

REPUBLIC OF KENYA

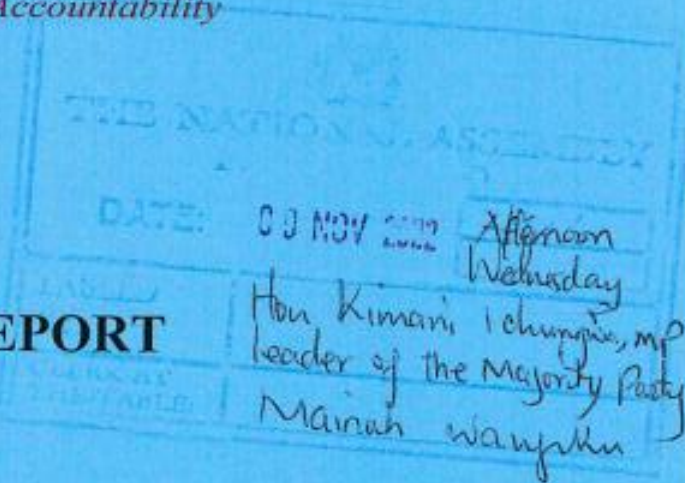


OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability



REPORT



OF

THE AUDITOR-GENERAL

ON

**KENYA PETROLEUM REFINERIES
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2020**





**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, 2020**

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

Kenya Petroleum Refineries Limited

**Annual Reports and Financial Statements
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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 quoted 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.

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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

The Directors who served the entity during the year were as follows:

Board Members

- | | | |
|---------------------------------|---|---|
| 1. Henry Gathara Karinga | - | Appointed on 06/02/17 (reappointed 21/02/2020) |
| 2. Lilian Bokeeye Mahiri – Zaja | - | Appointed on 06/02/17 (reappointed 21/02/2020) |
| 3. Hesbon Olum Gondi | - | Appointed on 09/04/2003 |
| 4. Joseph Macharia Kariuki | - | Alt. to CS National Treasury: Appointed 10/05/2017 |
| 5. Joseph Wafula Wepukhulu | - | Alt. To Ps, Petroleum: Appointed On 27/11/2017 |
| 6. Joseph Bale Ndoti | - | Ag. Chief Executive Officer-Appointed on 07/10/2019 |

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KEY ENTITY INFORMATION (Continued)

Corporate Secretary

Ledger Registrars (Muthoni Gatere/George Mokuu)
Epic Business Park 7th Floor
Links Road, Nyali
P.O. Box 43085 – 80100
Mombasa

Registered Office

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

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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 Ltd
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 Advisers

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
4th Ngong 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

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THE BOARD OF DIRECTORS

Name of Director	Provide a concise description of each Director's date of birth, key qualifications and work experience	
<p>1. Mr. Andrew Ng'ang'a Kamau</p> <p>(Alternate Mr. J. Wafula)</p>	<p>DOB-1966, Permanent Secretary, State Department of Petroleum.</p> <p>DOB-06/06/1975 Mr. Wafula is a Senior Economist at the State Department of Petroleum.</p>	
<p>2. Mr. Henry K. Rotich</p> <p>(Alternate Mr. J. Kariuki)</p>	<p>DOB-19/02/1969, Cabinet Secretary for The National Treasury.</p> <p>DOB-01/08/1963. Alternate Director, The National Treasury.</p>	
<p>3. Mr. Hesbon Gondi Olum</p>	<p>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.</p>	
<p>4. Ms. Lilian B. Mahiri-Zaja</p>	<p>DOB-08/12/1964 She 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. (UoN, 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 and Petroleum Regulatory Authority (EPRA).</p>	
<p>5. Mr. Henry G. Karinga</p>	<p>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</p>	

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Name of Director	Provide a concise description of each Director's date of birth, key qualifications and work experience	
CPA. Joseph Ndoti	DOB-05/07/1972 Currently the Acting Chief Executive Officer KPRL from 7 th October 2019 and also serves as CFO since August, 2016. He has over 20 years' experience in financial management and business administration. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled through 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 of Kenya (CPA(K)) and member of ICPAK. He has previously worked in Cargill Kenya and P&O Nedloyd East Africa Ltd.	
Ms. Muthoni Gatere	DOB-05/03/1963 Muthoni is a practising Advocate with over 30 years 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).	

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MANAGEMENT TEAM

Name of the Staff	Responsibility	
CPA. Joseph Ndoti	<p>DOB-05/07/1972 Currently the Acting Chief Executive Officer KPRL from 7th October, 2019 and serves as CFO since August 2016. He has over 20 years' experience in financial management and business administration. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled through 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 of Kenya (CPA(K)) and member of ICPAK. He has previously worked in Cargill Kenya PLC and P&O Nedlloyd East Africa Ltd.</p>	
Ms. Abigail Mwangi	<p>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)</p>	
Mr. Martin Wahome	<p>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 25 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.</p>	
Anthony Nyakiamo	<p>DOB-01/11/1960 Mr. Anthony Nyakiamo is currently the Manager Large Projects at KPRL. He holds a B.Sc. in Chemistry (UoN) and a Master of Applied Science in Chemical Engineering from University of British Columbia, Canada. He has over 20 years of experience in various sectors of the oil industry. He is an RBA certified Trustee</p>	

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Name of the Staff	Responsibility	
Eng. Evanson Momanyi	<p>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 (UoN) and MBA in Operations Management (UoN). He is a registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.</p>	
Michael Kariuki	<p>DOB-26/07/1977 Currently the Manager Technology Development and Operations at KPRL. He joined KPRL in July 2005 as a Process Engineer and has over 15 years' experience in Manufacturing, Projects, Operations and Health, Environment & Safety. Before joining KPRL, he worked at Chandaria Industries and Kel Chemicals Ltd. Michael holds an MBA in operations Management (UoN) and B.Tech degree in Chemical and Process Engineering (Moi University). He is a Certified Energy Manager and a registered Engineer with the Engineers Board of Kenya and the Institute of Engineers of Kenya.</p>	
Kadzo Kalama	<p>DOB-17/11/1983 Kadzo is the Head of Legal Services; charged with the legal advisory and corporate governance roles in the company. She is an Advocate of the High Court of Kenya with experience in commercial matters in the Energy, Petroleum and Pension sectors with keen interest in policy formulation, regulation and implementation in the sectors. She holds a post graduate Diploma in Legal Education from the Kenya School of Law, LL.B. (UoN) and is a Certified Retirement Benefits Trustee and member of the Law Society of Kenya (LSK).</p>	

DIRECTORS STATEMENT

KPRL has been on transition mode since 4th September, 2013. The company's refining operations stopped on 4th September, 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products. After the shutdown of the refining plant on 4th September 2013, the company has continued in operation and its main sources of revenue are now from storage of imported petroleum products and the leasing of its pipelines.

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 under the State Department of Petroleum, Ministry of Petroleum and Mining.

On 11th 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 7th 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 finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC.

The Lease Agreement was operationalized with effect from 1st June, 2017. 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. 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. The Steering Committee began meeting on 25th September 2020.

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DIRECTORS STATEMENT (continued)

The critical items on the agreed road map are staff matters, finalization of pending audits and accounts which were delayed by uncertainty about the going concern status of KPRL, pending KRA audits, resolution of products yield shift and closure of the defunct Toll refinery legacy matters

However, the implementation of the road map was slowed down by the Covid-19 Pandemic. In order to manage the spread of Covid-19 Pandemic, GoK declared a curfew and restricted meetings and travels with effect from 27th March, 2020.



Signed by Director of the Board

Kenya Petroleum Refineries Limited

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REPORT OF THE CHIEF EXECUTIVE OFFICER

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

During the year under review i.e. FY2019/20, the Company continued to operate under the 3-year Lease Agreement which was entered on 20th March 2017, between KPRL and the Kenya Pipeline Company Limited (KPC). The lease agreement was extended for a further term of 15 months with effect from 20th March, 2020. The agreement shall continue in full force for the said period until the takeover process is completed or until determination as provided for under the agreement. Among the changes introduced in the agreement include repayment of depreciation money on quarterly basis by KPC to KPRL. KPRL will remit the depreciation money to the banks (lenders) to be allocated against principal loan.

The agreed road map for the takeover of KPRL by KPC is tied to the extension of the lease agreement. However, the implementation of the road map has been slowed down by the Covid-19 Pandemic. In order to manage the spread of the Covid -19 Pandemic, GoK declared a curfew and restricted meetings and travels with effect from 27th March,2020. The critical items on the agreed road map are the finalization of pending audits and accounts, pending KRA audits, resolution of yield shift and staff matters.

The implementation of the Road map will start when the PS, MOPM finalizes the formation of a steering committee to be chaired by The National Treasury. Members of the steering committee consist of 2 members representing their respective organizations, namely KPRL, KPC, SCAC, MOPM, Office of the Attorney General and The National Treasury.

Going Concern Status of KPRL

The matter of uncertainty about the going concern status of KPRL was raised by external auditors who need assurance that GoK has solid plans for continuity of KPRL as a viable business. The going concern principle is the assumption that an entity will remain in business for the foreseeable future. The renewal of the lease agreement for a further period of 15 months and the agreed road map for eventual takeover of KPRL by KPC are some of the measures taken by the Shareholder to address the uncertainty about the going concern status of KPRL.

Implementation of KPRL Budget -FY 2019/20

KPRL budget was submitted through KPC to The National Treasury (TNT) for approval in January 2019. In August 2019, TNT subjected all submitted budgets of State Corporations and Semi-Autonomous Agencies (SAGAs) to a rationalization process so as to realign them to the Big Four agenda. Rationalized budgets for KPC and KPRL were approved by TNT on 27th September, 2019.

It is also important to note that during the term of the KPRL/KPC Lease Agreement, the Capital Expenditure program is developed, managed, and implemented by KPC. Project phasing, scheduling, procurement, technical specifications and entire field control is carried out by the KPC. Capital project reports appear in this KPRL Annual report for completeness. The FY2019/20 Capital Budget fell behind schedule due to delay in approval of the budget and also because of the Covid-19 pandemic that slowed down operations since March, 2020.

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REPORT OF THE CHIEF EXECUTIVE OFFICER (continued)

Early Oil Pilot Scheme (EOPS)

Modification works on KPRL assets under the Early Oil Pilot Scheme project continued. As at 17th June, 2020, the overall combined project execution was at 84%. Out of the eleven EOPS tenders, one tender (18-inch crude pipeline excavate/insulate) has been tendered unsuccessfully two times and it has been retendered again. Within the period, one sub project (Thermal insulation T118 & T119 (018 003) was completed.

From December 2019 to June 2020, KPRL did not receive any crude oil under the **Early Oil Pilot Scheme**. The production and trucking of crude oil from Turkana was initially suspended due to damaged roads in Turkana County and later by uncertainty affecting the future operations of Tullow in Kenya

The hospitality agreement for EOPS between Tullow and KPC expired on 13th March, 2020 after a three-year duration. There have been engagements for extension and the addendum has been prepared and discussed, awaiting the sign-off. The proposed extension is for a period of six (6) months. Table 1(a) below is summary of the total crude oil received and stored at KPRL after the first export.

Table 1(a)

Number of trucks received after export	1102
Net Standard volume in Cubic Meters at 15°C	28,436
Net Standard Volume in Barrels at 60°F	178,932

HR Matters

There is gradual 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 various categories. Optimal structure of KPRL is tied to the future business model that will be decided after the takeover of KPRL by KPC

HSSE Performance

There were no major safety incidents reported during the year ended 30th June, 2020. The Company is compliant with all statutory requirements relating to matters of Health, Safety, Security and Environment. Work-Hours without Lost Time Injury (LTI) are shown on Table 1(b) below.

Table 1(b)

Target Work Hours Without Lost Time Injury(LTI)	1,500,000
Hours so far achieved (30 th June 2020)	1,315,372
Hours remaining to target	184,628 (60 DAYS)

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REPORT OF THE CHIEF EXECUTIVE OFFICER *(continued)*

However, as construction activities increase, there are concerns about the large number of contractor staff at the Refinery sites without commensurate increase in supervisory staff (namely Engineers, Technicians and Operations staff). The issue of inadequate staffing was raised to KPC by KPRL management and is being followed up for implementation as a matter of urgency.

Summary of Financial Performance

The KPRL – KPC lease agreement provides for recovery of KPRL operating and finance expenses at cost without a profit margin.

Loss after tax and other comprehensive income for the year KES 184M compared to loss of KES138M. The loss for FY 2019/20 is mainly due to provision for write-off of obsolete chemicals KES 69.40M, unrealized loss of 91M on USD dominated transactions and non-recovery of provision for interest on toll dead stocks and depreciation charge on the defunct refining and captive power plants and associated equipment.



Signed by Ag. Chief Executive Officer

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REVIEW OF KPRL PERFORMANCE FOR FY 2019/2020

Background Information about KPRL Strategic & Annual Budgeting Process

The company's refining operations stopped on 4th September 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products.

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 under the State Department of Petroleum, Ministry of Petroleum and Mining.

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 finalisation 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.

Under the Lease Agreement, the consideration for using KPRL facility is that KPC shall reimburse all KPRL operating and finance expenses at cost without a profit margin. KPRL staff were seconded to KPC except the CEO who manages the residual functions of KPRL as a legal entity. 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 operations of the KPRL 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.

Status of the Lease Agreement and Road Map for Take Over of KPRL by KPC

On 18th March, 2020 the lease agreement was extended for a further term of 15 months with effect from 20th March, 2020. The agreement shall continue in full force for the said period until the takeover process is completed or until determination as provided for under the agreement. Among the changes introduced in the agreement include repayment of depreciation money on quarterly basis by KPC to KPRL. KPRL shall remit the depreciation money to the banks (lenders) to be allocated against the principal loan.

REVIEW OF KPRL PERFORMANCE FOR FY 2019/2020 (Continued)

The implementation of the road map has been slowed down by the Covid-19 Pandemic. In order to manage the spread of the Covid -19 Pandemic, GoK declared a curfew and imposed restrictions on meetings and travels with effect from 27th March,2020. The critical items on the agreed road map are staff matters, finalization of pending audits and accounts which were delayed by uncertainty about the going concern status of KPRL, pending KRA audits, resolution of products yield shift and closure of the defunct Toll refinery legacy matters

Strategic Pillars

Since 4th September, 2013 when refining operations were stopped, KPRL strategic plan is yet to be updated and unveiled. Despite the uncertainty about the going concern status of KPRL, the company is still guided by 5 strategic pillars and objectives within its Medium Term Budget for the FY2018/2019-2022/2023. These strategic pillars are as follows:

- **Pillar 1:** Conduct KPRL Business with integrity and in accordance with the laws of the Country
- **Pillar 2:** Create value to the Shareholder and our Customers by maximizing use of allocated resources within budgeted limits.
- **Pillar 3:** Resolve the uncertainty about the going concern status of KPRL and secure the future of the Company.
- **Pillar 4:** Carry out KPRL activities with highest regard to health, safety, security and the environment.
- **Pillar 5:** Maintain and develop KPRL facility as a strategic Asset of the GoK within the Oil & Gas Sector.

In line with the KPRL-KPC lease agreement, KPRL develops its annual work plans in collaboration with KPC based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2019/2020 period for its 5 strategic pillars, as indicated in the diagram below:

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 1: Conduct KPRL Business with integrity and in accordance with the laws of the Country	To comply with ethical, governance and statutory reporting requirements	Level of Compliance with internal and external requirements.	-Adherence to Company Policies and operating procedures	- No cases of fraud involving misallocation of company resources. -No penalties associated with gross non-compliance of internal and external reporting requirements.

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REVIEW OF KPRL PERFORMANCE FOR FY 2019/2020 (continued)

Strategic Pillar	Objective	Key Performance Indicators	Activities	Achievements
Pillar 2: Create value to the Shareholder and our Customers by maximizing use of allocated resources within budgeted limits.	Enhance and sustain shareholder value	- Operate within approved budgetary limits. - Profitability	-Budgeted operating activities under revenue expenditure budget - Capital Expenditure Program	-Actual expenses incurred were 15% below plan due to delayed approval of FY2019/20 Budget and disruption by the Covid -19 pandemic. -Loss after tax and other comprehensive income was KSh 184M against planned loss of KSh 136M. -Capital Expenditure Program on KPRL assets is controlled & executed by KPC and is KPC's cost of investment in their books.
Pillar 3: Resolve the uncertainty about the going concern status of	Secure long-term future of KPRL which was affected by closure of the refining operations since 4 th September, 2013.	-Sustainable operations that meet obligations of all stakeholders	Implement the Cabinet Directive of 11 August 2016 that directed KPRL to be taken over by the Kenya Pipeline Company Limited (KPC).	KPC and KPRL agreed on 15 Months road map for the takeover of KPRL by KPC. The KPRL-KPC lease agreement was renewed for a further period of 15 Months w.e.f 20 th Mar, 2020.
Pillar 4: Carry out KPRL activities with highest regard to health, safety, security and environment.	Respect and recognize HSE concerns of the community, our customers, employees, service providers and compliance with the law	Health, Safety, Security, Environmental (HSSE) incidents and level of compliance with applicable laws.	HSSE Programs	By 30 th June, KPRL had achieved 1,315,372 work hours without Lost Time Injury(LTI) against target 1, 500,000.00 work hours without LTI.
Pillar 5: Maintain and Develop KPRL Facility as a strategic Asset of GoK in the Oil & Gas Sector.	KPRL facility is a strategic facility of GoK.	Maximize Utilization of the assets	- Hospitality Services (products receipts and deliveries)	Actual throughput was 701,945.00 M3 against plan of 600,000.00M3. Full potential is a turnaround tank capacity of 1.4 (196,000.00M3 per month) which is yet to be exploited..

Performance Contract.

Since 4th Sept, 2013 when refinery operations stopped, KPRL has been facing uncertainty about its future. Due to the uncertainty about the going concern status and current KPRL-KPC lease arrangement, KPRL is yet sign performance contracts.

CORPORATE GOVERNANCE STATEMENT

Leadership and Responsibilities

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 2020, 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.

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.

It should be noted that, in its meeting held 18th April 2019, the Board formed the KPRL Road-Map Committee, an adhoc committee of the Board tasked with 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.

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.

Kenya Petroleum Refineries Limited**Annual Reports and Financial Statements
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As the board does not have a substantive Chairperson, the Board, in its meetings nominates a designated Director to facilitate coordination and functioning of the Board and Management. This member thus coordinates board activities and executes any approved documents on behalf of the board. This position will continue 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.

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.

The Composition of the Board

The composition of the Board as at 30th June 2020 is as set out in the key entity information on page 3. As detailed in the below schedule, the Board held five (5) full Board meetings, two (2) Special Board meetings and six (6) Committee meetings during the year 2019/2020 with one (1) Annual General Meeting held on 5th February, 2020 at the Company's Boardroom.

Schedule of Meetings – Financial Year Ended 30th June 2020:

Special Board	Full Board	Audit & Compliance Committee	Business Committee
4 th October, 2019	25 th July, 2019	9 th December, 2019	24 th July, 2019
4 th February, 2020	27 th September, 2019		27 th September, 2019
	10 th December, 2019		10 th December, 2019
	23 rd January, 2020		23 rd January, 2020
	4 th March, 2020		4 th March, 2020

The attendance was as follows:

Name	Lilian Mahiri-Zaja	Hesbon Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula
Meetings to Attend	15	16	15	16	14
Meetings Attended	15	16	15	16	01

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CORPORATE GOVERNANCE STATEMENT *(continued)*

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.

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 FY 2019/2020.

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.

Training and Development

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

Board Charter

The Board has a draft Charter, aligned to the provisions of Mwongozo; which acts as a guide to all Board functions. The Charter was due to be adopted early in the year. It is anticipated that this will be formally adopted during the FY 2020/21 financial year.

Board and Member Performance

A board and Member performance appraisal is scheduled to be undertaken on 29th July 2020 under the direction of the State Corporations Advisory Committee.

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) circulars dated 10th December, 2014 and the amendments thereto.

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)

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.

Governance Audit

An audit of the Legal and Governance functions of the company and its subsidiary, Kenya Petroleum Refineries Pension Trust (Corporate Trustee of the staff pension/provident schemes) as prescribed under the provisions of Mwongozo was undertaken during the year.

Kenya Petroleum Refineries Limited

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MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES HIGHLIGHTS

Manpower

Establishment strength during the year ending 30th June, 2020 stood at 118. The KPRL/KPC lease agreement was extended for a further period of 15 months effective 20th March, 2020 and the roadmap for the subsequent takeover of the company by KPC put into effect. The year saw 6 Staff exiting the company including Chrispus Mzae, Reuben Mwendu Mwakodi, Mwatu Manthi, William Murunga and James Makasi who retired at the age of 60 years. Samuel Ngure departed after serving his resignation notice.

Arrivals (Contract)

To ensure that there was a seamless hand over, continuity in pending projects and to tap into his vast experience specifically in the engineering and Information Technology department, Mr. William Murunga (Manager Instrumentation & Electrical Engineering) and James Makasi (Manager Information Technology) were recalled on term contracts during the year to oversee pending works and continue to nurture the remaining younger employees in their respective departments.

Transfers and Promotions.

In order to utilize resources optimally in the current business model and also enhance staff engagement and service delivery in the Health and Safety, Contract & Procurement, Human Resources and Engineering departments, the following changes were initiated during the year; Mr. Francis Mutumba Kitungu, Senior Technician Operations, was redeployed to the Health and Safety department, Mrs. Janette Mutimbia was re-designated Senior Supply Chain Officer (SSCO) from Contracts Administrator, Mr. Anthony Tunje was appointed Supply Chain Officer (SCO) from the position of Local Buyer while Mr. Albrian Maundu Mueke, of Technology Department was temporarily deployed to KPC, HQ to assist in the set-up of the newly established Projects Research Planning and Design Department.

Appointments were also made in several departments after the retirement of several senior staff. These included Rahma Mazrui from Payroll Accountant to Head People Services, Nathaniel Omom from Office Services Supervisor to Head Welfare and Administration, Doan Orony promoted to Head Instrumentation Engineering and Emmanuel Echelo as Head Electrical Engineering. Several employees were also confirmed into their respective roles in the Finance and Operations Departments during the year ended.

Communication

Communication to employees continued throughout the year via various media on different pertinent issues affecting the company. Engagements included a 3rd quarter Town Hall meeting held on Monday 17th February 2020 and a Board of Directors meeting with Heads of department early this year. Information shared included the position of the new lease agreement between KPC and KPRL and the roadmap to eventual takeover by KPC.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employee Recognition

In the month of August and September several employees were recognized for their dedication and loyalty to KPRL. These included Rahma Mazrui (Head People Services) who completed 35 years of service, Ramadhan Salim Baka (Operations) and Antony Ogutu Magor (Internal Audit Manager) who completed 25 years, Martin Wahome (Human Resources Manager), Euphrasio Murithi, Justus Francis Indika, Charles Juma Kariwa, Ronald Ngunjiri Kabue, Vincent Waswa Subai who all completed 15 years of service each, Caroline Anyango Oyugi, John Kimbio Mjomba of Laboratory department and Joram Reuben Orodho (Engineering) who have done 10 years of service each.

The company offered a Christmas gift voucher worth Kshs 10,000/= to each employee for the Festive Season in December 2019.

Training

There was minimal training activity during the last quarter of the year due to Government restrictions on travel and gatherings due to the outbreak of COVID – 19 Pandemic. With these limitations however, 75 employees attended various training programs in different disciplines in Mombasa, Nakuru, Kisumu and Nairobi towards the tail end of 2019. Additionally, 13 students from different learning institutions in the country were attached in various company departments while an Educational visit by a group of chemistry and laboratory student from Technical University of Mombasa took place at the beginning of the financial year.

Training activities were suspended from January 2020 due to the Pandemic.

CSR

As a Corporate Social Responsibility (CSR) initiative the company supported the KPRL Torch Sacco Society with dry goods worth Kshs 10,000/= which was presented to Minto Children Home by members of the SACCO.

Industrial Relations

Industrial relations throughout the organization remained cordial during the year. However, there was some disquiet over the payment of a pending inflationary salary adjustment for KPRL employees, payment of bonus for FY 2017/18 and the commencement of negotiations for the 2017/18/19/20 CBA all of which issues were still lodged with the KPC (lessors) executive for direction and/or approval. Outcome of above matters is expected early next financial year.

COVID-19 Pandemic

Strict measures have been put into place to curb the spread of COVID-19. These include the frequent sensitization of employees, provision of hand sanitizers and implementation of procedures laid down by Government in order to help stop the further spread of the virus both here at work and at home.

To ensure the company is well prepared for the rising number of the COVID-19 cases in the country, KPRL instituted a specific policy document on management of the COVID-19 situation should an employee or their dependent become directly affected or infected. Regular communications were also sent out to employees on the status of the Pandemic.

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MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employee Turn over

The table below shows a summary of the overall turnover as at 30th June 2020 and since 1st January 2013.

Table 4

	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	(18)	12.9%
Staff as at 31st December 2018	123	
New employees Jan - December 2019	6	5%
Exits During Jan - December 2019	(11)	
Staff as at 31st December 2019	118	
New employees Jan - June 2020	0	0%
Exits During Jan - June 2020	(0)	
Staff as at 30th June 2020	118	

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS

Table 5

HSSE PERFORMANCE - JULY 2019 to JUNE 2020				
KEY PERFORMANCE INDICATOR (KPI)	FY 2018/19	FY 2018/19	FY 2019/20	FY 2019/20
	PLAN	ACTUAL	PLAN	ACTUAL
Fatality /Lost Time Injuries (LTI)	0	1	0	0
Restricted Work Cases (RWC)	0	2	0	1
Medical Treatment Cases (MTC)	0	0	0	1
Total Recordable Cases (TRC)	1	2	1	2
First Aid Cases (FAC)	2	0	2	2
Fires (Minor)	2	1	2	2
Fires (Major)	0	0	0	0
Total Reportable Occupational Illnesses	0	0	0	0
Environmental Incidents & Complaints	1	0	1	1
Vehicle Accidents	6	3	6	4
Security Incidents (SI)	4	2	4	4

Summary of HSSE Key Performance Indicators for FY 2019/2020

HSSE Policy

KPRL has a HSE policy that ranks HSE matters on equal terms with other strategic business objectives. This policy has been implemented through a comprehensive Health, Safety and Environment management system (HSE MS) which is certified to the ISO 14001:2015 Environmental Management System standard. On 29th June to 1st July 2020, the KPRL HSE MS underwent a recertification audit by Auditors from MS Bureau Veritas Kenya Limited where the main objective was to confirm whether the system complies with the requirements of the ISO 14001:2015 standard. The verdict was positive thus KPRL Certification was upheld.

Safety at work

KPRL Management remains committed to the goal of eliminating all work related injuries and adverse health effects. To this end, monthly safety raffles were conducted as part of a campaign for promoting safety at work. No serious injury was reported during the year under review, however one restricted work case and medical treatment case were reported. This was a reduction compared to the previous year where a lost time incident and two restricted work cases were reported. This can partly be attributed to the heightened HSSE campaign through the monthly safety raffles as well as the near miss reporting and reward scheme that is in place. Job safety analysis was done for all the Early Oil Pilot Scheme (EOPS) project works to identify/assess the hazards and put in place control/mitigation measures before commencing work.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS

Safety Milestone- One Million Work hours

Tracking of cumulative work hours that have been achieved without lost time injury was done throughout the year and the One Million work hours target was achieved on **24th February 2020**. A new target was then set at 1.5 million workhours with 1,315,372 workhours being achieved by 30th June 2020.



Figure 1. Safety raffle at KPRL

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS

Environmental management

It is KPRL's policy to minimize and prevent environmental pollution in all her activities. To this end KPRL progressed the quarterly sampling and testing of effluent water from its premises. The laboratory analysis results indicated that all measured parameters were within limits stipulated in the fifth schedule of the Environmental Management and Coordination (Water Quality) regulations 2006.

Further, as part of the environmental sustainability programs, KPRL embarked on a tree planting exercise where more than sixty indigenous tree seedlings were planted on site during the world environmental day commemorated on 5th June 2020. Accessing the plant area of KPRL premises with single use plastic bottles was banned during the year as a measure of environmental pollution control. This is over and above the implementation of the National Environment Management Authority (NEMA) ban on use of plastic bags in the country. No major environmental incidents were reported.



Figure 2. Tree planting exercise to commemorate World Environmental Day

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

HEALTH, SAFETY, SECURITY & ENVIRONMENT HIGHLIGHTS

Emergency response

As part of emergency response capability test, KPRL conducted an emergency response drill on 30th October 2019 which also doubled up as the industry drill for the Mombasa Oil Terminals where other stakeholders in the oil industry e.g. KPC, OSMAG, County fire Brigade were part of the response team. KPRL also continued engaging with the stakeholders in the development of oil spill response capabilities where two members of staff were trained as oil spill responders.

Compliance

KPRL continued to comply with local legislations including the Energy Act 2019, Occupational Health and Safety Act 2007 and its subsidiary legislations as well as Environment Management and Coordination Act 1999. This is demonstrated by conducting of annual fire safety audit, occupational health and safety audit, environmental self-audit and the statutory medical examinations where no major findings were raised. Twenty-four hours' security surveillance of all KPRL premises via CCTV Cameras and patrols by security guards continued throughout the year. No major incident was reported.

COVID-19 Pandemic

The outbreak of Covid-19 pandemic in China in December 2019 and the subsequent outbreak in Kenya on March 13, 2020 has impacted on KPRL as a company as it has other organisations both locally and globally, and changed both work and interaction patterns within the company. To mitigate its advent, KPRL implemented robust measures via the Corona Virus Pandemic Contingency Plan launched in March 2020 to ensure the safety of staff and contractors as well as maintain business continuity during the pandemic. The plan focused on prevention strategies which include heightened hygiene levels, provision and use of hand sanitiser, temperature screening, social distancing and provision/use of face masks. Management also approved a KPRL specific policy document on management of Covid-19 covering employees and/or their dependents who become directly infected or affected.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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 long-term 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. Some mobile equipment were serviced by Original Equipment Manufacturer (OEM) as scheduled and the ones which failed were repaired.

II) Storage Tanks and Pipelines

Crude storage tank T102 repairs and conversion to Gasoil (AGO) storage was complete and awaiting commissioning. Repairs were carried out on sections of the fire water and hydrocarbon pipelines which failed.

III) Site Works

General site cleaning and clearing of grass continued where herbicides on grass and landscaping was carried out. Repairs at the car park (main office block) were done. Routine plumbing works went on. Cleaning of storm drains and desludging was carried out. Installation of sanitizer bottle holders at various offices done. Routine maintenance of KPRL staff houses, cottages and roads was carried out. Painting of canteen building done and fabrication and installation of truck drivers shed done.

IV) Captive Power Plant.

The vendor engineer after troubleshooting realised that the hard disk on the operator station was defective. Weekly spinning went on using an external hard drive but was stopped after the engine starting air system was noted to malfunction later. Quotation received and processing is in progress for the supply and installation of a new hard drive, replacement of the electric charging system on the breaker earlier supplied and repairs of the engine starting air system from Original Equipment Manufacturer (OEM).

V) Instrumentation & Control

The scheduled checks and testing of safeguarding systems were done as planned and no malfunction noted. Seven CCTV cameras that had failed were successfully replaced. The main fire panel at the control room malfunctioned and replacement process started as the system is obsolete. Product truck loading meters were serviced and calibrated as scheduled. A number of instrument system which failed were repaired; weighbridge display unit, tanks (T102,103 & 104) fire detection system and CCTV camera system. LPG leak detection system project was completed and commissioned.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

ENGINEERING HIGHLIGHTS

VI) Electrical

The overhead power lines to Port Reitz which failed were repaired and lines commissioned. Fire water pump P702 fault power cable was replaced and pump ready for test run. Some equipment systems failed and procurement process was initiated; administration block power supply cable, protection relays for substation 3 and Portreitz line 2, spare control room UPS1/ UPS servicing, Substation No.1 transformer No.2 tap changer, new compressor for office engineering wing air con, New control room chiller 1A and utilities emergency generator charger.

VII) Inspection & Integrity

EOPS inspection and QA/QC initiatives during construction of the new equipment and crude tanks T-101, T-103, T-104 and T119 rehabilitation. Inspection, Non-Destructive Testing (NDT), Hydrostatic, painting test completed for; Boiler piping, buffer tank T-7801, 12" Flushing line to jetty and modification on crude lines manifold at the Jetty end. Modified boom swivels were reinstated and the new rubber hoses installed

Surveillance inspection during; painting of piping/fittings for the truck loading upgrade project, relocation of 8" MPL and LPG lines along Changamwe- Jomvu and KPA Kipevu road, tank T-102 conversion works to White oils storage.

Carried out external NDT inspection of all storage tanks at Changamwe and KPC input tank farm as scheduled and in a number of assorted underground pipelines inspection and repair works within Changamwe tank farm. Continued with routine monitoring/on-stream inspection of active tanks, piping and safety relief devices RVs/PVs overhaul review and testing as per schedule

VIII) Early Oil Pilot Scheme Project:

In the period, KPRL continued to receive Turkana crude under the *Early Oil Pilot Scheme*. This was however suspended in December due to poor state of the road after the heavy rains. The last convoy of trucks was received on 06th December 2019. The first crude oil shipment was done in August 2019 and subsequently, a total of 1102 trucks were received and offloaded at KPRL, out of which, 742 trucks were received in Quarter 2. Table 6 below shows the crude oil receipts in the period.

Table 6

	OPENING	Q-2	CLOSING
Number of trucks received after export	360	742	1,102
Volume in Barrels at 60°F	71,316	107,616	178,932
Net mass in Metric Tons	9,789	14,728	24,517

Modification works on KPRL assets under the Early Oil Pilot Scheme project continued. Out of the eleven EOPS tenders, one tender (18-inch crude pipeline excavate/insulate) which had been retendered was terminated. As of 30th June 2020, seven of the ten tenders had been completed and commissioned. The overall combined project execution was at 84%.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

ENGINEERING HIGHLIGHTS

IX) Other Projects

The following projects were under implementation and status as at 30th June 2020;

1. Conversion of crude oil storage tank T102 to white oil was completed awaiting commissioning.
2. Yokogawa DCS System upgrade- Contract signed, kick off meeting for the project done on 6th Feb 2020. Orders for software's and hardware placed. Progress is at 30%.
3. LPG heat and gas detection project - Installation and commissioning done.
4. Upgrading of truck loading facility- Implementation progressed and progress is at 66%.

EARLY OIL PILOT SCHEME

The Early Oil Pilot Scheme (EOPS) is an initiative by the Government of Kenya to introduce the Kenyan crude oil to the world market. This involves trucking of crude oil from Turkana to Mombasa where it is stored, accumulated and ultimately exported using KPRL facilities.

The first crude cargo of 240,150 barrels was exported in August 2019 and thereafter, a total of 178,932 barrels have been received and stored at KPRL. The last crude truck was received in December 2019 and delivery after that was initially hampered by bad weather that rendered the roads from Turkana impassable and lately, trucking was suspended due to the COVID-19 pandemic. To enable the main scope of EOPS, KPRL engaged a total of eleven (11) contracts to carry out modifications of existing equipment and installation of new ones. The main scope would enable receipt of 2,000 barrels per day, safe storage and heating of the crude oil and capability to export large parcels of over 500,000 barrels.



Figure 3. His Excellency the President of Kenya Hon. Uhuru Kenyatta flagging off the first crude oil vessel on 26th August, 2019.

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MANAGEMENT DISCUSSION AND ANALYSIS (continued)

COMMERCIAL HIGHLIGHTS

As per terms of the lease agreement, KPC is operating the entire KPRL tank storage capacity. 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 planned tank turnaround factor is 1.4 translating to monthly volume of 196,000M3.

The actual year to date volume of products handled during the period (July 2019 – June 2020) is shown in Table 7 below.

Table 7

Products Throughput	Year	Year	Variance	Variance%
	Actual	Plan		
Receipts into KPRL (M3) @ USD 5.18/M3	701,945	600,000	101,945	17%
LPG Receipts (MT)@USD25/MT	8,216	2,708	5,508	203%
Line Lease (MT)@USD3/M3	83,557	381,432	(297,875)	-78%
Line Lease - LPG (MT) @USD20/MT	4,178	1,900	2,278	120%
Truck Loading @USD1/M3	370,256	609,932	(239,676)	-39%
FO receipts @USD1/M3	0	171,924	(171,924)	-100%
Back loading		23,596	(23,596)	-100%

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

FINANCIAL HIGHLIGHTS

Revenue

The lease agreement provides for recovery of KPRL operating expenses and finance costs without a profit margin. The expenses recovered exclude provision for interest on dead stock and depreciation on the defunct refining and captive power plants and associated equipment. Total recoveries during the year were KES 1.27bn against planned recoveries of KES 1.487bn representing 15% below plan. This was due to low product volumes handled through KPRL and delays in the implementation of the FY2019/20 budget particularly in respect of repairs and maintenance activities. The rationalized budget for FY2019/20 was approved by The National Treasury on 27th September, 2019. The financial performance was also affected by the Covid -19 pandemic that disrupted and slowed down economic activities.

Operating Expenses Before depreciation and amortization

Total operating costs during the year were KES1.441bn compared to KES1.398bn for the previous year. Included in FY2019/20 costs was provision for write off of obsolete chemicals amounting to KES 69.40M. The budgeted activities were also affected by the Covid-19 pandemic that continues to disrupt and slow down economic activities.

Loss after Tax and Other Comprehensive Income

Loss after tax and other comprehensive income for the year KES 184M compared to loss of KES 138M. The loss for FY 2019/20 is mainly due to provision for write-off of obsolete chemicals KES 69.40M, unrealized exchange loss of 91M on USD dominated transactions and non-recovery of provision for interest on toll dead stocks and depreciation charge on the defunct refining and captive power plants and associated equipment.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

STATEMENT OF FINANCIAL POSITION

The statement of financial position is shown on page 45.

Non- Current Assets

Net book value of non-current assets reported at historical cost as at 30th June, 2020 was KES 3.342bn compared to KES 3.605bn the previous year. Detailed breakdown of property, plant and equipment is shown on note 15 of the financial statements. The decline in net book value of the assets is due to provision for depreciation. No provision has been made for impairment of the defunct refining plant, captive power plants and associated equipment.

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 the 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 estimated value of KPRL investment in the DC Fund as at 30th June 2020, was KES744M. 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 future, which shall be covered by a component of the sponsors DC fund of KES 744M. Once the process of liquidation is complete then the DC fund will be available to KPRL.

Current Assets

As at 30th June 2020, current assets include crude & finished products inventories KES 321M, plant & equipment spares and other consumables KES 824M, trade & other receivables KES 514M, Tax Recoverable KES 174M and bank & cash balances KES 56M. Detailed analysis of the trade and other receivables is shown on notes 20 and 21 of the financial statements.

Current Liabilities

As at 30th June 2020, current liabilities include trade & other payables KES 280M, GoK advances KES 1.635bn, bank loans and overdrafts KES 1.816bn and provision for interest on dead stock KES 905M. Detailed analysis of the outstanding bank loans, trade and other payables is shown on notes 27 and 30 of the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

STATEMENT OF CASH FLOWS

The statement of cash flows is shown on page 48.

Cash generated from operations

Net cash generated from operating activities for the year ended 30th June, 2020 was KES 545M mainly due to receipt of depreciation money from KPC amounting to KES 379M.

Cash flow from investing activities

Year to date capital expenditure financed by KPRL was KES 18M. As per the lease agreement capital expenditure incurred by KPC in upgrading KPRL assets is reported in KPC books as cost of investment.

Financing activities

Net cash used in financing activities was KES 1.546bn during the year. This amount includes principal loan repayment of KES 219M towards the Captive Power Plant Term loan, Interest paid KES226M, provision for interest on dead stock KES63M and KES1.043bn returned to The National Treasury in August 2019, being balance of cash that had been advanced to KPRL by GoK to finance the Refinery Upgrade Project, Essar buy out and Early Oil Pilot Scheme (EOPS) project.

Net decrease in cash and cash equivalents

Net decrease in cash and cash equivalents during the year was KES KES1.019bn. The decrease was mainly due to the return of KES1.043bn to The National Treasury, interest paid on loans KES226M and provision for interest on dead stock KES 63M.

Note: The closing deficit cash and cash equivalents as at 30th June 2020 of KES 672,552,318/- is made up of Bank and cash balances as shown on note 23, short term deposits note 22 and bank overdrafts as detailed in note 27 comprising: CBA KES 357,897,819/- Citibank KES 201,835,537/- & Citibank USD facility equivalent KES 169,148,093/-

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1. Sustainability Strategy and Profile

The company's refining operations stopped on 4th September, 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products. This was mainly because the refining process had remained simple hydro skimming without secondary refining capabilities. This meant that 30 % of the crude oil refining yield, which comprised heavy fuel oil, could not be upgraded by cracking to more valuable products, and the produced low value "Tops product" could not be processed into higher value petrol. These constraints made the refining operation to be considered economically sub-optimal. After the shutdown of the refining plant on 4th September 2013, the company has continued in operation and its main sources of revenue are now from storage of imported petroleum products and the leasing of its pipelines.

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 under the State Department of Petroleum, Ministry of Petroleum and Mining.

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 7 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 finalisation 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.

On 18th March, 2020 the lease agreement was extended for a further term of 15months with effect from 20th March, 2020. The agreement shall continue in full force for the said period until the takeover process is completed or until determination as provided for under the agreement. However, the implementation of the road map has been slowed down by the Covid-19 Pandemic.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING
(Continued)

2. Environmental Performance

KPRL Health, Safety and Environmental Policy

All KPRL activities will be conducted taking foremost account of the health and safety of employees, contractors, customers and the community while paying proper regard to the environment.

KPRL has a HSE policy that ranks HSE matters on equal terms with other strategic business objectives. This policy has been implemented through a comprehensive Health, Safety and Environment management system (HSEMS) which is certified to the ISO 14001;2015 Environmental Management System Standard. On 29th June to 1st July 2020, the HSEMS underwent a recertification audit by Auditors from MS Bureau Veritas Kenya Limited whereby the main objective was to confirm whether the system complies with the requirements of the ISO 14001;2015 standard. The verdict was positive, thus KPRL certification was upheld.

Despite cash flow constraints KPRL performance on health, safety, security and environment for the financial year 2019/20 was very good as detailed above on pages 25 to 28.

3. Employee Welfare

The KPRL Recruitment and Selection Policy is guided by fair HR practice recognising the potential of internal capacity but also taking into account the importance of injection of fresh blood in the company's Human Resources from the external or open market. While Gender and Demographic parity is an important part of the process the minimum qualifications of potential candidates remains the driving force. The Accounting Officer will approve all new recruitments inter alia terms, remuneration, number, before the HR Department carries out the agreed recruitment process i.e. from internal sources or from the open market.

Upgrade of work skills and competencies are managed by a robust annual training programme and an internal capacity building curriculum at the company's training school. Career progression as well as succession planning follows closely on competency development programs in the event of gaps occasioned by employee attrition. Performance Management is an important tool that rewards effort. KPRL carries this out based on guidelines issued by the Public Service Commission.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING
(Continued)

4. Market Place Practices

Since 20th March, 2017, KPRL operates under the KPC – KPRL lease agreement that transferred customer care, marketing practices and contractual arrangement between KPRL and Oil Marketing Companies (OMCs) to KPC.

5. Community Engagements

CSR activities have been minimal due to budget constraints. However, KPRL has supported the local community in nurturing of young talent by providing the company's training facilities to sports groups like the Magongo Rangers and Changamwe Volley Ball teams. KPRL continues to support Mafuta Sea Scouts with their camping activities at Refineries estate and has provided them with dry foodstuffs when requested. Apart from providing the local administration with refreshments during national occasions, KPRL has donated refurbished furniture and IT equipment to their offices and some also to nearby schools like Gome and Changamwe Secondary Schools.

Kenya Petroleum Refineries Limited
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REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2020 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 a lease agreement with KPC, whereby the facility is now used as an 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, 2020 are set out on page 44 to 49. Below is a summary of the profit/(loss) made during the year.

	Note	2020	2019
		Kshs	Kshs
TOTAL REVENUES	6,7,8	1,207,017,248	1,204,882,956
TOTAL OPERATING EXPENSES	9/10/17/18	1,441,313,014	1,398,015,096
OPERATING PROFIT/(LOSS)	13	(234,295,766)	(193,132,140)
INCOME TAX EXPENSE/(CREDIT)	14	(50,154,249)	(54,269,095)
PROFIT/(LOSS) AFTER TAXATION		(184,141,518)	(138,863,045)
Earnings per share - basic and diluted		(5)	(4)
Dividend per share		0	0

Kenya Petroleum Refineries Limited
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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 3. 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 or shall nominate Certified Public Accountants to carry out the audit of the company for the year ended June 30, 2020 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.


By Order of the Board
Corporate Secretary
C. MUTHONI GATERE
COMPANY SECRETARY
P/CPSB/796 P/CPSB/438
Sign.....

Date :
04th APRIL 2022

Kenya Petroleum Refineries Limited
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STATEMENT OF DIRECTORS' RESPONSIBILITIES

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


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

The Directors responsibility for the KPRL 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 Act. The Directors are of the opinion that the KPRL financial statements give a true and fair view of the state of KPRL transactions during the financial year ended June 30, 2020, and of the KPRL financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the KPRL, which have been relied upon in the preparation of the KPRL 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 KPRL 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 financial statements were approved by the Board on 04/04/2022 and signed on its behalf by:


.....

Director.


.....

Director

REPUBLIC OF KENYA



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Website: www.oagkenya.go.ke

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, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 44 to 92, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, 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, 2020, 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 reflects cash and cash equivalents at the end of the year amounting to Kshs.(672,552,318). However, as disclosed in Note 23 to the financial statements, the statement of financial position reflects Kshs.56,329,132 in respect to bank and cash balances as at 30 June, 2020. The resultant difference amounting to Kshs.(728,881,450) between the two financial statements was not explained and/or reconciled.

Consequently, the accuracy of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

2. Impairment of Refinery Property, Plant and Equipment

The statement of financial position reflects Kshs.3,341,678,588 in respect to property, plant, and equipment as at 30 June, 2020. As previously reported, the balance includes Kshs.2,210,797,927 relating to crude petroleum refining plant which has not been operational since 04 September, 2013 when the plant was shut down. Although the

Company's Board of Directors approved impairment of redundant assets, the matter was awaiting endorsement and approval of The National Treasury.

Lack of refinery operations and the idle state of the Company's main plant indicates that a major portion of the refinery property, plant and equipment may be significantly impaired. However, the Management has not made an impairment assessment as required by International Accounting Standard (IAS) 36 on Impairment of Assets.

Accordingly, it was not determined whether any adjustments were necessary to the financial statements with respect to the carrying amount of the refinery assets of Kshs.2,210,797,927. This balance include capital work in progress for a captive power plant valued at Kshs.989,196,155 which was not commissioned and has 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

The statement of financial position reflects inventories valued at Kshs.1,145,155,947 which includes engineering materials valued at Kshs.792,401,137. 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 shareholder decision on the future of the company.

Consequently, the inventories balance of Kshs.1,145,155,947 as at 30 June, 2020 is not fairly stated.

4. Going Concern Status

The Company recorded a loss of Kshs.184,141,518 which further depleted its accumulated reserves to Kshs.120,527,425. In addition, the current liabilities amounting to Kshs.4,646,480,109 exceeds current assets amounting to Kshs.1,889,365,583 by Kshs.2,757,114,526 (2019: Kshs.2,766,796,927).

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 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.

5. Inappropriate Accounting Policies on Assets Measurement

The statement of financial position reflects property, plant, and equipment net book value amounting to Kshs.3,341,678,588. The values are stated at cost following a change of the Company's accounting policy on property, plant, and equipment from revaluation to cost model in 2009. According to management, the cost model was viewed as the most appropriate basis of presenting the financial statements. Following the change, the total

assets values declined from Kshs.6,974,779,000 to Kshs.3,553,077,000 representing a 49% drop in value.

For instance, the freehold land reverted to historical acquisition costs of Kshs.295,160 in 1974 although a valuation of the company's properties carried out in 2015 for purposes of proposed takeover of Company by Kenya Pipeline Company returned a corresponding value of Kshs.649,000,000 for the land. This implies that the value of Company's free hold land is grossly misstated by at least Kshs.648,704,840.

Consequently, the Company's property, plant, and equipment balance of Kshs.3,341,678,588 as at 30 June, 2022 is misstated.

5.1 Capitalization and Depreciation of Assets

Review of the capitalization policy of the company revealed that all additions to assets including direct purchases are captured as work in progress before they are capitalized and transferred to respective assets classes in the asset register at the end of the financial year. This is as opposed to capitalization when assets are delivered and put to use, and when works are completed and commissioned as required by IAS 16 - Property Plant, and Equipment.

While capitalization at the end of the year is usually acceptable, compliance with accounting standards would require assets to be depreciated from the date they are brought into use in order to match benefits accrued from the asset during the period of use. Further, capitalization of assets acquired late in the year may impact materially on the financial statements especially full year depreciation charge on large items.

6. Unresolved Yield Shift Variances

Note 30 to the financial statements reflects Kshs.1,172,057,000 in respect to trade and other payables which includes Kshs.905,342,455 or 75% in respect to provision for interest on dead stock. This provision had been brought forward from the previous years as a result of un-resolved yield shift between the Company and Oil Marketing Companies (OMCs) on yet to be lifted dead stock products that KPRL was still holding.

Available information revealed that the provision was as a result of rejection of yield shift reconciliation (ton for ton) covering period between April, 2010 to September, 2010 by OMCs, leading to non-implementation since OMCs preferred KPRL to pass variances in the hydrocarbon monthly entailment statement which was against the Processing Agreement, leading to a variance of US\$.8.6million (Kshs.746,340,016) between the OMCs amount of US\$.40.8million (Kshs.3,515,911,634) and KPRL's Amount of US\$.32.1million (Kshs.2,769,571,618). Attempts by the Energy and Petroleum Regulatory Authority (EPRA) and the Ministry of Petroleum and Mining to resolve the matter were unsuccessful, and the matter has remained unresolved.

In view of the foregoing, the accuracy of the trade and other payables balance of Kshs.1,172,057,000 as at 30 June, 2020 could not be confirmed.

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 were 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 and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Board and Governance Matters

1.1 Lack of Financial Expert in the Board

The Mwongozo, a code of governance for State Corporations, outlines governance principles on appointment of Directors to State Corporations. The principles require at least one board member to be a financial expert, with necessary qualifications and expertise in financial management or accounting and in addition, be a bona fide member of a profession compliant with the requirements of the profession's membership. However, biodata of the existing Company's Directors during the year under review, indicated that none of the Board Members possessed formal financial expertise as defined in the Mwongozo Guidelines.

1.2 Appointment letters for Board members

Two members were appointed to the Board of Directors of Kenya Petroleum Refineries Limited during the year under review to replace outgoing directors. However, their respective signed acceptance declaration in the appointment letters were not provided for audit review.

In the absence of the signed acceptance declaration, it was not confirmed how the two directors were appointed to the Company's Board of Directors.

1.3 Failure to Update the Board Charter

A review of the Corporation's Board charter revealed it had not been updated to reflect the current status of the Corporation as a wholly (100%) owned by the Government of Kenya. Contrary to Mwongozo guidelines, Section 7.1 of the Charter still states that the Board should comprise eight directors drawn from the two principal shareholders Government of Kenya and Essar Petroleum with each nominating four directors.

1.4 Lack of a Board Chairperson

Documentary review of Board composition revealed that the Corporation has been operating without a chairperson since the revocation of the appointment of the previous chairman on 21 October, 2016 vide Gazette Notice Number 8733. In addition, the Board is currently composed of five (5) Directors contrary to Mwongozo code, which provides for a minimum of seven (7) and a maximum of nine (9) Directors.

1.5 Lack of Directors' Evaluation for a Second Term

There was no document provided for audit review to confirm that one director who was appointed to the Board for a second term was evaluated and awarded favourable score before appointment for the second term.

In the absence of such evaluation, it was not possible to confirm what informed appointment of the Director to serve for the second term.

1.6 Director with no Term Limit

A review of the Directors information and biodata revealed that one director was appointed on 25 March, 2003 and is currently serving for an eighteenth (18) year contrary to Mwongozo guidelines, which limits terms of Directors to two terms of 3 years resulting to a maximum of six years. In addition, no letter of appointment for the Director was provided for audit review.

In the circumstances, the Board of Directors as constituted does not comply with the Mwongozo.

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 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

30 June, 2022

Kenya Petroleum Refineries Limited**Annual Reports and Financial Statements****For the year ended June 30, 2020****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020**

	Note	2020	2019
		KShs	KShs
REVENUES			
Sales			0
Interest Income	6	5,603,488	10,438,500
Other Income	7	1,292,805,975	1,224,687,753
Other gains /(losses)	8	(91,392,215)	(30,243,297)
TOTAL REVENUES		1,207,017,248	1,204,882,956
OPERATING EXPENSES			
Administration Costs	9	910,236,491	803,990,534
Finance Costs	10	288,636,309	313,616,510
Depreciation of property, plant and equipment	15	242,275,070	280,242,907
Amortisation of Operating Lease rentals	16	165,145	165,145
TOTAL OPERATING EXPENSES		1,441,313,014	1,398,015,096
OPERATING PROFIT/(LOSS)	11	(234,295,766)	(193,132,140)
INCOME TAX EXPENSE/(CREDIT)	12	(50,154,249)	(54,269,095)
PROFIT/(LOSS) AFTER TAXATION		(184,141,518)	(138,863,045)
Earnings per share – basic and diluted		(5)	(4)
Dividend per share		0	0

Kenya Petroleum Refineries Limited

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2020	2019
		KShs	KShs
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	3,341,678,588	3,604,859,429
Prepaid operating lease rentals	16	6,724,194	6,889,339
Investments - KPRL Pension Trust Ltd	17	10,000,000	10,000,000
KPRL Investment in DC Pension Fund	18	744,271,340	727,751,192
Total Non-Current Assets		4,102,674,123	4,349,499,961
Current Assets			
Inventories	19	1,145,155,947	1,212,280,712
Trade and other receivables	20	514,289,033	737,170,392
Tax recoverable	21	173,591,471	20,250,569
Short-term deposits	22	0	1,010,602,891
Bank and cash balances	23	56,329,132	248,854,967
Total Current Assets		1,889,365,583	3,229,159,531
Total Assets		5,992,039,706	7,578,659,492
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	24	736,000,000	736,000,000
Share Premium		144,000,000	144,000,000
Retained earnings		120,527,425	304,668,943
Capital and Reserves		1,000,527,425	1,184,668,943
Non-Current Liabilities			
Deferred tax liability	33	345,032,172	398,034,091
Total Non-Current Liabilities		345,032,172	398,034,091
Current Liabilities			
Borrowings (CPP & Overdraft)	27	1,816,457,814	2,220,337,044
Short Term Loans From GoK	28	1,634,945,444	1,634,945,444
GoK Advances for Special Projects	29	0	1,043,592,468
Trade and other payables	30	1,172,057,000	1,076,627,846
Provision for leave pay	31	13,019,851	10,453,656
KPRL Pension Trust Ltd	32	10,000,000	10,000,000
Total Current Liabilities		4,646,480,109	5,995,956,458
TOTAL EQUITY AND LIABILITIES		5,992,039,706	7,578,659,492

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

Ag. Chief Executive Officer



Joseph Ndoti
Name/Signature:

Chief Finance Officer



Joseph Ndoti
Name/Signature:
ICPAK M/NO: 3749

Director



L. MAMBI-RAJA
Name/Signature:

Kenya Petroleum Refineries Limited

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

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

	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, 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	-	-	-	-	-	-
Interim dividends paid – 2019	-	-	-	-	-	0
Proposed final dividends	-	-	-	-	-	0
At June 30, 2019	880,000,000	-	304,668,943	-	-	1,184,668,943
At July 1, 2019	880,000,000	-	304,668,943	-	-	1,184,668,943
Issues of new share capital	-	-	-	-	-	0
Prior year adjustment	-	-	-	-	-	0
Total comprehensive income	-	-	(184,141,518)	-	-	(184,141,518)
Capital/Development grants received during the year	-	-	-	-	-	0
Interim dividends paid – 2019	-	-	-	-	-	0
Proposed final dividends	-	-	-	-	-	0
At June 30, 2020	880,000,000	-	120,527,425	-	-	1,000,527,425

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements
For the year ended June 30, 2020

Note:

- 1. For items that are not common in the financial statements, the entity should include a note on what they relate to – either on the face of the statement of changes in equity/net assets or among the notes to the financial statements.*
- 2. Prior year adjustment should have an elaborate note describing what the amounts relate to. In such instances a restatement of the opening balances need to be done.*

Kenya Petroleum Refineries Limited

**Annual Reports and Financial Statements
For the year ended June 30, 2020**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020	2019
		KShs	KShs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	26	418,586,403	16,054,130
Interest received		(5,516,361)	(10,361,089)
Interest paid		225,766,184	242,825,079
Accrued Interest on dead stock		62,870,124	70,791,431
Taxation paid		(156,188,573)	(41,508,264)
Net cash generated from/(used in) operating activities		545,517,778	277,801,288
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(18,054,858)	(11,372,714)
Proceeds from disposal of property, plant and equipment		0	0
Purchase of intangible assets		0	0
Net cash generated from/(used in) investing activities		(18,054,858)	(11,372,714)
FINANCING ACTIVITIES			
Exchange gain from Re-allocation of USD 4M shareholder advances		0	(722,400)
GoK Advances for Special Projects		(1,043,592,468)	70,550,223
Proceeds from borrowings		0	0
Repayment of borrowings	27	(219,250,412)	0
Interest received		5,516,361	10,361,089
Interest paid		(225,766,184)	(242,825,079)
Accrued Interest on dead stock		(62,870,124)	(70,791,431)
Net cash generated from/(used in) financing activities		(1,545,962,828)	(233,427,598)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,018,499,908)	33,000,976
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		296,464,892	246,282,054
Effects of foreign exchanges rate fluctuations		49,482,699	17,181,861
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	35(c)	(672,552,318)	296,464,892

Kenya Petroleum Refineries Limited

Annual Reports and Financial Statements
For the year ended June 30, 2020

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

	Original	Adjustments	Final	Year	Year	Year	Remarks
	Budget KShs	KShs	Budget KShs	Actual KShs	Variance KShs	Variance %	
Revenue							
KPC Lease recoveries	1,487,963,412	0	1,487,963,412	1,270,438,369	(217,525,043)	-15%	Lease recoveries lower than plan due to delayed implementation of FY2019/20 Budget and negative impact of Covid-19 pandemic.
Other Operating Income	79,400,820	0	79,400,820	22,367,607	(57,033,213)	-72%	Lower than expected a planned Investment Income on Sponsor DB surplus pending liquidation of the defunct DB Pension fund.
Interest income	255,360	0	255,360	5,603,488	5,348,128	2094%	Includes unbudgeted interest on short term deposits
Other gains & losses	0	0	0	(91,392,215)	(91,392,215)	-100%	This relates to unrealised foreign exchange loss on USD denominated transactions
Total Revenue	1,567,619,592	0	1,567,619,592	1,207,017,248	(360,602,344)	-23%	
Operating Expenses							
Utilities	94,608,996	0	94,608,996	74,802,665	19,806,331	21%	
Staff Costs	491,846,904	0	491,846,904	397,373,886	94,473,018	19%	
Repairs, Maintenance & Material Costs	250,992,012	0	250,992,012	183,666,720	67,325,292	27%	Operating expenses lower than planned expenditure due to delay in implementation of FY 2019/20 Budget and negative impact of Covid-19 pandemic.
Consultancy, Legal & Audit Costs	27,099,996	0	27,099,996	12,345,320	14,754,676	54%	
Insurance	93,343,764	0	93,343,764	74,233,072	19,110,692	20%	
Depreciation & Ammortisation	275,100,000	0	275,100,000	242,440,215	32,659,785	12%	
Net Finance Loss / (Income)	321,000,000	0	321,000,000	288,636,309	32,363,692	10%	
Other Overheads	138,555,168	0	138,555,168	155,642,889	(17,087,721)	-12%	This includes Ksh 43M provision for doubtful debts
Board Expenses	11,550,000	0	11,550,000	12,171,939	(621,939)	-5%	
Total Expenses	1,704,096,840	0	1,704,096,840	1,441,313,014	262,783,826	15%	
Surplus/(Deficit) for the Year	(136,477,248)	0	(136,477,248)	(234,295,766)	97,818,518	-72%	

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

Kenya Petroleum Refineries Limited

Annual Reports and Financial Statements For the year ended June 30, 2020

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 certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the 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 and 5.

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

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 2020**

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.

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 2020(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. Based on the Directors' assessment, right of use assets of KSh 6,724,194, lease liabilities of KSh NIL and a deferred tax asset of KSh NIL have been recognised with a corresponding decrease of the net amount in retained earnings in these financial statements.

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 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost 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 2020, 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 2020, 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 2020(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 2020, 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 2020, 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 2020, 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 2019)

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 2020, 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

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 2019- Applicable for annual periods beginning 1 January 2020)

Together with the revised *Conceptual Framework* published in March 2019, 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 2019) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised *Conceptual Framework*.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

iii) Early adoption of standards

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

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *company* 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 recognised in the year in which the *company* 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 recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *company* 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 *company* 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)

4 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.

Costs include costs incurred initially to acquire or construct an item of plant equipment and costs incurred subsequently to add to, or replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of equipment, the carrying amount of the replaced part is derecognised.

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

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 costs of ongoing but incomplete works on buildings and other civil works and installations.

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

Buildings and civil works	25-50 years or the unexpired lease period
Plant and machinery	10-30 years
Motor vehicles, including motor cycles	5-20 years
Computers and related equipment	5-10 years
Office equipment, furniture and fittings	5-10 years

A full year's depreciation charge is recognised 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 carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

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

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 company, 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) Leases

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 realisable value. The cost of inventories comprises purchase price, import duties, transportation and handling charges, and is determined on the moving average price method.

m) Trade and other receivables

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

q) Trade and other payables

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

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 July 1, 2017. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. 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.

s) Provision for staff leave pay

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

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 recognised in profit or loss.

u) Budget information

The original budget for FY 2019/2020 was approved by the National Assembly on 27th September 2019. Subsequent revisions or additional appropriations were 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. Accordingly, the entity recorded additional appropriations of NIL on the 2019/2020 budget following the governing body's approval.

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 on page 48 of these financial statements.

v) Service concession arrangements

The company 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 company 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 company 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, 2019.

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

**5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION 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 Entity based its assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur.

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 27.

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 INTEREST INCOME

	2020	2019
Description	Kshs	Kshs
Interest income from treasury bonds		0
Interest from receivables		0
Interest from commercial banks and financial institutions	5,516,361	10,361,089
Interest on staff loans	87,127	77,411
Total	5,603,488	10,438,500

7 OTHER INCOME

	2020	2019
Description	Kshs	Kshs
KPC lease recoveries	1,270,438,369	1,186,616,591
House Rent Recoveries	5,787,195	8,531,850
Investment Income- KPRL investment in DC Pension fund	16,520,148	29,481,412
Fines and penalties on Petroleum products	0	0
Third Party Holding Certificate Charges	0	0
Other miscellaneous receipts	60,264	57,900
Total	1,292,805,975	1,224,687,753

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. According to the audited accounts of the DC fund for the year ended 30th June 2020, the investment income earned was KES 16.5M compared to KES 29.5M for the previous year.

8 OTHER GAINS AND LOSSES

	2020	2019
Description	Kshs	Kshs
Foreign exchange gains / (losses)	(183,451)	724,983
Unrealized foreign exchange gains/(losses)	(91,208,764)	(30,968,279)
Total	(91,392,215)	(30,243,297)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 (a) ADMINISTRATION COSTS

Description	2020 Kshs	2019 Kshs
Staff costs - note 9 (b)	397,373,886	422,941,611
Directors' emoluments	159,150	153,996
Electricity and water	74,802,665	70,513,654
Communication services and supplies	6,054,048	6,225,479
Transportation, travelling and subsistence	13,216,820	14,555,480
Advertising, printing, stationery and photocopying	2,722,721	4,087,594
Insurance costs	74,233,072	75,785,595
Security	46,321,805	46,951,371
Board expenses	12,171,939	10,995,903
Bank charges and commissions	782,353	747,061
Office and general supplies and services	4,028,473	3,890,954
Software Licenses	17,672,878	16,342,939
Property/ Land Rates	4,269,620	4,269,620
Auditors' remuneration	6,000,000	6,600,000
Legal fees	440,955	1,532,698
Consultancy fees	5,904,365	4,212,078
Repairs and maintenance	96,539,496	79,765,565
Materials costs	86,145,923	20,267,685
Provision for bad and doubtful debts	43,302,788	0
Occupational Health & Safety	1,294,946	1,403,056
Other operating expenses	16,798,588	12,748,194
Total	910,236,491	803,990,534

9 (b) STAFF COSTS

Description	2020 Kshs	2019 Kshs
Salaries and allowances of permanent employees	310,213,748	334,201,989
Compulsory national social security schemes	288,800	310,700
DC pension contributions	42,687,813	46,865,464
Leave pay and gratuity provisions	2,566,195	(1,636,161)
Staff welfare	2,892,233	1,567,973
Medical expenses	17,718,421	17,276,417
Canteen Expenses	2,503,683	2,893,474
Staff training & Development	10,314,566	9,475,193
Long Service Awards	531,000	444,000
Grants amortisation	(814,506)	(72,690)
Pension Admin Expense	415,482	70,820
Performance Incentive	8,056,452	11,544,432
Total	397,373,886	422,941,611
The average number of employees at the end of the year was:	2020	2019
Permanent employees - Management	90	94
Permanent employees - Unionisable	15	17
Temporary and contracted employees	13	13
Total	118	124

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 FINANCE COSTS

	2020	2019
Description	Kshs	Kshs
Interest expense on loans	121,673,536	133,282,348
Interest expense on bank overdrafts	104,092,649	109,542,731
Provision for interest on dead stock	62,870,124	70,791,431
Total	288,636,309	313,616,510

11 OPERATING PROFIT/(LOSS)

	2020	2019
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9b)	397,373,886	422,941,611
Depreciation of property, plant and equipment	242,275,070	280,242,907
Depreciation of right-of-use asset	165,145	165,145
Provision for bad and doubtful debts	43,302,788	0
Directors' emoluments	159,150	153,996
- other board expenses	12,171,939	10,995,903
Auditors' remuneration - current year fees	6,000,000	6,600,000
Net foreign exchange loss	91,079,682	30,243,297
Interest receivable	(5,603,488)	(10,438,500)
Interest payable	288,636,309	313,616,510
Rent receivable	(5,787,195)	(8,531,850)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 INCOME TAX EXPENSE/(CREDIT)

(a) Current taxation

	2020	2019
	KShs	KShs
9. INCOME TAX EXPENSE/(CREDIT)		
(a) Current taxation		
Current year tax	2,847,671	5,691,105
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge/(credit)	(53,001,919)	(59,960,200)
Total	(50,154,249)	(54,269,095)

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

	2020	2019
	KShs	KShs
Profit before taxation	(234,295,766)	(193,132,140)
Tax at the applicable tax rate of 30%	(70,288,730)	(57,939,642)
Prior year over provision	0	0
Tax effects of expenses not deductible for tax purposes	20,704,016	3,621,003
Effects of change in Tax rate	(569,534)	
Tax effects of excess capital allowances over depreciation/amortisation	0	49,544
Deferred tax prior year over-provision		0
Total	(50,154,248)	(54,269,095)

(c) Current Tax Movement

	2020	2019
	KShs	KShs
At beginning of the period	(20,250,569)	15,566,590
Income tax charge for the year	2,847,671	5,691,105
Income tax paid during the year	(156,188,573)	(41,508,264)
	(173,591,471)	(20,250,569)

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit/(loss) after tax of Kshs. (184,141,518/-) (2018/2019: Kshs. (138,863,045/-) by the average number of ordinary shares in issue during the year of 36,800,000 (2018/2019: 36,800,000). There were no dilutive or potentially dilutive ordinary shares as at the reporting date.

14 DIVIDEND PER SHARE

There were no dividends proposed as the company has reported losses for the year ended 30th June 2020.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 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 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 30 June 2019	295,160	384,034,988	761,667,439	7,297,231,835	648,383,698	9,091,613,120
	=====	=====	=====	=====	=====	=====
At 1 July 2019	295,160	384,034,988	761,667,439	7,297,231,835	648,383,698	9,091,613,120
Additions	0	0	0	0	18,054,858	18,054,858
	295,160	384,034,988	761,667,439	7,297,231,835	666,438,556	9,109,667,978.09
Transfers to assets	0	0	0	6,210,000	(6,210,000)	0
Write off	0	0	0	0	(30,239,719)	(30,239,719)
Transfer to warehouse	0	0	0	0	(8,720,910)	(8,720,910)
At 30th June 2020	295,160	384,034,988	761,667,439	7,303,441,835	621,267,928	9,070,707,350
	=====	=====	=====	=====	=====	=====
Depreciation						
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 30 June 2019	0	284,731,708	761,667,439	4,440,354,544	0	5,486,753,691
	=====	=====	=====	=====	=====	=====
At 1 July 2019	0	284,731,708	761,667,439	4,440,354,544	0	5,486,753,691
Charge for the year	0	9,613,473	0	232,661,597	0	242,275,070
Disposal of Assets	0	0	0	0	0	0
At 30th June 2020	0	294,345,180.75	761,667,439	4,673,016,142	0	5,729,028,761
	=====	=====	=====	=====	=====	=====
Net book value						
At 30th June 2020	295,160	89,689,807	0	2,630,425,694	621,267,928	3,341,678,588
	=====	=====	=====	=====	=====	=====
At 30th June 2019	295,160	99,303,280	0	2,856,877,291	648,383,698	3,604,859,429
	=====	=====	=====	=====	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 PROPERTY, PLANT AND EQUIPMENT (Continued)

Property, plant and equipment include the following items that are fully depreciated as at 30 th June 2020:	Cost	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	135,577,094	6,681,848
Plant machinery & Equipment	759,057,441	37,169,205
Storage Tanks , Pipelines and other auxiliary assets	695,352,710	30,073,540
Motor vehicles, including motor cycles	68,352,162	9,490,394
Computers and related equipment	64,679,767	8,932,064
	1,723,019,174	92,347,051

Property, plant and equipment include the following items that are fully depreciated as at 30 th 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	65,097,978

Work in progress includes Kshs 621 million being cost of feasibility studies carried out for the upgrade of the refinery.

16 Right-of-use assets

	2020	2019
	KShs	KShs
COST		
At 1st July	9,796,958	9,796,958
Additions in the period	0	0
Transfer to investment property	0	0
Disposals	0	0
As at 30th June	9,796,958	9,796,958
AMORTISATION		
As at 1st July	2,907,619	2,742,474
Charge for the period	165,145	165,145
Disposals	0	0
As at 30th June	3,072,764	2,907,619
NET BOOK VALUE	6,724,194	6,889,339

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 UNQUOTED INVESTMENTS- KPRL PENSION TRUST LTD

	2020	2019
	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
	=====	=====

UNQUOTED INVESTMENTS (Continued)

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

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 2020. The subsidiary thus did not contribute to the group's revenue and profit before tax for the year ended 30th June 2020.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 KPRL INVESMENT IN DC PENSION FUND

	2020	2019
Description	KShs	KShs
Balance as at 1st July	727,751,192	698,269,780
Accrued investment income	16,520,148	29,481,412
Balance as at 30th June	744,271,340	727,751,192

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 744M (2018/19: 728M). Once the process of liquidation is complete then the funds in KPRL pension DC fund will be available to KPRL.

19 INVENTORIES

	2020	2019
Description	Kshs	Kshs
Engineering stores	811,480,846	806,202,035
Fuel, oil and lubricants	80,805,183	81,151,811
Crude & finished product stocks	321,056,287	322,989,333
Stationery, Safety and general stores	11,574,055	12,296,333
Less: impairment of stocks	(79,760,424)	(10,358,799)
Total	1,145,155,947	1,212,280,712

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 (a) TRADE AND OTHER RECEIVABLES

	2020	2019
Description	Kshs	Kshs
Trade receivables (note 20 (b))	613,961,245	746,906,095
Deposits and prepayments	66,515,927	46,154,871
VAT recoverable	0	64,254,148
Staff receivables (note 20 (c))	4,364,474	4,497,692
Other receivables	19,572,663	22,180,072
Gross trade and other receivables	704,414,309	883,992,878
Provision for bad and doubtful receivable	(190,125,275)	(146,822,486)
Net trade and other receivables	514,289,034	737,170,392

20 (b) TRADE RECEIVABLES

	2020	2019
Description	Kshs	Kshs
Gross trade receivables	613,961,244	746,906,095
Provision for doubtful receivables	(190,125,275)	(146,822,486)
	423,835,969	600,083,609
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	148,313,061	295,928,560
Between 30 and 60 days	81,350,754	18,654,084
Between 61 and 90 days	813,782	21,704,146
Between 91 and 120 days	(153,450)	8,182,910
Over 120 days	383,637,098	255,613,909
	613,961,245	600,083,609

20 (c) STAFF RECEIVABLES

	2020	2019
Description	Kshs	Kshs
Gross staff loans and advances	4,364,474	4,497,692
Provision for impairment loss	0	0
	4,364,474	4,497,692
Less: Amounts due within one year	(1,756,221)	(1,889,438)
Amounts due after one year	2,608,254	2,608,254

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 TAX RECOVERABLE

	2020	2019
Description	Kshs	Kshs
At beginning of the year	20,250,569	(15,566,590)
Less: Income tax charge for the year (note 12)	2,847,671	5,691,105
Under/(over) provision in prior year/s (note 12)	0	0
Add: Income tax paid during the year	156,188,573	41,508,264
At end of the year	173,591,471	20,250,569

KPRL is in a tax loss. Consequently the advance tax paid will be utilized against future corporate tax liabilities.

22 SHORT TERM DEPOSITS

	2020	2019
Description	Kshs	Kshs
a) GoK funds		
National Bank of Kenya Ltd- GoK Funds	0	970,950,000
Central Bank- Treasury bills	0	-
Accrued interest receivable	0	39,652,891
	0	1,010,602,891
b) KPRL funds		
National Bank of Kenya Ltd	0	0
Accrued interest receivable	0	0
	0	0

The average effective interest rate on the short term deposits as at June 30, 2020 was 6.5% (2019: 9%).

23 BANK AND CASH BALANCES

	2020	2019
	Kshs	Kshs
Cash at bank	55,974,416	248,671,698
Cash in hand	354,715	183,269
	56,329,132	248,854,967
	=====	=====

The bulk of the cash at bank was held at National Bank of Kenya.

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23 BANK AND CASH BALANCES (Continued)

The make – up of bank balances is as follows:

Detailed analysis of the cash and cash equivalents

		2020	2019
Financial institution	Account number	Kshs	Kshs
a) Current account			
Standard Chartered bank of Kenya	01 040 926614 00	5,131,021	213,249,041
Standard Chartered bank of Kenya-USD A/C	87 040 926614 00	6,991	1,042,280
Barclays Bank of Kenya-Main A/C	016 5009 479	380,524	308,514
Barclays Bank of Kenya-Staff Imprest	016 5009 770	310,604	313,280
Barclays Bank of Kenya-USD A/C	227252715	56,202	(707)
CitibanK N.A-Euro A/C	100485478	0	259
CitibanK N.A-GBP A/C	100485486	0	198
CitibanK N.A-ZAR A/C	100485494	0	(120)
CitibanK N.A-GOK Upgrade A/C	0100485 505	0	212,677
National Bank of Kenya	010 200 666 03700	50,089,075	33,546,332
Standard Chartered Bank - KES A/C	104992661400	0	(55)
Standard Chartered Bank - USD A/C	8704992661400	0	0
Sub- total		55,974,416	248,671,698
b) Others(specify)			
Cash in hand (Petty Cash)		354,715	183,269
M pesa		0	0
Sub- total		354,715	183,269
Grand total		56,329,132	248,854,967

24 ORDINARY SHARE CAPITAL

	2020	2019
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	340,000,000
Issued and fully paid:		
36,800,000 ordinary shares of Kshs.20 par value each	736,000,000	736,000,000
Total	736,000,000	736,000,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 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.

26 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.

27 BORROWINGS

	2020	2019
Description	Kshs	Kshs
Balance at beginning of the year	2,220,337,044	2,178,790,578
Domestic borrowings during the year		0
Repayments of domestics borrowings during the period (CPP Term loan)	(219,250,412)	0
Movement in Bank Overdraft during the year	(240,262,639)	22,003,211
Exchange losses/(gains) on foreign denominated loans	49,482,699	17,181,861
Exchange losses/(gains) on foreign denominated overdraft facility	6,151,121	2,361,394
Balance at end of the year	1,816,457,814	2,220,337,044
Less: Amounts due with one year (current portion)	1,816,457,814	2,220,337,044
Amounts due after one year (non-current portion)	0	0
	=====	=====

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 BORROWINGS (Continued)

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

	2020	2019
	Kshs	Kshs
External Borrowings		
Dollar denominated loan	0	0
Sterling Pound denominated loan	0	0
	<u>0</u>	<u>0</u>
Domestic Borrowings		
Kenya Shilling overdraft from Commercial Bank of Africa	357,897,819	521,892,858
Kenya Shilling overdraft from Citibank N.A.	201,835,537	277,187,883
Dollar denominated overdraft from Citibank N.A.	169,148,093	163,912,226
Dollar denominated loan from Barclays Bank-CPP	1,087,576,364	1,257,344,078
	<u>1,816,457,814</u>	<u>2,220,337,044</u>
Total balance at end of year	1,816,457,814	2,220,337,044
	=====	=====

Foreign denominated loans have been restated based on BBK closing mean rates at the end of financial year

28 SHORT TERM LOANS FROM GoK

	2020	2019
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

29 GoK ADVANCES

	2020	2019
Description	Kshs	Kshs
GOK Advance - Upgrade Project	0	678,365,349
GoK Advance-Put Option	0	331,755,913
GoK Advance-Early Oil Pilot Scheme Project	0	33,471,206
Balance at end of Year	0	1,043,592,468

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

30 TRADE AND OTHER PAYABLES

	2020	2019
	Kshs	Kshs
Description		
Trade payables	134,466,248	143,428,086
Accrued expenses	132,248,296	125,884,965
Other payables- Provision for interest on dead stock	905,342,455	807,314,794
	1,172,057,000	1,076,627,846

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.

31 PROVISION FOR LEAVE PAY

	2020	2019
	Kshs	Kshs
Balance at beginning of the year	10,453,656	12,089,817
Additional provision at end of year	2,566,195	0
Leave paid out or utilised during the year	0	(1,636,161)
Balance at end of the year	13,019,851	10,453,656
	=====	=====

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

32 KPRL PENSION TRUST LTD

	2020	2019
	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 2020.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 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:

	2020	2019
	Kshs	Kshs
Description		
Accelerated capital allowances	603,306,290	653,520,057
Unrealised exchange gains/(losses)	(27,362,629)	(9,290,484)
Provisions for liabilities and charges	(258,910,973)	(233,399,812)
Tax losses carried forward	(979,126,910)	(1,019,922,064)
Net deferred tax liability for the year	(662,094,222)	(609,092,303)
	=====	=====

The movement on the deferred tax account is as follows:

	2020	2019
	Kshs	Kshs
The movement on the deferred tax account is as follows:		
Balance at beginning of the year	398,034,091	457,994,291
Credit to revaluation reserve	0	0
Under provision in prior year	0	0
Income statement charge/(credit)	(53,001,919)	(59,960,200)
Balance at end of the year	345,032,172	398,034,091
	=====	=====

34 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 Defined benefit fund were bought out by an insurer.

Active and deferred members joined the DC scheme and transferred their fund benefits to the DC scheme. Employees contribute 10% while employers contribute 20% of basic salary. Employer contributions are recognized as expenses in the statement of financial performance within the period they are incurred

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 NOTES TO THE STATEMENT OF CASH FLOWS

		2020	2019
	Note	Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Profit/(loss before tax		(234,295,766)	(193,132,140)
Depreciation	15	242,275,070	280,242,907
Amortisation	16	165,145	165,145
Capex Cost to Revex		38,960,629	7,893,509
Operating profit/(loss) before working capital changes		47,105,077	95,169,421
(Increase)/decrease in inventories		67,124,766	3,661,669
(Increase)/decrease in trade and other receivables		222,881,359	(183,431,157)
Increase/(decrease) in trade and other payables		95,429,154	131,771,771
Increase/(decrease) in Investment in KPRL DC Pension Fund		(16,520,149)	(29,481,412)
Increase/(decrease) in provision for staff leave pay	31	2,566,195	(1,636,161)
Cash generated from/(used in) operations		418,586,403	16,054,130
(b) Analysis of changes in loans			
Balance at beginning of the year		2,220,337,044	2,178,790,578
Receipts during the year		0	0
Repayments of domestics borrowings during the period (CPP Term loan)		(219,250,412)	0
Movement in Bank Overdraft during the quarter		(240,262,639)	22,003,211
Foreign exchange losses/(gains)		55,633,820	19,543,255
Balance at end of the year	27	1,816,457,814	2,220,337,044
(c) Analysis of cash and cash equivalents			
Short term deposits		0	1,010,602,891
Cash at bank		(672,907,033)	(714,321,269)
Cash in hand		354,715	183,269
Balance at end of the year		(672,552,318)	296,464,892

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

		2020	2019
		Kshs	Kshs
(d) Analysis of interest paid			
Interest on loans		121,673,536	133,282,348
Interest on bank overdraft		104,092,649	109,542,731
Interest on loans capitalised		0	0
Interest paid	10	225,766,184	242,825,079
		=====	=====
(e) Analysis of dividend paid			
Balance at beginning of the year		0	0
2018 dividends paid		0	0
2019 dividends paid		0	0
2020 interim dividends paid		0	0
Balance at end of the year		0	0

36 RELATED PARTY DISCLOSURES

(a) Government of Kenya

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

Other related parties include:

- i) The Ministry of Petroleum & Mining
- ii) Key Management
- iii) Board of Directors

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties

	2020	2019
	Kshs	Kshs
a) Sales to related parties		
Sales of electricity to Govt agencies	0	0
Rent Income from govt. agencies	1,270,438,369	1,186,616,591
Water sales to Govt. agencies	0	0
Interest income from Govt Commercial Banks	0	0
Interest income from Tbills and Bonds	0	0
Others (Specify)	0	0
Total	1,270,438,369	1,186,616,591
b) Purchases from related parties		
Purchases of electricity from KPLC	63,425,572	61,059,721
Purchase of water from govt service providers	11,374,918	9,251,778
Rent expenses paid to govt agencies	0	0
Training and conference fees paid to govt. agencies	144,450	69,600
Bank charges paid to Govt Commercial banks	3,000	5,450
Interest expense to investments by other govt. entities	0	0
Others (specify) -Milk frpm KCC,Licenses & Land Rates	8,861,062	11,200,025
Total	83,809,002	81,586,574
c) Grants from the Government		
Grants from National Govt	0	0
Grants from County Government	0	0
Donations in kind	0	0
Total	0	0
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	0	0
Payments for goods and services	0	0
Total	0	0
e) Key management compensation		
Directors' emoluments	159,150	153,996
Compensation to the CEO	15,547,787	16,344,615
Compensation to key management	43,761,966	39,500,763
Total	59,468,903	55,999,374

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 CAPITAL COMMITMENTS

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

	2020	2019
	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
	=====	=====

During the KPRL/KPC lease, the capital investment program is managed by KPC.

38 CONTINGENT LIABILITIES

		2020	2019
		Kshs	Kshs
i)	Guarantees	504,834,738	504,782,785
ii)	Legal claims against KPRL by Total Kenya Ltd	191,880,000	184,410,000
iii)	Other Legal claims against KPRL	9,936,020	8,424,608
iv)	KRA Disputed Tax Demand	1,633,968,000	1,633,968,000
		=====	=====
		2,340,618,758	2,331,585,393
		=====	=====

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 appealed 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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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 entity 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:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2020				
Receivables from exchange transactions	704,414,308	113,106,612	401,182,421	190,125,275
Receivables from non exchange transactions	0	0	0	0
Bank balances and Short Term Deposits	56,329,132	56,329,132	0	0
Total	760,743,440	169,435,744	401,182,421	190,125,275
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	1,536,916,404	459,711,846	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 KPC.

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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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 2020				0
Trade payables	41,330,831	1,007,874	92,127,551	134,466,248
Current portion of borrowings	0	0	3,451,403,257	3,451,403,257
Provisions	36,899,420	767,581	1,012,943,600	1,050,610,601
Employee benefit obligation				0
Total	78,230,251	1,775,455	4,556,474,407	4,636,480,114
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

(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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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 2020			
Cash in Hand and at Bank	56,263,873	65,259	56,329,132
Trade & other Receivables	502,175,092	12,113,942	514,289,033
Deposits	0	0	0
	558,438,965	12,179,200	570,618,165
Liabilities			
Trade and other payables	216,206,512	968,870,337	1,185,076,849
Borrowings	2,194,678,801	1,256,724,457	3,451,403,258
	2,410,885,313	2,225,594,794	4,636,480,107
Net foreign currency asset/(liability)	(1,852,446,348)	(2,213,415,594)	(4,065,861,942)

The entity manages foreign exchange risk from 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 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)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2020			
Euro	10%	(7,926,687)	0
USD	10%	(215,926,374)	0
GBP	10%	(21,539)	
RAND	10%	0	
INR	10%	0	
TOTAL		(223,874,599)	
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)	

c) Interest rate risk

Interest rate risk is the risk that the company'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.

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 (2018: KShs 265,028,449). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 111,016,852 (2018 – KShs 353,841,931)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

39 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:

	2020	2019
	Kshs	Kshs
Retained earnings	304,668,943	443,531,989
Share Capital	736,000,000	736,000,000
Share Premium	144,000,000	144,000,000
Total funds	1,184,668,943	1,323,531,988
Total borrowings	3,451,403,257.0	3,855,282,489
Less: cash and bank balances	(56,329,132.0)	(1,259,457,858)
Net debt/(excess cash and cash equivalents)	3,395,074,125	2,595,824,631
Gearing	287%	196%

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 INCORPORATION

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

41 EVENTS AFTER THE REPORTING PERIOD

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

42 CURRENCY

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

Kenya Petroleum Refineries Limited
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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 10 th 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 1 st 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 1 st 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	
FY2019/20		To be audited by OAG	KPRL CEO & CFO	Pending	


Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Chief Executive Officer


 Date.....04/04/2022

Director


 Date.....04/04/2022

Kenya Petroleum Refineries Limited**Annual Reports and Financial Statements
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Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting (yes/no)	Consolidated in these financial statements (Yes/No)
Replacement of Desktop and Laptop Computers	17006	Not Applicable	Less than 12 months	N/A	No	Yes
Yokogawa DC System (phase 11)	17009	Not Applicable	Less than 18 months	N/A	No	No
EOPS Projects	16012	Not Applicable	Less than 18 months	N/A	No	No
Mechanical Works for Maintenance of 8" LPG, 8" Multi-Product and 16" Fuel Oil Pipelines Located at KPA Area (Budgeted in FY 2017/18)		Not Applicable	Less than 18 months	N/A	No	No
Contract for Upgrade of Truck Loading Facility at PS 15	17013	Not Applicable	Less than 18 months	N/A	No	No
LPG Spheres/Bullets Gas Detection System	18002	Not Applicable	Less than 18 months	N/A	No	No
Conversion of crude tank 102 to AGO		Not Applicable	Less than 18 months	N/A	No	NO

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Status of Projects completion

Project Title	Project Number	Budget	Total expended to date	Completion % to date	Approved Budget	Actual	Sources of Funds
Replacement of Desktop and Laptop Computers	17006	7,200,000	6,210,000	86%	7,200,000	6,210,000	KPRL/KPC Lease
Yokogawa DC System(phase 1)	17009	33,000,000	3,906,672	30%	33,000,000	3,906,672	KPRL/KPC Lease
EOPS Projects	16012	920,251,686	538,695,201	84%	920,251,686	538,695,201	KPRL/KPC Lease
Mechanical Works for Maintenance of 8" LPG, 8" Multi-Product and 16" Fuel Oil Pipelines Located at KPA Area (Budgeted in FY 2017/18)		5,400,925	4,644,292	100%	5,400,925	4,644,292	KPRL/KPC Lease
Contract for Upgrade of Truck Loading Facility at PS 15	17013	216,458,529	87,484,764	66%	216,458,529	87,484,764	KPRL/KPC Lease
LPG Spheres/Bullets Gas Detection System	18002	28,000,000	25,510,248	95%	28,000,000	25,510,248	KPRL/KPC Lease
Conversion of crude tank 102 to AGO	16018	19,853,880	17,952,652	100%	19,853,880	17,952,652	KPRL/KPC Lease
Total		1,230,165,020	684,403,829		1,230,165,020	684,403,829	

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.

Kenya Petroleum Refineries Limited

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APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:			
Break down of Transfers from the State Department of Petroleum			
FY 2019/2020			
a. Recurrent Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	
b. Development Grants			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	
c. Direct Payments			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	
d. Donor Receipts			
	<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		-	
		-	
		-	
	Total	-	

The above amounts have been communicated to and reconciled with the parent Ministry

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

KPRL did not receive transfers from other Government entities.

