of the Staff	Responsibility	
Mr. Charles Nguyai	DOB-06/10/1959 Currently the Acting Chief Executive Officer. He holds a Bsc. In Mechanical Engineering (UoN). He joined the refinery as a Planning Engineer and has over 30 years refinery experience gained working in various capacities within KPRL. He is a member of the Institute of Engineers of Kenya and a certified RBA Trustee.	
Ms. Abigail Mwangi	DOB-10/10/1968 Currently the Chief Operating Officer now seconded to the Ministry of Energy and Petroleum. She holds a Bsc. Chemistry (UoN). Ms. Mwangi joined KPRL in 1992 and has held a number of senior positions including Commercial Manager (Jul 2012-Oct 2016) Manager Hydrocarbons & Economics (June 2012-Oct 2010) and Manager Process Operations (June 2008-Oct 2010)	
Mr. Martin Wahome	DOB-24/04/1965 Currently the Human Resource Manager, KPRL. Holds a Bachelor's degree in Social Sciences (UoN) and an MBA from Middlesex University. Mr. Wahome Joined KPRL in Sept 2004 and has over 16 years' experience in Human Resources Management. He has previously worked for Block Hotels, Sara Lee Limited and Unga Group Limited in the same capacity. He is a member of the Institute of Personnel Management and a certified RBA Trustee.	

Name of the Staff	Responsibility	
CPA. Joseph Ndoti	DOB-05/07/1972 Currently the Chief Finance Officer KPRL from January 2019. He has over 20 years' experience in Accounting & Financial Management. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled the career ladder to his current role. He holds a B. Com Accounting and MBA in Strategic Management (UoN) and is a Certified Public Accountant. He has previously worked in Cargill Kenya and P&O Nedloyd.	
Eng. Evanson Momanyi	DOB-01/01/1964 Currently the Engineering Manager at KPRL. He joined KPRL in Nov 1992 and has over 24 year's professional engineering experience in various industries and fields in Manufacturing, Projects, Operations management, Quality, Health & Safety Management. Before joining KPRL he worked in Bamburi Portland Cement Ltd and the Ministry of Works. He holds a B.Sc. Mechanical Engineering and MBA in Operations Management both from UoN. He is registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.	

DIRECTORS STATEMENT

During the financial year for the 12-month period that ended on 30th June 2019, the Company has been operating under the Lease Agreement which was entered on 7th March 2017, between KPRL and the Kenya Pipeline Company Limited (KPC).

The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL in September 2013, where upon the major assets of KPRL were underutilized. In accordance to a letter from the Ministry of Energy and Petroleum dated 16th August 2016, the Cabinet had directed that the KPC take over the management of KPRL. Subsequently KPC initiated a due diligence process which was conducted by Price Water House Coopers, (PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision. The lease regime was therefore seen as an interim phase to allow the finalisation of due diligence and decision making on form and strategy of takeover of KPRL by KPC.

Vide letters dated 6th November and 27th November 2018 from The National Treasury (TNT) and Ministry of Petroleum & Mining respectively, GoK directed KPRL and KPC Boards to expedite the necessary decisions to finalise the takeover of KPRL by KPC. The anticipated joint board meeting with KPC Board in FY2018/19 did not materialize. The meeting was to review the existing implementation of the Lease Agreement and also deliberate about the takeover bid of KPRL by KPC.

KPRL has formed the KPRL Roadmap Adhoc Committee of Board of Directors to follow up with GoK and define the road map for the ultimate future of KPRL. The going concern issue has been raised by the external auditors, who need assurance that GoK has solid plans for continuity. KPRL requested for a letter of assurance from Government through the Ministry of Petroleum and Mining (MOPM), and The National Treasury (TNT). KPRL had a follow up meeting on 12th March, 2019 with the Director General –Public Investments and Portfolio Management, who is currently charged with the matter. The letter of assurance is required to by the external auditors before they can sign the accounts for FY2013/14 and pave the way for finalization of accounts for FY2014/15 and 2015/16. Office of the Auditor General (OAG) was expected to take over audits for FY 2016/17 and beyond. In march 2020 OAG commenced audits for FY2016/7, 2017/18, 2018/19 and 2019/20.

Subsequently, the Director General Portfolio and Investment advised, in a meeting held on 12th March 2019 at the National Treasury and attended by KPRL that a taskforce would be constituted to study the background and status of KPRL and advise him the possible future options. He would then be able to decide on the matter of the letter of assurance from an informed position. The implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning. Members of the steering committee consist of at least 2 members representing KPRL, KPC, SCAC, Ministry of Petroleum & Mining, The Steering Committee began sitting on 25th September, 2020.

Signed by Director of the Board

REPORT OF THE CHIEF EXECUTIVE OFFICER

During the year under review i.e. Jul 2018 – June 2019, the Company has been operating under the Lease Agreement which was entered on 7th March 2017, between KPRL and the Kenya Pipeline Company Limited (KPC). The arrangement provides for recovery of KPRL operating costs without a profit Margin

The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL in September 2013, where upon the major assets of KPRL were underutilized. In accordance to a letter from the Ministry of Energy and Petroleum dated 16th August 2016, the Cabinet had directed that the KPC take over the management of KPRL. Subsequently KPC initiated a due diligence process which was conducted by Price Water House Coopers, (PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision. The lease regime was therefore seen as an interim phase to allow the finalisation of due diligence and decision making on form and strategy of takeover of KPRL by KPC.

KPRL Budget -FY2018/19

Due to delay in approval of KPRL'S Budget for FY 2018/19, implementation of the scheduled budgeted activities has fallen behind particularly scheduled repairs and maintenance. Also recurrent budgets for various items were either reviewed downwards or provisions not made by KPC for activities that had been approved by KPRL Board. Thus, in accordance with Public Finance Management Act (PFMA) of 2012, board paper for supplementary budget in respect of board expenses has been submitted to KPRL board for approval.

However due to time constraints occasioned by need to comply with procurement rules governed by Public Procurement Disposal Act (PPDA) of 2015, the approval and implementation of the consultancy work on valuation of KPRL assets, audit for corporate and statutory compliance as per the Code of Governance for Corporate State Entities (Mwongozo), feasibility studies and market survey was deferred for approval and implementation in FY 2019/20.

Vide a letter reference no. CON/MOF.12/02, dated 14th March, 2019, the Principal Secretary/ National Treasury issued reporting guide lines for KPRL and KPC about the budgeting process that will ensure timely and adequate funding of KPRL's residual operations essential for a legal entity pending take over by KPC.

Capital Expenditure Program -FY 2018/19

It is noteworthy that during the term of the KPRL/KPC Lease Agreement, the capital investment program is developed, managed, and implemented by Kenya Pipeline Company. Project phasing, scheduling, procurement, technical specifications and entire field control is carried out by the Kenya Pipeline Company. Capital project reports appear in this KPRL quarterly report for completeness. Except for EOPS project, the FY2018/19 CAPEX program is behind schedule due to delayed funding.

REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

Early Oil Pilot Scheme (EOPS) Project:

The Early Oil Pilot Scheme (EOPS) is a government initiative to introduce Kenyan crude oil to the global market. The crude oil is trucked from Turkana for storage at Kenya Petroleum Refineries Ltd (KPRL) from where it will subsequently be exported via Kipevu Oil Terminal jetty. Due to the waxy nature and high pour point of Kenyan crude oil, it has to be handled at elevated temperatures (above about 50 degC) for it to be pumpable. At ambient temperature the crude oil does not flow.

The flow characteristics of Kenya crude oil therefore required that the receipt, storage and export facilities at KPRL had to be modified to enable operations at the required elevated temperatures.

The overall progression of EOPS modifications stood at 56% as at end June 2019. Execution priority was given to those components that are required for the first crude oil export that was planned for July/August 2019. The late kick-off of project execution works, difficulties in obtaining access to the KOT jetty, and contractual issues with a number of contracts that require legal guidance contributed to the lower rate of project progression. As at end June 2019, some 1,162 truckloads had delivered 167,050 barrels (23,012 MT) of crude oil to KPRL with a target export parcel of 200,000 barrels.

Future Mandate of KPRL

Vide letters dated 6th November and 27th November 2018 from The National Treasury (TNT) and Ministry of Petroleum & Mining respectively, GoK directed KPRL and KPC Boards to expedite the necessary decisions to finalise the takeover of KPRL by KPC.

The anticipated joint board meeting with KPC Board in Quarter 1 of FY2018/19 did not materialize. The meeting was to review the existing implementation of the Lease Agreement and also deliberate about the takeover bid of KPRL by KPC.

KPRL Board has formed an Adhoc Committee to follow up with GoK and all stakeholders with view to define the road map for the ultimate future of KPRL.

KPRL Going Concern Issue and Status of KPRL Pending Audits

The going concern issue has been raised by the external auditors, who need assurance that GoK has solid plans for continuity. KPRL requested for a letter of assurance from Government through the Ministry of Petroleum and Mining (MOPM), and The National Treasury (TNT).

KPRL had a follow up meeting on 12th March, 2019 with the Director General–Public Investments and Portfolio Management (DG) who promised to respond on the matter. The letter is required by the external auditors before they can sign accounts for FY2013/14 and also for the purposes of finalizing accounts for FY2014/15 and 2015/16. Office of the Auditor General (OAG) is expected to appoint KPRL auditors for FY 2016/17 and beyond.

REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

Subsequently, the Director General advised, in a meeting at National Treasury with KPRL on the 12th March 2019, that a taskforce shall be constituted to study the background and status of KPRL and advise him the possible future options. He would then be able to decide on the matter of the letter of assurance from an informed position.

Company remains non-compliant with respect to audited accounts for the FY years 2014/15, 2015/16 and 2016/17.Vide a letter reference no, CEO.036/03/2019 dated 2nd April, 2019, KPRL apprised the Office of Auditor General, (OAG) about this status of the pending audited accounts.

Wind up of DB Pension fund

In the year 2011 the Board approved the conversion of the KPRL Defined Benefit Pension Scheme to Defined Contribution(DC) Pension Scheme, which was implemented with effect from 1st January 2017. The Board of Trustees appointed a liquidator to wind up the Defined Benefit Pension Fund. The liquidation process is now complete and the Retirement Benefits Authority, RBA, has confirmed the closure of the Defined Benefits Fund (DB).

Land Matters:

a) KPRL continues to face challenges presented by land fraudsters who are becoming bolder with time. In June 2019, KPRL was sued by a private entity on ground that it was building a wall on its land. The subject land is plot no. MN/VI/2513 which has been owned by KPRL since the 1960s. Currently matter is in court.

b) KPRL leased the plot MN/I/956 to Olivine Investments in 2018 for quarterly rent of KES 200,000. The tenant has failed to pay, and upon end of lawful notice KPRL effected the eviction, whereupon the ex-Tenants went to court and obtained a court injunction demanding that KPRL reinstate them at the risk of a Contempt of Court. KPRL reinstated to tenant under duress and legal advisory and filed application to counter this apparent abuse of court processes.

c) The County Government of Mombasa has a suit against KPRL for rates for parcels of land that they claim KPRL has not paid in spite of evidence of their own receipts of payment. The disputed principal amount and accrued interest was KES 122M as at 28th February, 2019.

d) County Government of Mombasa has made proposals to substantially increase land rates by large percentages, averaging 1800%. Annually KPRL bill will increase from KES 4M to KES 73M. KPRL has instituted court proceeding to counter the increased rates.

e) The Government of Kenya, has requested that KPRL indicate all the land available and potential for the Affordable Housing Programme.

f) KPRL Plot MN/VI/255 at Migadini is occupied by squatters whom KPRL has been intending to evict as court had already granted the eviction orders. The local MP has now taken matters to Parliament on behalf of the squatters.

REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

The Board to note the above trend and the increasing cost of securing the idle pieces of land and consider accelerated process for utilisation/leasing of these properties through secure agreements for the long term security.

<u>EPRA inquiries on Yield Shift claims:</u>
KPRL has been approached by Energy and Petroleum Regulatory Authority (EPRA) to declare the actual value of yield shift not passed as at the time of close of tolling mode. This matter was effectively taken up by GOK when GOK, jointly with industry, commissioned the forensic audit of the YS, the result of which was accepted by GOK and Industry. These facts have been shared with EPRA, but have also submitted, upon their insistence, the KPRL generated number, based on reports available.

<u>Withholding Tax on Lease Expenses Recoveries:</u>

The lease agreement was based on "at cost" recovery of all expenses at KPRL while KPRL ceded the operations of the Assets and all revenue streams to KPC. The imposed WH tax by KPC becomes a cost in these circumstances as KPRL has no revenue. KPC has not remitted the deductions in spite of the expert advice by both KPMG and PWC. KPRL intends to recover the deducted amounts from KPC, as the current action deliberately exhausts the funds meant to deal with KPRL legacy matters, not covered by lease recoveries. Further, by KPC not remitting those funds constitutes a breach of the terms of the Lease Agreement.

<u>Profit after Tax and Other Comprehensive Income</u>

Loss after tax and other comprehensive income for the year 2018/19 was KES 138.86M compared to previous year's profit after tax and other comprehensive income of KES174.02M. The loss for the financial year (FY) 2018/19 is due to non-recovery of provision for depreciation on refining plant and associated equipment and interest on hydrocarbons deadstock belonging to Oil Marketing Companies (OMCs) from the defunct tolling refinery business.

<u>HR Matters</u>

There is continued loss of skilled manpower due to departures and natural attrition resulting in a need for urgent recruitment of new staff. KPRL has indicated current manpower levels are inadequate to continue with optimal and safe operations. Specific human resource needs have been identified under the following categories: - legal practitioner, procurement practitioners, electrical, mechanical, project engineers, instrumentation engineers, audit and Finance.

Due to the undocumented procedural requirements in the current setup, KPRL has been unable to implement key HR policies. There is therefore a dire need to review and implement the entire staff benefits and remuneration, motivation and progression programs. This will help retention, morale, and improve operational results.

REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

HSSE Performance

Cumulative work hours without LTI as at 30th June 2019 were 464,236 against a target of 500,000. However, as construction activities increase, there are concerns about the large number of contractor staff at the Refinery sites, while there is no commensurate increase in supervisory staff (namely Engineers, Technicians and Operations staff). This matter needs to be addressed as a matter of urgency.

It is crucial that a review of manpower requirements is done to establish if these gaps will not result in collapse of vital systems at KPRL with view to taking the corrective decision.

Signed by Ag. Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

Leadership and Responsibilities

a) Overview

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization. Throughout the year ended June 2019, the Company, endeavored to comply with its constitutive documents, The Constitution of Kenya 2010, Code of Governance for State Corporations 'Mwongozo' and The State Corporations Act. The Company is committed to supporting corporate governance guidelines through embedment of internal rules of engagement that reflect the highest standards of behavior.

b) Role of the Board

The Board is made up of five (5) Directors and has functioned without a substantive Chairperson since the exit of Director Suleiman Shakombo on 21st October 2016 vide gazette notice number 8733. The Board is collectively responsible for the Company's vision and strategic direction, its values and its governance. The Board is also accountable to the Company's shareholders for the performance of the business and its long-term success. It provides the leadership necessary for the Company to meet its performance objectives within the framework of internal controls.

The key responsibilities of the Board include;

- Approving Company Strategy
- Approving Company Policies
- Approving Annual Reports
- Approving the Company budget
- Agreeing on governance framework
- Reviewing risk management and internal controls
- Reviewing periodic financial reports

The Board has established two principal Board Committees to which it has delegated certain responsibilities namely; the Business Committee and the Audit and Compliance Committee. The roles, membership and activities of these committees are as described later in this report. Each Committee has its own terms of reference which are subject to review annually.

To assist the Company, align its policy and strategic direction with the Government agenda, the Board at its meeting on 18th April 2019, constituted the KPRL Road-Map Committee, an adhoc committee of the Board of Directors tasked with the engagement of Government of Kenya through the Ministry of Petroleum and Mining for a determination of a policy decision on the way forward for KPRL.

CORPORATE GOVERNANCE STATEMENT *continued*

c) Division of Responsibilities

The chairperson is responsible for the leadership of the Board by ensuring effectiveness on all aspects of its role and facilitating productive contribution of all Directors. He sets the Agenda for the Board meetings in consultation with the Chief Executive Officer and the Company Secretary. He is also responsible for ensuring that the interests of the shareholder are safeguarded and effective communication is maintained with the shareholder. The chairperson is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for overall supervision of the policies governing the conduct of the business.
As the board does not have a substantive Chairperson, the Board, in its meetings nominates a designated Director to facilitate ease of coordination and functioning of the Board and Management. This member is charged with coordinating board activities and execution of any approved documents on behalf of the board until the appointment of a substantive chairperson by the relevant authority.

The Chief Executive Officer has overall responsibility for the performance of the business. He provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board. He is also responsible for stewardship of the Company's assets and, jointly with the Chairperson, for representation of the Company externally.

d) Information and Support

The Board receives high quality, up-to date information for review in good time ahead of each meeting. The Company Secretary ensures timely information dissemination within the Board and its Committees.

e) The Composition of the Board

The composition of the Board as at 30th June 2019 is as set out in the key entity information on page (iv). It is however noteworthy to advise of the following changes have been effected at the Registrar of Companies during the current financial year:

Former Director	Current Director	Office	Alternate Director
Mr. Patrick Nyoike	Mr. Andrew Kamau	Principal Secretary, State Department of Petroleum	Mr. Joseph Wafula
Mr. Joseph Kinyua	Mr. Henry Rotich	Cabinet Secretary, National Treasury	Mr. Joseph Kariuki

As detailed in the below schedule, the Board held five (5) full Board meetings, three (3) Special Board meetings and eight (8) Board Committee meetings during the year 2018/2019 with one (1) Annual General Meeting held on 7th March 2019 at the Company's Boardroom.
Schedule of Meetings – Financial Year Ended 30th June 2019:

Special Board	Full Board	Audit & Compliance Committee	Business Committee
16th August 2018	26th July 2018	30th October 2018	19th July 2018
31st October 2018	21st September 2018	30th May 2019	20th September 2018
30th May 2019	14th December 2018		30th October 2018
	31st January 2019		13th December 2018
	18th April 2019		30th January 2019
			17th April 2019

CORPORATE GOVERNANCE STATEMENT continued

The attendance was as follows:

Name	Lilian Mahiri-Zaja	Hesbon.O. Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula
Meetings to Attend	11	16	14	17	14
Meetings Attended	17	16	12	17	12

f) Balance and Diversity

Board Directors come from a diverse industry and professional backgrounds with varied experience and expertise aligned to the needs of the business.

g) Conflict of Interest

Directors are required to give advance notice of any conflict of interest issues to the Chairperson and Company Secretary and these are considered at the next Board meeting. Declaration of conflicts of interest is the first agenda item for all Board meetings. No conflicts were reported by the Directors in 2018/2019.

h) Information and Professional Development

On joining the Board, all Directors receive a full induction on all areas of the Company's business which includes a tour of the refinery complex and tank farms.

i) Training and Development

The Board and its Committees receive regular briefings on the legal regulatory developments within the government and the industry.

j) Directors Remuneration

The Directors remuneration is solely guided by the guidelines set forth in the Terms and Conditions of State Corporations for Chairmen and Board members and the Salaries Remuneration Commission (SRC) circular dated 10th December, 2014 and the amendments thereto.

k) Roles of the Business Committee

The Business Committee plays a major role in the Finance, Human Resources, Technical and Strategy Matters of the Company. The committee oversees the integrity of financial reporting, the independence and effectiveness of internal and external audit functions and compliance with legal and regulatory requirements. The responsibilities of the committee include reviewing the business risk management processes as well as the health, safety, security and environment functions. This committee further oversees the company's major projects, the strategic direction of the company and operations of the business. It also guides the development, review and authorization of procuring and contracting procedures.

This committee also oversees the Company's human resources policy, practices and procedures taking into account that Human resources are one of the most important stakeholders of the Company.

CORPORATE GOVERNANCE STATEMENT *continued*

l) Role of the Audit and Compliance Committee

The Audit and Compliance Committee is responsible for monitoring the integrity of financial statements and any formal announcements relating to financial performance.

In addition, the committee makes recommendations to the Board in relation to the appointment, reappointment or removal of the external auditors and the remuneration and terms of engagement of the external auditors.

The committee reviews and monitors the independence of the external auditors and the objectivity and effectiveness of the audit process, taking into account relevant professional and regulatory requirements.

MANAGEMENT DISCUSSION AND ANALYSIS

ENGINEERING HIGHLIGHTS

Introduction:
The key maintenance activity under Refinery Complexes I and II is continued maintenance of nitrogen top-ups meant for partial preservation of the equipment. This exercise has been in progress from shutdown in 2013. ***The condition of the process plant equipment is disintegrating as no proper preservation has been funded.***

I) Rotating & Mobile Equipment
The periodic rotating of rotors for pumps at pre-determined intervals continued and the equipment is still in gasoil preservation while compressors are in nitrogen preservation. The required condition monitoring of rotating equipment in operation continued.

The Control Room generator, Black Start generator at the Power Plant and Port Reitz tank farm generator were serviced. Also the defective fuel oil boiler D pump was replaced with a new one and Foam nurser KBU 861G brakes system were repaired and the engine serviced.

Tendering process for some compressors scheduled to be serviced by Original Equipment Manufacturer (OEM) agents progressed after approvals were obtained. K2270H repairs at Car & General Workshop done and compressor back on site.

II) Storage Tanks
Tendering for both tank T102 and T210 was done and awaiting award. Tanks T118 and T119 passed the steam coils hydro test, inspection and cleanout followed and box up. Tank T611 was opened, cleaned, inspected and box up after servicing of all the Relief valves and other valves. Tanks T 111 and T112 roof legs adjusted to operation position and repairs carried out by use of fibre matt on tank T111 leaking pinhole on the roof.

III) Site Works
General site cleaning and clearing of grass continued where herbicides on grass and landscaping was carried out. Also bush clearing along boundary wall from scaffolding yard to KPC input was done and cleaning of storm drains was carried and general building renovations. Erection of Plot 2513 boundary wall was completed. The crude offloading sheds along Road 6 was done.

IV) Transfer Pipelines
Routine maintenance and monitoring works were carried out. The works on Fuel oil and LPG pipeline to SOT at KPA (Kipevu Bridge) section were replaced.

V) Captive Power Plant.
The main generator of the Captive Power Plant could not be spinned as planned due to failure of a circuit breaker. The component was delivered to site and installed but another fault was noted on the operator station, and now being followed up with vendor engineers.

MANAGEMENT DISCUSSION AND ANALYSIS
ENGINEERING HIGHLIGHTS *Continued*

VI) Instrumentation & Control

The scheduled checks and testing of safeguarding systems were done as planned and no mal-function noted. The CCTV camera failures, contract was awarded and replacement works for the faulty cameras are in progress. PMS meter for track loading failed in service and contract for the repairs was awarded. The service provider has ordered for the faulty spare part. Weighbridge failed in service, trouble shooting done and faulty load cell cable was replaced.

VII) Electrical

The overhead power supply line no.2 to KOT facilities failed in service. Temporary repairs were done to restore the line. Kenya Power have been contracted for parmanent repairs of the line and the repair activities are awaiting accounting process to be finalized at KPLC. The main power cable supplying the intermediate tanks at KPRL/KPC tank-farm which had failed in service, was succesfully repaired and commissioned. Therefore main Line Pumps -P651/2/3 are now availabe for use. The power cable feeding main administration building failed in service, temporary repairs were done and power restored. Project proposal is in circulation for replacement of the faulty cable.

The Main Line Pump -P652 that was under repair, was installed back and commissioned. Tank-305 manifold motorized valve failed in service and was replaced with a spare one. And Kipevu cathodic protection power cable also failed in service and the faulty cable was replaced and system commissioned. Pump P641 motor burnt due to faulty power supply and was replaced with spare one.

VIII) Inspection & Integrity

EOPS inspection and QAQC initiatives during construction of the new equipment and crude tanks T-101, T-103 and T-104 rehabilitation as per project specification. Non-Destructive (NDT), Hydrostatic, painting testing completed for flushing tank T-7802, condensate and sump drain vessels. For new jetty hoses, modified riser pipes and new swivels NDT and hydro-tested. Finalized the inspection QA/QC surveillance for T-118 Techno foam and technocrat insulation

Inspection and repair following-up on leak on T-210, 18" MSP line. 18" MSP Line to T-209 also found severely corroded.

Participated in FAT in Tianjin, China for pipelines replacement project along Changamwe round about to KPA road and for EOPS two new Boilers in China.

Continued with routine monitoring/on-stream inspection of active tanks, piping and safety relief devices RVs/PVs overhaul review and testing as per schedule.

Inspection and hydro test of the 8" LPG pipeline replacement section across Kipevu KPA Bridge was carried out. Also progress with scheduled tank external shell thickness measurement and visual inspection of the active PMS and AGO tanks

MANAGEMENT DISCUSSION AND ANALYSIS

ENGINEERING HIGHLIGHTS *Continued*

IX) Early Oil Pilot Scheme Project:
The Early Oil Pilot Scheme (EOPS) is a government initiative to introduce Kenyan crude oil to the global market. The crude oil is trucked from Turkana for storage at Kenya Petroleum Refineries Ltd (KPRL) from where it will subsequently be exported via Kipevu Oil Terminal jetty. Due to the waxy nature and high pour point of Kenyan crude oil, it has to be handled at elevated temperatures (above about 50 degC) for it to be pumpable. At ambient temperature the crude oil does not flow.

The flow characteristics of Kenya crude oil therefore required that the receipt, storage and export facilities at KPRL had to be modified to enable operations at the required elevated temperatures. There were a total of eleven tenders floated for the various modification works with awards being made in June 2018. Actual works on nine contracts commenced from July 2019; one contract (for pumps, pipelines and other works) delayed until November 2018 and one other tender (for 18-inch pipeline works) did not take off. This final tender was ultimately tendered 3 times unsuccessfully and the required works remain un-executed by end of the financial year.

The overall progression of EOPS modifications stood at 56% as at end June 2019. Execution priority was given to those components that are required for the first crude oil export that was planned for July/August 2019. The late kick-off of project execution works, difficulties in obtaining access to the KOT jetty, and contractual issues with a number of contracts that require legal guidance contributed to the lower rate of project progression. As at end June 2019, some 1,162 truckloads had delivered 167,050 barrels (23,012 MT) of crude oil to KPRL with a target export parcel of 200,000 barrels.

X) STATUS OF OTHER PROJECTS

The following projects were under implementation and status is as here under;

1. Conversion of T102- *Tender evaluation done awaiting award.*
2. Replacement of LPG pipe section across Kipevu Bridge- *Completed*
3. Cathodic Protection Upgrade - *Tender bids were received, opened and evaluated but was not awarded as after the review, it was found to have been overtaken by current operational requirement thus deferred to a later date.*
4. Replacement of 02Nos, utility vehicles - Specifications prepared for tender. – *No action.*
5. Replacement of faulty LPG transfer meter- *Completed*
6. Replacement of Desktop and Laptop Computers- *Laptop computers were delivered but Desktop computers still awaiting delivery.*
7. Replacement of Internet Security Gateway Device-*Delivered, installed and commissioned.*
8. Yokogawa DCS System upgrade- *contact signing in progress*
9. Upgrading of truck loading facility- *Awaiting Contract Extension for the work to proceed.*

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES HIGHLIGHTS

Manpower

Manpower strength as at 30th June 2019 stood at 126. Overall manning levels continued to decline as the KPRL/KPC three years lease agreement progressed. Filling of vacant positions critical to the company's operations is currently under consideration by Management.

Arrivals (Contract)

A total number of 6 employees were engaged at KPRL on contract in the year to help alleviate the manpower constraints currently being experienced by the company.

Resignations and Retirement

The year saw the total number of staff exits reach 13. Exits included Benjamin Mutuku (Assistant Accountant), Evans Odhiambo and Shadrack Sang (Operations Technicians) while Samuel Ngure Maina is serving his resignation notice prior to leaving end August. Mr. William Murunga (Manager Instrumentation & Electrical Engineering) retired after serving the company for 37 years.

Industrial Relations

Industrial relations throughout the organization remained cordial throughout the year though the continued delay in commencement of negotiations for the 2017/18 CBA has become contentious. Same is being pursued with the regulator SRC for direction on way forward.

Staff Welfare

Integration between KPC and KPRL staff continued well in the year with various joint activities taking place.

Training

All staff at KPRL underwent Training for a minimum of 3 days as per targets set for the year as well as provided 39 students from various universities and colleges with attachments opportunities within different departments in the company.

Employee Turn over

	Staff Nos.	Turnover
Staff as at 1st January 2013	291	
Staff exits up to 31st Dec 2016	(132)	45.40%
Staff as at 31st Dec 2016	159	
New employees Jan - Dec 2017	1	
Exits During Jan – Dec 2017	(20)	12.6%
Staff as at 31st Dec 2017	**140**	
New employees Jan – Dec 2018	1	
Exits During Jan – Dec 2018	(17)	12.9%
Staff as at 31st December 2018	**124**	
New employees Jan – June 2019	6	1.5%
Exits During Jan – June 2019	(4)	
Staff as at 30th June 2019	**126**	

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS

Table 2 below shows a summary of the overall performance as at 30th June 2019

Table 2

HSSE PERFORMANCE – JULY 2018 TO JUNE 2019 (Q4FY2018/19)				
	FY 2017/18 PLAN	FY 2017/18 ACTUAL	FY 2018/19 PLAN	FY 2018/19 ACTUAL
Fatality /Lost Time Injuries (LTI)	0	0	0	1
Restricted Work Cases (RWC)	0	0	0	2
Medical Treatment Cases (MTC)	0	0	0	0
Total Recordable Cases (TRC)	1	1	1	2
First Aid Cases (FAC)	2	4	2	0
Fires (Minor)	2	0	2	1
Fires (Major)	0	0	0	0
Total Reportable Occupational Illnesses	0	0	0	0
Environmental Incidents & Complaints	4	1	1	0
Vehicle Accidents	6	8	6	3
Security Incidents (SI)	4	3	4	2

HSSE PERFORMANCE – July 2018 to June 2019

Incident Summary/ Status

- **Lost Time Injury (LTI) -1**
- **Restricted Work Case(RWC) - 2**
- Medical Treatment Case: (MTC)
- First Aid Case (FAC)
- **Minor Fire Incident (MFI) -2**
- Major Fire Incident (MFI)
- **Vehicle Incidents (VI) -3**
- Environmental Incidence (EI)
- **Security Incident (SI) - 2**

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS

Restricted Work Case(RWC) Incident No. 2280

On Monday 3rd September, 2018 at 08.30 hours, a Mulji contractor staff was attacked by a KK Security dog while on his way to his workstation within the Kipevu Oil Terminal (KOT). The Dog was tethered to a metal pole while eating when the contractor staff suddenly appeared and the dog attacked him after forcefully breaking the leash. The Dog handler intervened immediately and managed to restrain the dog.

- The contractor staff suffered injuries arising from the dog bites on both hands and the left thigh.
- KK Security team immediately moved the injured person to hospital where he was treated and discharged.
- Full investigation of the incident is on-going and final report expected shortly.

Risk Rating (Rating 2 D, People, Medium).

Minor Fire Incident(MFI) Incident No. 2338

On the 27th September 2018 a CCTV camera located at zone 1 near Substation No.1 caught fire. Power to the camera was immediately switch off and the fire went off a team of investigators were assigned to establish the cause and report back

Incident Rating- 1A, Assets, Low.

Minor Fire Incident(MFI) Incident No. 2398

On the evening of Monday 22nd April 2019 at about 17 15 hours the duty Shift supervisor reported a fire inside the battery room in the new Control Room. Investigations to establish the root cause is ongoing.

Incident Rating- 3 D, Assets, Medium.

Lost Time Injury (LTI): Incident No 2362

On 29th November 2018 at around 14:00hrs, a Nircon (Contractor) employee sustained an injury to the right leg near ankle joint in an incident involving a loaded fuel truck at the Weighbridge area while he was painting a concrete barrier. He was rushed to KPRL Dispensary where he received First Aid, and then transferred to Mewa Hospital where he underwent surgery after x-ray examination confirmed a fracture to the bone.

The Worker was granted 2 weeks' sick leave and advised to be on restricted work/light duties for three months upon resuming duty. Incident investigation report issued. Work in progress to close out recommendations

Incident Rating- 3 D, People, Medium.

Security Incident (SI): Incident No.2363

On 30th November, 2018 at around 1627hrs an oil tanker Registration Number KBZ 630J was intercepted by Manager Internal Audit (Mr. Antony Magor) approaching the main gate from Gate 2. The tanker was searched and found to be illegally carrying four Jerri cans each carrying approximately 20 litres of Premium Motor Spirit (PMS) totalling approximately 80 litres of PMS in the vehicle's tool box. The driver was apprehended and later interrogated by both KPRL and KPC personnel at KPRL security Office before being taken to Changamwe police station.

Incident investigation ongoing. Awaiting final report

Incident Rating: 2 D, Reputation, Medium

MANAGEMENT DISCUSSION AND ANALYSIS
HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS *Continued*

Vehicle Incidents (VI): Incident No. 2364

On 1st November, 2018 a company car Registration No. KCJ 251F was involved in an incident at Kibarani when heading to town. The vehicle was hit on the side by an on-coming matatu when the driver was changing lanes to avoid being hit by a truck that was moving backwards
Incident Rating: 1E, Assets, Low

Vehicle Incidents (VI): Incident No. 2394

KK Guards driver was driving the MATATU van Reg. No. KBL191U from Jomvu to KPRL. On reaching the Air Traffic lights (mataa ya ndege) area, a boda-boda (motor bike) coming from the opposite skidded, lost control and swerved towards the matatu hitting it on the RHS near the rear tyre. The point of impact was ripped.
The rider promptly disappeared after the incident which was reported at Changamwe Police Station.
Incident Rating: 1E, Assets, Low

Restricted Work Case (RWC): Incident No.2407

On 19th April 2019 at the Tank Farm (Blending area) while operating a valve, an Oil Technician slipped and fell off a platform and injured his left hand, first aid was administered before being referred to Mombasa hospital where he was treated and later released.
Incident Rating: 1C, People, low

Vehicle Incidents (VI): Incident No. 2408

On the 20th June, 2019 while entering KPRL premises via Gate 4 a Fuel truck belonging to Crown (K) Limited Registration no. KBL 691X came to a stop after knocking down and damaging the barrier gate. The driver claimed that the brakes had failed, luckily no injury was reported. Crown (K) limited undertook to have the barrier repaired. The Incident was rated and handed to an investigating team.
Incident Rating: 2D, Assets, Medium

Security Incident (SI): Incident No.2410

On 15th April 2019 at about 09.40 hours, a KK security guard on patrol confronted three suspects who gained access into KPRL premises by climbing over the perimeter wall. By that time, they had moved fifteen scaffolding boards belonging to KPRL over the wall. One of the suspects was apprehended and transferred to Changamwe police for further investigation.
Incident Rating: 1C, Assets, low

FY 2018-2019 HSSE PLAN / HIGHLIGHTS:
Work-Hours without Lost Time Injury (LTI)

Target	500,000 Work-hours
Hours so far achieved (30th June 2019)	464,236 Work-hours
Hours remaining to target	35,764 Work-hours

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS *Continued*

Statutory/External Audits Compliance

EMS- ISO 14001-2015 (BUREAU VERITAS)

- ✓ Environmental Management System (EMS) Certified to ISO- 14001:2015 standard (*License No. IND17.4557 U/E*). ***Expiry 05/07/2020***
- ✓ Monthly Internal Audits – **On schedule**
- ✓ **First Surveillance Audit** following certification to 14001:2015 standard done in Q1FY2018/19

  Findings

  One minor non -conformity raised (***Control and disposal of plastic water bottles within site. Corrective action taken, control measures in place for plastic water bottles***). *(Action:* ***Closed out)***
- ✓ **2nd Surveillance Audit slated for (Q1 FY 2019/20)**

Statutory Occupational Safety & Health Audit (DOSHS)

- ✓ The above audit was done from 3-4th April 2019
- ✓ *The Final report was submitted to us with no major findings. Close out of the minor findings and observations is underway for close out*

Statutory Fire Safety Audit (DOSHS)

- ✓ Audit done on March 27- 29th ,2019
- ✓ The audit was conducted based on the *Factories and Other places of work Cap 514 Fire Risk Reduction rules 2007*
- ✓ Verdict- KPRL found compliant with the above rules.

Statutory Medical Surveillance for Exposed Staff (DOSHS)

- ✓ The above exercise was carried out to 51 number of exposed personnel were examined on 21st and 31st May 2019. None of the staff examined were found free of any Occupational Health Illness.

Statutory First Aid Training & Refresher DOSHS)

- ✓ A Total of Thirty-three (33) members of KPRL & In-house Contractor Personnel were trained from April 8th -10th ,2019 and awarded certificates which are valid for 12 months.

Other Compliance issues

- ❖ **Effluent Water:**
  - Weekly Effluent Water sampling on-going.
  - Q3 FY 2018/19 analysis report received on 25th June 2019. From the analysis, all parameters for both Interceptor 1 & 2 are within the limits stipulated in the fifth schedule of the Environmental Management and Coordination (Water Quality) regulations 2006. Quarterly composite for Q4 FY 2018/19 will be forwarded for analysis in July 2019
  - Effluent Water Discharge License **No. NEMA/WQ/EDA/5549** is valid. **Expiry 31st December, 2019**

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS *Continued*

Other Compliance issues *continued*

- **Bio degradation of oil sludge:**
  Bioremediation of Sludge ex T101, T103, T104 (EOPS Crude tanks) done. Plans are underway to plough the land for proper decomposition.

- **Ambient Air Quality Survey**
  Done on Q4 FY2018/19
  The results obtained indicate that concentrations of all the measured parameters are within the limits stipulated in Environment Management and Co-ordination (Air Quality) Regulations, 2014

- **Noise Survey**
  Done on Q4 FY2018/19 from 2nd to 3rd May 2019
  Results confirm that no worker is exposed to occupational noise as the levels were below maximum limit of 90 decibels stated stipulated in the Factories and Other Places of Work (Noise Prevention & Control) Rules, 2005

- **Near miss reporting-**
  Near miss reporting and award to winners on going

- **Monthly Safety raffles.**
  Safety Awareness campaign with Safety Raffles on course every month. So far 4 raffles have been done and safety sensitization process continues.

EARLY OIL PILOT SCHEME PROJECT (EOPS) HIGHLIGHTS

A working **EOPS HSSE plan** is in place.

The HSSE trainings shown in Table 3 below have been conducted for the EOPS Project:

Table 3

No.	Training	Number of people trained
1.	Safety Induction training	1518
2	Authorized Job Performer (AJP)	47
3	Safety Fire Watcher (SFW)	75
4	Confined Space Entry persons (CSE)	107
5.	SAWA Audit and Near miss reporting-	106

EOPS HSSE PLAN

- ✓ Weekly meeting with all contractor Safety Officers set for every Tuesday to review safety performance on going
- ✓ Train and refresh Safety at Work Always (SAWA) auditors
- ✓ Train and Refresh Permit to Work (PTW) Auditors
- ✓ Meet all Contractor and KPRL First Aiders
- ✓ Monthly Safety Quizzes/ Raffles on going
- ✓ Sensitize staff on Near Miss reporting
- ✓ Ensure Good Housekeeping during the project implementation period
- ✓ Ensure safe disposal of waste generated

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

Revenue

As per terms of the lease agreement, KPRL charges a fee equal to its operating expenses without a profit margin (referred to elsewhere as recovery). The expenses charged exclude provision for interest on dead stock and depreciation of the defunct refining plant and associated equipment. Total recoveries during the year were KES 1.187bn compared to the previous year KES 1.132bn. This was due to delays in the implementation of the FY2018/19 budget particularly in respect of repairs and maintenance activities. Other income for the year includes investment income KES 29.5M from funds invested with the KPRL DC Pension fund and house rent recoveries KES 8.53M.

Operating Expenses Before depreciation and amortization

Total operating costs excluding depreciation and amortization during the year were KES 804M compared to previous year KES 766M.

Depreciation and Amortization

Provision for depreciation and amortization during for the year was KES 280M compared to KES 298M for the previous year. Included in the depreciation charge for the year is KES 148M in respect of depreciation for the defunct refining plant and associated equipment. KPRL Management is still awaiting shareholder's decision on impairment of the refining assets.

Net Finance Costs

Net finance cost for the year was KES 314M including interest on outstanding KPRL bank loans KES 243M and provision for interest on dead stocks (unpumpable stocks) belonging to Oil marketing companies KES 71M.

Profit/(Loss) after Tax

Loss after tax and after other comprehensive income for the year was KES 139M compared to profit after tax and other comprehensive income of KES 174M in the prior year. The loss is due to non-recovery of provision for depreciation amounting to KES149M on the defunct refining plant and interest on deadstock of KES 71M. These are legacy costs from the defunct tolling refinery business which are not provided for in the current lease agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS *Continued*

Non- Current Assets

Net book value of non-current assets reported at historical cost as at 30th June, 2019 was KES 3.605bn compared to the previous year KES 3.882bn. The decline in net book value of the assets is due to provision for annual depreciation. No provision for impairment of the defunct refining plant assets and associated equipment representing 50% of the non-current assets was made. KPRL is still waiting for GoK decision about the future mandate of KPRL and fate of the idle assets.

Following the conversion of the Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund until such time as liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme. According to the audited accounts of the DC fund for the period that ended on 30th June 2019, the value of the KPRL's investment in the DC Fund as at 30th June 2019 was KES 728M. The process of liquidating the DB pension scheme was completed. Consequently, in line with RBA rules, the KPRL Board of Directors (the Sponsor), passed a resolution to meet any contingent liability that may arise in future, which would be covered by a component of the sponsors DC fund of KES 728M.

Current Assets

As at 30th June 2019, current assets include inventories amounting to KES 1.212bn, Trade & other receivables KES 737M, corporate tax recoverable KES 20M, GoK funds held at KPRL KES 1.044bn and KPRL funds KES 215M. Included in trade and other receivables is KES 64M, being input VAT recoverable from future vatable sales and KES314M in respect of recovery of depreciation charge payable by KPC at the end of the lease period.

Current Liabilities

As at 30th June, 2019, current liabilities include Trade & other payables KES 1.076bn, bank loans KES 2.220bn, short-term loans from GoK amounting to KES1.635bn, balance of GoK funds held at KPRL KES1.044bn which were allocated to finance various projects, namely the refinery upgrade project, Essar exit costs and Early Oil Pilot Scheme (EOPS) project.

Share Capital

In June 2013, shareholders (GoK & Essar) injected additional capital amounting to USD4M (KES 340M) to finance essential operating activities. GoK authorized release of USD 2M (KES 170M) from GoK cash advanced for the refinery upgrade project while Essar converted USD 2M (KES 170M) of existing debt owed to them by the business (KPRL) into share capital.

In it's meeting of 7th March 2019, the sole shareholder approved the conversion of the amount KES 340M into 17,000,000 ordinary shares. On the 2nd May 2019, the Registrar of Companies approved the conversion of the KES 340M into ordinary shares. Consequently, the Company's total shares held by the GoK increase from 19,800,000 to 36,800,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS *Continued*

Cash generated from operations

Net cash generated from operating activities for the financial year ended 30th June, 2019 was KES 277M compared to net deficit of KES 76M for the previous year.

Cash flow from investing activities

Capital Expenditure for the year was KES 11M. Capital expenditure is low due to delay in implementation of FY2018/19 budget. Also as per lease agreement capital expenditure incurred by KPC in upgrading KPRL assets is accounted for as cost of investment in KPC books.

Net increase in cash and cash equivalents

Net increase in cash and cash equivalents were KES 33M and KES 85M for FY2018/19 and FY2017/18 respectively.

COMMERCIAL HIGHLIGHTS

The KPRL/KPC Lease Agreement was signed on 7th March, 2017 and operationalized with effect from 1st June, 2017. As per terms of the lease agreement, KPC is responsible for operating the KPRL petroleum storage and distribution facilities. Currently both KPRL and KPC are working jointly and harmoniously to implement the Lease Agreement.

Following the implementation of the Lease Agreement, more volumes were expected to be handled through the KPRL facility since Oil Marketing Companies (OMCs) can access products easily through the Global Entitlement Program (GEP). The targeted (planned) tank turnaround factor is 1.4 translating to monthly volume of 196,000M3.

The actual hospitality for products handled during the year to date (July 2018- June 2019) is 10,219 MT for LPG and 1,253,692M^3 for liquid products. Table below shows actual throughput for the period July 2018 to June 2019.

Table 5

Throughput For FY 2018/19	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year	Year	
	Actual	Actual	Actual	Actual	Actual	Budget	Actual Monthly Average
Receipts into KPRL (M3)	397,353	318,324	296,594	241,420	1,253,692	2,520,000	104,474
LPG Receipts (MT)@USD25/MT	3,152	2,274	2,274	2,519	10,219	-	852
Line Lease (MT)@USD3/M3	34,985	41,403	46,627	48,153	171,168	313,200	14,264
Line Lease - LPG (MT) @USD20/MT	2,675	3,027	2,607	750	9,060	-	755
Truck Loading @USD1/M3	108,837	107,689	112,531	89,117	418,173	132,000	34,848
Back loading	-	-	-	-	-	18,000	0

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

Corporate Social Responsibility activities were minimal this year and mainly involved supporting local communities in nurturing of young talent.

KPRL has supported several local youth groups including Modern Coast youth club, Magongo Rangers FC and the Refinery Neighbours volleyball team by allowing them use the company's sports ground at Magongo for their various trainings this year.

During the financial year also, KPRL extended this support to the County Government of Mombasa whose various children's departments and schools used the KPRL grounds for their sporting activities while the National Youth Services used the grounds to conduct their recruitment exercise as well. Other forms of CSR during the year were in the form of refreshments to various community activities in and around Changamwe area.

The annual Mafuta Sea Scout held their Annual camping activities at refineries estate grounds with more than 60 scouts from the region attending the function.

It is to be noted that the implementation of the Corporate Social Responsibility activities have been hampered by financial constraints and the operationalization of the lease agreement between KPRL and KPC.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the company's affairs.

Principal activities

The company's principal business activity was to refine crude oil into various petroleum products for sale to the oil marketing companies in Kenya. The company's business changed from toll refinery to merchant refining with effect from 1st July, 2012. The Government of Kenya (GoK) published Legal Notices No. 24, 25 and 26 dated 12th April 2012 to amend the energy regulations under the Energy Act to give legal effect to the company's merchant refining business.
However, the company's refining operations stopped on 4th September 2013. The main reason for the shutdown was that the prices of the products produced by the refinery were marginally higher than those of imported products. This was caused by lack of secondary refining capabilities that would optimise the production of fuel oil. The fuel oil accounted for more yields up to 30% prior to the shut down and conversion of Tops yield to petrol. The company continued operating by rendering storage of imported petroleum products services and leasing its storage tanks and pipelines.

In March 2017, KPRL went into lease agreement with KPC, whereby the facility is now used as import terminal for white oils by KPC under the Open Tender System, (OTS), alongside the KOSF. In addition the facility is offering truck loading and LPG hospitality.

Results

The results of the entity for the year ended June 30, 2019 are set out on page 1-5. Below is summary of the profit or loss made during the year.

SUMMARIZED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
		Shs	Shs
TOTAL REVENUES	6,7,8,9	**1,204,882,956**	**1,394,797,250**
TOTAL OPERATING EXPENSES	10,11,12,17,18	**1,398,015,096**	**1,132,668,013**
OPERATING PROFIT/(LOSS)	13	**(193,132,140)**	**262,129,237**
INCOME TAX EXPENSE/(CREDIT)	14(a)	(54,269,095)	88,107,065
PROFIT/(LOSS) AFTER TAXATION		**(138,863,045)**	**174,022,172**
Earnings per share – basic and diluted		(4)	5
Dividend per share		0	0

REPORT OF THE DIRECTORS (*continued)*

Dividends

There were no dividends declared during the year. The company has been experiencing going concern issues since the refining operations ceased on 4th September 2013.

Directors

The members of the Board of Directors who served during the year are shown on page (iv). In accordance with the Company's Articles of Association

Auditors

The Auditor General is responsible for the statutory audit of the KPRL in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

C. MUTHONI GATERE
COMPANY SECRETARY
R/CPSB/796 P/CPSB/438
Sign...................................

By Order of the Board
Corporate Secretary

Date : 04/04/22

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of KPRL, which give a true and fair view of the state of affairs of KPRL at the end of the financial year/period and the operating results of KPRL for that year/period. The Directors are also required to ensure that KPRL keeps proper accounting records which disclose with reasonable accuracy the financial position of KPRL. The Directors are also responsible for safeguarding the assets of KPRL.

The Directors are responsible for the preparation and presentation of KPRL's financial statements, which give a true and fair view of the state of affairs of KPRL for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of KPRL; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for KPRL's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations. The Directors are of the opinion that KPRL's financial statements give a true and fair view of the state of KPRL's transactions during the financial year ended June 30, 2018, and of KPRL's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for KPRL, which have been relied upon in the preparation of KPRL's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The KPRL's financial statements were approved by the Board on 04/04/22 and signed on its behalf by:

Director **Director**

REPUBLIC OF KENYA

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Email: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 1 to 49, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kenya Petroleum Refineries Limited as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracy of the Statement of Cash Flows

The statement of cash flows for the year under review reflects cash and cash equivalents at the end of the year amounting to Kshs.296,464,892. However, as disclosed in Note 24 to the financial statements, the statement of financial position reflects Kshs.248,854,967 in respect to bank and cash balances as at 30 June, 2019. The resultant difference amounting to Kshs.47,609,925 between the two financial statements was not explained or reconciled.

Consequently, the accuracy of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

2. Impairment of Refinery Property, Plant and Equipment

The statement of financial position reflects Kshs.3,604,859,429 in respect to property, plant, and equipment values which, as previously reported, includes Kshs.2,339,150,940 (2018 - Kshs.2,486,249,157) in respect to crude oil refining assets. However, the Company ceased refinery operations and was shut down on 04 September, 2013. The plant has since remained closed and un-operational and no formal decision has been made on the future of the refinery assets and the captive power plant.

The lack of refining activities and the idle state of the refining plant indicates that a major portion of the refinery property, plant and equipment may be significantly impaired. However, the Management had not made an impairment assessment as required by International Accounting Standard (IAS) 36 on Impairment of Assets.

Although the Company's Board of Directors approved impairment of redundant assets, the matter was awaiting endorsement and approval of The National Treasury. While the decision is awaited, the redundant assets continue to degrade leading to gradual loss of salvage value.

Accordingly, it was not determined whether any adjustments were necessary to the financial statements in respect to the carrying amount of the refinery property, plant, and equipment of Kshs.2,339,150,940. This balance includes Kshs.621,267,929 in respect to work in progress on feasibility studies for upgrade of the refinery costing and a captive power plant with a net book value of Kshs.1,048,252,642 which was not commissioned and had remained idle since the shutdown of refinery operations. Further, the related impact of such adjustments on the deferred tax liability and other tax elements were yet to be assessed.

3. Obsolete Inventories

As disclosed in Note 26 to the financial statements, the statement of financial position reflects Kshs.1,212,280,712 in respect to inventories which includes engineering materials valued at Kshs.795,843,236. The materials were acquired prior to stoppage of refining operations on 04 September, 2013 which was occasioned by technological limitations, changing market economies and impairment indications at refinery plant. Despite the items being rendered unusable, they have continually been carried in the books of the company at cost, instead of at salvage value if any. Management indicated that the matter awaits the shareholders decision on the future of the company.

Consequently, the inventories balance of Kshs.1,212,2280,712 as at 30 June, 2019 is not fairly stated.

4. Going Concern Status

As disclosed in Note 1 to the financial statements, the State Corporation ceased refining operations on 04 September, 2013 due to lack of secondary refining capabilities that would optimize the production of fuel oil. Further, the Company recorded a loss Kshs.138,863,045 thereby depleting accumulated reserves by a similar amount. In addition, the Company's current liabilities amounting to Kshs.5,995,956,458 exceeded current assets amounting to Kshs.3,229,159,531 by Kshs.3,366,796,927 (2018: Kshs.2,814,698,717).

The company is therefore technically insolvent and its continued existence as a going concern is dependent upon other income from Kenya Pipeline Company (KPC) lease recoveries which was due to expire in June, 2021. These conditions signify existence of a material uncertainty which casts significant doubts on the ability of Company to continue as a going concern.

Further, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company Directors to address the matter have not been disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1) on presentation of financial statements.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

Responsibilities of Management and the Board of Directors

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

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

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

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

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

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

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 June, 2022

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019	2018
		Kshs	Kshs
REVENUES			
Sales	6	0	12,617,819
Interest Income	7	10,438,500	11,056,068
Other Income	8	1,224,687,753	1,313,507,262
Other gains /(losses)	9	(30,243,297)	57,616,101
TOTAL REVENUES		**1,204,882,956**	**1,394,797,250**
OPERATING EXPENSES			
Administration Costs	10	803,990,534	765,930,397
Selling and Distribution Costs	11	0	30,278,273
Finance Costs	12	313,616,510	38,773,775
Depreciation of property, plant and equipment	17	280,242,907	297,517,401
Amortisation of Operating Lease rentals	18	165,145	168,167
TOTAL OPERATING EXPENSES		**1,398,015,096**	**1,132,668,013**
OPERATING PROFIT/(LOSS)	13	**(193,132,140)**	**262,129,237**
INCOME TAX EXPENSE/(CREDIT)	14(a)	(54,269,095)	88,107,065
PROFIT/(LOSS) AFTER TAXATION		**(138,863,045)**	**174,022,172**
Earnings per share – basic and diluted		(4)	8.79
Dividend per share		0	0

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019	2018
		Kshs	Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	17	3,604,859,429	3,881,623,132
Prepaid operating lease rentals	18	6,889,339	7,054,484
Investments -KPRL Pension Trust ltd	19	10,000,000	10,000,000
Defined Contribution Pension Fund	20	727,751,192	698,269,780
Total Non-Current Assets		**4,349,499,961**	**4,596,947,396**
Current Assets			
Inventories	21	1,212,280,712	1,215,942,381
Trade and other receivables	22	737,170,392	553,739,236
Tax recoverable	14(c)	20,250,569	0
Short-term deposits	23	1,010,602,891	1,096,772,808
Bank and cash balances	24	248,854,967	88,137,609
Total Current Assets		**3,229,159,531**	**2,954,592,033**
TOTAL ASSETS		**7,578,659,492**	**7,551,539,429**
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	25	736,000,000	736,722,400
Share premium	26	144,000,000	144,000,000
Retained earnings	27	304,668,943	443,531,989
Capital and Reserves		**1,184,668,943**	**1,324,254,389**
Non-Current Liabilities			
Deferred tax liability	35	398,034,091	457,994,291
Total Non-Current Liabilities		**398,034,091**	**457,994,291**
Current Liabilities			
Borrowings (CPP & Overdraft)	28	2,220,337,044	2,178,790,578
Short Term Loans From GoK	29	1,634,945,444	1,634,945,444
GoK Advances for Special Projects	30	1,043,592,468	973,042,245
Trade and other payables	31	1,076,627,846	944,856,075
Provision for leave pay	32	10,453,656	12,089,817
KPRL Pension Trust Ltd	33	10,000,000	10,000,000
Tax payable	14(c)	0	15,566,590
Total Current Liabilities		**5,995,956,458**	**5,769,290,750**
TOTAL EQUITY AND LIABILITIES		**7,578,659,492**	**7,551,539,429**

The financial statements were approved by the Board on 04/04/22 and signed on its behalf by:

Ag. Chief Executive Officer	Chief Finance Officer	Director
Name: Joseph B.Ndoti	Name: Joseph B.Ndoti ICPAK M/NO: 1749	Name: L. MAHIRI-ZAJA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Ordinary share capital +Share Premium Kshs	Revaluation reserve Kshs	Retained earnings Kshs	Proposed dividends Kshs	Capital Development Grants/Fund Kshs	Total Kshs
At July 1, 2017	**880,722,400**	-	318,150,905	-	-	**1,198,873,305**
Issues of new share capital	-	-	.	-	-	**0**
Prior year adjustment- KPRL Investment in DC Pension Fund	-	-	(48,641,088)			**(48,641,088)**
Total comprehensive income	-	-	174,022,172	-	-	**174,022,172**
Capital/Development grants received during the year	-	-	-	-	-	**0**
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	**0**
Interim dividends paid – 2018	-	-	-	-	-	**0**
Proposed final dividends	-	-	-	-		**0**
At June 30, 2018	**880,722,400**		**443,531,989**	-		**1,324,254,389**
At July 1, 2018	**880,722,400**	-	**443,531,989**	-	-	**1,324,254,389**
Issue of new share capital	-	-	-	-	-	-
Exchange gain/(loss)_Re-allocation of Shareholder advances	(722,400)	-	-	-	-	**(722,400)**
Total comprehensive income	-	-	(138,863,045)	-	-	**(138,863,045)**
Capital/Development grants received during the year	-	-	-	-	-	0
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	0
Interim dividends paid – 2019	-	-	-	-	-	0
Proposed final dividends	-	-	-	-	-	0
At June 30, 2019	**880,000,000**	-	**304,668,943**	-	-	**1,184,668,943**

1. Note: The revaluation loss of KES 722,400 is due to exchange difference in respect of conversion of USD 4M of capital injected by the shareholder into ordinary share capital of KES340M.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

		2019	2018
		Kshs	**Kshs**
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	36	16,054,130	(95,575,812)
Interest received		(10,361,089)	(10,913,866)
Interest paid		242,825,079	(48,018,939)
Accrued Interest on dead stock		70,791,431	81,218,386
Taxation paid		(41,508,264)	(2,381,379)
Net cash generated from/(used in) operating activities		**277,801,288**	**(75,671,609)**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	17	(11,372,714)	(27,092,930)
Proceeds from disposal of property, plant and equipment		0	0
Net cash generated from/(used in) investing activities		**(11,372,714)**	**(27,092,930)**
FINANCING ACTIVITIES			
Exchange gain from Re-allocation of USD 4M shareholder advances		(722,400)	0
Reclass of accrued Interest to CPP Term loan		0	144,908,124
Short Term Loans From GoK		0	45,718,983
GoK Advances for Special Projects		70,550,223	19,009,091
Interest received		10,361,089	10,913,866
Interest paid		(242,825,079)	48,018,939
Accrued Interest on dead stock		(70,791,431)	(81,218,386)
Net cash generated from/(used in) financing activities		**(233,427,598)**	**187,350,617**
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**33,000,976**	**84,586,077**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**246,282,054**	**204,449,698**
Effects of foreign exchanges rate fluctuations		17,181,861	(42,753,721)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**296,464,892**	**246,282,054**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019

	Original Budget	Adjustments	Final Budget	Actual comparable	Variance	Variance	Remarks
2019	Kshs	Kshs	Kshs	Kshs	Kshs	%	
Revenue							
KPC Lease recoveries	1,588,460,445	0	1,588,460,445	1,186,616,591	(401,843,854)	-25%	Lease recoveries lower than planned recoveries due to delayed implementation of FY2018/19 Budget.
Other Operating Income	84,405,859	0	84,405,859	38,071,162	(46,334,697)	-55%	Lower than expected Accrued Investment income on Sponsor DB surplus pending liquidation of the defunct DB Pension fund
Interest Income	255,355	0	255,355	10,438,500	10,183,145	3988%	Higher than plan Interest received on Short term bank deposits
Total Income	**1,673,121,659**	**0**	**1,673,121,659**	**1,235,126,254**	**(437,995,406)**	-26%	
Operating Expenses							
Staff Costs	475,930,382	0	475,930,382	422,941,611	52,988,771	11%	
Utilities	107,838,120	0	107,838,120	70,513,654	37,324,466	35%	
Repairs, Maintenance & Material Costs	265,243,068	0	265,243,068	102,302,944	162,940,124	61%	Operating expenses lower than planned expenditure due to delay in implementation of FY 2018/19 Budget.
Consultancy, Legal & Audit Costs	47,350,000	0	47,350,000	12,344,776	35,005,224	74%	
Other Overheads	124,197,049	0	124,197,049	109,106,052	15,090,997	12%	
Insurance	84,857,962	0	84,857,962	75,785,595	9,072,367	11%	
Board Expenses	12,355,000	0	12,355,000	10,995,903	1,359,097	11%	
Depreciation & Ammortization	382,079,839	0	382,079,839	280,408,052	101,671,787	27%	Provision for depreciation lower than plan due to delay in implementation of the FY 2018/19 CAPEX Budget.
Finance Costs	386,958,056	0	386,958,056	343,859,807	43,098,249	11%	Includes Ksh 30M foreign exchange loss on foreign denominated transactions
Total Expenditure	**1,886,809,476**	**0**	**1,886,809,476**	**1,428,258,394**	**458,551,082**	24%	
Deficit for the period	**(213,687,818)**	**0**	**(213,687,818)**	**(193,132,140)**	**20,555,678**	**10%**	

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The company is incorporated as a limited company in Kenya under the Companies Act Number 17 of the Laws of Kenya and is domiciled in Kenya. On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK. KPRL is represented by the Cabinet Secretary of the Ministry of Petroleum and Mining.

The company's principal business activity is to refine crude oil into various petroleum products for sale to the oil marketing companies in Kenya. The company's business changed from toll refinery to merchant refining with effect from 1st July, 2012. The Government of Kenya (GoK) published Legal Notices No. 24, 25 and 26 dated 12th April 2012 to amend the energy regulations under the Energy Act to give legal effect to the company's merchant refining business.

However, the company's refining operations stopped on 4th September 2013. The main reason for the shutdown was that the prices of the products produced by the refinery were marginally higher than those of imported products. This was caused by lack of secondary refining capabilities that would optimise the production of fuel oil. The fuel oil accounted for more yields up to 30% prior to the shut down and conversion of Tops yield to petrol. The company has continued operating by rendering storage of imported petroleum products services and leasing its storage tanks and pipelines.

For Kenyan Companies Act Chapter 17 of 2017 of the Laws of Kenya reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis. except for the measurement at re-valued amounts of marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts. Following the stoppage of refining operations with effect from 4th September 2013. refining plant, captive power plant and associated equipment are idle. The shareholder is yet to make decision about the future mandate of KPRL. Consequently KPRL is yet to make an impairment test of the idle assets to determine their estimated recoverable amounts.

The preparation of financial statements is in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4 to 45.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

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

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

IFRS 16: Leases

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

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

Application of IFRS 16 requires right-of-use assets and lease liabilities to be recognised in respect of most operating leases where the Company is the lessee. This is not applicable to KPRL since the company owns all the operating assets. ***IFRIC 23: Uncertainty Over income tax treatments***

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

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

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

The amendments, applicable to annual periods beginning on or after 1 January 2019, allow entities to measure prepayable financial assets with negative compensation at amortised cost

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

or fair value through other comprehensive income if a specified condition is met.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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

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

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

(The organisation should assess the impact of the above standards and amendments and state the impact of their application in these financial statements.)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

IFRS 17 Insurance Contracts (Issued 18 May 2017)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018/19.

iii) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

i) **Revenue from the sale of goods and services** is recognized in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.

ii) **Grants from National Government** are recognized in the year in which the *entity* actually receives such grants. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

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

iv) **Dividend income** is recognized in the income statement in the year in which the right to receive the payment is established.

v) **Rental income** is recognized in the income statement as it accrues using the effective lease agreements.

vi) **Other income** is recognized as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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

KPRL is still waiting for shareholder decision about the future mandate of KPRL and is yet to carry out impairment test of the defunct refining plant, captive power plant and associated equipment.

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

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

d) Depreciation and impairment of property, plant and equipment

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

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

Buildings and civil works	25-30 years or the unexpired lease period
Plant and machinery	10-30 years
Motor vehicles,	5-10 years
Computers and related equipment	5-10 years

A full year's depreciation charge is recognized both in the year of asset purchase and no depreciation is charged in the year of asset disposal.

Items of property, plant and equipment are reviewed annually for impairment. Where the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognized so that the asset is written down immediately to its estimated recoverable amount.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortization and impairment of intangible assets

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

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

g) Investment property

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

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

h) Finance and operating leases

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

All other leases are treated as operating leases and the leased assets are recognized in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognized in profit or loss on a straight-line basis

NOTES TO THE FINANCIAL STATEMENTS (Continued)

over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

n) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

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

Deferred tax

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

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

p) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

q) Trade and other payables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from January 2019. The scheme is administered by an in-house team and is funded by contributions from both the company at 20% and its employees at 10% of the employees basic salary. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time .

s) Provision for staff leave pay

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

t) Exchange rate differences

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

u) Budget information

The original budget for FY 2018/2019 was approved by the National Treasury on 24th September, 2018. Procedurally any subsequent revisions or additional appropriations are made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. There were no additional appropriations on the 2018/2019 budget.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under section "Statement of Comparison of budget and actual amounts" on page 5 of these financial statements.

v) Service concession arrangements

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

w) Comparative figures

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

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

KPRL has stated all judgements, estimates and assumptions made, for example in respect of provisions for depreciation , expenses for services done , etc.

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESITMATION UNCERTAINTY (Continued)

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available.

These provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 REVENUE

	2019	2018
	Kshs	Kshs
Gross sales of goods	0	12,617,819.28
Gross sales of services	0	0
Total	**0**	**12,617,819.28**

The current lease agreement between KPRL and KPC, all the revenues accruing from operating KPRL facility are assigned to KPC. KPRL recovers operating expenses without profit margin from KPC.

7 INTEREST INCOME

	2019	2018
Description	**Kshs**	**Kshs**
Interest income from treasury bonds	0	0
Interest from receivables	0	0
Interest from commercial banks and financial institutions	10,361,089	10,913,866
Interest on staff loans	77,411	142,202
Total	**10,438,500**	**11,056,068**

8 OTHER INCOME

10. Other income	**2019**	**2018**
Description	**Kshs**	**Kshs**
KPC lease recoveries	1,186,616,591	1,132,813,767
House Rent Recoveries	8,531,850	7,018,165
Fines and penalties on Petroleum products	0	9,982,511
Third Party Holding Certificate Charges	0	768,226
Other miscellaneous receipts	29,539,312	162,924,593
Total	**1,224,687,753**	**1,313,507,262**

As per the lease agreement between KPRL and KPC, Lease recoveries are KPRL operating expenses recovered at cost from KPC.
Following the conversion of the Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund until such time as liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme. As per the audited accounts of the DC fund for the year ended 30th June 2019, the investment income earned was KES 29.5M compared to KES 162M for the previous year. This amount is included in Other miscellaneous receipts.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 OTHER GAINS AND LOSSES

Description	2019 Kshs	2018 Kshs
Foreign exchange gains / (losses)	724,983	103,329
Unrealized foreign exchange gains/(losses)	(30,968,279)	57,512,771
Total	**(30,243,297)**	**57,616,101**

10 (a) ADMINISTRATION COSTS

Description	2019 Kshs	2018 Kshs
Staff costs (note 10b)	422,941,611	430,514,674
Directors' emoluments	153,996	196,540
Electricity and water	70,513,654	78,495,228
Communication services and supplies	6,225,479	5,525,825
Transportation, travelling and subsistence	14,555,480	13,162,351
Advertising, printing, stationery and photocopying	4,087,594	2,827,067
Insurance costs	75,785,595	79,110,057
Security	46,951,371	41,419,767
Board expenses	10,995,903	9,162,837
Bank charges and commissions	747,061	623,305
Office and general supplies and services	3,890,954	3,379,689
Software Licenses	16,342,939	14,393,988
Property/ Land Rates	4,269,620	4,341,478
Auditors' remuneration	6,600,000	5,831,718
Legal fees	1,532,698	3,650,090
Consultancy fees	4,212,078	5,266,403
Repairs and maintenance	79,765,565	56,423,825
Materials costs	20,267,685	20,542,471
Occupational Health & Safety	1,403,056	1,878,799
Other operating expenses	12,748,194	(10,815,715)
Total	**803,990,534**	**765,930,397**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 (b) STAFF COSTS

	2019	2018
	Kshs	Kshs
Salaries and allowances of permanent employees	334,201,989	342,895,690
Compulsory national social security schemes	310,700	336,138
DC pension contributions	46,865,464	50,802,436
Leave pay and gratuity provisions	(1,636,161)	613,479
Staff welfare	1,567,973	2,385,240
Medical expenses	17,276,417	20,768,779
Canteen Expenses	2,893,474	3,537,132
Staff training & Development	9,475,193	8,774,543
Long Service Awards	444,000	857,600
Grants ammortisation adjustments	(72,690)	392,905
Pension Admin Expense	70,820	(849,269)
Performance incentive	11,544,432	0
Total	**422,941,611**	**430,514,674**
The average number of employees at the end of the year was:	**2019**	**2018**
Permanent employees – Management	94	103
Permanent employees – Unionisable	17	20
Temporary and contracted employees	13	9
Total	**124**	**132**

11 SELLING AND DISTRIBUTION COSTS

	2019	2018
Description	**Kshs**	**Kshs**
Salaries and wages of sales personnel	0	0
Marketing and promotional expenses	0	0
Sales commissions	0	0
Sales discounts and rebates	0	0
Cost of Sales - Murban Crude	0	30,278,273
Total	**0**	**30,278,273**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 FINANCE COSTS

	2019	2018
Description	**Kshs**	**Kshs**
Interest expense on loans	133,282,348	(162,198,013)
Interest expense on bank overdrafts	109,542,731	114,179,074
Provision for interest on dead stock	70,791,431	81,218,386
Finance Charges on Improchem Finance lease	0	5,574,328
Total	**313,616,510**	**38,773,775**

13 OPERATING PROFIT/(LOSS)

	2019	2018
	Kshs	**Kshs**
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	422,941,611	430,514,674
Depreciation of property, plant and equipment	280,242,907	297,517,400
Amortisation of operating lease rentals	165,145	168,167
Directors' emoluments - fees	153,996	196,540
Board Expenses	10,995,903	9,162,837
Auditors' remuneration	6,600,000	5,831,718
Net foreign exchange (gain)/loss	30,243,297	(57,616,101)
Interest receivable	(10,438,500)	(11,056,068)
Interest payable	313,616,510	38,773,775
Rent receivable	(8,531,850)	(7,018,165)

14 INCOME TAX EXPENSE/(CREDIT)

(a) Current taxation

	2019	2018
Description	**Kshs**	**Kshs**
Current year tax	5,691,105	5,422,270
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge/(credit)	(59,960,200)	82,684,795
	(54,269,095)	**88,107,065**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 INCOME TAX EXPENSE/(CREDIT) *continued*

b) Reconciliation of tax expense/ (credit) to the expected tax based on accounting profit

	2019	2018
Description	**Kshs**	**Kshs**
Profit/(loss) before taxation	(193,132,140)	262,129,237
Tax at the applicable tax rate of 30%	(57,939,642)	78,638,771
Prior year over provision	0	0
Tax effects of expenses not deductible for tax purposes	3,621,003	9,417,844
Tax effects of excess capital allowances over depreciation/amortisation	49,544	50,450
Deferred tax prior year over-provision	0	0
	(54,269,095)	**88,107,065**

c) Current tax movement

	2019	2018
Description	**Kshs**	**Kshs**
At beginning of the period	15,566,590	12,525,699
Income tax charge for the year	5,691,105	5,422,270
Income tax paid during the year	(41,508,264)	(2,381,379)
Tax payable/(recoverable)	**(20,250,569)**	**15,566,590**

The advance tax paid will be utilized against future corporate tax liabilities.

15 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit/(loss) after tax of Kshs.(138,863,045/-) (2018: Kshs 174,022,172/-) by the average number of ordinary shares in issue during the year of 36,800,000 (2018: 19,800,000). There were no dilutive or potentially dilutive ordinary share as at the reporting date.

16 DIVIDEND PER SHARE

There were no dividends proposed as the company has reported losses for the year ended 30th June 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land Kshs	Buildings Kshs	Turnaround Costs Kshs	Plant, Equipment & motor vehicles Kshs	Capital work in progress Kshs	Total Kshs
Cost						
At 1 July 2017	**295,160**	**384,034,988**	**761,667,439**	**7,280,295,498**	**655,676,969**	**9,081,970,053**
Additions	0	0	0	0	27,092,930	27,092,930
	295,160	384,034,988	761,667,439	7,280,295,498	682,769,899	9,109,062,984
Transfers to assets	0	0	0	0	0	0
Asset retirement/write off	0	0	0	0	(20,929,068)	(20,929,068)
Disposal of assets	0	0	0	0	0	0
At 30 June 2018	**295,160**	**384,034,988**	**761,667,439**	**7,280,295,498**	**661,840,832**	**9,088,133,916**
At 1 July 2018	**295,160**	**384,034,988**	**761,667,439**	**7,280,295,498**	**661,840,832**	**9,088,133,916**
Additions	0	0	0	0	11,372,714	11,372,714
	295,160	384,034,988	761,667,439	7,280,295,498	673,213,545	9,099,506,630
Transfers to assets	0	0	0	16,936,338	(16,936,338)	(0)
Write off	0	0	0	0	(7,893,509)	(7,893,509)
Disposal of assets	0	0	0	0	0	0
At 30th June 2019	**295,160**	**384,034,988**	**761,667,439**	**7,297,231,835**	**648,383,698**	**9,091,613,120**
Depreciation						
At 1 July 2017	**0**	**260,862,622**	**761,667,439**	**3,886,463,322**	**0**	**4,908,993,383**
Charge for the year	0	12,719,997	0	284,797,404	0	297,517,400
Disposal of Assets	0	0	0	0	0	0
At 30 June 2018	**0**	**273,582,619**	**761,667,439**	**4,171,260,726**	**0**	**5,206,510,784**
At 1 July 2018	**0**	**273,582,619**	**761,667,439**	**4,171,260,726**	**0**	**5,206,510,784**
Charge for the year	0	11,149,089	0	269,093,819	0	280,242,907
Disposal of Assets	0	0	0	0	0	0
At 30th June 2019	**0**	**284,731,708**	**761,667,439**	**4,440,354,544**	**0**	**5,486,753,691**
Net book value						
At 30th June 2019	**295,160**	**99,303,280**	**0**	**2,856,877,291**	**648,383,698**	**3,604,859,429**
At 30th June 2018	**295,160**	**110,452,369**	**0**	**3,109,034,772**	**661,840,832**	**3,881,623,132**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment include the following items that are fully depreciated as at 30th June 2019	Cost	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	82,622,768	5,225,303
Plant machinery & Equipment	740,269,314	17,149,962
Storage Tanks , Pipelines and other auxiliary assets	624,740,372	24,565,583
Motor vehicles, including motor cycles	68,352,162	9,490,394
Computers and related equipment	60,699,847	8,666,736
	1,576,684,463	**65,097,979**
	=====	=====

Property, plant and equipment include the following items that are fully depreciated as at 30th June 2018	Cost	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	74,178,694	3,613,909
Plant machinery & Equipment	417,457,770	14,382,917
Storage Tanks , Pipelines and other auxiliary assets	341,237,595	6,330,880
Motor vehicles, including motor cycles	68,352,162	9,490,394
Computers and related equipment	60,699,847	8,666,736
	961,926,068	**42,484,836**
	=====	=====

Note:

KPRL assets are reported at historical cost without revaluation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 PREPAID OPERATING LEASE RENTALS

	2019	2018
	Kshs	Kshs
COST		
At July 1	9,796,958	9,796,958
Additions	0	0
Transfer to investment property	0	0
Disposals	0	0
At June 30	**9,796,958**	**9,796,958**
AMORTISATION		
At July 1	2,742,474	2,574,307
Charge for the year	165,145	168,167
Transfer to investment property	0	0
Disposals	0	0
At June 30	**2,907,619**	**2,742,474**
NET BOOK VALUE		
At June 30	**6,889,339**	**7,054,484**

Payments to acquire interests in leasehold land are treated as prepaid operating lease rentals and the cost of the land is amortized over the unexpired term of the lease on a straight line basis.

19 UNQUOTED INVESTMENTS- KPRL PENSION TRUST LTD

	2019	2018
	Kshs	Kshs
COST		
At July 1	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
At June 30	**10,000,000**	**10,000,000**
IMPAIRMENT		
At July 1	0	0
Disposals	0	0
Impairment loss in the year	0	0
At June 30	**0**	**0**
NET BOOK VALUE		
At June 30	**10,000,000**	**10,000,000**
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19) UNQUOTED INVESTMENTS –KPRL PENSION TRUST LTD (Continued)

KPRL holds 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Kshs 1,000/- each). The subsidiary functions in a trustee capacity only and as such made neither a profit nor a loss for the financial period ended 30th June 2018. The subsidiary thus did not contribute to the group's revenue and profit before tax for the year ended 30th June 2019.

Name of entity where investment is held	No of shares			Nominal value of shares/ purchase price	Value of shares less impairment	Value of shares less impairment
	Direct shareholding	Indirect shareholding	Effective shareholding		Current year	Prior year
	%	%	%	Kshs	Kshs	Kshs
Kenya Petroleum Refineries Pension Trust Ltd	100	0	100	10,000,000	10,000,000	10,000,000
	100	**0**	**100**	**10,000,000**	**10,000,000**	**10,000,000**

20 KPRL INVESTMENT HELD IN DC PENSION FUND

	2019	2018
	Kshs	Kshs
Balance as at 1st July	698,269,780	584,675,814
Accrued investment income	29,481,412	162,235,054
Tax payable -prior year	0	(48,641,088)
Balance as at 30th June	**727,751,192**	**698,269,780**

Following the conversion of Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund until such time as liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme. The DB pension scheme is still undergoing the process of liquidation. Consequently, in line with RBA rules, the KPRL Board, for the Sponsor, passed a resolution to meet any contingent liability that may arise in the future, which would be covered by a component of the sponsors DC fund of KES 698M. Once the process of liquidation is complete then the funds in KPRL pension DC fund will be available to KPRL.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 INVENTORIES

	2019	2018
Description	**Kshs**	**Kshs**
Engineering stores	795,843,236	798,527,689
Fuel, oil and lubricants	81,151,811	81,421,655
Crude & finished product stocks	322,989,333	322,989,333
Stationery, Safety and general stores	12,296,333	13,003,704
	1,212,280,712	**1,215,942,381**

22 (a) TRADE AND OTHER RECEIVABLES

	2019	2018
Description	**Kshs**	**Kshs**
Trade receivables (note 27 (b))	746,906,095	449,321,352
Deposits and prepayments	46,154,871	43,846,663
VAT recoverable	64,254,148	185,591,138
Staff receivables (note 27 (c))	4,497,692	4,321,581
Other receivables	22,180,072	17,480,987
	____	____
Gross trade and other receivables	883,992,878	700,561,721
Provision for bad and doubtful receivable	(146,822,486)	(146,822,486)
	____	____
Net trade and other receivables	**737,170,392**	**553,739,236**
	=====	=====

Included in the Trade receivables is Kshs 322.M in respect of recovery of depreciation on KPRL assets leased by KPC. This money is payable at the end of the lease period on 20th Mar 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 (b) TRADE RECEIVABLES

	2019	2018
	Kshs	Kshs
Description		
Gross trade receivables	746,906,095	449,321,352
Provision for doubtful receivables	(146,822,486)	(146,822,486)
	___	___
	600,083,609	302,498,866
	=====	=====
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	295,928,560	245,268,524
Between 30 and 60 days	18,654,084	5,203,159
Between 61 and 90 days	21,704,146	16,692,595
Between 91 and 120 days	8,182,910	4,626,568
Over 120 days	255,613,909	30,708,019
	___	___
	600,083,609	**302,498,866**
	=====	=====

22 (c) STAFF RECEIVABLES

	2019	2018
Description	Kshs	Kshs
Gross staff loans and advances	4,497,692	4,321,581
Provision for impairment loss	0	0
	___	___
	4,497,692	4,321,581
Less: Amounts due within one year	(1,889,438)	(1,129,989)
	___	___
Amounts due after one year	2,608,254	3,191,593
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 SHORT TERM DEPOSITS

	2019	2018
Description	**Kshs**	**Kshs**
a) GoK funds		
National Bank of Kenya Ltd- GoK Funds	970,950,000	31,196,707
Central Bank- Treasury bills	0	939,176,101
Accrued interest receivable	39,652,891	2,669,437
	1,010,602,891	**973,042,245**
b) KPRL funds		
National Bank of Kenya Ltd	0	123,041,022
Accrued interest receivable	0	689,541
	0	**123,730,563**
Total deposits	**1,010,602,891**	**1,096,772,808**

Example: The average effective interest rate on the short term deposits as at June 30, 2019 was 9.0% (2018: 7.8%).

24 BANK AND CASH BALANCES

The bulk of the cash at bank was held at Standard Chartered Bank, , the entity's main bankers.

	2019	2018
	Kshs	**Kshs**
Description		
Cash at bank	248,671,698	303,481
Cash in hand	183,269	87,834,128
	___	___
Total	**248,854,967**	**88,137,609**
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 BANK AND CASH BALANCES (Continued)

The make – up of cash and bank balances is as follows::

Detailed analysis of the cash and cash equivalents

		2019	2018
Financial institution	**Account number**	**KShs**	**KShs**
a) Current account			
Standard Chartered bank of Kenya	01040 92661400	213,249,041	88,046,640
Standard Chartered bank of Kenya-USD A/C	87040926614 00	1,042,280	(1,107,697)
Barclays Bank of Kenya-Main A/C	016 5009479	308,514	78,364
Barclays Bank of Kenya-Staff Imprest	016 5009770	313,280	6,148
Barclays Bank of Kenya-USD A/C	227252715	(707)	94,087
CitibanK N.A-Euro A/C	100485478	259	262
CitibanK N.A-GBP A/C	100485486	198	201
CitibanK N.A-ZAR A/C	100485494	(120)	(101)
CitibanK N.A-GOK Upgrade A/C	0100485505	212,677	218,277
National Bank of Kenya	010 200 666 03700	33,546,332	498,002
Standard Chartered Bank - KES A/C	104992661400	(55)	(55)
Standard Chartered Bank - USD A/C	8704992661400	0	0
Sub- total		**248,671,698**	**87,834,128**
b) Others(specify)			
Cash in hand (Petty Cash)		183,269	303,481
M pesa		0	0
Sub- total		**183,269**	**303,481**
Grand total		**248,854,967**	**88,137,609**

25 ORDINARY SHARE CAPITAL

	2019	2018
Authorized:	**Kshs**	**Kshs**
19,800,000 ordinary shares of Kshs.20 par value each	396,000,000	396,000,000
17,000,000 ordinary shares of Kshs.20 par value each	340,000,000	0
Issued and fully paid:		
36,800,000 (19,800,000 FY 2018) ordinary shares of Kshs.20 par value each	736,000,000	396,000,000
Capital Injection from shareholders awaiting conversion to share capital	0	340,722,400
Total	**736,000,000**	**736,722,400**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 REVALUATION RESERVE

During the year ended 31 December 2009, the group changed its accounting policy for property, plant and equipment from revaluation model to cost model. In the opinion of the directors, the cost model results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the company's financial position, financial performance or cash flows.

27 RETAINED EARNINGS

The retained earnings represent amounts available for distribution to KPRL's shareholders. Undistributed retained earnings are utilised to finance the company's business activities.

28 BORROWINGS

	2019	2018
Description	**Kshs**	**Kshs**
Balance at beginning of the year	2,178,790,578	2,106,988,077
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the year	0	0
Reclass of accrued Interest to CPP Term loan		144,908,124
Movement in Bank Overdraft during the year	22,003,211	(26,500,216)
Exchange losses/(gains) on foreign denominated loans	17,181,861	(42,753,721)
Exchange losses/(gains) on foreign denominated overdraft facility	2,361,394	(3,851,686)
Balance at end of the year	**2,220,337,044**	**2,178,790,578**
Less: Amounts due with one year (current portion)	2,220,337,044	2,178,790,578
Amounts due after one year (non-current portion)	0	0

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 BORROWINGS (Continued)

The analyses of both external and domestic borrowings are as follows:

	2019	2018
Description	**Kshs**	**Kshs**
External Borrowings		
Dollar denominated loan	0	0
Sterling Pound denominated loan	0	0
	0	0
Domestic Borrowings		
Kenya Shilling overdraft from Commercial Bank of Africa	521,892,858	499,735,599
Kenya Shilling overdraft from Citibank N.A.	277,187,883	277,262,669
Dollar denominated overdraft from Citibank N.A.	163,912,226	161,630,094
Dollar denominated loan from Barclays Bank-CPP	1,257,344,078	1,240,162,216
	2,220,337,044	2,178,790,578
Total balance at end of year	**2,220,337,044**	**2,178,790,578**
	=====	=====

Foreign denominated loans have been restated based on ABSA Bank Plc closing mean rates at the end of financial year.

29 SHORT TERM LOANS FROM GoK

	2019	2018
Description	**Kshs**	**Kshs**
Balance at the beginning of the Year	1,634,945,444	1,634,945,444
Additions during the year	0	0
Repayment during the year	0	0
Balance at end of Year	**1,634,945,444**	**1,634,945,444**

30 GoK ADVANCES

	2019	2018
Description	**Kshs**	**Kshs**
GOK Advance - Upgrade Project	678,365,349	632,298,892
GoK Advance-Put Option	331,755,913	309,251,974
GoK Advance-Early Oil Pilot Scheme Project	33,471,206	31,491,378
Balance at end of Year	**1,043,592,468**	**973,042,245**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 TRADE AND OTHER PAYABLES

	2019	2018
Description	Kshs	Kshs
Trade payables	143,428,086	136,869,536
Accrued expenses	125,884,965	82,672,587
Other payables- Provision for interest on dead stock	807,314,794	725,313,952
	1,076,627,846	**944,856,075**

KPRL is still holding dead stock (un-pumpable finished products) belonging to Oil Marketing Companies hence the provision for interest on the working capital associated with these stocks. This matter is tied to the resolution of the yield shift.

32 PROVISION FOR LEAVE PAY

	2019	**2018**
	Kshs	**Kshs**
Description		
Balance at beginning of the year	12,089,817	11,476,338
Additional provision at end of year	0	613,479
Leave paid out or utilised during the year	(1,636,161)	0
	____	____
Balance at end of the year	**10,453,656**	**12,089,817**
	=====	=====

Provision for annual leave pay is based on services rendered by full-time employees up to the end of the year.

33 KPRL PENSION TRUST LTD

	2019	**2018**
	Kshs	**Kshs**
Description		
As at 1st July	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
	____	____
At June 30	**10,000,000**	**10,000,000**
	____	____

This represents liability in respect of KPRL shareholding of 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Ksh 1000/- each). KPRL acts in a trustee capacity only and, as such, made neither a profit nor a loss for the financial period ended 30th June 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 DEFERRED TAX LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using the enacted tax rate, currently 30%. The net deferred tax liability at year end is attributable to the following items:

	2019	2018
	Kshs	**Kshs**
Description		
Accelerated capital allowances	653,520,057	710,580,083
Unrealised exchange gains/(losses)	(9,290,484)	17,253,831
Provisions for liabilities and charges	(233,399,812)	(212,653,231)
Tax losses carried forward	(1,019,922,064)	(1,064,312,786)
Net deferred tax liability for the year	**(609,092,303)**	**(549,132,103)**
	=====	=====

The movement on the deferred tax account is as follows:

	2019	2018
	Kshs	**Kshs**
Description		
Balance at beginning of the year	457,994,291	375,309,496
Credit to revaluation reserve	0	0
Under provision in prior year	0	0
Income statement charge/(credit)	(59,960,200)	82,684,795
Balance at end of the year	**398,034,091**	**457,994,291**
	=====	=====

35 RETIREMENT BENEFIT OBLIGATIONS

KPRL operated a funded defined benefit plan for its full-time employees until 31st December 2016. The employees were contributing at a fixed rate of 5% of pensionable emoluments. The company was responsible for the balance of the cost of the benefits of the fund. From 1st January 2017, the company established a Defined Contribution (DC) pension scheme for its members. Pensioners under the fund were bought out by an insurer. Active and deferred members joined the DC scheme and transferred their fund benefits to the DC scheme.

The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200/- per employee per month.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 NOTES TO THE STATEMENT OF CASH FLOWS

		2019 Kshs	2018 Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Operating profit/(loss)		(193,132,140)	262,129,237
Depreciation	17	280,242,907	297,517,401
Amortisation	18	165,145	168,167
Capex Cost to Revex		7,893,509	20,929,068
Operating profit before working capital changes		**95,169,421**	**580,743,872**
(Increase)/decrease in inventories		3,661,669	31,980,203
(Increase)/decrease in trade and other receivables		(183,431,157)	(107,921,544)
Increase/(decrease) in trade and other payables		131,771,771	(438,756,767)
(Increase)/decrease in Defined Contribution Pension Fund		(29,481,412)	(162,235,054)
Increase/(decrease) in provision for staff leave pay	32	(1,636,161)	613,479
Cash generated from/(used in) operations		**16,054,130**	**(95,575,812)**
		====	====
(b) Analysis of changes in loans			
Balance at beginning of the year (note 28)		2,178,790,578	2,106,988,077
Receipts during the year		0	0
Repayments during the year		0	0
Reclass of accrued Interest to CPP Term loan		0	144,908,124
Movement in Bank Overdraft during the year		22,003,211	(26,500,216)
Foreign exchange (gains)/losses		19,543,255	(46,605,407)
Balance at end of the year	28	**2,220,337,044**	**2,178,790,578**
		=====	=====
(c) Analysis of cash and cash equivalents			
Short term deposits		1,010,602,891	1,096,772,808
Cash at bank		(714,321,269)	(850,794,235)
Cash in hand		183,269	303,481
Balance at end of the year		**296,464,892**	**246,282,054**
		=====	=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2019 Kshs	2018 Kshs
(d) Analysis of interest paid		
Interest on loans (note 12)	133,282,348	108,725,271
Interest on bank overdraft (note 12)	109,542,731	114,179,074
	242,825,079	222,904,346
Interest paid	**242,825,079**	**222,904,346**
	=====	=====
(d) Analysis of dividend paid		
Balance at beginning of the year	0	0
2017 dividends paid	0	0
2018 dividends paid	0	0
2019 interim dividends paid	0	0
Balance at end of the year	0	0
Dividend paid	**0**	**0**
	=====	=====

37 RELATED PARTY DISCLOSURES

(a) Government of Kenya

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

Other related parties include:

i) Ministry of Petroleum & Mining
ii) Key management
iii) Board of directors

37 RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties

	2019 Kshs	2018 Kshs
a) Sales to related parties		
Sales of goods to	0	0
Sales of services	0	0
Total	**0**	**0**
	=====	=====
b) Grants from the Government		
Grants from National Govt	0	0
Grants from County Government	0	0
Donations in kind	0	0
Total	**0**	**0**
	=====	=====
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	0	0
Payment for goods and services	0	0
Total	**0**	**0**
	=====	=====
d) Key management compensation		
Directors' emoluments	153,996	196,540
Compensation to the CEO	16,344,615	16,368,615
Compensation to key management	39,500,763	38,290,678
Total	**55,999,374**	**54,855,833**
	=====	=====

38 CAPITAL COMMITMENTS

Capital commitments at the year- end for which no provision has been made in these financial statements are:

	2019	2018
Description	**Kshs**	**Kshs**
Amounts authorized and contracted for	0	0
Amounts authorizes but not contracted for	0	0
Less: Amounts included in Work in progress	0	0
	0	**0**
	=====	=====

Under the KPRL/KPC Lease Agreement, the capital investment program is developed, managed and implemented by Kenya Pipeline Company Ltd.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 CONTINGENT LIABILITIES

		2019	2018
		Kshs	Kshs
i)	Guarantees	504,782,785	504,766,622
ii)	Legal claims against KPRL by Total Kenya Ltd	184,410,000	181,890,000
iii)	Other Legal claims against KPRL	8,424,608	8,424,608
iv)	KRA Disputed Tax Demand	1,633,968,000	1,633,968,000
		2,331,585,393	**2,329,049,230**
		=====	=====

Regarding the disputed KRA tax demand, the High Court sitting in Nairobi made a decision in favor of KPRL. KRA issued notice of intent to appeal against the High Court decision, but has not filed to date. In the opinion of the Directors, no provision is required in these financial statements as the liabilities are not expected to crystallize.

40 FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk ***(continued)***

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Receivables from exchange transactions	883,992,877	277,458,546	459,711,846	146,822,486
Receivables from non exchange transactions	0	0	0	0
Bank balances and Short Term Deposits	1,259,457,858	1,259,457,858	0	0
Total	**2,143,450,735**	**1,536,916,403**	**459,711,846**	**146,822,486**
At 30 June 2018				
Receivables from exchange transactions	700,561,722	245,268,524	308,470,712	146,822,486
Receivables from non exchange transactions	0	0	0	0
Bank balances and Short Term Deposits	1,184,910,416	1,184,910,416	0	0
Total	**1,885,472,138**	**1,430,178,940**	**308,470,712**	**146,822,486**

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from Kenya Pipe Line Company (KPC) Ltd.

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk management *(Continued)*

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2019				
Trade payables	546,940	20,791,658	122,089,488	143,428,086
Current portion of borrowings	0	0	3,855,282,489	3,855,282,489
Provisions	17,445,036	50,950,451	875,257,928	943,653,415
Employee benefit obligation	0	0	0	0
Total	**17,991,976**	**71,742,109**	**4,852,629,905**	4,942,363,990
At 30 June 2018				
Trade payables	19,017,309	3,750,439	114,101,796	136,869,544
Current portion of borrowings	0	0	3,813,736,022	3,813,736,022
Provisions	52,116,118	25,132,796	754,917,260	832,166,173
Employee benefit obligation	0	0	0	0
Total	**71,133,427**	**28,883,235**	**4,682,755,077**	**4,782,771,739**

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

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

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2019			
Cash in Hand and at Bank	247,810,991	1,043,976	248,854,967
Trade & other Receivables	729,752,827	7,417,564	737,170,392
Deposits	1,010,602,891	0	1,010,602,891
	1,988,166,709	**8,461,540**	**1,996,628,250**
Liabilities			
Trade and other payables	278,248,267	808,833,234	1,087,081,501
Borrowings	2,434,026,185	1,421,256,304	3,855,282,489
	2,712,274,452	**2,230,089,538**	**4,942,363,990**
Net foreign currency asset/(liability)	**(724,107,742)**	**(2,221,627,998)**	**(2,945,735,741)**

The entity manages foreign exchange risk form future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2018			
Cash in Hand and at Bank	88,034,945	102,664	88,137,609
Trade & other Receivables	546,146,569	7,592,667	553,739,236
Deposits	1,096,772,807		1,096,772,807
	1,730,954,321	**7,695,331**	**1,738,649,652**
Liabilities			
Trade and other payables	190,201,389	766,744,503	956,945,893
Borrowings	2,411,943,712	1,401,792,310	3,813,736,022
	2,602,145,101	**2,168,536,814**	**4,770,681,915**
Net foreign currency asset/(liability)	**(871,190,780)**	**(2,160,841,483)**	**(3,032,032,263)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

b) Foreign currency sensitivity analysis

The following table demonstrates the effect on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in the exchange rate of the three main transaction currencies, with all other variables held constant. The reverse would also occur if the Kenya Shilling appreciated with all other variables held constant.

	Change in currency rate Kshs	Effect on Profit before tax Kshs	Effect on equity Kshs
2019			
Euro	10%	(37,357,433)	0
USD	10%	(174,971,094)	0
GBP	10%	3,945,437	
RAND	10%	(311,900)	
INR	**10%**	**(83,158)**	
TOTAL		**(208,778,149)**	
2018			
Euro	10%	(3,777,859)	0
USD	10%	(212,823,997)	0
GBP	10%	(19,149)	
RAND	10%	(10)	
INR	10%	0	
TOTAL		**(216,621,015)**	

The impact is due to revaluation of outstanding foreign currency denominated bank loans and trade payables. Also included is the impact the change in exchange rate on USD denominated loans .

c) Interest rate risk

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

Management of interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

c) Interest rate risk *(continued)*

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior. Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs 22,203,370 (2017/18: KShs 20,890,434). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 110,323,218 (2017/18 – KShs 104,452,170)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

There were no financial and non- financial instruments recorded at fair value during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the carrying amounts are a reasonable approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 FINANCIAL RISK MANAGEMENT (Continued)

iv) Capital Risk Management

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

	2019	2018
	Kshs	**Kshs**
Retained earnings	443,531,989	269,509,816
Share Capital	736,000,000	736,722,400
Share Premium	144,000,000	144,000,000
Total funds	**1,323,531,988**	**1,150,232,216**
Total borrowings	3,855,282,489	3,813,736,022
Less: cash and bank balances	(1,259,457,858)	(1,184,910,416)
Net debt/(excess cash and cash equivalents)	**2,595,824,631**	**2,628,825,606**
Gearing	**196%**	**229%**

Cash and bank balances include GoK Funds due to be returned to the Consolidated Fund in line with Section 206 (1) of the Constitution of Kenya as directed by the National Treasury vide a letter dated 6th November 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 INCORPORATION

The entity is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.

42 EVENTS AFTER THE REPORTING PERIOD

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

43 CURRENCY

The financial statements are presented in Kenya Shillings (Kshs).

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
FY2013/14	Letter of Assurance on going concern status of KPRL	KPRL & Deloitte resolved the matter of assurance from the National Treasury regarding the going concern status	KPRL CEO &CFO	Resolved	Accounts finalized and approved by KPRL Board on 10th Dec, 2019 and subsequently approved by Shareholder on 05/02/2020
FY2014/15	Letter of Assurance on going concern status of KPRL	KPRL & Deloitte resolved the matter of assurance from the National Treasury regarding the going concern status	KPRL CEO &CFO	Resolved	Audited Accounts finalized and scheduled for approval by KPRL Board in the 1st week of October , 2020
FY2015/16	Letter of Assurance on going concern status of KPRL	KPRL forwarded Auditor request to the National Treasury.	KPRL CEO &CFO	Resolved	Audited Accounts finalized and meeting scheduled to approve accounts in 1st week of October , 2020
FY2016/17		To be audited by OAG	KPRL CEO &CFO	Pending	Immediately after approval of 2014/15 and 2015/16 accounts to Seek guidance from OAG about commencement of pending audits.
FY2017/18		To be audited by OAG	KPRL CEO &CFO	Pending	
FY2018/19		To be audited by OAG	KPRL CEO &CFO	Pending	

Ag.Chief Executive Officer

Date 04/04/2022

Director of the Board

Date 04/04/2022

APPENDIX I1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

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

Item	Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting (yes/no)	Comments
1	Cathodic Protection Upgrade	11014	Not Applicable	Less than 12 months	N/A	No	KPC Funded
2	Early Oil Pilot Scheme Project (EOPS) Main Scope	16012	Not Applicable	Less than 12 months	N/A	No	KPC Funded
3	Maintenance of Tanks T305	17002	Not Applicable	Less than 12 months	N/A	No	KPC Funded
4	Replacement of 06 Nos, utility vehicles and staff van (For 2no. New)	17003	Not Applicable	Less than 12 months	N/A	No	KPC Funded
5	Replacement of Desktop and Laptop Computers	17006	Not Applicable	Less than 12 months	N/A	No	KPC Funded
6	Yokogawa DCS System	17009	Not Applicable	Less than 12 months	N/A	No	KPC Funded
7	Purchase of Laboratory Equipment	17011	Not Applicable	Less than 12 months	N/A	No	KPC Funded
8	Truck loading facility-KPRL	17013	Not Applicable	Less than 12 months	N/A	No	KPC Funded
9	KPRL - Tank refurbishment	18001	Not Applicable	Less than 12 months	N/A	No	KPC Funded
10	LPG spheres/bullets gas detection system	18002	Not Applicable	Less than 12 months	N/A	No	KPC Funded
11	Tanks for Truck Loading - T 105, 106,115 and 116 .(Budget for T115)	18003	Not Applicable	Less than 12 months	N/A	No	KPC Funded
12	Thermal Relief Valves for Gasoil/ IDO Systems in Tank Farm	18004	Not Applicable	Less than 12 months	N/A	No	KPC Funded
13	Tanks Maintenance Program consists of the following sub-projects: T107, T109, T206, 203 and T306. (Budget for T109, T102 and T203)	18005	Not Applicable	Less than 12 months	N/A	No	KPC Funded
14	Refinery Boundary Wall	18006	Not Applicable	Less than 12 months	N/A	No	KPC Funded

Capex Program

It is noteworthy that during the term of the KPRL/KPC Lease Agreement, the capital investment program is developed, managed, and implemented by Kenya Pipeline Company. Project phasing, scheduling, procurement, technical specifications and entire field control is carried out by the Kenya Pipeline Company. Capital project reports appear in this KPRL quarterly report for completeness.

Status of Projects completion

Item	Project	Project no.	Total project Cost Kshs	Total expended to date Kshs	Completion % to date	Budget Kshs	Actual per quarter Kshs	Sources
1	Cathodic Protection Upgrade	11014	24,000,000	0	0%	24,000,000		KPC
2	Early Oil Pilot Scheme Project-main scope	16012	1,846,016,522	345,723,505	19%	1,846,016,522	45,299,563	KPC
3	Maintenance of Tanks T305	17002	10,000,000	0	0%	10,000,000		KPC
4	Replacement of 06 Nos, utility vehicles and staff van	17003	10,000,000	0	0%	10,000,000		KPC
5	Replacement of Desktop and Laptop Computers	17006	7,000,000	1,508,900	22%	7,000,000		KPC
6	Yokogawa DCS System	17009	22,000,000		0%	22,000,000		KPC
7	Purchase of Laboratory Equipment	17011	22,000,000		0%	22,000,000		KPC
8	Upgrading of truck loading facility(New Item)	17013	200,000,000	1,154,378	1%	200,000,000		KPC
9	KPRL - Tank refurbishment	18001	600,000,000	0	0%	600,000,000		KPC
10	LPG spheres/bullets gas detection system	18002	30,000,000		0%	30,000,000		KPC
11	Tanks for Truck Loading - T 105, 106,115 and 116 .(Budget for T115)	18003	15,000,000		0%	15,000,000		KPC
12	Thermal Relief Valves for Gasoil/ IDO Systems in Tank Farm	18004	7,000,000		0%	7,000,000		KPC
13	Tanks Maintenance Program consists of the following sub-projects: T107, T109,T206, 203 and T306. (Budget for T109, T102 and T203)	18005	50,000,000		0%	50,000,000		KPC
14	Refinery Boundary Wall	18006	7,000,000		0%	7,000,000		KPC
	Total		**2,850,016,522**	**348,386,783**	**12%**	**2,850,016,522**	**45,299,563**	

APPENDIX III: INTER-ENTITY TRANSFERS

	ENTITY NAME:			
	Break down of Transfers from the State Department of Petroleum			
	FY 2018/2019			
a.	**Recurrent Grants**			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
			-	
			-	
			-	
		Total	-	
b.	**Development Grants**			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
			-	
			-	
			-	
		Total	-	
c.	**Direct Payments**			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
			-	
			-	
			-	
		Total	-	
d.	**Donor Receipts**			
		Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
			-	
			-	
			-	
		Total	-	

There were no transfers from the State Department of Petroleum during FY2018/19

Chief Finance Officer
Kenya Petroleum Refineries Ltd

Sign ----------------

Head of Accounting Unit
Ministry of Petroleum & Mining

Sign---------------

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds				Where Recorded/recognized					
	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount Kshs	Statement of Financial Performance Kshs	Capital Fund Kshs	Deferred Income Kshs	Receivables Kshs	Others - must be specific Kshs	Total Transfers during the Year Kshs
Ministry of Planning and Devolution	N/A	Recurrent	0	0	0	0	0	0	0
Ministry of Planning and Devolution	N/A	Development	0	0	0	0	0	0	0
USAID	N/A	Donor Fund	0	0	0	0	0	0	0
Ministry of Planning and Devolution	N/A	Direct Payment	0	0	0	0	0	0	0
						0			
Total	**N/A**		**0**	**0**	**0**	**0**	**0**	**0**	**0**