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Deputy Majority Party Whip
A. Shubuko

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THE AUDITOR-GENERAL

ON

**KENYA PETROLEUM
REFINERIES LIMITED (KPRL)**

**FOR THE YEAR ENDED
30 JUNE, 2022**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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KENYA PETROLEUM REFINERIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2022

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

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Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

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Kenya Petroleum Refineries Limited
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I. Key Entity Information

a) 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.

b) 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 a 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, 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.

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 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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I. Key Entity Information

b) Principal Activities *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 automatic month to month renewal of the agreement effective 20th June, 2021. 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. On 26th April 2022, KPC re-appointed PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and is expected to finalize the work in July, 2022. If adopted, the due diligence report will define the final road map for the takeover of KPRL by KPC.

c) Directors

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

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 Gondii - Appointed on 25/03/2003
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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I. Key Entity Information

d) Corporate Secretary

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

e) Registered Office

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

f) Corporate Headquarters

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

g) Corporate Contacts

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

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I. Key Entity Information

h) 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 Group PLC
Moi Avenue Branch,
PO Box 90681,
Mombasa, Kenya.

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

i) Independent Auditors

Auditor General
Office of the Auditor General,
Anniversary Towers, University Way,
P.O. Box 30084,
GPO 00100
Nairobi, Kenya

j) 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.

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II. The Board of Directors

Name of Director	Key qualifications and work experience	
<p>1. Mr. Andrew Ng'ang'a Kamau (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 (Alternate Mr. J. Kariuki)</p>	<p>DOB-19/02/1969, Cabinet Secretary for The National Treasury.</p> <p>DOB-08/01/1963. Alternate Director, The National Treasury.</p>	
<p>3. Mr. Hesbon Gondi Olum</p>	<p>DOB-05/09/1941.</p> <p>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</p> <p>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</p> <p>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	Key qualifications and work experience	
6. CPA. Joseph Ndoti	<p>DOB-05/07/1972</p> <p>Currently the Acting Chief Executive Officer KPRL from 7th 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.</p>	
7. Ms. Muthoni Gatere	<p>DOB-05/03/1963</p> <p>Muthoni is a practising Advocate with 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).</p>	

Board Committees




Committee	Business Committee	Audit & Compliance Committee
Roles	Finance, Human Resource, Technical and Strategy matters	Governance and Risk Matters
Chairperson	i) H. Karinga	i) L. Mahiri
Membership	ii) J. Wafula iii) H. Gondi iv) J. Kariuki	ii) J. Kariuki iii) H. Gondi
Secretary	Company Secretary	Chief Manager, Internal Audit

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III. 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 Nedloyd 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>

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Name of the Staff		Responsibility
Eng. Evanson Momanyi		<p>DOB-01/01/1964</p> <p>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 registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.</p>
Michael Kariuki		<p>DOB-26/07/1977</p> <p>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).</p> <p>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</p> <p>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 on policy formulation, regulation and implementation in the sectors.</p> <p>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 a member of the Law Society of Kenya (LSK).</p>

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IV. Chairman's 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 to operate and currently the main sources of revenue are 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 Ministry of Energy and Petroleum.

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.

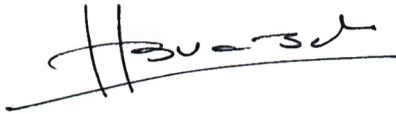
The Lease Agreement was operationalized with effect from 1 June, 2017. Under the Lease Agreement, the consideration for using KPRL facility is that KPC would retain all the staff of KPRL and reimburse the company all operating expenses. The agreement further provides that KPC may at its option undertake 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.

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IV. Chairman's Statement *continued*

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 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. 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.

On 26th April, 2022 KPC re-appointed PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and delivered the first draft due diligence report on KPRL to KPC on 20th July, 2022. The due diligence report if adopted will define the final road map for takeover of KPRL by KPC.



Signed by Director of the Board

Kenya Petroleum Refineries Limited
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V. Report of the Chief Executive Officer

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

During the financial year 2021/22, the company continued to operate under the KPRL –KPC Lease Agreement which was entered on 20th March 2017.

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 automatic month to month renewal of the agreement effective 20th June, 2021. Both KPRL and KPC take note that the implementation of the proposed roadmap on takeover of KPRL is being handled by a Steering Committee chaired by The National Treasury & Planning.

On 26th April, 2022 KPC re-appointed PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and delivered the first draft due diligence report on KPRL to KPC on 20th July, 2022. The due diligence report if adopted will pave way for the final road map for takeover of KPRL by KPC.

Going Concern Status of KPRL

The matter of uncertainty about the going concern status of KPRL has been 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 and the agreed road map for eventual takeover of KPRL by KPC are some of the measures taken by the Shareholder (The National Treasury & Planning) to address the uncertainty about the going concern status of KPRL.

Status of Pending External Audits for FY2016/17 – 2020/21

On 12th July 2022, KPRL received certified audited annual reports and financial statements from the office of the Auditor General (OAG). The audited financial statements are for the periods 2016/17, 2017/18, 2018/19 and 2019/20.

On 2nd March 2022, the OAG team commenced the audit for FY 2020/21 and completed field work on 11th April, 2022 and the audit exercise completed in June, 2022. Vide KPRL letter reference no. CEO.109/07/2022 dated 26th July 2022, KPRL requested the OAG to formally conclude the audit process and allow KPRL Management to table the accounts for FY2020/21 to the KPRL Board for approval, preferably on 27th September, 2022. We are still waiting for a response from the OAG.

Status of KRA Audit and Tax Matters

The pending KRA audit of KPRL financial transactions from April, 2016 to September, 2021 eventually commenced on 18th October 2021. The KRA team completed the field work during the month of October, 2021 and is yet to issue the audit report. Also vide letter reference no. P000618527A, dated 10th January, 2022 KRA began the validation process for the KPRL refund claim of KSh 553,921,224/-.

Kenya Petroleum Refineries Limited
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V. Report of the Chief Executive Officer *continued*

Valuation of KPRL Assets

Vide a letter dated 15th March, 2021 KPRL requested the services of the Ministry of Lands and Physical Planning to value all KPRL assets. The valuation exercise began on 11th May, 2021 and was completed in November 2021. The final detailed report was issued on 29th March, 2022. The report will guide KPRL in the process of revising assets values for insurance purposes and the setting up of reserve prices for the purposes of assets disposal.

The implementation of the report is dependent on the pending policy decision by GoK on impairment of the defunct refinery plant and associated equipment.

Restoration of the Captive Power Plant

On 19th March, 2021 KenGen acknowledged our letter: reference no. CEO/10/2018 dated 2nd October, 2018 regarding KPRL request to KenGen to support restoration of the Captive Power Plant (CPP). On 13th May, 2021, the two companies formalized the formation of a joint technical team to prepare the road map for restoration of the CPP.

The team completed the report on 18th October, 2021. The joint technical team recommended that KPRL and KenGen enter into an agreement whereby KenGen shall offer Technical Support to KPRL to secure a Power Purchase Agreement with Kenya Power and train KPRL staff to operate the power plant successfully. This mode of operations is viable.

On 24th February, 2022 KenGen shared with KPRL the first draft Technical Support Agreement (TSA) which was reviewed by both parties. The TSA was approved by the KPRL Board on 20th June, 2022 and subsequently signed by representatives of KPRL. The duly signed document was dispatched to KenGen to secure signatures of the representatives of the Company. The formalization of the TSA will pave way for the start of application and negotiations for approval of a Power Purchase Agreement (PPA).

Implementation of KPRL Budget for FY 2021/22

The budgets for KPC and KPRL were approved by The National Treasury on 30th August, 2021. KPRL is responsible for implementation of the Revenue Expenditure. 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 the KPRL Annual Report for completeness necessary for both internal and external reporting requirements.

Implementation of the Legal Compliance and Governance Audit Plan

In line with recommendations from the governance and legal audit and the OAG, in August 2021 the Board reviewed and approved the KPRL Board Charter and Risk Policy Documents respectively. KPRL appointed a Risk Manager on acting capacity with effect from 1st December, 2021.

Kenya Petroleum Refineries Limited
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V. Report of the Chief Executive Officer *continued*

HR Matters

KPRL has reviewed the Trade Union demands for the 2017-2020 CBA and has made counter proposals in readiness for negotiations that commenced mid-July 2022. This complies with the SRC directive, which gave approval for negotiations to be conducted for only non-financial items in the CBA pending the production by KPRL of Audited accounts for FY 2016/17 to 2019/2020 for their review. On 12th July, 2022 KPRL received certified audited accounts from the OAG and shared the same with SRC to facilitate the 2nd phase of the CBA negotiations.

KPRL relaxed its COVID-19 protocols in line with new Government directives but kept in place the fundamental preventive measures including wearing of masks in enclosed places, sanitisation and hand washing. KPRL continues to encourage all employees to get vaccinated at the earliest.

HSSE Performance

There were no major safety incidents reported during the year ended 30th June 2022. The Company is compliant with all statutory requirements relating to matters of Health, Safety, Security and Environment. Work-Hours without Lost Time Injury (LTI) as at 30th June, 2022 are shown on Table 1 below.

Table 1

Work-Hours without Lost Time Injury (LTI)

Target	3,000,000
Hours achieved (30 th June 2022)	2,974,705
Work hours Milestone	3Million target was estimated to be seven (7) days away.

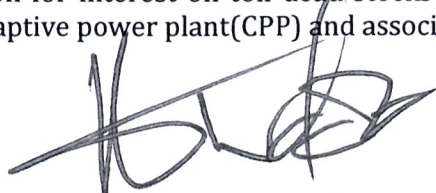
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Annual Report and Financial Statements for the year ended June 30, 2022

V. Report of the Chief Executive Officer continued

Table 2 below shows condensed Statement of Comprehensive Income for the year ended 30th June, 2022.

	Note	2021/2022	2020/2021
		Kshs	Kshs
REVENUES			
Finance income	6	8,961,271	50,232
Other Income	7	1,246,362,387	1,321,832,328
Other gains/(losses)	8	(200,270,794)	(28,244,022)
TOTAL REVENUES		1,055,052,865	1,293,638,538
OPERATING EXPENSES			
Administration Costs	9	1,224,839,459	1,400,114,777
Finance Costs	10	204,621,625	198,562,173
TOTAL OPERATING EXPENSES		1,429,461,084	1,598,676,950
LOSS BEFORE TAXATION	11	(374,408,219)	(305,038,412)
INCOME TAX EXPENSE/(CREDIT)	12	(91,294,485)	(272,858,131)
LOSS AFTER TAXATION		(283,113,734)	(32,180,281)
Earnings per share – basic and diluted	13	(8)	(1)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Loss after taxation		(283,113,734)	(32,180,281)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(283,113,734)	(32,180,281)

Year to date Loss after tax and other comprehensive income was KShs283M against planned loss of KShs 118M. The loss is mainly due to unrealized losses of KShs200M arising from revaluation of USD denominated transactions and investment loss of KShs28M on KPRL funds held in the DC pension scheme. The planned loss of KShs 118M is due to non-recovery of provision for interest on toll dead stocks and depreciation expense on the defunct refining plant, captive power plant(CPP) and associated equipment for both plants.



Signed by Ag. Chief Executive Officer

Kenya Petroleum Refineries Limited
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VI. Statement of Performance against Predetermined Objectives for FY 2021/2022

Background Information about KPRL Strategic & Annual Budgeting Process

KPRL has been in 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.

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 1st 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 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 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. 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.

On 26th April, 2022 KPC re-appointed PWC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and delivered the first draft due diligence report on KPRL to KPC on 20th July, 2022. The due diligence report if adopted will define the final road map for takeover of KPRL by KPC.

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VI. Statement of Performance against Predetermined Objectives for FY 2021/-2022
(continued)

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 FY2020/21-2023/24. 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 and 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 2021/2022 period for its 5 strategic pillars, as indicated in the diagram below:

VI. Statement of Performance against Predetermined Objectives for FY 2021/-2022 (continued)

Strategic Pillar	Objective	KPI	Activities	Achievements
Pillar 1:	To comply with ethical, governance and statutory requirements	Level of compliance with internal and external requirements.	Adherence to all company policies, operating procedures and statutory requirements.	<ul style="list-style-type: none"> KPRL's level of compliance with internal and statutory requirements is very good. There were no penalties associated with gross non-compliance of internal and statutory reporting requirements.
Pillar 2:	Enhance and sustain shareholder value	<ul style="list-style-type: none"> Operate within the approved budget. Profitability 	<ul style="list-style-type: none"> Budgeted operating activities under the revenue expenditure budget 	<ul style="list-style-type: none"> Actual total operating expenses for the year were KShs1.429bn representing 82 % of approved total revenue expenditure budget of KShs1.750bn. Operating expenses were lower than plan due to delayed approval of budget that affected implementation of repairs and maintenance activities. Actual expenses recovered from KPC were KShs 1.268bn representing 81% of budgeted recoveries of KShs 1.571bn. Recovery is below plan because of delayed implementation of repairs and maintenance activities. Loss before tax and other comprehensive income was KShs 374M against planned loss of KSh118M. The loss is mainly due to unbudgeted unrealized losses of KShs 200M arising from revaluation of USD denominated transactions and investment loss of KShs 28M on KPRL funds held in the DC pension scheme. The planned loss of KShs 118M is due to non-recovery of provision for interest on toll dead stocks and depreciation expense on the defunct refining plant, captive power plant(CPP) and associated equipment for both plants.
			<ul style="list-style-type: none"> Capital Expenditure Program 	<ul style="list-style-type: none"> Capital Expenditure Program on KPRL assets is controlled & executed by KPC and is KPC's cost of investment in their books.

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Strategic Pillar	Objective	KPI	Activities	Achievements
Pillar 3:	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 th August 2016 that directed that the management of KPRL to be taken over by KPC.	<p>During the Financial Year 2021/22 collaboration between KPRL and KPC was very good. KPC and KPRL initially agreed on 15 Months road map for the takeover of KPRL by KPC and the lease was initially renewed for a further period of 15 Months with effect from 20th March, 2020 and extended for a further period of 6 months effective 20th June 2021 with automatic month to month renewal of the lease agreement until the takeover is completed.</p> <p>On 26th April, 2022 KPC appointed PwC Kenya as Transaction Advisor on the matter of takeover of KPRL. During the month of May and June 2022, KPRL provided all the information required to both PwC and KPC for the advisory work. The 1st Draft report was delivered to KPC on 20th July, 2022.</p>
Pillar 4:	Respect and recognize the HSSE concerns of the community, OMCs, employees, service providers and compliance with the law	HSSE incidents and level of compliance with applicable laws.	Implement HSSE Programs	<p>By 30th June 2022, KPRL had achieved 2,974,705 work hours without Lost Time Injury (LTI) against target of 3,000,000 work hours without LTI. Work Hours remaining to target were 25,295.</p> <p>Working in collaboration with KPC, KPRL continues to enforce best practice and excellence culture in HSSE.</p>
Pillar 5:	KPRL facility is a strategic facility of GoK.	Maximize Utilization of the assets	Hospitality Services (products receipts and deliveries)	<p>Actual throughput (product receipts into KPRL tanks) was 1,203,215M3(100,269M3@Month). Full potential is a turnaround tank capacity of 1.4 (196,000M3 per month) which is yet to be achieved by KPC.</p>

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VII. 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 30th June 2022, 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 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.

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. The Chair sets the Agenda for the Board meetings in consultation with the Chief Executive Officer and the Company Secretary.

Currently the Board nominates a Director from those present as Chairperson; to facilitate coordination and functions of the Board and Management. This nominated Director also 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. The Company has an acting Chief Executive Officer; with the appointment of a substantive Chief Executive Officer pending the policy decision from the Government on the future of the Company.

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.

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VII. Corporate Governance Statement (continued)

Composition and Appointment of the Board

The composition of the Board as at 30th June 2022 is as set out in the Key Entity Information on page (v). During the current financial year, no changes in directorship took place. The Directors come from diverse industry and professional backgrounds with varied experience and expertise aligned to the needs of the business.

As detailed in the below schedule, the Board held seven (7) full Board meetings, one (1) Special Board meeting, three (3) Business Committee meetings and four (4) Audit and Compliance Committee meetings during the year 2021/2022 with one (1) 58th Annual General Meeting held on 26th November, 2021 at the Company's Boardroom.

Schedule of Meetings – Financial Year Ended 30th June 2022:

	Special Board	Full Board	Audit & Compliance Committee	Business Committee
1	20 th June, 2022	11 th August, 2021	10 th August, 2021	21 st September, 2021
2		22 nd September, 2021	25 th October, 2021	25 th October, 2021
3		26 th October, 2021	17 th February, 2022	17 th February, 2022
4		25-26 th November, 2021	19 th May, 2022	
5		18 th February, 2022		
6		4 th April, 2022		
7		20 th May, 2022		

The attendance thereof was as follows:

Name	Lilian Mahiri-Zaja	Hesbon Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula	Gerald Mwangi
Meetings to Attend	12	15	13	15	13	15
Meetings Attended	14	15	13	15	09	14

Information, Professional Development, Induction and Training

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.

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

Kenya Petroleum Refineries Limited
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VII. Corporate Governance Statement (continued)

Information, Professional Development, Induction and Training

During the year under review based on the training needs assessment, the below briefings and trainings were undertaken with the attendance as detailed hereunder:

Name	Lilian Mahiri-Zaja	Hesbon Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula	Gerald Mwangi
Review and Approval of Board Charter: 7 th – 9 th July 2021	✓	✓	✓	✓	✓	✓
Legal Compliance and Governance Training: 1 st – 3 rd September 2021	✓	✓	✗	✓	✗	✗
Board Induction on Public Procurement and Asset Disposal & Public Finance Management: 14 th – 17 th December 2021	✓	✓	✗	✓	✗	✓
Bio-Feedstock - Fueling a Path to the Net Zero Future Training Course: 27 th April 2022	✓	✗	✓	✗	✗	✗
European Biofuels Conference: 28 th April 2022	✓	✗	✓	✗	✗	✗

Conflict of Interest

Directors are required to give advance notice of any conflict of interest issues to the Chairperson and Company Secretary prior to any Board meeting. Declaration of none or any conflict of interest is the first agenda item for all Board meetings and a register is maintained. No conflicts were reported by any of the Directors during FY 2021/22.

Board Charter

The Board has an approved Charter which acts as a guide to all Board functions. The Charter was adopted during the 2020/21 financial year.

Board and Member Performance

A Board and Member performance appraisal for financial year 2020/2021 was successfully undertaken on 26th October 2021 under the direction of the State Corporations Advisory Committee, with the collective board performance score of 84.28%. The Board prepared its performance improvement plan which was implemented in the year under review.

Directors' Remuneration

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

Kenya Petroleum Refineries Limited
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VII. Corporate Governance Statement (continued)

Roles of the Business Committee

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.

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.

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.

Legal Compliance and Governance Audits

The audits of the Legal and Governance functions were successfully undertaken by a governance auditor in 2019 and as prescribed under Mwongozo, the same shall be carried out every three years. During the year under review, the Company has undertaken internal review; providing updates on the status of the findings by the governance auditor.

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VIII. Management Discussion and Analysis

HUMAN RESOURCE HIGHLIGHTS

The year ended 30th June, 2022 been a challenging year for KPRL from a HR perspective and perhaps it would be true to say that, in the second year of a global pandemic, these challenges have become more familiar than unprecedented. During the year, KPRL spent considerable time dealing with the many twists and turns of COVID-19 and though the company is now accustomed to operating in a pandemic, FY 2021/2022 has been different but no less demanding with HR generally dealing with both the familiar and unfamiliar issues, COVID-19 related difficulties combined with the need to keep workers healthy and safe.

KPRL takeover by KPC

The pending takeover of KPRL by KPC continued to be a source of anxiety amongst employees with its slow progression. Also with the various limitations that transition brings, came the suspension of recruitment in the year as well as delay in organisational changes, which has led to some departments being understaffed. This however is expected to be addressed post takeover.

CBA Negotiations

On matters of Industrial relations, the pending CBA negotiations for the 2017-20 CBA between KPRL and the KPOWU was not concluded due to various technicalities but progress has been made and expectations are that this will be resolved in Q1 FY2022/23.

Training

Training went on robustly throughout the year with 70% of staff attending at least one programme of three days or more. With an enhanced budget allocation in FY 2022/2023, this result is likely to be significantly higher. The PSC second cohort of interns ended their stay at KPRL early 2022 and the third cohort is expected in FY 2022/2023 while the student attachment programme was well patronised during the year.

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VIII. Management Discussion and Analysis (continued)

HEALTH SAFETY SECURITY & ENVIRONMENTAL (HSSE) HIGHLIGHTS

Workhours without Lost Time Injury (LTI)

KPRL achieved the 2.5 Million work hours without Lost Time Injury (LTI) milestone on 15th December 2021. Sensitization to Contractors on site and Staff on HSSE awareness was enhanced, with a focus to achieve the new target of 3 Million workhours.

The **table 3** below shows the status of HSSE licenses.

Table 3

S/NO	LICENSE	EXPIRY DATE
1	ISO 14001 Certificate	Certificate No. KE002541 Expiry 05/07/2023
2	NEMA Effluent Water Discharge License	License No: NEMA/WQ/EDL/12354 Expiry- 31/12/2022
3	DOSHS Workplace Certificate.	Changamwe - Certificate No. 0008190-01-22-R Expiry 20/01/2023 PortReitz - Certificate No. 0008192-01-22-R Expiry 20/01/2023
4	Fire Equipment Inspection by Mombasa County	Inspection done on 09/12/2021, Certificate Ref No ARN-AAA00IV2- Changamwe REF No. ARN-AAA03UK3- PortReitz Dated 11 th February 2022, expiry February 2023
5	Business License by EPRA	Storage of Petroleum Products Except LPG Expiry 23/11/2022 Storage of LPG in Bulk Expiry 16/08/2022 (Renewal done awaiting license)
6	Annual County Government Business licence.	31/12/2022

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VIII. Management Discussion and Analysis (continued)

HEALTH SAFETY SECURITY & ENVIRONMENTAL (HSSE) HIGHLIGHTS

The table 4 below shows a summary of the HSSE Audits done during the year.

Table 4

S/NO	AUDIT	REMARKS
1	Fire Safety Audit	<ul style="list-style-type: none"> The audit was done on 7th to 9th December 2021. Final report submitted had no major findings. The next audit is scheduled for December 2022.
2	Occupational Health and Safety Audit	<ul style="list-style-type: none"> This was carried out on 20th to 22nd April 2022. The final report was submitted to KPRL on 20th May 2022 with no major findings. Close out of the minor findings & observations is ongoing. The next audit is scheduled for April 2023
3	ISO 14001:2015 Second Surveillance Audit	<ul style="list-style-type: none"> 1st Surveillance Audit was done on 12th to 13th July 2021. Close out of audit items is in progress. Internal auditors training on the same was done on 4th to 6th May 2022. The next Surveillance by Bureau Veritas is scheduled for July 2023
4	Air Quality Monitoring Noise Survey	<ul style="list-style-type: none"> This was done- 6th to 10th June, 2022. Root cause analysis to be done to establish reasons where levels were above the permissible limits. The next Survey is scheduled for June 2023. Noise Survey carried out on 3rd to 4th March 2022. No exposure was noted as all parameters were within occupational noise level guidelines.
5	Statutory Medical Examination	<ul style="list-style-type: none"> The exposed staff were examined on 24th November 2021. No occupational illness was reported. The next examination is scheduled for November 2022.

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VIII. Management Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

Revenue

The lease agreement provides for recovery of KPRL operating and finance costs at cost i.e. without a profit margin. The expenses recovered exclude provision for interest on dead stock and depreciation on the defunct refining plant, captive power plant (CPP) and associated equipment for both plants.

The budgets for KPC and KPRL were approved by The National Treasury on 30th August, 2021. Total recoveries during the year ended 30th June, 2022 were KShs 1.268bn respectively against planned recoveries of KShs 1.571bn for the year representing 19% below the approved plan for year. This was mainly due to delay in the implementation of the FY2021/22 budget particularly in respect of repairs and maintenance activities.

Operating Expenses

Total operating costs during year ended 30th June, 2022 were KShs 1.225bn compared to the approved budget of KShs 1.511bn for the year. This represents 19% below plan mainly due to delay in approval of the budget. The budgeted activities for the year, particularly repairs and maintenance, were 40% below the annual plan since procurement of the services could not proceed without the approved budget.

Finance Costs

Interest charged on outstanding bank loans for the year was KShs 146M against plan of KShs 174M representing 16% favourable variance. This was due to implementation of competitive rates with effect from 8th May, 2020 when KPRL released KShs 380M of depreciation recoveries from KPC that was applied against the principal loan. Subsequently depreciation recovery is billed quarterly to KPC and is applied against the principal loan. Also included in the finance costs is provision for interest on dead stock amounting to KShs 58M against plan of KShs 65M. Total finance costs for the year was KShs 205M against plan of KShs 239M representing 15% favourable variance.

Loss after Tax and Other Comprehensive Income

Loss after tax and other comprehensive income for the year ended 30th June was KShs 283M against plan loss of KShs 118M for the year to date. The year to date loss is mainly due to unrealized losses of KShs 200M arising from revaluation of USD denominated transactions and investment loss of KShs 28M on KPRL funds held in the DC pension scheme. The planned loss of KShs 118M for FY2021/22 is due to non-recovery of provision for interest on toll dead stocks and depreciation charge on the defunct refining plant, captive power plant(CPP) and associated equipment for both plants.

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VIII. Management Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

STATEMENT OF FINANCIAL POSITION

The statement of financial position is shown on page 2.

Non- Current Assets

The net book value of property plant and equipment reported at historical cost as at 30th June, 2022 was KShs 2.883bn compared to KShs 3.105bn at the beginning of the financial 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. KPRL stopped refining operations with effect from 4th September, 2013.

Following the conversion of the Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested in the DC Pension scheme. The surplus funds would go partly to future funding of the employer's statutory contribution towards the DC pension scheme. The estimated value of KPRL investment in the DC Pension fund as at 30th June, 2022 was KShs 820M compared to KShs 849M at the beginning of the financial year. In line with RBA rules, the KPRL Board for the Sponsor (KPRL) passed a resolution to meet any contingent liability that may arise in future, which shall be covered by a component of the sponsors investment of KShs 820M in the DC fund.

Deferred Tax Asset

As at 30th June 2022, deferred tax asset was KShs 25M compared to deferred tax liability of KShs 71M for the previous financial year. A deferred tax asset is business tax credit for future taxes, and a deferred tax liability means the business has a tax debt that will need to be paid in future. The significant change affecting the treatment of deferred tax is that the Finance Act, 2021 removed the time restriction on carry forward of losses effective 1st January 2022, thus enabling KPRL to recognise deferred tax asset from previous years.

Current Assets

As at 30th June 2022, total current assets were KShs 2.193bn made up of crude & finished products inventories KShs 321M, plant & equipment spares and other consumables KShs 817M, trade & other receivables KShs 288M, tax recoverable Kshs 683M, short term deposits KShs 51M and bank & cash balances KShs 31M. Detailed analysis of the trade and other receivables is shown on note 21 of the financial statements.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

VIII. Management Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

Current Liabilities

As at 30th June 2022, total current liabilities were KShs 4.976bn made up of trade & other payables KShs 1.454bn, Short Term Loans from GoK KShs 1.635bn, Cash Advance from KPC KShs 80M, bank loans and overdrafts KShs 1.784bn. Detailed analysis of the outstanding loans, trade and other payables is shown on notes 29, 30, 31 and 32 of the financial statements. The current liabilities exceed current assets by KShs 2.782bn due to outstanding short-term loans from GoK, bank overdraft and CPP term loan which was converted to a current loan after default. In May 2020, KPRL began partial repayment of the bank loans using depreciation recovered from KPC as provided for in the lease agreement.

STATEMENT OF CASH FLOWS

The statement of cash flows is shown on page 4.

Cash generated from operations

Net cash deficit generated from operating activities for the year ended 30th June, 2022 was KShs 163M.

Cash flow from investing activities

As per the lease agreement between KPC and KPRL, Capital Expenditure incurred by KPC in the upgradation of KPRL assets is reported in KPC books as cost of investment.

Financing activities

Net cash applied in financing activities during the year ended 30th June, 2022 was KShs 175M. This amount includes principal loan repayment of KShs 59M towards Captive Power Plant term loan and cash advance from KPC amounting to KShs 80M. Full restructuring of the bank loans and overdrafts is still pending.

Net increase in cash and cash equivalents

Net increase in cash and cash equivalents for the year ended 30th June, 2022 was KShs 82M. The closing balance of Cash and cash equivalents as at 30th June, 2022 was KShs 630M.

Note: The closing deficit of cash and cash equivalents as at 30th June, 2022 of KES 630,435,453/- is made up of Bank and cash balances KES 31,313,252/- as shown in note 24, short term deposits KES 51,322,260/- note 23 and bank overdrafts as detailed in note 29 comprising: CBA KES 364,067,582/- Citibank KES 161,749,448/- & Citibank USD facility equivalent KES 187,253,935/-

VIII. 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 proper preservation has been funded.*

I) Rotating & Mobile Equipment

The periodic rotating of rotors for pumps at pre-determined intervals continued and the equipment is still in gasoil preservation while compressors are in nitrogen preservation. The required condition monitoring of rotating equipment in operation continued. Repairs were carried out for pumps (10 No) which failed in operation. The gulley sucker engine was serviced and other minor repairs carried out. Compressors (4 No) loading valves and pistons opened, cleaned and lubricated inclusive rotor rotating. Repairs of Fire Tenders (2 No) were carried out. Routine maintenance of Boilers was carried out as part of preservation. Mobile equipment (2 No) were serviced by Original Equipment Manufacturer (OEM) as scheduled. The flare stacks units for Complex 1 and 2 were removed successfully for preservation and storage purposes.

II) Storage Tanks and Pipelines

There were repairs carried out on; Tanks T115, T-611, T303 and T304. Four tenders were awarded, namely, Kipevu Oil Jetty (KOT) booms servicing in preparation for crude second export, Multi-product/LPG lines intelligent pigging, Tank T203 and LPG tanks & vessels repairs, maintenance and painting.

III) Site Works

There was general site cleaning and clearing of grass continued whereas application of herbicides on grass and landscaping was done throughout the year as scheduled. The major works done during the year were, Tiling of main office and boardroom ceiling installation, Renovation of KPRL boundary wall along KPRL Shamba, Erection of chain link fence at Saratoga land, KPRL communication radio mast repairs at KPRL Changamwe and relocation of Portreitz tank farm done due to communication link obstruction from high rise buildings along the path.

IV) Electrical

Repairs on KPRL electric fence, refurbishment of GM's wing central plant air conditioner unit, replacement of 42Nos. corroded Tank farm earth electrodes & replacement of utilities emergency generator battery charger cable which failed was completed. The routine energy management & monitoring, inspection of portable machines, testing of emergency power systems, electrical equipment maintenance i.e. motors, air-conditioning, cathodic protection systems, emergency generators, Portreitz overhead transmission lines, UPS's and Substations with associated equipment's continued as scheduled. Substation No.1, 2Nos. Transformer tap-changers inspection, repairs and maintenance by Original Equipment Manufacturer (OEM) were initiated for implementation.

VIII. Management Discussion and Analysis (continued)

ENGINEERING HIGHLIGHTS

V) Captive Power Plant (CPP).

CPP weekly engine spinning using turning gear method went on. Procurement process for replacement of a defective solenoid valve was initiated and awarded to Original Equipment Manufacturer(OEM) and is awaiting delivery to resume normal spinning.

VI) Instrumentation & Control

The scheduled checks and testing of safeguarding systems were done as planned. Normal maintenance requirement noted and carried out for all instrumentation & control system (CCTV, Smoke & fire detection system, truck loading meters, safe guarding (ESD) system, transmitters, ATG, LPG leak detection system etc) . Recalibrated 4Nos (T112, 207, 108 & 110) ATGs force transducers to enhance accuracy. Serviced and repaired the site fire detection system to achieve optimal operation by removing its control from the obsolete system to DCS on temporary basis awaiting new system installation. Installed and commissioned new base radios at guardroom, control room & portreitz control room. Did calibration of all truck loading meters and weighbridges. Relocated the CCTV Portreitz radio mast to reestablish the CCTV video transmission to changamwe that was lost due to high rise buildings in between. Attended to standby and operational requirements of fuel and LPG ships at Shimanzi Oil Terminal.

VII) Inspection & Integrity

Carried out quality assurance and control (QA/QC) surveillance during Major projects; T-115 rehabilitation works, KOT2 pipelines to KOSF, KOSF TK-503, TK-302 and TK-602 new nozzle assembly installation and post weld heat treatments (PWHT) of the nozzle assemblies. Tanks T-611, T-116, T-303 and T-304 and Flare stacks 1 and 2 were inspected prior to lowering for preservation.

Quality control plans review, QA/QC surveillance and Welders qualification for Line 5 connectivity at input tank farm, KOT crude tanks rehabilitation, LPG truck loading, EOPS Discharge booms servicing and testing. Progressed routine visual and NDT of KPRL storage tanks, piping and safety relief devices overhaul and inspection as per scheduled program.

VIII) Early Oil Pilot Scheme Project:

The Contract for supply/Installation of pipelines, pumps & other accessories at Changamwe and KOT was terminated after expiring on 30th June, 2021. Work done was still at 76%. A new tendering process was initiated for completion of the remaining works and was awarded to the same contractor on 30th June, 2022.

VIII. Management Discussion and Analysis (continued)

ENGINEERING HIGHLIGHTS

IX) Other Projects

The following projects were under implementation and status as at 30th June 2021 is as indicated;

1. Upgrading of truck loading facility- contract expired and terminated on default. Direct procurement was made to the same contractors for completion of the remaining works. Tendered three times but was non responsive. Roll over of the budget has been requested and approval is in progress.
2. FY 2021/22 CAPEX Projects status is as indicated below:
 - a) KPRL Changamwe connectivity to Main Line 5- Contract awarded to HIMILO COSTRUCTION AND SUPPLIES LTD on 29th March 2022, works commenced on 11th April 2022. Percentage completion as at 30th June 2022 was 14.3%
 - b) LPG Truck Loading Facility at KPRL- contract was awarded to Hudistar Contractors Ltd, and works were yet to start as at 30th June 2022.
 - c) Rehabilitation of KPRL Port Reitz tanks – Contract awarded to Weldcon Engineering Construction on 15th June 2022. Works were yet to commence as at 30th June 2022.
 - d) Connectivity of Port Reitz tanks to Line 5 and KOT2 – contract awarded to Comacon construction company JV with Gulf Energy Ltd, but had not started as at 30th June 2022, due to court cases filed by disputing bidders.
 - e) Replacement of Desktops and Laptops – Purchase order was issued to Rein Solutions Limited, on 29th June 2022 for the supply of 22 laptops.
 - f) Replacement of Data Centre Servers and LAN Base Switches– Contract was signed on 30th June 2022.
 - g) Power supply of KPRL Fire water pump from substation No.3– tendered twice but not responsive in both instances.
 - h) Replacement of LPG Analyzers- Contract awarded to P.A ROFA Limited, and the supplies are expected in the Q1 of FY 2022/23.
 - i) Replacement of KPRL Fire Detection Alarm System- contract awarded to GLOSEC Solutions Limited, on 30th June 2022. Commencement is expected in Q1 of FY 2022-23
 - j) Upgrade of KPRL administration block switchgear room and standby power supply- tendered twice but not responsive in both instances
 - k) KPRL R22 Refrigerant air-conditioning system- contract awarded to Friddle Holdings. Commencement expected in Q1 of FY 2022/23
 - l) Construction of staff car parking sheds- to be done in-house. The project was to be implemented internally, but did not commence. Roll over of the budget has been requested to enable implementation in the year 2022-23.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

VIII. Management Discussion and Analysis (continued)

Review of the Petroleum Sector and Ongoing Projects

Oil and Gas Explorations and Appraisal Wells

The Ministry of Petroleum and Mining continued to supervise the exploration of oil and gas in the country.

Early Oil Pilot Scheme (EOPS)

Following a successful export of the first crude oil cargo in August 2019, the Ministry of Petroleum and Mining is planning to export the EOPS crude oil remaining in KPRL tanks. The export is planned for the first quarter of FY 2022/23.

Lokichar-Lamu Crude Oil Pipeline

The Pipeline will evacuate/transport crude oil from the production fields in the Lokichar Basin to Lamu Port for storage and onward export to the International markets. The Ministry in collaboration with Kenya Joint Venture (KJV) continued to undertake relevant studies aimed at actualization of this project

Enhancement of Liquefied Petroleum Gas (LPG) Uptake

There has been a drive by the Ministry and industry players to enhance LPG uptake by provision of infrastructure and other drivers to enable availability and penetration of LPG gas usage in the country.

The Kenya Pipeline Company (KPC) initiated construction of an LPG truck loading facility at KPRL to provide hospitality services for LPG receipt and truck loading enhancing utilization of the storage facilities at KPRL and providing opportunities to LPG dealers to enhance LPG importation and distribution business.

KPC also commissioned a Demand Study and a Front End Engineering Design (FEED) study to determine the optimal investment required with an intent to invest in approximately 25,000 MT LPG storage and distribution facility in Mombasa.

The Kipevu Oil Jetty

The construction of the Island Kipevu Oil Jetty continued and the wet commissioning exercise had started by the close of the year, with the actual commissioning and operationalization of the facility expected by the first quarter of FY 2022/23. The four-berth expanded New KOT Jetty will replace the existing one-berth KOT jetty that has a constraint in receipt of petroleum products in the country as only one petroleum vessel can berth at a time. The new Jetty has provisions for receipt and back-loading of all petroleum products including LPG.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

IX. Environmental and Sustainability Reporting

KPRL exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, putting the customer first, delivering relevant goods and services, and improving operational excellence. Below is an outline of the organisation's policies and activities that promote sustainability.

i) Sustainability strategy and profile

KPRL has been in 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.

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 1st June, 2017.

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

On 26th April, 2022 KPC re-appointed PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and delivered the first draft due diligence report on KPRL to KPC on 20th July, 2022. The due diligence report if adopted will define the final road map for takeover of KPRL by KPC.

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 FY2020/21-2023/24. 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 and Gas sector.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

IX. Environmental and Sustainability Reporting (*continued*)

ii) Environmental performance

KPRL has a HSSE policy that ranks HSSE matters on equal terms with other strategic business objectives. The policy is anchored on the premise that 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. 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. To this end, all reasonable steps are taken to protect and preserve the environment through the identification and control of hazards that are inherent in the company's operations.

It is KPRL's policy to minimize and prevent environmental pollution in all its activities. Consequently, the company continued to comply with applicable laws such as environment Management and Coordination Act 2012 CAP 387, Occupational Safety and Health Act 2007 CAP 514, Water Act, 2016, Petroleum Act 2019 and other relevant legislations. This was demonstrated through carrying out applicable statutory audits and inspections such as annual environmental audit, occupational health and safety audit, fire safety audit, ambient air measurements, noise surveys, statutory medical examinations and effluent water sampling and analysis. Corrective actions from the audits and inspections continue to be implemented with the aim of improving our HSSE performance. Hazardous and non-hazardous wastes were disposed in accordance with applicable waste management regulations.

Further, as part of the environmental sustainability programs and improvement of biodiversity, KPRL partnered with KPC in planting 1000 mangrove seedlings during an initiative aimed at restoration of the Jomvu Kuu Creek on 21st March 2022.

During the year, KPRL in partnership with KPC progressed the LPG truck loading project and bulk LPG import, storage and Handling Facility projects which are intended to further support the Government's vision of having LPG constitute thirty-five (35) percent of cooking fuel in the country by 2030. The clean cooking fuel will also minimise on domestic (indoor) air pollution and the consequences related to the use of biomass as fuel and as well reduce on deforestation.

In the year under review, KPRL also initiated the process of phasing out use of asbestos, particularly the asbestos roofing sheets within its premises. The first stage of the process and which is in progress is carrying out the Environmental Impact Assessment (EIA) as required by the National Guidelines on Safe Management and Disposal of Asbestos (2013). This will then be followed by phase one of removal and disposal in FY2022-2023.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

IX. Environmental and Sustainability Reporting (continued)

iii) Employee welfare

KPRL undertook limited recruitment in the year under review due to budgetary constraints and the pending transition, and where this happens gender and inclusivity in general was a key driver of the process. For skills improvement, training programmes were initiated by respective departments, which HR carried out within the budget allocated. 70 % of employees attended at least one programme of 3 days or more.

Due to the low establishment, it was challenging to plan for succession but this is expected to be resolved post takeover of the company by KPC. Performance Management was carried out successfully to end of the financial year. In the year under review, KPRL was compliant with all safety related statutory activities including audits under the Occupational Safety and Health Act of 2007 (OSHA) per Table 5 below.

Table 5

NO.	REGULATOR	COMPLIANCE OBLIGATION	STATUS
1	Directorate of Occupational Safety and Health Services (DOSHS)	Certificate of work place registration	In place for Changamwe and PortReitz Tankfarm, expiry date 20 January 2023
		Certificate of medical examination	Examination done on 24 th November 2021, final medical report received.
		Annual Statutory Health and Safety Audit	Done on 20th – 22nd April, 2022
		Annual Fire Safety Audit	Done in December 2021
		Noise pollution survey	Done on 3rd and 4th March 2022
2	National Environment Management Authority (NEMA)	Annual Self Audit Reports	Done in June 2022
		Effluent water discharge license	License NEMA/WQ/EDL/12354 Expiry 31/12/2022
		ESIA License for new projects	Done for EOPS Project, to be done for proposed LPG Facility
		Air Quality Monitoring reports	Done on 9th - 11th June 2022
		Effluent water quality monitoring reports	Done for Q4 FY 2021/2022
3	Energy Regulatory Commission (ERC)	Annual Petroleum Business License	Expiry 23/11/2022
4	County Government of Mombasa	Annual Single Business Permit For both Storage and Plant	Issued March 2022
		Certificate of Inspection from the Department of Fire and Ambulance Services	Done for 2022

Kenya Petroleum Refineries Limited
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IX. Environmental and Sustainability Reporting (continued)

iv) Market place practices-

a) Responsible competition practice.

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.

b) Responsible supply chain and supplier relations

KPRL honours contractual obligations. As at 30th June, 2022 KPRL had no pending bills.

c) Responsible marketing and advertisement

As per the current lease arrangement, KPC operates the KPRL facility and is responsible for product marketing and advertisement.

d) Product stewardship

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.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

IX. Environmental and Sustainability Reporting (continued)

Corporate Social Responsibility / Community Engagements

With a limited CSR budget, KPRL maintained a low-level participation in the CSR arena but nonetheless made a fair contribution to the society in and around its locality namely:

1. Use of KPRL sports club facility by various sporting groups in Changamwe e.g. Magongo Football Club and Neighbours Refinery Youth Volleyball Club
2. Material contributions to the following:

Table 6

S/NO	INSTITUTION	ACTIVITY	DATE OF EVENT	AMOUNT (KSH) APPROVED	GOODS PURCHASED
1.	Ministry of Education, Changamwe sub county	International Literacy Day	08.09.2021	10,000/-	Cartons of water
2.	St Charles Lwanga Primary School	School Feeding Programme 9	31.01.2022	10,000/-	Dry goods (Food stuff)
3.	Minto Children's Home	Assistance to the needy orphans	24.12.2021	10,000/-	Dry goods (Food stuff)
4.	Technical University of Mombasa	TUM multidisciplinary conference & Innovation week - 2022	31.03.2022 to 01.04.2022	10,000/-	Water Soda
5.	Chaani Ladies Football Club	Facilitation to participate in FKF Regional League	20.05.2022	35,000/-	FKF participation fee of Ksh 25,000. Water and Soda for Ksh 10,000
6.	Kenya Scouts Association	Support during peace caravan procession	18.06.2022	10,000/-	10 Cartons of water

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

X. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2022, which show the state of the company's affairs.

i) Principal activities

KPRL has been in 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.

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 1st June, 2017.

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 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 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. 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.

On 26th April, 2022 KPC re-appointed PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and delivered the first draft due diligence report on KPRL to KPC on 20th July, 2022. The due diligence report if adopted will define the final road map for takeover of KPRL by KPC.

ii) Results

The results of the entity for the year ended June 30, 2022, are set out on page 1 to 7. Following is a summary of the profit or loss made during the year.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

X. Report of the Directors (continued)

SUMMARISED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2022			
	Note	2021/2022	2020/2021
		Kshs	Kshs
REVENUES			
TOTAL REVENUES	6,7,8	1,055,052,865	1,293,638,538
TOTAL OPERATING EXPENSES	9,10	1,429,461,084	1,598,676,950
LOSS BEFORE TAXATION	11	(374,408,219)	(305,038,412)
INCOME TAX EXPENSE/(CREDIT)	12	(91,294,485)	(272,858,131)
LOSS AFTER TAXATION		(283,113,734)	(32,180,281)
Earnings per share – basic and diluted	13	(8)	(1)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Loss after taxation		(283,113,734)	(32,180,281)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		(283,113,734)	(32,180,281)

iii) 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.

iv) Directors

The members of the Board of Directors who served during the year are shown on page v.

v) Auditors

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

By Order of the Board

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


 Signature

15.02.2023
 Date

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

XI.Statement of Directors' Responsibilities

Section 14 of the State Corporations Act requires 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 and the operating results of the company for that year. The Directors are also required to ensure that 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 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 ended on June 30, 2022. This responsibility includes: (i)Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period,(ii)maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity, (iii)Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud, (iv)Safeguarding the assets of the company (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.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

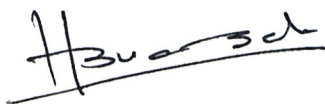
Statement of Directors' Responsibilities (Continued)

The Directors are of the opinion that the KPRL financial statements give a true and fair view of the state of the company's transactions during the financial year ended June 30, 2022, and of the KPRL financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the company, 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 company will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The KPRL financial statements were approved by the Board on 15th FEB, 2023 and signed on its behalf by:



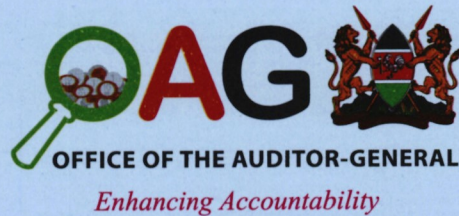
.....
Name HENRY KARANJA
Director



.....
Name JOSEPH NDOTI
Ag. Chief Executive Officer

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED (KPRL) FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 1 to 61, which comprise the statement of financial position as at

30 June, 2022, 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, 2022, and of its financial performance and its cash flows for the year then ended, and do not comply with International Financial Reporting Standards (IFRS) and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in Provision for Bad and Doubtful Debts

The statement of profit or loss and other comprehensive income and Note 9 to the financial statements reflects administration expenses Kshs.1,226,839,459. Included in this amount is a credit expense on provision for bad and doubtful debts of Kshs.7,889,323. However, Note 21 to the financial statements reflects provision for bad and doubtful debts at the beginning and at the close of the year of Kshs.493,746,047 and Kshs.464,816,750 respectively representing a net decrease in the provisions of Kshs.28,929,297. The variance of Kshs.21,039,974 between the change in provision during the year under review and the provision carried to the statement of profit or loss and other comprehensive income was not explained or reconciled.

In the circumstances, the accuracy of the provision for bad and doubtful debts of Kshs.7,889,323 charged in the statement of profit or loss and other comprehensive income could not be confirmed.

2. Long Outstanding Reconciling Items

The statement of financial position and Note 24 to the financial statements reflects bank and cash balance of Kshs.31,313,252. Included in this balance is cash at bank Kshs.31,053,416. However, review of the bank reconciliation statements in respect of an ABSA bank of Kenya account revealed long outstanding reconciling items debited in the bank and not posted in the cashbook totalling Kshs.2,555,872,905 and bank credits totalling Kshs.2,555,515,482 not posted in the cash book. The reconciling items have been outstanding since the year 2015. Review of the correspondences between the Company and the bank revealed that the reconciling items were reversed in the bank statements in 2016 but the reversal entries had not been communicated with the Company.

In the circumstances, the accuracy and completeness of bank and cash balances of Kshs.31,313,252 could not be confirmed.

3. Unreconciled Related Entities Balances

The statement of financial position and Note 21 to the financial statements reflects Kshs.288,155,544 in respect of trade and other receivables. The gross trade and other receivables balance of Kshs.752,972,295 as detailed in Note 21 to the financial statements, includes Kshs.520,109,608 due from Kenya Pipeline Company (KPC) as at 30 June, 2022. However, records at KPC reflect a payable amount of Kshs.210,869,118 as at 30 June, 2022 resulting to unreconciled and unexplained variance of Kshs.309,240,490.

Additionally, the Note reflects provision of bad and doubtful debts of Kshs.464,816,750 which include Kshs.357,107,645 or 77% of total provision, owed by Kenya Pipeline Corporation (KPC). Management did not explain why the amounts owed from related companies could not be recovered.

In the circumstances, the accuracy and validity of trade and other receivables of Kshs.288,155,544 could not be ascertained.

4. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.2,882,802,124. However, review of the support documents in respect of the balance revealed the following anomalies:

4.1 Impairment of Refining Plant and Assets

As previously reported, the property, plant and equipment balance include Kshs.2,037,666,802 in respect of written down value of the Company's crude petroleum refining plant which was closed in September, 2013. The closure of the plant and its idle state implies that a large portion of the Company's assets may be significantly impaired. The Company's Board of Directors thereafter approved the impairment of the plant and redundant assets. However, Management as at 30 June, 2022 had not assessed the impairment of the assets as required by International Accounting Standard (IAS) 36 - Impairment of assets.

As a result, no determination was made on the carrying amount of the refinery assets totalling Kshs.2,037,666,802 as at 30 June, 2022 including the captive power plant which upon completion was not commissioned. Further, the related impact of such adjustments on the deferred tax liability and other tax obligations of the Company have not been assessed.

In the circumstances, the financial statements have not been prepared in accordance with the International Financial Reporting Standards (IFRS) and the carrying value of the refinery assets totalling Kshs.2,037,666,802 as at 30 June, 2022 may not be fairly stated.

4.2 Inclusion of Non-Capital Expenses in Work-In-Progress Account

The statement of financial position and Note 15 to financial position reflects property, plant and equipment balance of Kshs.2,882,802,124. Included in this balance is capital

work-in-progress totalling Kshs.621,267,928 which denotes costs incurred on a feasibility study for the upgrade of the refinery in 2012. As previously reported, oil refining operations were discontinued in September, 2013 and therefore the study did not result in an upgrade or improvement of the refinery. The cost of the feasibility study should have been expensed as recurrent expenditure in line with the International Accounting Standards (IAS) 16 - Property, Plant and Equipment.

In the circumstances, the inclusion of the cost in the property, plant and equipment balance totalling Kshs.2,882,802,124 has misstated the balance.

5. Inventories

The statement of financial position and as disclosed in Note 20 to the financial statements reflects inventories balance of Kshs.1,138,208,284. However, review of supporting documents in respect of the inventories balance revealed the following anomalies:

5.1 Obsolete Inventories

The inventories balance includes engineering stores totalling Kshs.806,15,482 which were acquired before refining operations were shut down on 04 September, 2013. However, despite the items being rendered unusable, they have continually been carried in the books of the Company at cost instead of their salvage values, if any. Management indicated that action on the matter was awaiting the National Government's decision on the future of the Company.

In the circumstances, the accuracy of inventories balance of Kshs.1,138,208,284 could not be confirmed.

5.2 Misstatement of Inventories

The statement of financial position and Note 20 to the financial statements reflects inventories balance of Kshs.1,138,208,284 while the physical count report provided for audit review indicated Kshs.1,138,099,257 resulting to a variance of Kshs.109,027 which was not explained or reconciled.

In the circumstances, the accuracy of inventories balance of Kshs.1,138,208,284 could not be confirmed.

5.3 Inventory Management

Review of inventory records provided for audit revealed that the Company did not have a comprehensive inventory management system that classifies inventory items according to date acquired, date utilized and those that have been rendered obsolete. As a result, the period in which specific inventory items have been held and whether any of the items have been rendered obsolete could not be ascertained. Further, Inventory valued at Kshs.2,198,668 had expired as at 30 June, 2022 therefore, rendering them obsolete.

In view of the anomaly, the accuracy and fair presentation of inventory balance could not be confirmed.

6. Material Uncertainty Relating to Going Concern

The statement of profit or loss and other comprehensive income indicates that the Company recorded loss after taxation totalling Kshs.283,113,734 in the year under review, being the sixth consecutive year of such losses. The loss further depleted its accumulated reserves to Kshs.81,074,673 from Kshs.88,347,144 at the beginning of the financial year. In addition, current liabilities as at 30 June, 2022 amounted to Kshs.4,976,099,344 and exceeded current assets of Kshs.2,192,354,175 by Kshs.2,783,745,169 (2021 - Kshs.2,931,521,673).

Therefore, the Company was technically insolvent and having closed its core business of oil refining, its continued existence as a going concern is dependent upon continued receipt of income from assets leased to Kenya Pipeline Company Limited and support by its creditors and the National Government.

These conditions denote the existence of material uncertainty on the ability of the Company to continue as a going concern. The Directors have not made any disclosure on the uncertainty or the measures, if any, they may have initiated to stem the losses as required by the International Accounting Standards (IAS 1), Presentation of Financial Statements.

7. Contingent Liabilities

As previously reported, Note 40 to the financial statements reflect contingent liabilities amounting to Kshs.2,339,963,338. The balance includes other legal claims against the Company amounting to Kshs.9,167,595. However, further information on the claims was not provided for audit review.

In the circumstances, their accuracy and validity of contingent liabilities Kshs.2,339,963,338 could not be confirmed.

8. Trade and Other Payables

The statement of financial position and Note 32 to the financial statements reflects trade and other payables totalling Kshs.1,454,408,958. As previously reported, the balance is net of a provision on interest on dead oil stocks totalling Kshs.1,119,980,586 brought forward from previous years.

Review of records provided for audit revealed that the provision was made after the Company and the Oil Marketing Companies (OMCs) failed to agree on reconciliation of the quantity and value of outstanding unrefined oil stock for the period April, 2010 to September, 2010. The Management indicated that Ministry of Petroleum and Mining and the Energy and Petroleum Regulatory Authority (EPRA) were trying to resolve the impasse between the Company and the OMCs.

In the circumstances, the accuracy and completeness of the trade and other payables balance totalling Kshs.1,454,408,958 could not be confirmed.

9. Income Tax Expense

The statement of profit or loss and other comprehensive income and Note 12(b) to financial statements reflects income tax expenses totalling Kshs.91,294,485. The balance includes Kshs.21,027,981 denoted as effects of expenses not deductible for tax purposes. However, the amounts were not supported with detailed tax computations.

In the circumstances, the accuracy and validity of the income tax expenses totalling Kshs.91,294,485 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 audit 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.

Other Information

The Directors are responsible for the other information. The other information comprises the report of directors as required by the Companies Act, 2015, and the Statement of the Directors' responsibilities which are obtained prior to the date of this report, and the annual report which is expected to be made available after that date.

My opinion on the financial statements does not cover the other information and I do not express an audit opinion or any form of assurance thereon.

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

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 and Basis for Conclusion on

Lawfulness and Effectiveness in Use of Public Resources sections 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

1. Failure to Seek for Quotations on Investments

The statement of financial position and as disclosed in Note 23 to the financial statements reflects short-term deposits balance of Kshs.51,322,260. The amount comprises Kshs.50,000,000 and an interest earned of Kshs.1,322,260. The deposit was placed by the Management on call at the National Bank of Kenya on the 15 February, 2022 at an interest rate of 7.15% per annum. However, there was no documentary evidence that quotations were sought from other banks, and whether investment in National Bank of Kenya was the best option.

In the circumstances, this action may have denied the Company the best interest rate for the investment and may have resulted to loss of revenue.

2. Irregular Procurement of Legal Services

Review of expenditure records in respect of legal costs revealed that a totalling of Kshs.4,491,292 was paid to various law firms for provision of legal services during the year under review. However, the list of prequalified legal service providers and advisors was generated and maintained by the Company's legal department that identified the firms. This was contrary to the requirements of Section 57(1) of the Public Procurement and Asset Disposal Act, 2015 which places the responsibility for keeping the records on the procurement unit. In addition, there were no records to indicate that the firms were invited through a notice to submit applications to be pre-qualified as outlined in Section 93(3) of the Act.

In the circumstances, procurement of the legal services was done irregularly and as a result, the Company may not have obtained value for money on the expenditure incurred on their services.

3. Non-Implementation of E-Procurement

During the year under review, the Company procured goods, works and services worth Kshs.238,869,211. However, the procurements were not done through the e-procurement platform as required in Regulation 49(2) of the Public Procurement and Assets Disposal Regulations, 2020.

In the circumstances, the Company was in breach of the law.

4. Unprocedural Recruitment

Review of employee records for the year under review revealed that the Company recruited ten (10) employees through a consultancy firm. However, no documentary evidence was provided to demonstrate that the vacancies were advertised by the

employment agency and that the process of shortlisting was competitive and fair for all the applicants. Further, no explanation was provided for obtaining a listing from an employment agency whereas the Company has the capacity to conduct recruitment process.

In the circumstances, the competitiveness, fairness and equity in staff recruitment could not be confirmed.

5. Unprocedural Promotion of Staff

Review of records provided in respect of staff promotions done indicated that eight (8) employees were promoted to higher positions in the year under review. However, there was no promotion plan and criteria, internal adverts, shortlisting of staff to be interviewed and or interview reports. Further, the records indicated that the promotions followed requests and recommendations made to the Human Resource Manager by Departmental Heads. The Accounting Officer would thereafter approve the recommendations made by the Manager.

In the circumstances, fairness and equity in staff promotions could not be confirmed.

6. Unprocedural Payment of Motor Vehicle Allowances to Senior Management

The statement of profit or loss and other comprehensive income and as disclosed in Note 9(a) to the financial statements reflects salaries and allowances of permanent employees of Kshs.333,391,959. The amount includes Kshs.30,882,781 paid to Company employees in job group four (4) and above as motor vehicle allowance to allow senior management employees to acquire, maintain and own vehicles. However, the allowance was not defined or included in Section C.7 of the Public Service Commission Human Resources Policies and Procedure Manual 2016.

In the circumstances, Management was in breach of the law.

7. Non-Compliance with Beneficial Ownership Information Requirement for Procurement.

Review of procurement records for repairs and maintenance revealed that the Company awarded several contracts to various winning bidders for the period ended 30 June, 2022. However, the standard tender documents for the bids did not contain the revised beneficial ownership information disclosure form as required by the Public Procurement Regulatory Authority circular reference PPRA/6/5/VOL.II(5) dated 27 October, 2022. In addition, the Company was yet to upload on the public procurement information portal the same as required by the directive.

In the circumstances, the transparency, openness and accountability in procurements process and tenders awarded could not be confirmed.

8. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2022 reflects Kshs.1,631,919,936 and Kshs.1,750,247,004 in respect of

revenue and expenditure budget respectively resulting in a deficit budget of Kshs.118,327,068. Similarly, the Company spent a total of Kshs.1,429,103,662 against realized income of Kshs.1,056,536,043 resulting in a deficit of Kshs.372,747,619. In addition, review of expenditure against the budget revealed overspending on several expenditure items of Kshs.199,813,323.40 while other budgeted items totalling to Kshs.7,801,600 did not incur expenditure.

In the circumstances,, the expenditure exceeding the approved budget amounted to unauthorized expenditure.

9. Unauthorized Insurance Costs

The statement of profit or loss and other comprehensive income reflects administration costs amounting to Kshs.1,224,839,459. As disclosed in Note 9 to the financial statements, the expenditure includes insurance costs amounting to Kshs.87,622,495. Review of the expenditure against the approved budget for the item revealed that the revised budgeted amount was Kshs.83,500,000 after a reallocation of Kshs.7,500,000. However, the actual expenditure incurred during the financial year under review was Kshs.87,622,498 resulting in an over-expenditure of Kshs.4,122,495. The over-expenditure was not supported by evidence of approval for further reallocation of the funds.

In the circumstances, the expenditure exceeding the approved budget amounted to unauthorized expenditure.

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

Basis for Conclusion

1. Lack of Human Resource Policy Instruments

The Company was reverted to a public entity on 24 June, 2016 after the National Government agreed with its investment partners Essar Energy Overseas Limited and

Essar Holdings Limited for transfer to the Government of legal and beneficial interest in all the shares owned by the investors. However, review of the organizational structure, staff grading and establishment, and the Human Resource Policy and Procedures Manual as at 30 June, 2022 indicated that Management had not submitted the instruments to the State Corporations Advisory Committee (SCAC) for review and approval. Records provided for audit indicated that the last follow-up on the matter was in December, 2018.

In the circumstances, the Company's organizational structures and systems are not aligned to the Public Service Framework prescribed for state corporations.

2. Lack of Procurement Policy

During the year under review, the Company did not have an approved procurement policy contrary to Section 45(1) of the Public Procurement and Asset Disposal Act, 2015 which requires that "for the purpose of ensuring that the Accounting Officer's decisions are made in a systematic and structured way an Accounting Officer shall establish systems and procedures to facilitate decision making for procurement and asset disposal. Corporate decisions and segregation of responsibilities."

In the circumstances, Management was in breach of the law.

3. Irregular Meetings by the Board of Directors

The financial statements in Note 9 reflects Kshs.307,624 and Kshs.17,539,657 in respect of Directors' emoluments and Board expenses respectively. Review of minutes of Board meetings and attendance registers provided for audit revealed that meetings held by the Board of Directors exceeded the maximum number of six (6) meetings set in the Head of Public Service Circular Ref: No. OP/CAB.9/1A, A (3) dated 11 March, 2020, by three (3) meetings. However, out of the 3 extra meetings held, only one approval for a special meeting of the Board held on 20 June, 2022 was sought from the Principal Secretary Ministry of Petroleum and Mining instead of Cabinet Secretary, in consultation with SCAC as required in the circular.

In the circumstances, the three (3) unapproved meetings were irregular and may have led to unauthorized expenditure being incurred.

4. Extended Acting Appointment

Staffing records indicated that the current acting Chief Executive Officer (CEO) was appointed on 04 October, 2019 for a period of twelve (12) months. As at June, 2022, the appointment had been extended four times. Further, no plausible explanation was provided for the failure to fill the vacancy in a substantive way.

In the circumstances, the Chief Executive Officer remained in office irregularly.

5. Non-Compliance with Code of Governance "Mwongozo" Guidelines

5.1 Lack of Financial Expert in the Board

The Mwongozo Code of Governance for State Corporations requires at least one Board Member to be a financial expert with qualifications and expertise in financial management

or accounting and be a bona fide member of a relevant professional body. However, during the year under review, none of the Directors of the Company possessed the financial expertise prescribed in the Code.

5.2 Lack of a Board Chairperson

The Board conducts the Company's business without a Chairperson after the Chairperson's appointment was revoked on 21 October, 2016. Further, the Board as at 30 June, 2022 was comprised of five (5) Directors contrary to the Mwongozo code, which provides for a minimum of seven (7) and a maximum of nine (9) Directors.

In the circumstances, the Board was not properly constituted.

5.3 Director Serving Beyond Term Limit

One of the Board Directors was appointed on 25 March, 2003 and had as at 30 June, 2021 served in the Board for nineteen (19) years and nine (9) months. Further, no letter of appointment for the Director was provided for audit review.

In the Circumstances, the Director's long service as a Board Member was contrary to Mwongozo guidelines, which limits each Board member's tenure to two terms of three years or a maximum of six (6) years.

6. Employees Acting for More than Six Months

A sample of human resource records reviewed revealed that several employees had been in acting capacity for a period of more than six (6) months contrary to set provisions in the public service framework. No explanation was provided as to why the positions have not been advertised and competitively filled.

In the circumstances, the Company failure to adhere to the set guidelines on acting allowances may have led to irregular payments.

7. Lack of a Strategic Plan

Review of the Company's Strategic Plan confirmed that it expired in the year 2013 and Management did not prepare a new strategic plan contrary to Section 68(2) of the Public Finance Management Act, 2012 which requires an Accounting Officer to prepare a strategic plan in conformity with the medium-term fiscal framework and fiscal policy objectives of the National Government. In its place, the Company formulated five (5) strategic pillars and objectives to guide its operations.

In the circumstances, the effectiveness and direction of the Company's strategy could not be confirmed.

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 as a going concern, disclosing as applicable, matters related to going concern and using the applicable basis of accounting unless Management is aware of the intention to liquidate the Company or 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 Company's financial reporting process, reviewing the effectiveness of how Management 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 Company's 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

18 May, 2023

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

XIII. Statement of Profit or Loss and Other Comprehensive Income for the year ended 30th June 2022.

	Note	2022	2021
		Kshs	Kshs
REVENUES			
Finance income	6	8,961,271	50,232
Other Income	7	1,246,362,387	1,321,832,328
Other gains/(losses)	8	(200,270,794)	(28,244,022)
TOTAL REVENUES		1,055,052,865	1,293,638,538
OPERATING EXPENSES			
Administration Costs	9	1,224,839,459	1,400,114,777
Finance Costs	10	204,621,625	198,562,173
TOTAL OPERATING EXPENSES		1,429,461,084	1,598,676,950
PROFIT/(LOSS) BEFORE TAXATION	11	(374,408,219)	(305,038,412)
INCOME TAX EXPENSE/(CREDIT)	12	(91,294,485)	(272,858,131)
PROFIT/(LOSS) AFTER TAXATION		(283,113,734)	(32,180,281)
Earnings per share – basic and diluted	13	(8)	(1)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		(283,113,734)	(32,180,281)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(283,113,734)	(32,180,281)

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

XIV. Statement of Financial Position as at 30 June 2022

	Note	2021/2022	2020/2021
		Shs	Shs
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	2,882,802,124	3,104,974,213
Right- of -use assets	16	6,393,904	6,559,049
Unquoted Investments -KPRL Pension Trust Ltd	17	10,000,000	10,000,000
KPRL Investment in DC Pension Fund	18	820,399,308	849,033,099
Deferred Tax Asset	19	25,224,506	0
Total Non-Current Assets		3,744,819,842	3,970,566,362
Current Assets			
Inventories	20	1,138,208,284	1,141,616,269
Trade and other receivables	21	288,155,544	298,184,088
Tax recoverable	22	683,354,835	264,625,870
Short term deposits	23	51,322,260	0
Bank and cash balances	24	31,313,252	47,205,772
Total Current Assets		2,192,354,175	1,751,631,999
Total Assets		5,937,174,017	5,722,198,361
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	25	736,000,000	736,000,000
Share Premium		144,000,000	144,000,000
Retained earnings	28	81,074,673	88,347,144
Capital and Reserves		961,074,673	968,347,144
Non-Current Liabilities			
Deferred tax liability	19	0	70,697,545
Total Non-Current Liabilities		0	70,697,545
Current Liabilities			
Borrowings (CPP & Overdraft)	29	1,783,661,690	1,795,245,248
Short Term Loans From GoK	30	1,634,945,444	1,634,945,444
Cash Advances- KPC	31	80,000,000	0
Trade and other payables	32	1,454,408,958	1,229,625,249
KPRL Pension Trust Ltd	34	10,000,000	10,000,000
Provision for leave pay	35	13,083,252	13,337,731
Total Current Liabilities		4,976,099,344	4,683,153,672
TOTAL EQUITY AND LIABILITIES		5,937,174,017	5,722,198,361

The financial statements were approved by the Board on 15th FEB 2023 and signed on its behalf by:

Name: JOSEPH NDOITI
Ag. CEO

Name: Joseph Ndobu
Head of Finance

Name: HENRY KARINGA
Director

ICPAK M/NO:3749

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

XV. Statement of Changes in Equity for the year ended 30 June 2022

	Ordinary share capital +Share Premium	Revaluation reserve	Retained earnings	Proposed dividends	Capital Development Grants/Fund	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2020	880,000,000	-	120,527,425	-	-	1,000,527,425
Issue of new share capital	-	-	-	-	-	0
Total comprehensive income	-	-	(32,180,281)	-	-	(32,180,281)
Capital/Development grants received during the year	-	-	-	-	-	0
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	0
Interim dividends paid - 2020	-	-	-	-	-	0
Proposed final dividends	-	-	-	-	-	0
At June 30, 2021	880,000,000	0	88,347,144	0	0	968,347,144
At July 1, 2021	880,000,000	0	88,347,144	0	0	968,347,144
Issue of new share capital	-	-	-	-	-	0
Total comprehensive income	-	-	(283,113,734)	-	-	(283,113,734)
Prior year adjustment in respect to Advance Tax on KPRL investment in DC Pension Fund	-	-	275,841,263	-	-	275,841,263
Capital/Development grants received during the year	-	-	-	-	-	0
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	0
Interim dividends paid - 2020	-	-	-	-	-	0
Proposed final dividends	-	-	-	-	-	0
At June, 2022	880,000,000	0	81,074,673	0	0	961,074,673

Kenya Petroleum Refineries Limited
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XVI. Statement of Cash Flows for the year ended 30 June 2022

	Note	2021/2022	2020/2021
		Shs	Shs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	36	114,528,565	104,986,260
Interest received	7	(8,885,292)	0
Interest paid	10	146,664,290	145,676,780
Accrued Interest on dead stock	10	57,957,334	52,885,393
Taxation paid	22	(147,515,268)	(92,510,895)
Net cash generated from/(used in) operating activities		162,749,630	211,037,539
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	15	0	(386,160)
Net cash generated from/(used in) investing activities		0	(386,160)
FINANCING ACTIVITIES			
Cash Advance from KPC	31	80,000,000	0
Repayment of borrowings	29	(58,876,192)	(64,786,028)
Interest received		8,885,292	0
Interest paid		(146,664,290)	(145,676,780)
Accrued Interest on dead stock		(57,957,334)	(52,885,393)
Net cash generated from/(used in) financing activities		(174,612,524)	(263,348,202)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(11,862,894)	(52,696,823)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(711,905,524)	(672,552,318)
Effects of foreign exchanges rate fluctuations		93,332,965	13,343,616
CASH AND CASH EQUIVALENTS AT END OF THE QUARTER		(630,435,453)	(711,905,524)

Note: The closing deficit of cash and cash equivalents as at 30th June, 2022 of KES 630,435,453/- is made up of Bank and cash balances KES 31,313,252/- as shown in note 24, short term deposits KES 51,322,260/- note 23 and bank overdrafts as detailed in note 29 comprising: CBA KES 364,067,582/- Citibank KES 161,749,448/- & Citibank USD facility equivalent KES 187,253,935/-

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

XVII. Statement of Comparison of Budget and Actual amounts for the period ended 30 June 2022

	Original budget		Adjustments		Final Budget		Actual on comparable basis		Performance difference		utilisation 2021/2022 %	Remarks
	2021/2022 KES	2021/2022 KES	2021/2022 KES	2021/2022 KES	2021/2022 KES	2021/2022 KES	2021/2022 KES	2021/2022 KES	2021/2022 KES			
Revenue												
KPC Lease recoveries	1,570,592,676	0	0	1,570,592,676	1,268,358,987	(302,233,689)	81%	Lease recoveries lower than plan due to delayed implementation of FY2021/22 Budget.				
Other Operating Income	61,327,260	0	0	61,327,260	(21,996,600)	(83,323,860)	-36%	Lower than budgeted accrued Investment Income on Sponsor DB surplus invested in the DC Pension fund.				
Finance Income	0	0	0	0	8,961,271	8,961,271	100%	Interest on Short term deposits				
Other gains/Losses	0	0	0	0	(200,270,794)	(200,270,794)	-100%	Unrealised exchange differences on foreign currency denominated transactions				
Total Revenue	1,631,919,936	0	0	1,631,919,936	1,055,052,865							
Operating Expenses												
Compensation of Employees	470,246,424	0	0	470,246,424	429,030,466	(41,215,958)	91%	Operating expenses lower than plan due to delayed implementation of FY2021/22 Budget				
Use of goods and services	828,258,908	0	0	828,258,908	573,471,758	(254,787,150)	69%					
Depreciation and Ammortisation	212,654,256	0	0	212,654,256	222,337,234	9,682,978	105%					
Finance Costs	239,087,416	0	0	239,087,416	204,621,625	(34,465,791)	86%	Competitive interest rates negotiated with effect from May 2020.				
Total expenditure	1,750,247,004	0	0	1,750,247,004	1,429,461,084	(320,785,920)	82%					
Surplus/(Deficit) for the period	(118,327,068)	0	0	(118,327,068)	(374,408,219)	(256,081,151)						

**Kenya Petroleum Refineries Limited
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(Note: PFM Act section 81(2) ii and iv requires a National Government entity to present appropriation accounts showing the status of each vote compared with the appropriation for the vote and a statement explaining any variations between actual expenditure and the sums voted. IFRS does not require entities complying with IFRS standards to prepare budgetary information because most of the entities that apply IFRS are private entities that do not make their budgets publicly available. However, for public sector entities, the PSASB has considered the requirements of the PFM Act, 2012 which these statements comply with, the importance that the budgetary information would provide to the users of the statements and the fact that the public entities make their budgets publicly available and decided to include this statement under the IFRS compliant financial statements. Budget notes: Provide explanation of differences between actual and budgeted amounts (10% over/ under) Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation).

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XVIII. Notes to the Financial Statements

1. General 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 Energy & Petroleum).

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 a 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, 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.

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 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. 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.

Kenya Petroleum Refineries Limited
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XVIII. Notes to the Financial Statements (continued)

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 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed. 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.

On 26th April, 2022 KPC re-appointed PwC as transaction advisor for the takeover of KPRL. The consultant began the work immediately and delivered the first draft due diligence report on KPRL to KPC on 20th July, 2022. The due diligence report if adopted will define the final road map for takeover of KPRL by KPC.

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

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 35. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company. 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 present.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

3. Application of New and Revised International Financial Reporting Standards (IFRS)

i. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Title	Description	Effective Date
Amendments to IAS 16 titled Property, Plant and Equipment: Proceeds before Intended Use (issued in May 2020)	The amendments, applicable to annual periods beginning on or after 1 January 2022, prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing an asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.
Amendments to IAS 37 titled Onerous Contracts - Cost of Fulfilling a Contract (issued in May 2020)	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. They are effective for contracts for which an entity has not yet fulfilled all its obligations on or after 1 January 2022.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IFRS 1 titled Subsidiary as a First-time Adopter	The amendment, applicable to annual periods beginning on or after 1 January 2022, provides a subsidiary that becomes a first-time adopter later than its parent with an exemption relating to the measurement of its assets and liabilities. The exemption does not apply to components of equity.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

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Title	Description	Effective Date
Amendment to IFRS 9 titled Fees in the '10 per cent' Test for De-recognition of Financial Liabilities	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IFRS 9 clarifies the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted
Amendment to IAS 41 titled Taxation in Fair Value Measurements (issued in May 2020 as part of the Annual Improvements to IFRS Standards 2018-2020)	The amendment, applicable to annual periods beginning on or after 1 January 2022, to IAS 41 removed the requirement to exclude taxation cash flows when measuring fair value. This amendment aligned the requirements in IAS 41 on fair value measurement with those in other IFRS	The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

(The Directors have assessed the applicable standards and amendments. Based on their assessment of impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements).

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

Application of New and Revised International Financial Reporting Standards (IFRS)

- ii. *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2022.*

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020)	The amendments, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

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Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
IAS 12 — Income Taxes	IAS 12, "Income Taxes" implements a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted.
IAS 8- Accounting Policies, Errors and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities	The amendments are effective for annual reporting periods beginning

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Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard, effective for annual periods beginning on or after 1st January 2023, establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. The Company does not issue insurance contracts.	The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted
	distinguish changes in accounting policies from changes in accounting estimates.	on or after January 1, 2023. Early adoption is permitted.

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

iii. Early adoption of standards

The company did not early – adopt any new or amended standards in year 2021-2022.

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Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

4. Summary of Significant Accounting Policies

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

a) Revenue recognition

Revenue is measured based on the consideration to which the company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The entity recognizes revenue when it transfers control of a product or service to a customer.

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

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Notes to the Financial Statements (Continued)
Summary of Significant Accounting Policies

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.

c) Property, plant and equipment

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

Certain categories of property, plant and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses.

Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

KPRL records all assets at cost less accumulated depreciation.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

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

Freehold Land	Nil
Buildings and civil works	20-50 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	5-10 years

A full year's depreciation charge is recognised in the year of asset purchase but 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.

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are 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

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

h) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

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.

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

k) Unquoted investments

Unquoted investments stated at cost under non-current assets, and comprise equity shares held in other Government owned or controlled entities that are not quoted in the Securities Exchange.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

m) Trade and other receivables

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

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

n) Taxation

i) Current income tax

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

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

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.

o) 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.

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

Deferred Tax

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognized in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalized borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q) 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.

r) 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

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Annual Report and Financial Statements for the year ended June 30, 2022

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.

s) 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.

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from 1st January , 2017. The scheme has engaged a Fund Manager, Fund Custodian and Fund Administrator who work in liaison with 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.200per employee per month.

u) Provision for staff leave pay

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

v) 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 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.

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

Summary of Significant Accounting Policies

w) Budget information

The original budget for FY 2021-2022 was approved by the National Treasury on 30th August 2021. 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. There were no additional appropriations during the year 2021-2022.

The entity'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.

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

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continues)

a) Service concession arrangements

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

b) Comparative figures

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

c) 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, 2022.

5. Significant Judgments and Sources of Estimation Uncertainty

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

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continues)

a) 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.

b) 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

c) 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 20,21 and 35.

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.

These include provisions for bad debts, leave not taken and provisions for obsolete stocks.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

6. Finance Income

	2022	2021
Description	Kshs	Kshs
Interest from commercial banks and financial institutions	8,885,292	0
Interest on staff loans	75,979	50,232
Total	8,961,271	50,232

The interest earned from commercial banks is in respect of short term deposits held at National Bank of Kenya during the year.

7. Other Income

	2022	2021
Description	Kshs	Kshs
Other income		
KPC lease recoveries*	1,268,358,987	1,175,437,218
House Rent Recoveries	6,463,950	5,318,844
Investment Income- KPRL investment in DC Pension fund**	(28,633,792)	104,761,759
National Lands Commission Award	0	36,295,202
Other miscellaneous receipts	173,242	19,305
Total	1,246,362,387	1,321,832,328

*As per the lease agreement between KPRL and KPC, Lease recoveries are KPRL operating expenses recovered at cost and invoiced to KPC on a monthly basis.

**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. Ultimately, the fund would go partly towards future funding of the employer's statutory contribution towards the DC pension scheme.

As per the management accounts of the DC fund for the year ended 30th June 2022, the investment in the DC Pension Fund registered negative returns of KShs 28M compared to investment income of KShs 105M for the previous year.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

8. Other Gains and Losses

	2021/2022	2020/2021
Description	Kshs	Kshs
Foreign exchange gains / (losses)	(586,868)	(4,620,993)
Unrealized foreign exchange gains/(losses)	(199,683,925)	(23,623,029)
Total	(200,270,794)	(28,244,022)

The exchange losses relate to translation of foreign currency denominated transactions. This is mainly attributed to the USD Term loan for the Captive Power Plant.

9. Administration Costs

	2022	2021
Description	Kshs	Kshs
Staff costs - note 9 (a)	429,030,466	371,569,561
Directors' emoluments	(307,624)	245,173
Electricity and water	96,776,821	86,598,322
Communication services and supplies	7,522,443	6,544,532
Transportation, travelling and subsistence	16,612,333	7,503,301
Advertising, printing, stationery and photocopying	5,150,479	2,592,520
Insurance costs	87,622,495	85,518,705
Security	41,811,265	47,887,176
Board expenses	17,539,657	7,583,394
Bank charges and commissions	776,443	622,185
Office and general supplies and services	5,750,778	4,681,294
Licenses	20,220,376	18,794,854
Property/ Land Rates	4,269,620	4,269,620
Provision for Auditors' remuneration	670,467	6,500,000
Legal fees	4,491,292	3,990,791
Consultancy fees	16,671,998	25,613,393
Repairs and maintenance	205,792,911	134,165,321
Materials costs	31,509,153	22,759,679
Provision for bad and doubtful debts	(7,889,323)	303,620,772
Occupational Health & Safety	2,934,020	10,162,434
Canteen Expenses	5,421,085	4,043,187
Other operating expenses	10,125,069	12,421,541
Depreciation	222,172,089	232,261,879
Ammortisation	165,145	165,145
Total	1,224,839,459	1,400,114,777

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

9a Staff Costs

Description	2021/2022	2020/2021
	Kshs	Kshs
Salaries and allowances of permanent employees	333,391,759	282,609,876
Compulsory national social security schemes	284,800	287,600
DC pension contributions	48,651,548	44,601,976
Leave pay and gratuity provisions	(254,479)	317,880
Performance Incentive	(3,544,432)	0
Staff welfare	1,679,680	3,036,211
Medical expenses	33,948,591	32,772,544
Staff training & Development	10,794,331	7,294,887
Long Service Awards	358,000	495,000
Grants amortisation adjustments	2,559,729	(12,327)
Recruitment	150,441	9,200
Pension Admin Expense	1,010,499	156,714
Total	429,030,466	371,569,561
The number of employees at the end of the year was:		
Permanent employees – Management	93	88
Permanent employees – Unionisable	27	14
Temporary and contracted employees	0	15
Total	120	117

10. Finance Costs

Description	2021/2022	2020/2021
	Kshs	Kshs
Interest expense on loans	75,475,527	73,841,664
Interest expense on bank overdrafts	71,188,764	71,835,116
Provision for interest on dead stock	57,957,334	52,885,393
Total	204,621,625	198,562,173

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.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

11. Operating Profit/ (Loss)

	2021/2022	2020/2021
	Kshs	Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9a)	429,030,466	371,569,561
Depreciation of property, plant and equipment	222,172,089	232,261,879
Ammortisation of operating leasehold land	165,145	165,145
Provision for bad and doubtful debts	(7,889,323)	303,620,772
Directors' emoluments	(307,624)	245,173
- Other Board expenses	17,539,657	7,583,394
Provision for Auditors' remuneration - current year fees	6,500,000	6,500,000
Net foreign exchange loss	200,270,794	28,244,022
Interest receivable	(8,961,271)	(50,232)
Interest payable	204,621,625	198,562,173
Rent receivable	(6,463,950)	(5,318,844)

The Provision for audit fee for the current financial year is Kshs 6,500,000. The Provision for Auditors' remuneration of Kshs 670,467 shown under Note 9, Administration Costs is as a result of reversal of previous years' over provision of Kshs 5,829,532.52 posted in the current year.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

Notes to the Financial Statements (Continued)

12. Income Tax Expense/(Credit)

(a) Current taxation

	2021/2022	2020/2021
Description	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	4,627,566	1,476,496
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	(95,922,051)	(90,454,225)
Prior year under-provision for deferred tax	0	(183,880,402)
Total	(91,294,485)	(272,858,131)

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

	2021/2022	2020/2021
Description	Kshs	Kshs
Profit/(loss) before taxation	(374,408,219)	(305,038,412)
Tax at the applicable tax rate of 30%	(112,322,466)	(91,511,524)
Prior year under-provision	0	(183,880,402)
Tax effects of expenses not deductible for tax purposes	21,027,981	4,000,771
Effect of change in Tax rate	0	(68,200)
Tax effects of excess capital allowances over depreciation/amortization	0	(1,398,776)
Deferred tax prior year over-provision	0	0
Total	(91,294,485)	(272,858,131)

(c) Current Tax Movement

	2021/2022	2020/2021
Description	Shs	Shs
At beginning of the period	264,625,870	173,591,471
Income tax charge for the year	4,627,566	1,476,496
Income tax paid during the year	147,515,268	92,510,895
Advance Tax paid in respect of KPRL Investment in the KPRL DC Pension Fund.	275,841,263	0
Tax recoverable	683,354,835	264,625,870

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2022

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 283,113,734/- (2020-2021: Kshs. 32,180,281/-) by the average number of ordinary shares in issue during the year of 36,800,000(2020-2021: 36,800,000). There were no dilutive or potentially dilutive ordinary share 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 2022.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2022

Notes to the Financial Statements (Continued)

15. Property, Plant and Equipment

	Freehold Land Shs	Buildings Shs	Turnaround Costs Shs	Plant, Equipment & motor vehicles Shs	Capital work in progress Shs	Total Shs
Cost						
At 1 July 2020	295,160	384,034,988	761,667,439	7,303,441,835	621,267,927	9,070,707,350
Additions	0	0	0	0	386,160	386,160
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,303,441,835</u>	<u>621,654,087</u>	<u>9,071,093,509</u>
Transfers to assets	0	0	0	0	0	0
Write off/Asset retirement	0	(5,969,884)	0	(16,647,485)	(386,160)	(23,003,528)
Disposal of Assets	0	0	0	0	0	0
At 30 June 2021	295,160	378,065,105	761,667,439	7,286,794,350	621,267,927	9,048,089,981
	=====	=====	=====	=====	=====	=====
At 1 July 2021	295,160	378,065,105	761,667,439	7,286,794,350	621,267,927	9,048,089,981
Additions	0	0	0	0	0	0
	<u>295,160</u>	<u>378,065,105</u>	<u>761,667,439</u>	<u>7,286,794,350</u>	<u>621,267,927</u>	<u>9,048,089,981</u>
Transfers to assets	0	0	0	0	0	0
Write off/Asset retirement	0	0	0	0	0	0
Disposal of Assets	0	0	0	0	0	0
At 30th June 2022	295,160	378,065,105	761,667,439	7,286,794,350	621,267,927	9,048,089,981
	=====	=====	=====	=====	=====	=====
Depreciation						
At 1 July 2020	0	294,345,181	761,667,439	4,673,016,142	0	5,729,028,761
Charge for the year	0	7,962,211	0	224,299,668	0	232,261,879
Asset retirement	0	(3,641,629)	0	(14,533,243)	0	(18,174,872)
At 30 June 2021	0	298,665,763	761,667,439	4,882,782,567	0	5,943,115,768
	=====	=====	=====	=====	=====	=====
At 1 July 2021	0	298,665,763	761,667,439	4,882,782,567	0	5,943,115,768
Charge for the year	0	6,583,861	0	215,588,228.00	0	222,172,089
Disposal of Assets	0	0	0	0	0	0
Asset retirement	0	0	0	0	0	0
At 30th June 2022	0	305,249,624	761,667,439	5,098,370,795	0	6,165,287,857
	=====	=====	=====	=====	=====	=====
Net book value						
	=====	=====	=====	=====	=====	=====
At 30th June 2022	295,160	72,815,481	0	2,188,423,556	621,267,927	2,882,802,124
	=====	=====	=====	=====	=====	=====
At 30th June 2021	295,160	79,399,342	0	2,404,011,784	621,267,927	3,104,974,213
	=====	=====	=====	=====	=====	=====

Work in progress relates to design costs for the Refinery Upgrade project

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2022

Notes To The Financial Statements (Continued)

Valuation

KPRL freehold land, buildings and other assets are reported at historical cost. Total value for prepaid operating lease rentals and free hold land as per valuation done by the Ministry of Lands Public Works Housing and Urban Development in March 2021 is Kshs, 10,973,320,000.

15 (a) Property, Plant and Equipment at Cost

Property plant and Equipment includes the following assets that are fully depreciated:

	2021/2022	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	216,849,574	10,106,232
Plant machinery & Equipment	852,992,689	40,436,241
Storage Tanks , Pipelines and other auxiliary assets	838,891,204	37,357,840
Motor vehicles, including motor cycles	109,954,751	14,000,233
Computers and related equipment	82,009,056	11,095,340
Total	2,100,697,274	112,995,885
	=====	=====

	2020/2021	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	164,771,860	7,478,289
Plant machinery & Equipment	826,853,861	42,267,546
Storage Tanks , Pipelines and other auxiliary assets	769,683,639	34,343,675
Motor vehicles, including motor cycles	74,110,562	10,415,814
Computers and related equipment	80,588,169	10,368,012
Total	1,916,008,091	97,395,048
	=====	=====

Kenya Petroleum Refineries Limited
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Notes To The Financial Statements (Continued)

16. Right-of-use assets

	2021/2022	2020/2021
	Shs	Shs
COST		
At beginning of period	9,796,958	9,796,958
Additions in the period	0	0
Transfer to investment property	0	0
Disposals	0	0
At end of period	9,796,958	9,796,958
AMORTISATION		
At beginning of period	3,237,909	3,072,764
Charge for the period	165,145	165,145
Disposals	0	0
At end of period	3,403,054	3,237,909
NET BOOK VALUE	6,393,904	6,559,049

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2022

Notes To The Financial Statements (Continued)

17. Unquoted Investments- KPRL Pension Trust Ltd

	2021/2022	2020/2021
Description	Kshs	Kshs
COST		
At July 1	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
	_____	_____
At end of period	10,000,000	10,000,000
	_____	_____
IMPAIRMENT		
At July 1	0	0
Disposals	0	0
Impairment loss in the year	0	0
	_____	_____
At end of period	0	0
	_____	_____
NET BOOK VALUE		
At end of period	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 year ended 30th June, 2022. The subsidiary thus did not contribute to the group's revenue and profit before tax for the period ended 30th June, 2022.

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			
	%	%	%			
				Shs	Current year Shs	Prior year Shs
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

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2022

Notes To The Financial Statements (Continued)

18. KPRL Investment in DC Pension Fund

	2021/2022	2020/2021
Description	Shs	Shs
Balance as at 1st July	849,033,099	744,271,340
Accrued investment income	(28,633,792)	104,761,759
Balance as at 30th June	820,399,308	849,033,099

Following the conversion of Defined Benefit (DB) pension scheme to a 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. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme. 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 KShs 820M (2020/21: Kshs 849M).

19. Deferred Tax Asset

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

	2021/2022	2020/2021
Description		Kshs
Accelerated capital allowances	504,536,724	553,201,201
Unrealised exchange gains/(losses)	(59,905,177)	(7,086,909)
Provisions for liabilities and charges	(385,732,871)	(371,852,141)
Tax losses carried forward	(1,090,173,782)	(1,110,691,000)
Prior year	0	0
Net deferred tax liability	(1,031,275,106)	(936,428,849)

The movement on the deferred tax account is as follows:

	2021/2022	2020/2021
	Kshs	Kshs
Balance at beginning of the year	70,697,545	345,032,172
Credit to revaluation reserve	0	0
Under provision in prior year	0	(183,880,402)
Income statement charge/(credit)	(95,922,051)	(90,454,225)
Balance at end of the year	(25,224,506)	70,697,545

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2022

Notes to the Financial Statements (Continued)

20. Inventories

	2021/2022	2020/2021
	Kshs	Kshs
Engineering stores	806,915,482	808,461,233
Fuel, oil and lubricants	1,741,186	74,286,437
Crude & finished product stocks	321,056,287	321,056,287
Stationery, Safety and general stores	9,266,440	10,964,606
Less: Impairment of stocks	(771,111.00)	(73,152,293.38)
Total	1,138,208,284	1,141,616,269

20 a) Reconciliation of Impairment Allowance for Inventories

Description	2021/2022	2020/2021
	Kshs	KShs
At the beginning of the year	73,152,293	79,760,424
Additional provisions during the year	0	0
Recovered during the year	0	0
Written off during the year	(72,381,182)	(6,608,131)
At the end of the year	771,111	73,152,293

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

21. Trade and Other Receivables

Description	2021/2022	2020/2021
	Kshs	Kshs
Trade Receivables (Note 21 (a))	676,928,942	676,457,225
Deposits and prepayments	56,010,546	51,675,890
Vat recoverable	0	0
Staff receivables (Note 21 (a))	2,196,083	5,542,727
Other receivables	17,836,723	58,254,291
Gross Trade and Other Receivables	752,972,295	791,930,134
Provision for Bad And Doubtful Receivable	(464,816,750)	(493,746,047)
Net Trade and Other Receivables	288,155,544	298,184,088

21 (a) Trade Receivables

Description	2021/2022	2020/2021
	Kshs	Kshs
Gross Trade Receivables	676,928,942	676,457,225
Provision for Doubtful Receivables	(464,816,750)	(493,746,047)
Net Trade Receivables	212,112,192	182,711,178
At June 30, the ageing analysis of gross Trade Receivables was as follows:		
Less than 30 Days	187,215,777	166,504,128
Between 30 and 60 Days	6,470,178	10,593,824
Between 61 and 90 Days	(691,378)	(352,532)
Between 91 and 120 Days	(583,213)	7,186
Over 120 Days	484,517,578	499,704,620
Total	676,928,942	676,457,225

21 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	2021/2022	2020/2021
	Kshs	Kshs
At the beginning of the year	493,746,047	190,125,275
Additional provisions during the year	0	303,620,772
Recovered during the year	(7,889,323)	0
Written off during the year	(21,039,974)	0
At the end of the year	464,816,750	493,746,047

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2022

Notes to the Financial Statements (Continued)

21 (c) Staff Receivables

Description	2021/2022	2020/2021
	Kshs	Kshs
Gross staff loans and advances	2,196,083	5,542,727
Provision for impairment loss	0	0
Net staff loans	2,196,083	5,542,727
Less: Amounts due within one year	0	(2,934,473)
Amounts due after one year	2,196,083	2,608,254

21 (d) Reconciliation of Impairment Allowance for Staff Receivables

Description	2021/2022	2020/2021
	Kshs	Kshs
At the beginning of the year	0	0
Additional provisions during the year	0	0
Recovered during the year	0	0
Written off during the year	0	0
At the end of the year	0	0

22. Tax Recoverable

Description	2021/2022	2021/2020
	Shs	Shs
At beginning of the period	264,625,870	173,591,471
Less: Income tax charge for the year	(4,627,566)	(1,476,496)
Income tax paid during the year	147,515,268	92,510,895
Advance Tax paid in respect of KPRL Investment in the KPRL DC Pension Fund.	275,841,263	0
Tax recoverable	683,354,835	264,625,870

23. Short Term Deposits

Description	2021/2022	2020/2021
	Kshs	Kshs
Other Commercial Banks		
ABSA Bank PLC	0	0
Citibank N.A	0	0
NCBA Bank	0	0
National Bank of Kenya	51,322,260	0
Standard Chartered Bank of Kenya	0	0
Total	51,322,260	0

The average effective interest rate on the short term deposits as at June 30, 2022 was 7.15% (2021: Nil).

Kenya Petroleum Refineries Limited
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Notes To The Financial Statements (Continued)

24. Bank and Cash Balances

Description	2021/2022	2020/2021
	Kshs	Kshs
Cash at bank	31,053,416	46,889,673
Cash in hand	259,836	316,099
Total	31,313,252	47,205,772

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

Detailed analysis of the cash and cash equivalents

Description		2021/2022	2020/2021
Financial institution	Account number	Kshs	Kshs
a) Current Account			
Other Commercial banks			
Standard Chartered Bank of Kenya-KES A/C	01 040 926614 00	22,225,719	21,042,052
Standard Chartered Bank of Kenya-USD A/C	87 040 926614 00	6,385	10,006
ABSA Bank Kenya PLC-Main KES A/C	016 5009 479	112,902	413,331
ABSA Bank Kenya PLC-Staff Imprest KES A/C	016 5009 770	210,898	225,842
ABSA Bank Kenya PLC-USD A/C	22 7252 715	7,343,935	44,265
National Bank of Kenya-KES A/C	010 200 666 03700	1,153,577	25,154,177
Sub- Total		31,053,416	46,889,673
b) On - Call Deposits			
National Bank of Kenya		0	0
Sub- Total		0	0
c) Fixed Deposits Account			
Other Commercial banks		0	0
Sub- Total		0	0
d) Staff Car Loan/ Mortgage			
Other Commercial banks		0	0
Sub- Total		0	0
e) Others (Specify)			
Cash in transit		0	0
Cash in hand KES A/C		259,836	316,099
Mobile money account		0	0
Sub- Total		259,836	316,099
Grand Total		31,313,252	47,205,772

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Notes To The Financial Statements (Continued)

25. Ordinary Share Capital

	2021/2022	2020/2021
Description	Kshs	Kshs
Authorized:		
36,800,000 (36,800,000 FY 2019/20) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000
Issued and fully paid:		
36,800,000 (36,800,000 FY 2019/20) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000

26. Revaluation Reserve

The revaluation reserve relates to the revaluation of certain items of property, plant and equipment. As indicated in the Statement of Changes in Equity, this is stated after transfer of excess depreciation net of related deferred tax to retained earnings. Revaluation surpluses are not distributable.

27. Fair Value Adjustment Reserve

The fair value adjustment reserve arises on the revaluation of available-for-sale financial assets, principally the marketable securities. When a financial asset is sold, the portion of the reserve that relates to that asset is reduced from the fair value adjustment reserve and is recognised in profit or loss. Where a financial asset is impaired, the portion of the reserve that relates to that asset is recognised in profit or loss.

28. Retained Earnings

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

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Notes to the Financial Statements (Continued)

29. Borrowings

	2021/2022	2020/2021
Description	Kshs	Kshs
Domestic borrowings		
Balance at beginning of the year	1,795,245,248	1,816,457,814
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the period (CPP Term loan)	(58,876,192)	(64,786,028)
Movement in Bank Overdraft during the year	(62,582,484)	27,824,385
Exchange losses/(gains) on foreign denominated loans	93,332,965	13,343,616
Exchange losses/(gains) on foreign denominated overdraft facility	16,542,152	2,405,462
Balance at end of the year	1,783,661,690	1,795,245,248

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

	2021/2022	2020/2021
Description	Kshs	Kshs
External Borrowings		
Dollar denominated loan	0	0
Euro denominated loan	0	0
	0	0
Domestic Borrowings		
Kenya Shilling overdraft from Commercial Bank of Africa	364,067,582	408,268,441
Kenya Shilling overdraft from Citibank N.A.	161,749,448	179,749,604
Dollar denominated overdraft from Citibank N.A.	187,253,935	171,093,251
Dollar denominated loan from Barclays Bank-CPP	1,070,590,725	1,036,133,952
	1,783,661,690	1,795,245,248
Total balance at end of the period	1,783,661,690	1,795,245,248

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Notes to the Financial Statements (Continued)

	2021/2022	2020/2021
Description	Kshs	KShs
Short term borrowings (current portion)	1,783,661,690	1,795,245,248
Long term borrowings	0	0
Total	1,783,661,690	1,795,245,248

The short term borrowings include Kshs 713M bank overdrafts as detailed in the analysis of borrowings above and KShs 1.070bn in respect of a term loan for the Captive Power Plant (CPP). The foreign denominated loans have been restated using the CBK closing mean rates at the end of the financial year. Due to the shut down of refining operations with effect from 4th Sept, 2013, KPRL immediately defaulted on principal loan repayment but continued to service interest payments. On 8th May, 2020 KPRL released depreciation recoveries of KShs 380M to the Banks. The depreciation recovery was invoiced to KPC and paid in accordance with the terms of the KPRL-KPC lease agreement. The funds were applied against principal loan repayment. Subsequently, depreciation recovery is invoiced quarterly and the proceeds applied against the principal loan payment. This is an interim arrangement pending full restructuring of the bank loans.

30. Short Term Loans for GoK

	2021/2022	2020/2021
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

31. Cash Advance from KPC

	2021/2022	2020/2021
Description	Kshs	Kshs
Balance at the beginning of the Year	0	0
Additions during the year	80,000,000	0
Repayment during the year	0	0
Balance at end of Year	80,000,000	0

KPRL facilities are currently leased by KPC. In addition to the monthly expenses recovered from KPC every month, KPC advanced KPRL Kshs 80M in February 2022 to further support lease operations.

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Notes to the Financial Statements (Continued)

32. Trade and Other Payables

Description	2021/2022	2020/2021
	Kshs	Kshs
Trade payables	180,871,437	106,620,279
Accrued expenses	143,470,393	145,791,086
Retention/ Contract monies	7,573,061	7,021,100
Deposits	1,266,050	1,316,050
Employee payables	1,247,431	323,279
Other payables	1,119,980,586	968,553,454
Total	1,454,408,958	1,229,625,249

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.

33. 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 the employer 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)

34. KPRL Pension Trust Limited

	2021/2022	2020/2021
	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 2022.

35. Provisions

	2021/2022	2020/2021
Description	Kshs	Kshs
Balance at beginning of period	13,337,731	13,019,851
Additional provision at end of the year	0	0
Leave paid out or utilised during the year	(254,479)	317,880
	=====	=====
Balance at end of the period	13,083,252	13,337,731
	=====	=====

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

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Notes to the Financial Statements (Continued)

36. Notes to the Statement of Cash Flows

		2021/2022	2020/2021
		Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Profit/(loss before tax		(374,408,219)	(305,038,412)
Depreciation	15	222,172,089	232,261,879
Amortisation	16	165,145	165,145
Asset retirement		0	4,442,496
Capex Cost to Revex		0	386,160
Operating profit/(loss) before working capital changes		(152,070,985)	(67,782,732)
(Increase)/decrease in inventories		3,407,985	3,539,677
(Increase)/decrease in trade and other receivables		10,028,543	216,104,946
Increase/(decrease) in trade and other payables		224,783,709	57,568,248
Increase/(decrease) in Investment in KPRL DC Pension Fund		28,633,792	(104,761,759)
Increase/(decrease) in provision for staff leave pay	35	(254,479)	317,880
Cash generated from/(used in) operations		114,528,565	104,986,260
(b) Analysis of changes in loans			
Balance at beginning of the year		1,795,245,248	1,816,457,814
Receipts during the year		0	0
Repayments of domestics borrowings during the period (CPP Term loan)		(58,876,192)	(64,786,028)
Movement in Bank Overdraft during the quarter		(62,582,484)	27,824,385
Foreign exchange losses /(gains)		109,875,117	15,749,078
Balance at end of the year	29	1,783,661,690	1,795,245,248
(c) Analysis of cash and cash equivalents			
Bank overdraft- CBA KES	29	(364,067,582)	(408,268,441)
Bank overdraft- Citi bank KES	29	(161,749,448)	(179,749,604)
Bank overdraft- Citi bank USD	29	(187,253,935)	(171,093,251)
Short Term deposit	23	51,322,260	0
Cash at bank	24	31,053,416	46,889,673
Cash in hand	24	259,836	316,099
Balance at end of the year		(630,435,453)	(711,905,524)

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Notes to the Financial Statements (Continued)

36. Notes to the Statement of Cash Flows (continued)

		2021/2022	2020/2021
		Kshs	Kshs
(d) Analysis of interest paid			
Interest expense on loans	10	75,475,527	73,841,664
Interest expense on bank overdrafts	10	71,188,764	71,835,116
Interest on loans capitalised		0	0
		146,664,290	145,676,780
		=====	=====
(e) Analysis of dividend paid			
Balance at beginning of the year		0	0
2019 dividends paid		0	0
2020 dividends paid		0	0
2021 interim dividends paid		0	0
Balance at end of the year		0	0

37. Yield Shift

In the normal course of business, the company's contracts with oil marketing companies under the toll processing arrangement allowed for a difference between the programmed or expected yields under controlled and stable conditions (as defined in the refinery data book) and the actual yields achieved in a given period. This difference is referred to as yield shift because the loss in one product (the refinery fuel and loss is recognized as a yield) is reflected as a gain in another without any loss of mass. The company and the Oil Marketing companies ("OMCs") operating in Kenya engaged Deloitte Consulting Limited to conduct a forensic audit of the company's toll stocks and proposed yield shifts for the period March 2002 to August 2012 under the directions of the Ministry of Energy ("MoE") to ascertain the actual yield shift. The MOE also requested, as a special deliverable because the processing agreement is based only on mass balance, that the forensic auditor value the yield shift.

Based on the findings of the report, there was indeed a difference between programmed yields and actual yields. The value of yield shifts for the period was valued at KShs 7,174,097,776 out of which KShs 3,515,911,634 was yet to be reflected in OMCs statements. The forensic auditor recommended that both KPRL and the OMCs adjust the stock balances to reflect the yield shift and that industry-wide discussions be held on how the losses would be borne.

However, having regard to the explicit provisions of the Processing Agreement and legal advice received, the directors are of the opinion that the company is not liable for losses arising from yield shifts under the toll processing agreements.

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Notes to the Financial Statements (Continued)

Yield Shift (continued)

This opinion is also based on past practice whereby OMCs have never recovered any yield shift from the company since inception or since the Processing agreements were first entered into several decades ago. Consequently, no provision for this has been made in these financial statements. The yield shift matter is pending determination before the Parent Ministry (Ministry of Energy and Petroleum) and the Shareholder (The National Treasury).

38. Related Party Disclosures

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) County Government of Mombasa
- iii) Kenya Pipeline Corporation
- iv) National Bank of Kenya
- v) Key management
- vi) Board of Directors

Transactions with related parties

Description	2021/2022	2020/2021
	Kshs	Kshs
a) Sales to related parties		
Sales of electricity to govt agencies	0	0
Rent income from govt. agencies	1,268,358,987	1,175,437,218
National Lands Commission		36,295,202
Water sales to govt. agencies	0	0
Interest income from govt commercial banks	1,257,616	0
Interest income from bills and bonds	0	0
Others (specify)	0	0
Total	1,269,616,603	1,211,732,420
b) Purchases from related parties		
Purchases of electricity from KPLC	79,644,049	78,322,479
Purchase of water from govt service providers	17,132,771	8,275,843
Rent expenses paid to govt agencies	0	0
Training and conference fees paid to govt. Agencies	0	0
Bank charges paid to govt commercial banks	600	9,270
Interest expense to investments by other govt. Entities	0	0
Others (specify)	10,234,027	14,913,840
Total	107,011,448	101,521,432

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Notes to the Financial Statements (Continued)

Transactions with related parties

Description	2021/2022	2020/2021
	Kshs	Kshs
c) Grants from the government		
Grants from national government	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	(307,624)	245,173
Compensation to the CEO	13,118,940	12,754,059
Compensation to Key Management	43,548,959	44,282,061
Total	56,360,275	57,281,293

39. Capital Commitments

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

Description	2021/2022	2020/2021
	Kshs	Kshs
Amounts authorised and contracted for	0	0
Amounts authorized 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.*

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Notes to the Financial Statements (Continued)

40. Contingent Assets and Liabilities

Contingent Assets

Description	2021/2022	2020/2021
	Kshs	Kshs
Contingent assets		
Insurance reimbursements	0	0
Assets arising from determination of court cases	0	0
Reimbursable indemnities and guarantees	0	0
Receivables from other government entities	0	0
Others	0	0
Total	0	0

Contingent Liabilities

Description	2021/2022	2020/2021
	Kshs	Kshs
i)Guarantees	504,947,743	508,041,193
ii)Legal claims against KPRL by Total Kenya Ltd	191,880,000	191,880,000
iii)Other Legal claims against KPRL	9,167,595	9,167,595
iv)KRA Disputed Tax Demand	1,633,968,000	1,633,968,000
	2,339,963,338	2,343,056,788

In the opinion of the directors, no provision is required in these financial statements as the liabilities are not expected to crystallize.

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Notes To The Financial Statements (Continued)

41. Financial Risk Management

The entity'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)

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022				
Receivables from exchange transactions	694,765,665	189,237,859	40,711,057	464,816,750
Receivables from non-exchange transactions	58,206,630	(33,631,453)	91,838,082	0
Bank balances	31,313,252	31,313,252	0	0
Total	784,285,547	186,919,658	132,549,139	464,816,750
At 30 June 2021				
Receivables from exchange transactions	791,930,134	201,735,071	96,449,016	493,746,047
Receivables from non-exchange transactions	0	0	0	0
Bank balances	47,205,772	47,205,772	0	0
Total	839,135,906	248,940,843	96,449,016	493,746,047

Credit Risk (Continued)

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 Oil Marketing Companies (OMC's) and Kenya Pipeline Company Limited.

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.

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (Continued)

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.

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2022				
Trade payables	112,650	154,092,165	180,223,557	334,428,372
Current portion of borrowings	0	0	3,418,607,134	3,418,607,134
Provisions	0	0	1,133,063,838	1,133,063,838
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
Total	112,650	154,092,165	4,731,894,529	4,886,099,344
At 30 June 2021				
Trade payables	71,801,144	(3,136,824)	205,745,199	274,409,519
Current portion of borrowings	0	0	3,430,190,692	3,430,190,692
Provisions	0	0	968,553,454	968,553,454
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
Total	71,801,144	(3,136,824)	4,604,489,345	4,673,153,665

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Notes To The Financial Statements (Continued)

(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.

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:

Description	Kshs	Other currencies Kshs	Total Kshs
At 30 June 2022			
Financial assets			
Investments	51,322,260	0	51,322,260
Cash	23,932,410	7,380,842	31,313,252
Debtors	263,856,026	24,299,519	288,155,545
	339,110,696	31,680,360	370,791,057
Financial liabilities			
Trade and other payables	304,337,503	30,090,868	334,428,372
Borrowings	2,160,762,474	1,257,844,660	3,418,607,134
	2,465,099,978	1,287,935,528	3,753,035,506
Net foreign currency asset/(liability)	(2,125,989,282)	(1,256,255,168)	(3,382,244,449)

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Notes to the Financial Statements (Continued)

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.

Description	In Kshs	Other Currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2021			
Financial Assets			
Investments	0	0	0
Cash	47,151,502	54,270	47,205,772
Debtors	288,023,687	10,160,401	298,184,088
	335,175,189	10,214,671	345,389,860
Financial Liabilities			
Trade and Other Payables	217,329,088	57,080,437	274,409,525
Borrowings	2,222,963,489	1,207,227,203	3,430,190,692
	2,440,292,577	1,264,307,640	3,704,600,217
Net Foreign Currency Asset/(Liability)	(2,105,117,389)	(1,254,092,969)	(3,359,210,358)

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Notes to the Financial Statements (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.

Details	Change in	Effect on Profit	Effect on
	currency rate	before tax	equity
	Kshs	Kshs	Kshs
2022			
Euro	10%	(4,251,018)	0
USD	10%	(238,606,382)	0
GBP	10%	(11,147)	0
2021			
Euro	10%	(38,395,133)	0
USD	10%	(172,366,419)	0
GBP	10%	37,025	0

c) Interest rate risk

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

i) Management of interest rate risk

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

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Notes To The Financial Statements (Continued)

ii) Sensitivity analysis

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

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of Kshs 17,836,617 (2021: Kshs 17,952,452/-). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 89,183,085/-. (2021 – KShs 89,762,260)

iii) 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:

- i)** Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- ii)** 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).
- iii)** 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 company considers relevant and observable market prices in its valuations where possible.

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Notes to the Financial Statements (Continued)

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 30 June 2022	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
Financial assets				
Quoted equity investments	0	0	0	0
Non- financial assets				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0
At 30 June 2021				
Financial assets				
Quoted equity investments	0	0	0	0
Non- financial assets				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0

There were no transfers between levels 1, 2 and 3 during the year.

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.

Kenya Petroleum Refineries Limited
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Notes to the Financial Statements (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:

Description	2021/2022	2020/2021
	Kshs	Kshs
Revaluation reserve	0	0
Retained earnings	81,074,673	88,347,144
Share Capital	736,000,000	736,000,000
Share Premium	144,000,000	144,000,000
Total Funds	961,074,673	968,347,144
Total Borrowings	3,418,607,134	3,430,190,692
Less: Cash and Bank balances	(82,635,512)	(47,205,772)
Net Debt/(Excess Cash and Cash Equivalents)	3,335,971,622	3,382,984,920
Gearing	347%	349%

42. Incorporation

The company is incorporated as a limited liability company in Kenya under the Companies Act Chapter 17 of the Laws of Kenya and is domiciled in Kenya.

43. Events after the Reporting Period

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

44. Currency

The financial statements are presented in Kenya Shillings (Kshs)

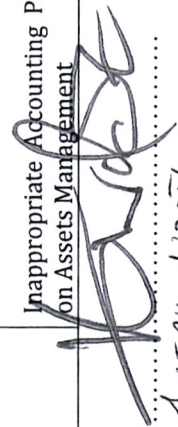
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XIX. Appendices

Appendix 1: Implementation Status of Auditor-General prior year recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status:	Timeframe:
			(Resolved / Not Resolved)	(Put a date when you expect the issue to be resolved)
2	Impairment of Refinery Property, Plant and Equipment	KPRL is still waiting for policy decision on the future of the refinery plant from GoK.	Not yet resolved	KPRL is in transition towards takeover by KPC
3	Obsolete Inventories	The inventories made up of plant spares and equipment are tied to the refinery plant and the pending policy decision on the future of the plant.	Not yet resolved	KPRL is in transition towards takeover by KPC
4	Going Concern Status	The uncertainty about the going concern status of KPRL was caused by shutdown of the refinery plant with effect from 4 th Sept, 2013.	Not yet resolved	The matter of going concern to be determined after takeover of KPRL by KPC
5	Inappropriate Accounting Policies on Assets Management	In the year 2009 KPRL changed assets accounting policy from valuation model to historical cost model when Shell International PLC withdrew technical support on the refinery valuation model. Subsequently KPRL has been facing uncertainty about future of the refinery plant and associated equipment which has delayed the change of the current accounting policy. However the current accounting policy is in line with IAS 16.	Not yet resolved	KPRL to revert to valuation model when the matter of impairment of assets and takeover of KPRL by KPC is done.

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 Name **JOSEPH NDITI**

Ag. Chief Executive Officer

Date **15.02.2023**

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Appendix II: Projects implemented by Kenya Petroleum Refineries Limited

Projects

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

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required (Yes/No)	Consolidated in these financial statements
						(Yes/No)
KPRL-Changamwe Depot connectivity to Main Line 5		Not applicable	2 Years	N/A	No	Yes
LPG Truck Loading Facility PS15		Not applicable	1 year	N/A	No	Yes
Rehabilitation of Port Reitz tanks, connection to line 5 and connection to KOT2		Not applicable	2 Years	N/A	No	Yes
Replacement of Desktops and Laptops		Not applicable	1 year	N/A	No	Yes
Construction of staff car parking sheds		Not applicable	3 years	N/A	No	Yes
Replacement of Data Center Servers and LAN Base Switches		Not applicable	1 year	N/A	No	Yes
Power supply of KPRL Fire water pump (PS 15) from substation No.3		Not applicable	1 year	N/A	No	Yes
Replacement of (PS 15) Fire Detection Alarm System		Not applicable	1 year	N/A	No	Yes
Upgrade of KPRL administration block switchgear room and standby power supply		Not applicable	1 year	N/A	No	Yes
KPRL R22 Refrigerant air-conditioning systems		Not applicable	1 year	N/A	No	Yes
Replacement of LPG Analyzers		Not applicable	1 year	N/A	No	Yes

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 the KPRL Annual Report for completeness.

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Status of Projects completion

	Project	Total project Cost		Total expended to date		Completion % to date		Budget		Actual		Sources of funds
		Kshs	Kshs	Kshs	Kshs	%	%	Kshs	Kshs	Kshs	Kshs	
1	KPRL-Changamwe Depot connectivity to Main Line 5	219,327,641	0	0	0	11%		145,328,000	23,255,719			KPRL/KPC Lease
2	LPG Truck Loading Facility PS15	241,086,521	0	0	0	0		241,086,521	0			KPRL/KPC Lease
3	Rehabilitation of Port Reitz tanks, connection to line 5 and connection to KOT2	1,819,356,382	0	0	0	0		819,356,382	0			KPRL/KPC Lease
4	Replacement of Desktops and Laptops	4,005,000	0	0	0	0		4,005,000	0			KPRL/KPC Lease
5	Construction of staff car parking sheds	15,000,000	0	0	0	0		5,000,000	0			KPRL/KPC Lease
6	Replacement of Data Center Servers and LAN Base Switches	8,400,000	0	0	0	0		8,400,000	0			KPRL/KPC Lease
7	Power supply of KPRL Fire water pump (PS 15) from substation No.3	20,000,000	0	0	0	0		20,000,000	0			KPRL/KPC Lease
8	Replacement of (PS 15) Fire Detection Alarm System	30,000,000	0	0	0	0		30,000,000	0			KPRL/KPC Lease
9	Upgrade of KPRL administration block switchgear room and standby power supply	30,000,000	0	0	0	0		30,000,000	0			KPRL/KPC Lease
10	KPRL R22 Refrigerant air-conditioning systems	40,000,000	0	0	0	0		40,000,000	0			KPRL/KPC Lease

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Appendix IV: 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	Statement of Financial Performance	Where Recorded/Recognized				Total Transfers during the Year
					Capital Fund	Deferred Income	Receivables	Others - must be specific	
Ministry of Planning and Devolution	Not applicable	Recurrent	0	0	0	0	0	0	0
Ministry of Planning and Devolution	Not applicable	Development	0	0	0	0	0	0	0
USAID	Not applicable	Donor Fund	0	0	0	0	0	0	0
Ministry of Planning and Devolution	Not applicable	Direct Payment	0	0	0	0	0	0	0
Total			0	0	0	0	0	0	0

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Appendix V- Inter-Entity Confirmation Letter



Kenya Petroleum Refineries Limited

*[Insert name of beneficiary entity]
[Insert Address]*

The Kenya Petroleum Refineries Limited wishes to confirm the amounts disbursed to you as at 30th June 2022 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below Please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by as at 30 th June 2022						
Reference Number	Date Disbursed	Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30 th June 2022			Amount Received by [beneficiary entity] (KShs) as at 30 th June 2022 (E)	Differences (F)=(D-E)
		Recurrent (A)	Development (B)	Inter-Ministerial (C)		
Total						

In confirm that the amounts shown above are correct as of the date indicated.

Head of Accountants department of beneficiary entity:

Name *Joseph Ndubi* Sign *[Signature]* Date *15/02/2023*

**Kenya Petroleum Refineries Limited
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Appendix VI: Reporting of Climate Relevant Expenditures

Name of the Organization: Kenya Petroleum Refineries Limited
 Telephone Number: 041-3433510-9
 Email Address: refinery@kprl.co.ke
 Name of Ag. CEO: Joseph B. Ndoti

Name and contact details of contact person (in case of any clarifications)As Above.....

Project Name	Project Description	Project Objectives	Project Activities	Source Of Funds				Implementing Partners
				Q1	Q2	Q3	Q4	

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Appendix VII: Disaster Expenditure Reporting Template

Date:

Entity

Period to which this report refers (FY)	Year	Quarter				
Name of Reporting Officer						
Contact details of the reporting officer:	Email	Telephone				
Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments

