

REPUBLIC OF KENYA



*Enhancing Accountability*

## REPORT

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OF

**THE AUDITOR-GENERAL**

ON

**KENYA PETROLEUM REFINERIES LIMITED**

**FOR THE YEAR ENDED  
30 JUNE, 2024**

 <b>THE NATIONAL ASSEMBLY PAPERS LAID</b>	
DATE: 06 MAR 2025	
DAY: Thursday	
TABLED BY:	Hon. Naama Waga, MP Deputy Majority Party Whip
CLERK-AT-THE-TABLE:	A. Shikuku



*Revised Template 30<sup>th</sup> June 2024*



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**KENYA PETROLEUM REFINERIES LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30, 2024**

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Prepared in accordance with the International Financial Reporting Standards (IFRS)

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

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**1. Acronyms and Glossary of Terms**

<b>CEO</b>	<i>Chief Executive Officer</i>
<b>DG</b>	<i>Director General</i>
<b>IFRS</b>	<i>International Financial Reporting Standards</i>
<b>MD</b>	<i>Managing Director</i>
<b>PFMA</b>	<i>Public Finance Management Act.</i>
<b>PSASB</b>	<i>Public Sector Accounting Standards Board</i>
<b>TNT</b>	<i>The National Treasury</i>
<b>PFM</b>	<i>Public Finance Management.</i>
<b>GoK</b>	<i>Government of Kenya</i>
<b>EEHL</b>	<i>Essar Energy Holdings Limited</i>
<b>MOEP</b>	<i>Ministry of Energy and Petroleum</i>
<b>HSSE</b>	<i>Health Safety Security &amp; Environment</i>
<b>EOPS</b>	<i>Early Oil Pilot Scheme</i>
<b>KPC</b>	<i>Kenya Pipeline Company Limited</i>
<b>KPRL</b>	<i>Kenya Petroleum Refineries Limited</i>
<b>PWC</b>	<i>Price Waterhouse Coopers</i>
<b>CPP</b>	<i>Captive Power Plant</i>
<b>LTI</b>	<i>Lost Time Injury</i>
<b>LTO</b>	<i>Large Taxpayer Office</i>

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**2. 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 24<sup>th</sup> 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.

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to Kenya Pipeline Company (KPC). Consequently, KPRL became a wholly owned subsidiary of KPC.

The entity is under the Ministry of Energy and 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 12<sup>th</sup> 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 4<sup>th</sup> 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 and handling services for imported petroleum products and leasing of storage tanks and pipelines.

On 11<sup>th</sup> 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.

## **2. Key Entity Information**

### **Principal Activities (continued)**

As an interim measure, on 20<sup>th</sup> March 2017, KPRL initially signed a 3 year operating lease agreement with KPC. Subsequently the lease agreement was extended until the transition towards takeover of KPRL by KPC is completed. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of 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<sup>st</sup> 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, 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 18<sup>th</sup> March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20<sup>th</sup> 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 20<sup>th</sup> June, 2021. On 26<sup>th</sup> April 2022, KPC engaged PwC as transaction advisor for the takeover of KPRL. The consultant delivered the final draft report to KPC on 16<sup>th</sup> December, 2022.

On 18<sup>th</sup> July, 2023 the Cabinet considered and approved the acquisition of KPRL by KPC. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure.

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC.

**2. Key Entity Information**

**Principal Activities (continued)**

**c) Directors**

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

- |                                  |   |
|----------------------------------|---|
| 1. Henry Gathara Karinga         | Appointed on 06/02/17 (reappointed 04/08/2023)  |
| 2. Lilian Bokeyeye Mahiri – Zaja | Appointed on 06/02/17 (reappointed 04/08/2023)  |
| 3. Joseph Zachariah Ngugi        | Alternate to CS National Treasury<br>(Appointed 04/04/2023)                                   |
| 4. Joseph Wafula Wepukhulu       | Alternate to PS State Department of Petroleum<br>Appointed 27/11/2017(Resigned on 27/02/2024) |
| 5. Peter Okombe Ongori           | Representing Attorney General- Appointed 12/06/2023   |
| 6. Eliud S. Mwaruah              | Alternate to PS State Department of Petroleum (SDP)<br>(Appointed 27/02/2024)                 |

**d) Corporate Secretary**

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

**e) Registered Office**

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

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**2. Key Entity Information**

**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) 0724257102/041-3433510-9  
E-mail: refinery@kpri.co.ke  
Website: www.kpri.co.ke

**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,  
P.O. Box 90681,  
Mombasa, Kenya.

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

**i) Independent Auditors**

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

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**2. Key Entity Information**

**j) Principal Legal Advisers**

The Attorney General  
State Law Office and Dept. of Justice,  
Harambee Avenue,  
P.O. Box 40112 - 00200,  
Nairobi, Kenya,

Kipkenda & Company Advocates  
Off Riverside Drive, Behind 9 Riverside Drive  
Riverside Drive,  
P.O. Box 56832 - 00200,  
Nairobi, Kenya

Robson Harris Advocate LLP  
Transnational Plaza 6<sup>th</sup> & 9<sup>th</sup> Floors,  
City Hall Way,  
P.O. Box 67845 - 00200,  
Nairobi, Kenya





Munyao Muthama & Kashindi Advocates  
ACK Cathedral Complex 1<sup>st</sup> Floor,  
Nkrumah Road,  
P.O. Box 2419 - 80100,  
Mombasa, Kenya

Cootow & Associates Advocates  
Social Security House, Pent house,  
North Tower, Nkrumah Road,  
P.O. Box 16858 - 80100,  
Mombasa, Kenya





Ahmed Nasir Abdullahi Advocates LLP  
FCB Mihrab, 12<sup>th</sup> Floor,  
Lenana Road,  
P.O. Box 57731 - 00200,  
Nairobi, Kenya

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**3. The Board of Directors**

Name of Director	Key qualifications and work experience	
1. Mr. Mohamed Liban	<p>DOB- 1961</p> <p>Principal Secretary, State Department of Petroleum.</p> <p>Prior to the appointment he was Chairman of the Ewaso Ng'iro North Development Authority from 2019. He has previously served as Regional Elections co-ordinator under IEBC from 2009-2017 among other positions.</p> <p>He holds a Master of Public Health &amp; Epidemiology from Kenyatta Univ. and Higher National Diploma in Cataract Surgery &amp; Ophthalmology both from KMTC.</p>	
2. Mr. S Mwaruah (Alternate to PS State Dept of Petroleum)	<p>DOB-29/12/1966</p> <p>Currently serving as the Director, Human Resource Management &amp; Development (DHRM&amp;D) in the State department of Petroleum.</p> <p>He holds a Bachelor of Arts (BA) degree from the UoN and a post graduate Diploma in Human Resource Management and Development. He has vast leadership and governance skills and is also a Member of the Institute of Human Resource Management (IHRM), Institute of Directors Kenya (IoD K) and Kenya Association for Public Administration and Management (KAPAM)</p>	
3. Prof. Njuguna Ndungú, CBS  (Alternate Mr. Joseph Zachariah. Ngugi)	<p>DOB-1960</p> <p>Cabinet Secretary for The National Treasury.</p> <p>DOB-14/06/1966</p> <p>Alternate Director, The National Treasury.</p> <p>Mr Ngugi is a Director of Planning, Macro and Fiscal Affairs Department of The National Treasury. He has over 20years experience in Tax matters and heads the Tax Policy Division in the Macro and Fiscal Affairs Dept. He holds a Masters in Economics (UoN) and Bachelor of Arts (BA) Economis and Sociology from Egerton University. As the Head of Tax Policy Division, he participates in the enactment of Tax policy legislations and formulation of tax policy documents. He is currently an alternate Director at Kenya Vehicle Manufacturers &amp; past alternate Director at Kenya Trade Network, Retirement Benefits Authority &amp; Coffee Development Fund. (now Commodity Fund)</p>	
4. Mr. Henry G. Karinga	<p>DOB-13/03/1964</p> <p>He holds a Bachelor of Science (UoN), 1990 and Global Executive MBA (USIU) 2016.</p> <p>Managing Director – H.K. Builders &amp; General Contractors Ltd</p>	

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Name of Director	Key qualifications and work experience	
5. Ms. Lilian B. Mahiri-Zaja	<p>DOB-08/12/1964</p> <p>Lilian 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. She also served as a Commissioner with the Energy and Petroleum Regulatory Authority (EPRA).</p>	
6. Peter Okombe Ongori	<p>DOB-1971</p> <p>Mr. Ongori is an Advocate of the High Court of Kenya and he has over seventeen years of post-admission experience in commercial law practice with strengths in the Extractive Industry (Oil and Gas Law). He holds a Master of Laws (LL.M) in International Oil and Gas Law and Policy from the University of Dundee, Scotland, UK, a Bachelor of Laws and Bachelor of Arts (B.A.) Economics from MDS University, India. Throughout the years, he has acquired the competence to review, and negotiate complex international and local contracts on behalf of the Government of Kenya. He is currently a Deputy Chief State Counsel, in the Office of the Attorney General, Government Transactions Division.</p>	
7. CPA. Joseph Ndoti	<p>DOB-05/07/1972</p> <p>Currently the Acting Chief Executive Officer KPRL from 7<sup>th</sup> 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 &amp; 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&amp;O Nedlloyd East Africa Ltd.</p>	
8. Ms. Muthoni Gatere	<p>DOB-05/03/1963</p> <p>Muthoni is a practising Advocate with over 30 years' experience. She holds a Masters degree in International Maritime Law (IMO-IMLI Malta); a post- graduate Diploma in Legal Education from the Kenya School of Law (1987), LL.B. (Hons.) from UoN (1986) and is a Certified Public Secretary (ICPSK) and member of the Law Society of Kenya (LSK). She has previously worked at KPA as a Board Secretary for 15 years and has expertise in negotiating complex commercial contracts and Pension schemes set up and management. She is currently a Consultant with Ledger Registrars (Certified Public Secretaries).</p>	

**4. Key Management Team**

Name of the Staff		Responsibility
CPA. Joseph Ndoti		<p>DOB-05/07/1972            Currently the <b>Acting Chief Executive Officer</b> KPRL from 7<sup>th</sup> 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 &amp; 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&amp;O Nedloyd East Africa Ltd.</p>
Ms. Abigail Mwangi		<p>DOB-10/10/1968            Currently the <b>Chief Operating Officer</b> 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 &amp; Economics (June 2012-Oct 2010) and Manager Process Operations (June 2008-Oct 2010)</p>
Mr. Martin Wahome		<p>DOB-24/04/1965            Currently the <b>Human Resource Manager</b>, 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-11/09/1964            Currently the <b>Engineering Manager</b> 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 &amp; 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            Currently the <b>Manager Technology Development and Operations</b> 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 &amp; Safety. Before joining KPRL, he worked at Chandaria Industries and Kel Chemicals Ltd. Michael holds an MBA in operations Management (UoN) and B.Tech degree in Chemical and Process Engineering (Moi University).            He is a Certified Energy Manager and a registered Engineer with the Engineers Board of Kenya and the Institute of Engineers of Kenya</p>
Kadzo Kalama		<p>DOB-17/11/1983            Kadzo is the <b>Head of Legal Services</b>; 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.            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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**5. Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June, 2024 and who had direct fiduciary responsibility were:

<b>No.</b>	<b>Designation</b>	<b>Name</b>
1.	Acting CEO	CPA Joseph Ndoti
2.	Head of Legal Services	Kadzo Kalama
3.	Chief Finance Officer	CPA Joseph Ndoti
4.	Supply Chain Manager	Janette Mutimbia

**6. Fiduciary Oversight Arrangements**

**Role of the Business Committee**

The Business Committee oversees the integrity of financial reporting, the independence and effectiveness of internal and external audit functions and compliance with legal and regulatory requirements.

Their responsibilities include reviewing the business risk management processes as well as the health, safety, security and environment functions. This committee further oversees the company's major projects, the strategic direction of the company and operations of the business. It also guides the development, review and authorization of procuring and contracting procedures.

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

**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 audit committee also reviews the process by which the entity's significant risks are identified and ensure that the Board is fully apprised of these risks.

**Finance Committee**

The purpose of the Finance Committee is to assist the Board of directors in fulfilling its oversight responsibilities with respect to the monitoring and oversight of the Corporations financial resources, including its capital management, recovery and resolution planning processes, and asset/liability.

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**7. Chairman's Statement**

On 18<sup>th</sup> July, 2023 the Cabinet considered and approved the acquisition of KPRL by KPC. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure.

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC. However, during FY2023/24 the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This arrangement is transitional until the transition towards full amalgamation of KPRL and KPC is completed.

While the lease agreement was a transitional arrangement, the acquisition of KPRL by KPC shall resolve the uncertainty about the going concern status of KPRL. The key post acquisition activities include identification of strategic opportunities for KPRL, resolution of legacy matters and harmonization of KPRL and KPC policies. It was expected that by the 1<sup>st</sup> anniversary date (27<sup>th</sup> October, 2024) of the Share transfer Agreement (STA) most of the post-acquisition activities would have been implemented. However, the implementation of the road map for the post acquisition integration plan is on-going. Consequently, on 4<sup>th</sup> October, 2024 and 6<sup>th</sup> November, 2024, both KPC and KPRL respectively passed board resolutions to extend the lease agreement until the implementation of the post acquisition integration is completed.

During the financial year ended 30<sup>th</sup> June 2024, KPRL continued to operate under the KPRL – KPC lease arrangement whereby it is reimbursed for operating expenses at cost without a profit margin. Included in the operating expenses is a provision for impairment of obsolete assets of Kshs 1.567bn which is made up of Kshs 759M for redundant refining assets and Kshs 807M relating to spares for the refining plant and equipment. Also included in finance costs is reversal for previous years' provision for interest on Dead Stock amounting to Kshs1.331bn relating to the Yield Shift legacy matter which is being resolved as guided by GoK. The loss after tax and other comprehensive income for the year ended 30<sup>th</sup> June, 2024 was Kshs 91M against planned loss of Kshs148M. The improved loss of Kshs 91M compared to loss of Kshs 465M for the previous year (FY 2022/23) is mainly due to unrealized forex gains of Kshs 237M compared to unrealized forex losses of Kshs 495M for the year ended 30<sup>th</sup> June, 2023 arising from revaluation of USD denominated transactions.



**Signed by Director of the Board**

## **8. Report of the Chief Executive Officer**

### **Status of Road Map Towards Full Integration of KPRL and KPC**

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC.

During FY 2023/24, the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This lease agreement is a transitional arrangement until the transition towards full integration of KPRL and KPC is completed. Consequently on 4<sup>th</sup> October, 2024 and 6<sup>th</sup> November, 2024, both KPC and KPRL respectively passed board resolutions to extend the lease agreement until the implementation of the post acquisition integration plan is completed.

### **Going Concern Status of KPRL**

The going concern principle is the assumption that an entity will remain in business for the foreseeable future. While the lease agreement was a transitional arrangement, the acquisition of KPRL by KPC on 27<sup>th</sup> October, 2023 shall resolve the uncertainty about the going concern status of KPRL. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure. KPRL operations and financial obligations are funded by KPC through the lease agreement.

### **Status of External Audit for FY2022/23**

The audited Annual Report and Financial Statements for FY2022/2023 was approved by the Board on 29<sup>th</sup> July, 2024. The audit for FY2023/24 commenced on 25<sup>th</sup> November, 2024 whereby the exit meeting was done on 6<sup>th</sup> December, 2024. The conclusion of the audit and issuance of audit report is expected before 31<sup>st</sup> December, 2024.

Also in reference to the consultative engagement forum convened by the Chief of Staff and Head of Public Service with all Principal Secretaries and Chief Executive Officers (CEOs) of State Corporations held at the Kenya School of Government on 21<sup>st</sup> September, 2023 on the matter of Zero Fault Audit Regime, it was directed that all Ministries, Departments and Agencies ensure that they close all outstanding audit issues raised by the OAG in audit reports for the preceding financial years (i.e. 2021/22 and 2022/23). This is in line with the Government's Bottom-Up Economic Transformation Agenda (BETA).

**8. Report of the Chief Executive Officer (continued)**

**Implementation of KPRL Budget for FY 2023/2024**

The budgets for KPC and KPRL were approved by The National Treasury on 25<sup>th</sup> July, 2023. 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 KPRL reports for completeness which is necessary for both internal and external reporting requirements.

**Status of KRA Tax Legacy Matters and KRA Audit for the Period 2017- 2022**

**Matter at the Court of Appeal – Customs Matter**

The amount of tax in dispute is KShs 1,633,968,090/-. This matter is slated for judgment at the Court of Appeal and a judgement date has not yet been communicated. We further note that the Head of Public Service issued a circular directing that public organizations should resolve their disputes outside court and formed an Intra-Government Tax Dispute Committee chaired by the former Solicitor General Kennedy Ogeto to review the disputes with the aim of amicably resolving them.

The first meeting of the committee with KRA and KPRL was held on 17<sup>th</sup> September 2024 at the LTO unit in Nairobi whereby KRA informed KPRL of their intention to adhere to the government circular and have the matter resolved outside court.

The Intra-Government Tax Dispute Committee scheduled a second meeting on 18<sup>th</sup> October, 2024 which was attended by both KPRL and KRA. The matter is still on going.

**Matter at the Tax Appeals Tribunal (TAT E452 of 2024)**

On 16<sup>th</sup> January 2024 KPRL appealed against a tax assessment of Kshs 734M which was revised by KRA to Kshs 421M. On 9<sup>th</sup> April, 2024 KPRL formally applied to have the disputed revised assessment of KShs 421M referred to the Alternative Dispute Resolution (ADR) team. The first meeting with KRA about the matter was held on 4<sup>th</sup> July 2024, followed by another meeting on 7<sup>th</sup> October, 2024. Partial Alternative Dispute Resolution (ADR) agreement was signed on 31/10/2024. Tax payable for VAT and PAYE was revised from KShs 40.7M to KShs 9.7M. Parties agreed to continue the reconciliation of the Corporation Tax Matter ( KShs 380.63M) and once the tax credits have been validated, parties will enter into a separate agreement on the same,

**Status of Operationalization of Captive Power Plant (CPP)**

The State Department of Energy advised KPRL that as a pre-requisite to consideration of its proposal to negotiate a PPA with KPLC and EPRA, to supply power to the National Grid, the company should carry out a grid study analysis to determine the integration requirements between the Kenya Transmission Grid and the KPRL Power plant (Power export infrastructure requirements).

**8. Report of the Chief Executive Officer (continued)**

**Status of Operationalization of Captive Power Plant (CPP) continued**

The study commenced on 16<sup>th</sup> April, 2024 and was completed on 13<sup>th</sup> June, 2024. Among the take away points deduced from the preliminary grid study were that the idle 9.2MW thermal generator is in good condition hence can be interconnected to the grid system to support system voltage at the Coast region.

KPRL signed a Technical Service Agreement (TSA) with KenGen who are currently providing guidance about the process of engaging the State Department of Energy for the purposes of including the Captive Power Plant (CPP) in the Least Cost Power Development Plan (LCPDP) and eventually to sign a Power Purchase Agreement (PPA) with KPLC. As per the updated road map for the operationalization of the CPP, the updated KPRL tariff model and application for inclusion of the CPP in LCPDP was submitted to the PS, State Department of Energy for approval on 22<sup>nd</sup> October, 2024. The matter is on going.

**HR Matters**

On 27<sup>th</sup> October 2023, KPRL became a wholly owned Subsidiary of KPC. Subsequent to this, the following Post Acquisition Activities (PAA's) were carried out and draft documents prepared pending further guidance from the Shareholder (KPC) and the KPRL Board. These are:

- a) Draft post acquisition communication plan
- b) Proposed harmonised job grading and pay structure for KPRL
- c) Draft HR instruments comprising the following:
  - i. Human Resource Policy and Procedure Manual
  - ii. Career Guidelines for KPRL
  - iii. Proposed Organisation Structure for KPRL based on current business model
  - iv. Staff Grading and Proposed establishment for KPRL
- d) Proposed way forward on the stalled KPRL 2017-21 Collective Bargaining Agreement

**HSSE Performance**

There were no major safety incidents reported during the year ended 30<sup>th</sup> June, 2024. The Company is compliant with all statutory requirements relating to matters of Health, Safety, Security and Environment. Work-Hours without Lost Time Injury (LTI) are shown below.

**Table 1**

**Work-Hours without Lost Time Injury (LTI)**

Target	5,000,000
Hours achieved (28 <sup>th</sup> June 2024)	4,984,151 (estimated 4days remaining to achieve target)

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**8. Report of the Chief Executive Officer (continued)**

Table 2 below shows condensed Statement of Comprehensive Income for the year ended 30<sup>th</sup> June, 2024.

**Table 2**

	Note	FY 2023/2024	FY 2022/2023
		Kshs	Kshs
<b>REVENUES</b>			
<b>TOTAL REVENUES</b>	6,7,8	<b>1,976,207,492</b>	<b>1,018,502,027</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	9	3,151,759,849	1,334,840,553
Finance Costs	10	(1,069,019,143)	318,582,958
<b>TOTAL OPERATING EXPENSES</b>		<b>2,082,740,706</b>	<b>1,653,423,511</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	11	<b>(106,533,214)</b>	<b>(634,921,485)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>	12	<b>(15,409,311)</b>	<b>(170,421,273)</b>
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>
Earnings per share - basic and diluted	13	(2.5)	(13)
Dividend per share	14	0	0
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Profit/ (Loss) after taxation</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>
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
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>

Included in the operating expenses is a provision for impairment of obsolete assets Kshs 1.567bn which is made up of Kshs 759M for redundant refining assets and Kshs 807M relating to spares for the refining plant and equipment. Also included in finance costs is reversal for previous years' provision for interest on Dead Stock amounting to Kshs1.331bn relating to Yield Shift legacy matter which is being resolved as guided by GoK.

The loss after tax and other comprehensive income for the year ended 30<sup>th</sup> June, 2024 was Kshs 91M against planned loss of Kshs148M. The improved loss of Kshs 91M compared to loss of Kshs 465M for the previous year (FY 2022/23) is mainly due to unrealized forex gains of Kshs 237M compared to unrealized forex losses of Kshs 495M for the previous year ended 30<sup>th</sup> June, 2023 arising from revaluation of USD denominated transactions. During the last quarter of FY2023/24 the Kshs strengthened against the USD, trading at an average of Kshs 131.77/USD while the average for the period July 2023 to March 2024 was Kshs149/USD. During the year, the Kshs traded at an average of Kshs 144.68/USD.

**Signed by Acting Chief Executive Officer**



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**9. Statement of Performance against Predetermined Objectives for FY 2024**

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC. KPRL operations and financial obligations are funded by KPC through the lease agreement.

**Strategic Pillars**

Since 4<sup>th</sup> 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:** Secure the going concern status of KPRL through sustainable and profitable operations.
- **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 strategic 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 2023/2024 period for the 5 strategic pillars, as indicated in the Table 3 below:

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**Table 3**

<b>Strategic Pillar</b>	<b>Objective</b>	<b>KPI</b>	<b>Activities</b>	<b>Achievements</b>
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"> <li>• 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.</li> </ul>
Pillar 2:	Enhance and sustain shareholder value	<ul style="list-style-type: none"> <li>• Operate within the approved budget.</li> <li>• Profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Budgeted operating activities under the revenue expenditure budget</li> <li>• Capital Expenditure Program</li> </ul>	<ul style="list-style-type: none"> <li>• Actual total operating expenses for the year were KShs 2.082bn representing 99% of approved total revenue expenditure budget of KShs 2.09bn. The absorption rate of the budget was within plan..</li> <li>• Actual expenses recovered from KPC were Kshs1.65bn representing 89% of budgeted recoveries of KShs 1.86bn. The recovery rate of the expenses was within budget.</li> <li>• Year to date loss after tax and other comprehensive income for the year ended 30<sup>th</sup> June, 2024 was Kshs 91M against planned loss of Kshs 148M while previous year's loss was Kshs 465M. The improved loss of Kshs 91M was mainly due to revaluation of USD denominated transactions that resulted into unrealized gain of Kshs 237M. During the last quarter of FY 2023/2024, the Kshs strengthened against the USD, trading at an average of Kshs 131.77/USD while the average for the period July 2023 to March 2024 was Kshs 149/USD. During the year (FY2023/24), the Kshs traded at an average of Kshs 144.68/USD.</li> <li>• Capital Expenditure Program on KPRL assets is controlled &amp; executed by KPC and is KPC's cost of investment in their books.</li> </ul>

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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 <sup>th</sup> September, 2013.	-Sustainable operations that meet obligations of all stakeholders	Implement road map for post acquisition integration plan .	<p>KPRL continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This arrangement is transitional until the modalities for operations of KPRL as a subsidiary are completed.</p> <p>On 18<sup>th</sup> July, 2023 the Cabinet considered and approved the acquisition of KPRL by KPC. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure. On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) &amp; Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC.</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 28<sup>th</sup> June 2024, KPRL had achieved 4,984,151 work hours without Lost Time Injury (LTI) against a target of 5,000,000 work hours without LTI. Work Hours remaining to target were 15,849.</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)	Actual throughput (product receipts into KPRL tanks) was 1,711,748M3 against plan of 1,534,400M3. Full potential is at least a turnaround tank capacity of 1.4 (196,000M3 per month) which is yet to be achieved .

## **10. Corporate Governance Statement**

### **Leadership and Responsibilities**

#### **Overview**

The Board of Directors has the fundamental responsibility to promote the success of the Company and act in its best interest and that of its shareholders while having regard to the interest of the employees, customers and other stakeholders.

Throughout the year ended June 2024, the Company, which is now 100% wholly owned by Kenya Pipeline 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 operations of the Board are governed by the Board Charter which the Board has deemed to be up to date with the current needs and roles of the Board. The Board has a formal schedule of matters reserved for Board decision that details specific company affairs the Board does not delegate.

The Board is currently comprised of five members 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 shareholder 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. During the year there were no changes to membership.

The Board is satisfied with the commitment and contribution of each director and undertook a Board Evaluation exercise under supervision of State Corporations Advisory Committee (SCAC) during the year.

#### **Attendance**

The Board meets regularly and at least four times a year at approximately quarterly intervals. The dates of the meetings are set in November or December of the previous year, well in advance thereby ensuring maximum attendance.

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. However, due to the lean composition of the Board, only the Audit and Compliance committee is functional.

**10. Corporate Governance Statement (continued)**

**Board induction and training**

All Board Members receive an induction upon joining. This provides an overview of the company, new developments in the environment in which the company operates, accounting and financial reporting developments, as well as any regulatory changes. Board members also undergo regular training and education to enable them fulfill their responsibilities.

**Division of Responsibilities**

As per the Board Charter, the chairperson is responsible for the leadership of the Board by ensuring effectiveness on all aspects of its role and facilitating productive contribution of all Directors. He/She sets the Agenda for the Board meetings in consultation with the Chief Executive Officer and the Company Secretary. He/She is also responsible for ensuring that the interests of the shareholder are safeguarded and effective communication is maintained with the shareholder. The chairperson is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for overall supervision of the policies governing the conduct of the business.

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

As the board does not have a substantive Chairperson, the Board, in its meeting of 14<sup>th</sup> December 2017 nominated Ms. Mahiri Zaja as the designated Director to facilitate ease of coordination and functioning of the Board and Management. Ms. Zaja is also charged with coordinating board activities and execution of any approved documents on behalf of the board for a period of 6 months (renewable) or until the appointment of a substantive chairperson by the relevant authority, whichever precedes; subject to approval from the line ministry.

**Information and Support**

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

**The Composition of the Board**

The composition of the Board as at 30<sup>th</sup> June 2024 is as set out in the key entity information on page vi. The following change/appointments took place during the current financial year:

- a. Extension of term of appointment:

<b>Name</b>	<b>Designation</b>	<b>Date of Expiry of Term</b>	<b>Date of Reappointment</b>	<b>Term of Extension</b>
L. Mahiri-Zaja	Independent Director	20.02.2023	04.08.2023	1year
H. Karinga				

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**10. Corporate Governance Statement (continued)**

b. Appointment of Alternate Director:

Director	Former Alternate Director	Current Alternate Director	Date of Appointment
Principal Secretary, State Department of Petroleum	J. Wafula	E. Mwaruah	27 <sup>th</sup> Feb, 2024

As detailed in the below schedule, the Board held six (6) full Board meetings, three (3) Special Board meetings during the year 2023/2024 in the Company's Boardroom.

In addition, Board also held three (3) Board Committee meetings. The Board further held three (3) joint meetings with the Board of the incoming shareholder, Kenya Pipeline Company Limited and participated in one (1) extra-ordinary general meeting with its outgoing shareholder, National Treasury.

**Schedule of Meetings - Financial Year Ended 30<sup>th</sup> June 2024**

**Table 4**

Special Board Meetings	Full Board Meetings	Audit and Compliance Board Committee Meetings	Joint KPRL/KPC Board Meetings
21 <sup>st</sup> August 2023	18 <sup>th</sup> August 2023	9 <sup>th</sup> November 2023	25 <sup>th</sup> August 2023
25 <sup>th</sup> August 2023	26 <sup>th</sup> September 2023	15 <sup>th</sup> February 2024	25 <sup>th</sup> April 2024
06 <sup>th</sup> March 2024	10 <sup>th</sup> November 2023	2 <sup>nd</sup> May 2024	31 <sup>st</sup> May 2024
	15 <sup>th</sup> December 2023		
	16 <sup>th</sup> February 2024		
	3 <sup>rd</sup> May 2024		

The attendance for the above Board meetings can be summarized as follows:

**Table 5**

Name	Meeting Attended	Meetings eligible to attend
1. L. Mahiri-Zaja	9	9
2. H. Karinga	8	9
3. P. Ongori	9	9
4. J. Ngugi	7	8
5. J. Wafula	6	7
6. S. Ikiiki	1	1
7. E. Mwaruah	1	2

## **10. Corporate Governance Statement (continued)**

### **Balance and Diversity**

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

### **Conflict of Interest**

Directors are obligated to fully disclose to the Board any real or potential conflict of interest which comes to any director's attention, whether direct or indirect. The statutory duty to avoid situations in which the directors have or may have interests that conflict with those of the company has been observed in the financial year under review. A register for recording any conflict of interest declarations is maintained.

### **Training and Development**

On joining the Board, all Directors receive a full induction on all arrears of the Company's business which includes a tour of the refinery complex and tank farms. Board members also undergo regular training and education to enable them fulfill their responsibilities from time to time. They also receive an overview on new developments in the environment in which the company operates, accounting and financial reporting development.

### **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, the newly unveiled Guidelines on Management and Terms and Conditions of Service for Board Members and Staff of State Corporations as read together with the Salaries Remuneration Commission (SRC) circular dated 10th December, 2014 and the amendments thereto.

### **Role of the Business Committee**

The Business Committee oversees the integrity of financial reporting, the independence and effectiveness of internal and external audit functions and compliance with legal and regulatory requirements.

Their responsibilities include reviewing the business risk management processes as well as the health, safety, security and environment functions. This committee further oversees the company's major projects, the strategic direction of the company and operations of the business. It also guides the development, review and authorization of procuring and contracting procedures.

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

### **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.

**11. Management Discussion and Analysis**

**ENGINEERING HIGHLIGHTS**

**Introduction:**

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

**I) Rotating, Mobile Equipment & Pipelines**

The periodic rotating of rotors for pumps at pre-determined intervals continued. Pumps are still in gasoil preservation while compressors are in nitrogen preservation. Serviced P509, repaired gulley sucker at the workshop. PRVs/TRVs maintenance continued as per schedule. Routine servicing of automobiles also continued. Carried out repairs on the leaking 8" LPG pipeline at Kiev bridge, Repair of Multi-product-Line on done as per previous pigging report and Painted 400 metres of 8-inch fire water line at port-reitz tank farm. Painting of 18 and 16-inch product lines at Changamwe tank farm ongoing.

**II) Storage Tanks**

- a) Tank T203 repairs and maintenance contract awarded, work commenced in July 2022 and maintenance work was 100% completed in June 2024.
- b) LPG tanks & vessels repairs and maintenance contract awarded, maintenance work on vessel V-601 A and V-601 B completed and given back for operational use. T-610 painting works completed and commissioned. Repair and painting work completed in June 2024
- c) Repair works for tank 102 tender for additional works awarded and implementation to commence by mid October 2023 and Works is 50% complete.
- d) Repair works of tank 306 and painting of tank 307 and tank 305 externally, scopes ready awaiting procurement review approval for tendering.

**III) Site Works**

General routine site cleaning, grass cutting, landscaping, application of herbicides on grass and vegetation, disposal of grass and garbage collection and disposal continued on a cyclic basis. Cyclic cleaning of storm drains and desludging was carried out-Routine activity. Preparation of tender for removal of asbestos from various KPRL buildings completed and tender for renovation of KPRL buildings completed and bids invited-18<sup>th</sup> Sep 2023 Routine site works repairs and maintenance (repairs to trucks parking and road 2, T606 junction repairs, Gutter for the training center building, KPRL estate, sports club and Vipingo cottages houses, plumbing repair works to KPRL buildings and offices and fire station completed within September 2023). Clearing bushes around KPRL sites.

**11. Management Discussion and Analysis (continued)**

**ENGINEERING HIGHLIGHTS**

Routine estate house maintenance ongoing. Other activities carried out during the year are as listed below.

- a) Asbestos removal, disposal and reroofing at all KPRL asbestos containing facilities completed in June 2024.
- b) Upgrade of KPRL storm drains completed in June 2024.
- c) Renovation works for various KPRL buildings commenced and completed in May 2024.
- d) Construction of boundary walling at KPRL Nyali house completed in April 2024.
- e) Upgrade of KPRL main office plumbing works completed in April 2024.
- f) Garbage collection at KPRL open plots Completed in May 2024.
- g) Road 10 pothole repairs completed in May 2024.
- h) KOT slope stabilization Completed in June 2024.
- i) LPG fence renewals completed in June 2024.
- j) Tank platforms renovation completed in June 2024
- k) Bund wall repairs to all tanks completed in June 2024.
- l) Pothole patching of KPRL roads and murrum surfacing of input tank farms completed in June 2024.
- m) Re-carpeting of KPRL internal roads completed in June 2024.
- n) Repair of various road shoulders and storm drains completed in June 2024.

**IV) Captive Power Plant(CPP)**

CPP weekly engine manual spinning went on routinely. Replacement of defective solenoid valve was done on 15<sup>th</sup> September 2022 and on attempts to conduct normal spinning preservation, the procedure was unsuccessful due to an error on the external PC hard disc where the operator interface System(WOIS) page was not turning on.

**V) Instrumentation & Control**

Scheduled checks and testing of safeguarding systems/smoke and fire detection systems for equipment which are operational were completed as planned. Tank 305 Instruments were installed back after mechanical inspection and repairs ,Tank 611 top pressure transmitter capsule found faulty replaced Transmitter. Tanks 102 and 210 floats raised to max heights to allow for tank cleaning and repairs Carried routine checks on all tank temperature thermophores. Repaired faulty tank 504 level gauge. Checks on all floating roof tanks fire detection systems was carried out. Quarterly service for CCTV surveillance system done Relocated CCTV camera from bay 1 to bay 3 as per MHSEC request. Servicing of telephone extensions done, Standby Operational requirements for LPG ship receipts at Shimanzi Oil Terminal & transfers to Changamwe depots done.

**11. Management Discussion and Analysis (continued)**

**ENGINEERING HIGHLIGHTS**

The key ongoing activities and the respective target completion dates are as follows:

- a) P-641 control cable failed and was replaced on 9<sup>th</sup> Dec 2023.
- b) Tank 118 ATG malfunctioned and repairs done and completed on 29<sup>th</sup> Dec 2023.
- c) Radio Tx/Rx communication channel 1 malfunction was repaired, completed and tested on 28<sup>th</sup> Dec 2023.
- d) There were repairs on CCTV system at various areas of coverage.
- e) Commissioning of P-654 and P-655 Connectivity to line 5 project done
- f) Tank 610 level switches installed back after mechanical repairs.
- g) Replaced faulty barrier fluid pressure switches for P-651,652 and 653.
- h) Replaced 5 old CCTV cabinets with new ones at weigh bridge, sports club, KOT upper fence and main gate.
- i) Relocation of floating roof tank fire detection systems to new fire system done.
- j) Completion of New truck loading Instrumentation works are on going
- k) CCTV storage server and storage devices on order awaiting delivery end of July for commissioning.
- l) Scheduled checks and testing of safeguarding systems/smoke and fire detection systems for equipment which are operational completed as planned.
- m) Removed T-115 instruments to facilitate tank mechanical repairs.
- n) Relocated sounder for guard room smoke detection systems to enable air con installation.
- o) AGO TSO tripping on pump starting,damaged cable replaced and sensor cleaned.
- p) Carried out routine cleaning of CCTV cabinets and switch room at KOT.
- q) Repaired and replaced faulty cables for thermoprobes.
- r) attended to standby Operational requirements of Fuel Ship, LPG receipts at Shimanzi Oil Terminal & transfers to Changamwe depots.
- s) Tuning of all portable and base radios to new frequencies allocated by CAK, done awaiting supply ,installation and commissioning of repeater.
- t) Installation of cctv ptz camera at new loading bay in progress
- u) P-615A not stopping ,troubleshooting in progress

**VI) Electrical**

KPRL Substation No.1, Transformer No.2 incomer switchgear has malfunctioned and a follow up with OEM to restore normal operation is ongoing. 110VDC tripping battery charger units' replacement for Substation No.3 switchgear protection relays which failed are under procurement process after previous vendor inability to deliver. P607B Control cable for truck loading which failed was delivered to site and cable trench works, cable laying and terminations is ongoing. Procurement process for the repairs and servicing of KPRL AEG UPS systems is ongoing.

Routine activities involving batteries maintenance for emergency generators, UPS's and fire water pumps were carried out. Cathodic protection system surveys & monitoring, motors maintenance, air conditioning maintenance and inspection of Portreitz overhead transmission lines similarly went on.

**11. Management Discussion and Analysis (continued)**

**ENGINEERING HIGHLIGHTS**

**VI) Electrical**

H-poles for Port-Reitz overhead power lines at Kwa Hola knocked and damaged by a vehicle on 25<sup>th</sup> March 2024 but have been repaired. MV underground cable from substation No.7 to Substation No. 8 was damaged during excavation works on 12<sup>th</sup> March 2024 and is awaiting repairs.

Rotten H-poles for Port-Reitz overhead transmission power lines at Kalahari and Migadini areas were replacement on 16<sup>th</sup> June 2024. Direct Current Voltage Gradient (DCVG) survey and Closed Interval Potential Survey (CIPS) for 18" Crude Oil and 8" MPL underground pipelines was done. In-house implementation of the electrical scope of works for completion of AGO/PMS truck loading facility is ongoing.

**VII) Inspection & Integrity**

Providing technical inspection support, Quality assurance and control surveillance for the following projects and activities.

- i. Finalized technical inspection reporting and documentation for EOPS pipeline and pumps.
- ii. LPG truck loading project at Chagamwe. Project commissioned and under surveillance
- iii. KOT Tanks T-703, T-702, T-701, T-708 and T-706 major rehabilitation for service change to AGO finalised. Box-up for all tanks done
- iv. Rehabilitation and painting of LPG storage V-601A/B, Tank 610 and Tank 611. Top side nozzles retrofit including the manhole replacement for T-611 finalized.
- v. T-203 Major Inspection done and rehabilitation finalized.
- vi. Partial inspection and rehabilitation of Tanks 305 and 307 finalized.
- vii. PS-15 Connectivity to KOT2, KOSF and KPRL to Line 5 ongoing. Work at input tank farm finalized and commissioned.
- viii. Tank -102 Inspection, rehabilitation and partial roof deck repairs in progress.
- ix. Routine on-stream pipeline UT survey, Visual and NDT of KPRL storage tanks, overhaul inspection for safety relief devices (SRDs) as per annual program.

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**11. Management Discussion and Analysis (continued)**

**ENGINEERING HIGHLIGHTS**

**VIII) Status of other Projects**

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

1. 2022/23 CAPEX ongoing Projects status is as indicated below:
  - a. KPRL Changamwe connectivity to Main Line 5- Contract signed and works commenced on 11<sup>th</sup> April 2022. Project progress is currently at 83% completion, expected completion was on 30<sup>th</sup> September 2023. Completed and handed over on 29<sup>th</sup> February, 2024.
  - b. LPG truck loading. Civil works, loading gantry structural construction competed and handed over by June, 2024.
  - c. Rehabilitation of KPRL Port Reitz tanks KOT contract – Contract commencement date was 15<sup>th</sup> June, 2022 and the implementation progress is at 100%. Completed by 30<sup>th</sup> June, 2024.
  - d. Connectivity of KPRL Portreitz Tank Farm to Line 5, KOT 2, & KOSF - The contract was awarded and works commenced on 18<sup>th</sup> July 2022. Implementation is at 90%.
  - e. Replacement of LPG Analysers - Contract was awarded and equipment's delivered, tested and handed over. Project 100% complete.

Table 6 below depicts the status of active projects currently being undertaken and managed under the supervision of KPRL team.

**Table 6 Active projects**

	PROJECT	CONTRACT AMOUNT (KSHS)	STATUS AS AT 30 <sup>th</sup> June 2024
1.	KPRL R22 Refrigerant air-conditioning systems	39.32M	<ul style="list-style-type: none"> <li>• Contract signed on 23<sup>rd</sup> June 2023.</li> <li>• Commencement was on 7<sup>th</sup> Aug 2023.</li> <li>• Initial target completion date was 7<sup>th</sup> Feb 2024. Extension of Time request was initiated and was approved to expire on 6<sup>th</sup> August 2024.</li> <li>• Estimate of work done is at 71% against 100% planned.</li> </ul>
2.	Completion of Upgrade of Truck loading facility PS15	USD 602,692	All materials delivered to site. In-house installation works in advance stage. Testing and commission in progress and handover expected in early July 2024
3.	Power supply to KPRL Fire water pump (PS 15) from substation No.3	19.49M	<ul style="list-style-type: none"> <li>• Contract signed on 28th April 2023</li> <li>• Commencement on 22<sup>nd</sup> May 2023</li> <li>• Works Completed on 21<sup>st</sup> Feb 2024 and handed over to client.</li> </ul>
4.	P652 Motor Replacement	4.09M	<ul style="list-style-type: none"> <li>• LPO issued to supplier dated 30<sup>th</sup> January 2023 with delivery date of 31<sup>st</sup> October 2023.</li> <li>• Delivery of P652 motor to KPRL done. Associated items i.e. cable glands are to be replaced.</li> </ul>

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**11. Management Discussion and Analysis (continued)**

**ENGINEERING HIGHLIGHTS**

Table 7 below lists the new capex budgeted for FY 2023/24 for which tender documents have been prepared. Whereas some have already been advertised (as indicated), others are currently awaiting tender advertisement by KPC as per the Annual Procurement Plan

**Table 7 New Capex items**

	<b>Capex Title</b>	<b>Budgeted Amount (KShs)</b>	<b>Date Advertised</b>
1.	Fire Tender	53.1M	Tender non-responsive, deferred to next Financial Year
2.	Industrial Vacuum Tanker (Gulley Sucker)	27.6M	Tender recommended for award. Contract document execution in progress.
3.	Replacement of utilities air compressor	24.0M	Contract signed on 20 <sup>th</sup> May 2024. Order placements in progress
4.	Replacement of 3No. Primary and 3No. Disaster Recovery Data Centre Servers, 6No. LAN Base POE Switches and Associated Devices	23.6M	Contract awarded on 25 <sup>th</sup> March 2024.
			All items expected in KPRL in July 2024
5.	Replacement of Automatic Distillation Units	16.0M	Tender awarded. Contract document execution in progress.
6.	Replacement of AGO Cold Filter Plugging Point CFPP Analyzer	9.0M	Contract signed on 6 <sup>th</sup> February 2024
			Completion expected by 31 <sup>st</sup> June 2024
7.	Replacement of Automatic Density Meter	5.0M	Tender awarded. PO to the winning bidder being processed
8.	Replacement of Mercaptan Sulphur Titrator	5.0M	Tender non-responsive. Recommended for retender
9.	Staff Parking Sheds	5.0M	Completed
10.	Replacement of 30 Enterprise Desktop Computers complete with Uninterruptible Power Supply (UPS) Units	4.4M	PO issued to supplier
11.	Replacement of Hydrogen gas generator	4.0M	Tender non-responsive. Recommended for retender
12.	Purchase of Office chairs at KPRL	2.5M	PO issued to supplier, deliveries expected in July 2024.

**11. Management Discussion and Analysis (continued)**

**HEALTH SAFETY SECURITY & ENVIRONMENT HIGHLIGHTS**

KPRL embarked on a journey towards achieving 5 Million workhours without Lost Time Injury on 2<sup>nd</sup> January 2024. As at 28<sup>th</sup> June 2024, the workhours stood at 4,984,151 estimated to be 4 days to target.

**Table 8 below shows Work hours without lost time injury**

Target	5,000,000
Hours achieved (28th June 2024)	4,984,151 (estimated 4days remaining to achieve target)

Site wide sensitization was conducted to ensure the milestone would be achieved. Once achieved, Management will consider approval of issuance of a safety token towards this milestone in line with the policy on rewarding HSSE Performance.

The Company's Health, Safety and Environment Management System (HSE-MS) underwent its 1<sup>st</sup> Surveillance Audit on 3<sup>rd</sup> to 4<sup>th</sup> July 2024. Following the audit, KPRL was recommended for continued certification.

KPRL HSSE department organized a safety week awareness program from 22<sup>nd</sup> – 26<sup>th</sup> April 2024 where the following activities were carried out:

- Emergency drill challenge competition for staff and contractors
- Staff sensitization on world safety day
- Tank farm tour
- Tree planting
- HSE safety raffle

The turnout from staff and contractors was commendable and indeed showed support of the HSE Management System.

First Aid training for Thirty-Four (34) members of KPRL staff and In-house Contractor personnel was carried out on 3<sup>rd</sup> – 7<sup>th</sup> June 2024

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**11. Management Discussion and Analysis (continued)**

**HEALTH SAFETY SECURITY & ENVIRONMENT HIGHLIGHTS**

**Table 9 Status of HSSE Licenses**

<b>S/NO</b>	<b>LICENSE</b>	<b>EXPIRY DATE</b>
1	ISO 14001 Certificate	Certificate No. KE003541 Expiry 06/07/2026
2	NEMA Effluent Water Discharge License	License No: NEMA/WQ/EDL/16240 Expiry- 31/12/2024
3	DOSHS Workplace Certificate.	<b>Changamwe</b> - Certificate No. 0008190-02-24-R Expiry 20/01/2025  <b>Port Reitz</b> - Certificate No. 0008192-02-24-R Expiry 20/01/2025
4	Fire Equipment Inspection by Mombasa County	Inspection done on 06/12/2023.  Certificate Ref No ARN-AAA00IV2- Changamwe Dated 05 <sup>th</sup> March 2024, expiry February 2025  REF No. ARN-AAA03UK3- Port Reitz Dated 23 <sup>rd</sup> January 2024, expiry January 2025
5	Business License by EPRA	Storage of Petroleum Products Except LPG License No. EPRA/PET/5837 Expiry 18/07/2024(Renewal done awaiting license)  Storage of LPG in Bulk License No. EPRA/LPG/8704 Expiry 18/12/2024
6	Annual County Government Business licence.	PORT REITZ Permit No ARN-AAA03UK3 Date of Issue: 04/02/2024 Expiry: 31/12/2024  CHANGAMWE Permit No. ARN-AAA00IV2 Date of Issue; 23/01/2024 Expiry: 31/12/2024

**11. Management Discussion and Analysis (continued)**

**FINANCIAL HIGHLIGHTS**

**Statement of Comprehensive Income for the period ended 30<sup>th</sup> June, 2024**

**Revenue**

During the year ended 30<sup>th</sup> June, 2024 KPRL continued to operate under the KPC- KPRL lease arrangement. The lease agreement provides for recovery of KPRL operating and finance expenses 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 and associated equipment for both plants. The budget for FY2023/24 was approved by the National Treasury on 25<sup>th</sup> July, 2023.

Lease recoveries for the year were Kshs 1.654bn against planned recoveries of Kshs 1.857bn, representing 89% utilization.

**Operating Expenses**

Total operating expenses are made up of staff costs, use of goods and services, depreciation and finance costs. Total operating costs were Kshs 2.082bn against plan of KShs 2.095bn representing 99 % utilization.

Included in the operating expenses is a provision for impairment of Kshs 1.567bn which is made up of Kshs 759M for redundant refining assets and Kshs 807M relating to spares for the refining plant and equipment.

**Finance Costs**

Included in finance costs is reversal for previous years provision for interest on Dead Stock amounting to Kshs1.331bn relating to the Yield Shift legacy matter which is being resolved as guided by GoK.

**Loss after Tax and Other Comprehensive Income (OCI)**

The loss after tax and other comprehensive income for the year ended 30<sup>th</sup> June, 2024 was Kshs 91M against planned loss of Kshs 147M. The improved loss is mainly due to unrealized forex gains of KSh 237M compared to unrealized losses of KSh 495M for the year ended 30<sup>th</sup> June, 2023 arising from revaluation of USD denominated transactions. During the year ended 30<sup>th</sup> June, 2024, the Kshs strengthened against the USD from 140.52 Kshs per USD in July 2023 to 129.53 Kshs per USD at the end of June, 2024.

Also the lease arrangement does not provide for recovery of provision for interest on toll dead stocks and depreciation expense on the defunct refining plant, captive power plant and associated equipment for both plants (Kshs 117M).

**11. Management Discussion and Analysis (continued)**

**FINANCIAL HIGHLIGHTS**

**Statement of Financial Position as at 30<sup>th</sup> June, 2024**

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 30<sup>th</sup> June, 2024 was Kshs 1.701bn compared to Kshs 2.67bn at the beginning of the financial year. Detailed breakdown of property, plant and equipment is shown in note 15 to the financial statements. The decline in net book value of the assets is due to provision for depreciation. A provision has been made for impairment of the defunct refining plant, and associated equipment of Kshs. 759M. KPRL stopped refining operations with effect from 4<sup>th</sup> September, 2013.

Following the conversion of the Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme with effect from 1<sup>st</sup> January, 2017, the company's share of surplus was transferred to the DC pension fund to be invested in the DC Pension fund. 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 30<sup>th</sup> June, 2024 was Kshs 923M compared to Kshs 845M at the beginning of the financial year. In line with RBA rules and regulations, the Board of the Sponsor (KPRL) passed a resolution to meet any contingent liabilities that may arise in future, which shall be covered by a component of the sponsors investment of Kshs 923M in the DC fund.

**Deferred Tax Asset**

As at 30<sup>th</sup> June, 2024, the deferred tax asset was Kshs 256M. 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 1<sup>st</sup> January 2022, thus enabling KPRL to recognise deferred tax asset from previous years.

**Current Assets**

As at 30<sup>th</sup> June, 2024, total value of current assets was Kshs 1.698bn, made up of inventories totaling Kshs 319M made up of crude & finished products inventories Kshs 305M, plant & equipment spares & other consumables Kshs 14M, trade & other receivables Kshs 415M, tax recoverable Kshs 910M, and bank & cash balances Kshs 54M. Detailed analyses of the Inventories and the trade & other receivables are shown in notes 20,21 and 22 of the financial statements. A provision of Kshs 807M has been made in respect to spares relating to the Refining Plant.

**11. Management Discussion and Analysis (continued)**

**FINANCIAL HIGHLIGHTS**

**Current Liabilities**

As at 30<sup>th</sup> June, 2024 total current liabilities were Kshs 4.189bn made up of borrowings Kshs 1.77bn, short term loans from GoK Kshs 1.63bn, cash advance from KPC Kshs 323M, trade & other payables Kshs 436M. Detailed analysis of the borrowings, trade and other payables are shown in notes 28-34 to the financial statements.

The current liabilities (Kshs 4.189bn) exceed current assets (Kshs 1.698bn) by Kshs 2.491bn due to outstanding short-term loans from GoK, KPC advance, bank overdrafts 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 recoveries from KPC as provided for in the lease agreement. Full restructuring of the CPP term loan to a maximum tenor of 3 years and settlement of the bank overdrafts is under negotiation pending recall of the sponsor surplus invested in the KPR DC Pension fund.

**STATEMENT OF CASH FLOWS**

The statement of cash flows is shown on page 4.

**Cash generated from operations**

The net cash used in operating activities for the year was Kshs 1.014bn.

**Cash flow from investing activities**

As per terms of the lease agreement between KPRL and KPC, Capital Expenditure incurred by KPC for the upgradation of KPRL assets is KPC 's cost of investment in KPC books. Thus, KPRL has not incurred any Capital Expenditure for the period ended 30<sup>th</sup> June, 2024.

**Financing activities**

The net cash applied in financing activities was Kshs 1.186bn. This amount is made up of cash advance of Kshs 161M received from KPC, partial principal loan repayment of Kshs 44M towards captive power plant term loan, interest paid on outstanding bank loans Kshs 262M and reversal of provision for interest on dead stock Kshs 1.331bn. Full restructuring of the CPP term loan to a maximum tenor of 3 years and settlement of the bank overdrafts is under negotiation pending recall of the sponsor surplus invested in the KPR DC Pension fund.

**Net increase in cash and cash equivalents**

The net increase in cash and cash equivalents was Kshs 83M. The closing deficit of cash and cash equivalents as at 30<sup>th</sup> June, 2024 was Kshs 637M as detailed in note 23 and 28 of the Financial Statements. The closing deficit cash and cash equivalents as at 30<sup>th</sup> June, 2024 of Kshs 637,289,136/- is made up of Bank and cash balances Kshs 53,531,100/- as shown in note 23 and bank overdrafts as detailed in note 28 comprising: CBA Kshs 351,614,745/- Citibank Kshs 132,789,449/- & Citibank USD facility equivalent Kshs 206,416,042/-

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**11. Management Discussion and Analysis (continued)**

**COMMERCIAL HIGHLIGHTS**

As per the terms of the KPRL-KPC lease agreement, KPC is operating the entire KPRL tank storage capacity. Following the implementation of the Lease Agreement, more volumes are expected to be handled through the KPRL facility since Oil Marketing Companies (OMCs) can access products easily through the Global Entitlement Program (GEP). The optimal tank turnaround factor is 1.4 translating to monthly volume of 196,000M3.

The actual volume of products handled (July 2023 to June 2024) is shown below on Table 10.

Product receipts into KPRL tanks were marginally lower than the budgeted volumes.

**Table 10**

THRUPUT	Quarter 1 Actual	Quarter 2 Actual	Quarter 3 Actual	Quarter 4 Actual	YTD Actual	FY2023/24 Budget
Receipts into KPRL (M3) @ USD 3.74/M3	265,518	437,117	376,528	632,584	1,711,748	1,534,400
LPG Receipts (MT)@USD25/MT	1,564	1,510	1,413	899	5,386	30,000
Line Lease (MT)@USD3/M3	9,348	13,789	16,272	0	39,409	69,300
Line Lease - LPG (MT) @USD20/MT	1,261	889	1,513	506	4,169	12,360
Truck Loading @USD2.77/M3	72,101	88,809	93,525	34,016	288,451	584,388
FO receipts @USD5.77/M3	12,562	9,022	11,667	12,842	46,092	0
Pump-over Deliveries to SOT					-	94,500

11. Management Discussion and Analysis (continued)

Risk Management

The Risk Register for the KPRL top risk is reviewed periodically and the top departmental risks monitored on a quarterly basis to evaluate the status of various improvement action plans as documented and committed by the Risk Owners.

Table 11

Legend 1: Overall Risk Rating

	Low Risks		Medium Risks		High Risks		Extreme Risks
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No	Risk Name	Improvement Action Plans	Action Plans Status				Control Effectiveness	Remarks
			Q1	Q2	Q3	Q4		
1.	KPRL/KPC Integration	1. Monitoring and reporting on the acquisition process roadmap.	1	4	4	4		KPRL Acquisition was completed on 27 <sup>th</sup> October 2023 when the share transfer instruments were signed off upon approval by key government authorities and lenders. This included stake holders engagement.
		2. Develop and implement effective change management strategies	1	2	2	2		A roadmap to address post-acquisition activities was developed in December 2023 and presented to KPC Management. Implementation of the post-acquisition plan is imperative for KPC to realize the strategic objective of the acquisition. A cross-functional implementation committee was formed in Q2 composed of staff from KPC and KPRL to spearhead the implementation of the post-acquisition plan. The committee held its initial kick-off meeting from 29 <sup>th</sup> November to 1 <sup>st</sup> December 2023 in Kilifi. 3no. Sub committees were formed composed of staff from KPC and KPRL to spearhead the implementation of the post-Acquisition plan: <ul style="list-style-type: none"> <li>a. Finance</li> <li>b. Operations</li> <li>c. Governance</li> <li>a) Finance Committee Objective;</li> </ul>

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No	Risk Name	Improvement Action Plans	Action Plans Status				Control Effectiveness	Remarks
			Q1	Q2	Q3	Q4		
							<ul style="list-style-type: none"> <li>Consolidate accounts and financial statements</li> <li>Review revenue framework, billing &amp; invoicing</li> <li>Funding Mechanism development</li> <li>Tax implication</li> <li>Liabilities</li> </ul> <p>Last meeting held on 11<sup>th</sup> – 16<sup>th</sup> June 2024.</p> <p><b>b) Operations sub-committee objectives</b></p> <ul style="list-style-type: none"> <li>Review of policies and procedures (HSE, Engineering, Operations &amp; Projects Management)</li> <li>Vendor contract review</li> </ul> <p>Last meeting held on 18<sup>th</sup> – 22<sup>nd</sup> March 2024.</p> <p><b>c) Governance structure sub-committee objectives:</b></p> <ul style="list-style-type: none"> <li>Review of existing Governance framework</li> <li>Regulatory compliance audit</li> <li>Compliance legal reviews</li> <li>Litigation management</li> <li>Governance audit</li> </ul> <p>Last meeting held on 10<sup>th</sup> – 13<sup>th</sup> April 2024.</p>	
		3. Engagement between KPC and KPRL on governance structure	1	2	2	2	The steering committee held its last meeting on 15 <sup>th</sup> – 19 <sup>th</sup> April 2024.	
2.	Loss of property rights	1. Implement Court order on eviction in liaison with Ministry of Interior	2	2	2	2	Court order allowing eviction was secured on 12 March 2013. Over 153 families continue to occupy the 2 parcels of KPRL land due to political interference. Use of law-enforcement agencies is required to effectively implement the court orders.	
		2. Reinstate dysfunctional CCTV cameras.	1	2	2	2	There are 5No. CCTV that were dysfunctional. However, 2No. have been fixed and restored to normal operations in Q2. CCTV storage received, awaiting storage servers for the engineering team to fix the remaining 3No. CCTV before end of Q1 FY 2024/25	



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No	Risk Name	Improvement Action Plans	Action Plans Status				Control Effectiveness	Remarks
			Q1	Q2	Q3	Q4		
		3. Install perimeter masonry wall along Magongo road.	1	2	2	2		Project Concept Note (PCN) for the walling was found not to be viable. Instead dumpsites were evacuated and Centric boxes/guard houses were erected for the security personnel manning the area at night, day time patrols put in place. Regular clearing of fire breaks along magongo road and a three-meter clearing outside the fence.
3.	Ergonomic hazards	1. Carry out assessment on all manually operated equipment and recommend automation	1	1	1	2		The assessment was carried out internally and recommendations given to Management for consideration.
		2. System integration between LPG project and Yokogawa to enhance automation of manually operated valves.	1	2	2	2		KPRL is currently operating as a depot. The new equipment that are currently coming with the new projects are automated.
		3. Dismantle high risk equipment	2	2	2	2		Dismantling the equipment which poses a major risk to employees working at the plant area is one of the policy decisions to be made as part of post-acquisition process.
		4. Plan for decommissioning	1	1	1	1		Awaiting the decision by the government on the refining plant. In the meantime, plans are underway to put a chain link around the refining plant with sealed gates to restrict entry.
		5. Cordon off process plants by fencing	3	4	4	4		The process plant has since been condoned off. Entrance to the plant must be authorized by a permit from the ASI's (Authorized Safety Inspector)

Status of Action Plans – Legend

1. Intervention Required	Either action has not started yet/or at planning/ identification stage
2. Attention Received	Action has commenced and is below 50%, still requires significant work to complete
3. Finalize	Action is in progress above 50%, nearing finalization, and progress is on schedule.
4. Fully Implemented	Action is complete and is subject to continuous improvement

## **12. 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 4<sup>th</sup> September, 2013. The company's refining operations stopped on 4<sup>th</sup> 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 20<sup>th</sup> 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<sup>st</sup> June, 2017.

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

On 18<sup>th</sup> March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20<sup>th</sup> 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 20<sup>th</sup> June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed.

On 26<sup>th</sup> April, 2022 KPC engaged PwC as transaction advisor for the takeover of KPRL. The final draft due diligence report was delivered on 16<sup>th</sup> December, 2022. On 18<sup>th</sup> July 2023 the Cabinet considered and approved the acquisition of KPRL by KPC. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure.

On 18<sup>th</sup> July, 2023 the Cabinet considered and approved the acquisition of KPRL by KPC. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure. On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC.

**12. Environmental and Sustainability Reporting (continued)**

**Strategic Pillars**

Since 4<sup>th</sup> 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.

***ii) Environmental performance***

KPRL has a robust HSSE policy that ranks HSSE matters on equal terms with other strategic business objectives and 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.

Hazardous and non-hazardous wastes were disposed in accordance with applicable waste management regulations. In the year under review, KPRL implemented phase two and final on removal, transportation and disposal of asbestos off site as per National Guidelines on Safe Management and Disposal of Asbestos (2013). Reroofing was done on areas that were to be done.

As part of the environmental sustainability programs, improvement of biodiversity and in line with the Presidential directive on tree restoration drive which aims at restoring over 10million hectares of degraded land countrywide, KPRL Staff and contractors joined hands in tree planting exercises and managed to plant over eight hundred trees on site.

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**12. Environmental and Sustainability Reporting (continued)**

The **Table 12** below shows **Status of HSSE Audits**

<b>S/NO</b>	<b>AUDIT</b>	<b>REMARKS</b>
1	Fire Safety Audit	<ul style="list-style-type: none"> <li>The audit was done on 23<sup>rd</sup> to 25<sup>th</sup> January 2024.</li> <li>Final report submitted had no major findings.</li> <li>The next audit is scheduled for December 2024.</li> </ul>
2	Occupational Health and Safety Audit	<ul style="list-style-type: none"> <li>This was carried out on 28<sup>th</sup> and 29<sup>th</sup> May 2024. The final report was submitted with no major findings.</li> <li>Close out of the minor findings &amp; observations is ongoing.</li> <li>The next audit is scheduled for May 2025.</li> </ul>
3	ISO 14001:2015 Second Surveillance Audit	<ul style="list-style-type: none"> <li>Recertification Audit was done on 27<sup>th</sup> to 30<sup>th</sup> June 2023.</li> <li>The 1st Surveillance Audit by Bureau Veritas scheduled for 3<sup>rd</sup> and 4<sup>th</sup> July 2024.</li> </ul>
4	Air Quality Monitoring  Noise Survey	<ul style="list-style-type: none"> <li>This was done on 30<sup>th</sup> – 31<sup>st</sup> May 2024.</li> <li>All measured parameters were within permissible limits.</li> <li>The next Survey is scheduled for June 2025.</li> <li>Noise Survey carried out on 21<sup>st</sup> and 22<sup>nd</sup> June 2024.</li> <li>No exposure was noted as all parameters were within occupational noise level guidelines.</li> </ul>
5	Statutory Medical Examination	<ul style="list-style-type: none"> <li>The exposed staff were examined on 29<sup>th</sup> -30<sup>th</sup> April 2024.</li> <li>No occupational illness was reported.</li> <li>The next examination is scheduled for January 2025.</li> </ul>

**iii) Employee welfare**

KPRL aims to employ the optimum mix of talent, knowledge and skills required for its current and future operations. Observance of gender equality, ethnicity and other diversity aspects are key in the selection process. Established posts falling vacant will be as far as possible filled from within unless there is no suitable candidate in the organization in which case external recruitment will be adopted.

Skills improvement at KPRL is carried out via a comprehensive training programme which runs the course of the calendar year. The various departments in the course of their performance management procedures carry out a training needs analysis for their members whose results are combined to form a companywide programme which is managed by the Human Resources Department by way of an approved budget. The company has a reward programme that awards bonuses to employees who meet and surpass their targets on an annual basis.

**12. Environmental and Sustainability Reporting (*continued*)**

**iv) Market place practices-**

**a) Responsible competition practice.**

Since 20<sup>th</sup> 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 30<sup>th</sup> June, 2023 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 20<sup>th</sup> 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.

**v) Corporate Social Responsibility / Community Engagements**

KPRL carried out the following below activities during the year under review.

Donation of dry food stuff worth 49,833/- to support Port Reitz Integrated Secondary School.

KPRL staff participated in the Standard Chartered Marathon held in October, 2023. Participant were awarded medals and tree seedlings to plant back home.

KPRL carried out various tree planting activities during the year:

- 75 trees were planted at the truck parking site during a visit by the Parliamentary Committee on Energy to KPRL on 28th October, 2023
- 50 trees were planted at the LPG area to commemorate the National tree growing public holiday on 13th November, 2023
- 264 trees were donated to the Deputy County Commissioner, Changamwe to commemorate the National Tree growing day.

Due to the low budget allocation for CSR and the austerity measures announced by The National Treasury, expenditure on CSR was low during the year under review.

**13. Report of the Directors**

The Directors submit their report together with the unaudited financial statements for the year ended June 30, 2024, which show the state of the company's affairs.

**i) Principal activities**

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.

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.

**Status of Road Map Towards Full Integration of KPRL and KPC**

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC.

However, the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This arrangement is transitional until the transition towards full amalgamation of KPRL and KPC is completed.

**ii) Results**

The results of the company for the year ended June 30, 2024, are set out on page 1 to 5. Following is Table 13 showing a summary of the loss made during the year.

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**13. Report of the Directors (continued)**

**Table 13**

Description	Note	FY 2023/2024	FY 2022/2023
		Kshs	Kshs
TOTAL REVENUES	6,7,8	1,976,207,492	1,018,502,027
TOTAL OPERATING EXPENSES	9,10	2,082,740,706	1,653,423,511
LOSS BEFORE TAXATION	11	(106,533,214)	(634,921,485)
INCOME TAX EXPENSE/(CREDIT)	12	(15,409,311)	(170,421,273)
LOSS AFTER TAXATION		(91,123,903)	(464,500,212)
Earnings per share – basic and diluted	13	(2.5)	- 12.62
Dividend per share	14	0	0
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Loss after taxation</b>		(91,123,903)	(464,500,212)
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
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>

**iii) Dividends**

There were no dividends declared during the year as the company reported losses during the year.

**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**  
Name **COMPANY SECRETARY**  
Corporate Secretary **P/CPSB/796 P/CPSB/438**  
Date Sign.....

**14. 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, 2024. 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, 2024**

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**Statement of Directors' Responsibilities (Continued)**

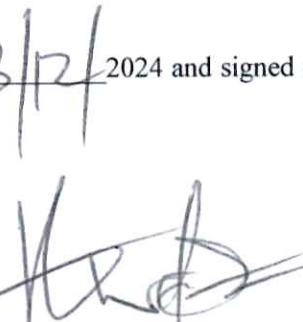
The Directors are of the opinion that the KPRL financial statements give a true and fair view of the state of company's transactions during the financial year ended June 30, 2024, and of the KPRL financial position as at that date. The Directors further confirm the completeness of the accounting records 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**

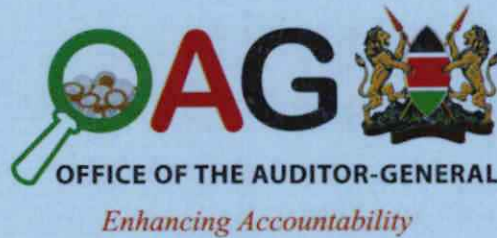
The KPRL financial statements were approved by the Board on 13/12 2024 and signed on its behalf by:

  
.....  
Name LILIAN MAHIRI-ZAJA  
Director

  
.....  
Name JOSEPH B. NDAHI  
Ag. Chief Executive Officer

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED FOR THE YEAR ENDED 30 JUNE, 2024**

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### **PREAMBLE**

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

- A. Report on 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 the 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, risk management environment and internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

A Qualified Opinion is issued when the Auditor-General concludes that, except for material misstatements noted, the financial statements are fairly presented in accordance with the applicable financial reporting framework. The Report on Financial Statements should be read together with the Report on Lawfulness and Effectiveness in the Use of Public Resources, and the Report on Effectiveness of Internal Controls, Risk Management and Governance.

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**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 1 to 59 which comprise of the statement of financial position as

at 30 June, 2024, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Petroleum Refineries Limited as at 30 June, 2024 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Undisclosed Material Uncertainty Relating to Going Concern**

During the year under review the Company recorded a loss of Kshs.91,123,903 (2023: loss of Kshs.464,500,212) which eroded its retained earnings by the same amount. Further, the Company's current liabilities of Kshs.4,189,427,269 exceeded its current assets of Kshs.1,698,362,678 by Kshs.2,491,064,591 which impacts on the Company's ability to meet short-term financial obligations. In addition, Management did not disclose the material uncertainties in the financial statements as required by the International Accounting Standard (IAS) 1 - Presentation of Financial Statements.

The Company is therefore insolvent, and its continued existence was dependent on the Government and creditors.

In the circumstances, the Company's ability to continue operating as a going concern could not be confirmed.

#### **2. Fully Depreciated Assets in Use**

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.1,701,498,502 as similarly disclosed in Note 15 to the financial statements. Review of an asset register provided in support of the balances revealed several assets with a cost value of Kshs.2,366,461,077 which were fully depreciated but were still in use. Additionally, intangible assets acquired at a cost of Kshs.214,905,548 which were still in use, had been fully amortized. However, Management did not review their useful life or make disclosures of the gross carrying amount of the assets in the financial statement as recommended by IAS 16 - Property Plant and Equipment.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.1,701,498,502 could not be confirmed.

### **3. Unreconciled Related Entities Balances**

The statement of profit or loss and other comprehensive income reflects a balance of Kshs.1,738,424,721 in respect of other income which as disclosed in Note 7 to the financial statements, includes Kenya Pipeline Company Limited (KPC) lease recoveries of Kshs.1,653,784,578. However, a confirmation of the amount from records of KPC revealed reimbursements totaling Kshs.1,813,920,323 resulting in an unexplained variance of Kshs.160,135,745. A reconciliation provided for the difference indicated that KPC paid a total of Kshs.74,795,215 directly to suppliers on behalf of KPRL. However, the amount was not included in the expenditures of the Company.

In the circumstances, the accuracy and completeness of KPC Lease recoveries amounting to Kshs.1,653,784,578 could not be confirmed.

### **4. Long Outstanding Trade Receivables**

The statement of financial position reflects trade and other receivables balance of Kshs.415,324,151. As disclosed in Note 21 to the financial statements, the balance comprised of gross trade and other receivables less provision of bad and doubtful debt of Kshs.568,194,144 and Kshs.152,869,993 respectively. Review of an ageing analysis provided in support of the receivables revealed an amount of Kshs.165,592,876 which had been outstanding for over 120 days. Included in the amount is Kshs.85,210,525 in respect of inactive Oil Marketing Companies (OMCs) and Kshs.61,705,051 in respect of prepaid costs for a Liquefied Petroleum Gas (LPG) project which did not materialize, and whose recoverability was doubtful.

In the circumstances, the accuracy and completeness of the Kshs.165,592,876 included in trade receivables could not be ascertained.

### **5. Inaccuracies in Captive Power Plant Loan Balance**

The statement of assets and liabilities reflects borrowings balance of Kshs.1,770,356,056. As disclosed in Note 28 to the financial statements, the balance includes a dollar denominated loan used in financing a Captive Power Plant (CPP) of Kshs.1,079,535,819 (USD8,334,446.25) obtained from ABSA bank (previously Barclays Bank). However, a confirmation certificate from the Bank reflected a balance of USD8,420,978.05 resulting in unreconciled variance of USD86,531.08 equivalent to Kshs.11,208,204.

In the circumstances, the accuracy and completeness of borrowings balance of Kshs.1,770,356,056 could not be confirmed.

### **6. Crude and finished products stocks**

The statement of financial position reflects inventories valued at Kshs.319,546,164. Included in the balance as detailed in Note 20 to the financial statements are crude and finished products stocks valued at Kshs.305,694,169. However, despite provision of an individual item balances, there was no evidence of stock taking done during the year to confirm the balances or a confirmation from Kenya Pipeline Company (KPC) on quantities

and valuation of stocks held on behalf of KPRL. Further the basis for valuation of the crude and finished product inventories was not provided for review.

In the circumstances, the accuracy and completeness of inventories balance of Kshs.319,546,164 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 qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **Unresolved Prior Year Issues**

In the audit of the previous year, several matters were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal controls, Risk Management and Governance. However, although Management has indicated as having resolved and process on going, those matters in appendix 1 to the financial statements, no evidence was provided to support that status.

### **Other Information**

The Directors are responsible for the other information set out on page iv to xviii which comprise of Key Entity Information, The Board of Directors, Key Management Team, Fiduciary Management, Fiduciary Oversight Arrangements, Chairman's Statement, Report of the Chief Executive Officer, Statement of Performance Against Predetermined Objectives, Corporate Governance Statement, Management Discussion and Analysis, Environmental and Sustainability Reporting, Report of Directors and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my audit report 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.

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.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the Use of Public Resources section of my report, I confirm that nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Employees Acting for More than Six Months**

Review of human resource records revealed that five (5) employees were appointed in acting capacity for a period of more than 6 months contrary to the Head of Public Service circular dated 11 March, 2020, which provides that acting positions should be for a maximum period of 6 months. Some of the appointees had been serving in acting capacity roles for periods exceeding thirty (30) months.

In addition, the records indicated that the Chief Executive Officer (CEO) was appointed in acting capacity on 4 October, 2019 for an initial twelve (12) months and has held the position in acting capacity for over four (4) years. Further, the Board of Directors has since been extending the acting CEO tenure for twelve months rolling period.

In the circumstances, Management was in breach of public service policies and guidelines.

#### **2. Unprocedural Secondment of an Employee**

During the year under review, the Company's Chief Operating Officer was seconded to the State Department of Petroleum with effect from April, 2023 for an additional period of 2 years. This is despite the officer having exhausted the maximum allowable secondment period of 6 years, having been seconded to the State Department since July, 2017, contrary Section B.33 of Human Resource Policies and Procedures Manual for the Public Service 2016 which provides that Secondment of officers from the Public Service to other organizations is applicable to pensionable officers, for a period not exceeding three (3) years and may be renewable once.

Management in correspondence with the State Department of Petroleum on 6 April, 2024 indicated being aware of Regulations governing secondment of public officers but went ahead and released the officer. Further, the Public Service Commission approval for the secondment was not provided for audit review.

In the circumstances, Management was in breach of public service policies and guidelines.

### **3. Unutilized Residential Buildings**

During the year under review, six (6) out of seven (7) leasehold properties owned by the Company were not commercialized despite the Board granting an approval for commercialization of the houses in 2016. No explanation was provided on why the six houses had not been leased out despite their prime location. Further, the Company continued to incur recurrent utility costs relating to the facility like water, electricity and security charges further increasing the losses.

In the circumstances, the effectiveness in use of the assets and value for money incurred in maintaining the assets could not be ascertained.

### **4. Non-Implementation of E-Procurement Requirements**

During the year under review, the Management procured goods, works and services for Company operations as was provided in the procurement plan. However, the procurements were not done through an e-procurement platform as required in Regulation 49(2) of the Public Procurement and Assets Disposal Regulations, 2020 and The National Treasury circular.

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

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require 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 comply 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, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **1. Non-Compliance with Mwongozo Code of Governance**

Review of Board composition and activities during the year revealed several anomalies as follows:

- i. Biodata of Directors provided for audit reflected that the Board of KRPL did not have a Director with financial expertise as required in Mwongozo Code of Governance for State Corporation guidelines. The guidelines require at least one Director to possess necessary qualifications and expertise in financial management or accounting and be a bona fide member of a profession body regulating the accountancy profession, and in compliance with the requirements thereof.
- ii. During the year under review, the Board was not fully constituted as it had only (5) Directors against the requirements of Mwongozo guidelines and the State Corporations Act which sets the minimum number of members to a board in a state corporation to be seven (7). Consequently, the Board could not achieve the required quorum for full Board meetings, which limited its ability to discharge its mandate.
- iii. Two (2) Directors had served in the Board for over seven years while one (1) Director had served for 10 years. This was contrary to Mwongozo code of governance for state corporation which provide that board members should not serve for more than six (6) consecutive years.

In the circumstances, the composition of the Board of Directors was not in line with the guidelines. Further, weak corporate governance may impact negatively on the reputation and financial performance of the Company.

## **2. Lack of a Strategic Plan**

During the year under review, the Company did not have a strategic plan, with the previous one having expired in 2013. In its place, Management formulated five (5) strategic pillars and objectives to guide its operations. Lack of a strategic plan is contrary to Section 68 (2) (g) of the Public Finance Management Act, 2012 which provides that an Accounting Officer shall prepare a Strategic Plan for the entity in conformity with the medium-term fiscal framework and fiscal policy objectives of the National Government.

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

## **3. Lack of a Functional Internal Audit Department**

During the year under review, the internal audit department had two officers with one acting as Chief Manager Audit. However, the staff establishment did not have the position of a Chief Manager Audit and thus the officer was acting in a nonexistent position. The officer acted on the position up to his retirement in February, 2024, leaving the department with only one officer.

In the circumstances, the ability of the Company's Internal Audit Function to perform its responsibilities could not be ascertained.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk Management and overall governance

were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

### **Responsibilities of Management and the Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and 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 going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

The Board of Directors is responsible for overseeing the 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**

My responsibility is to conduct an audit of the financial statements in accordance with Article 229(4) of the Constitution, Section 35 of the Public Audit Act, 2015 and the International Standards for Supreme Audit Institutions (ISSAIs). The standards require that, in conducting the audit, I obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error and to issue an auditor's report that includes my opinion in accordance with Section 48 of the Public Audit Act, 2015. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with IFPP will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not 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 addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

Further, I am required to submit the audit report in accordance with Article 229(7) of the Constitution.

Detailed description of my responsibilities for the audit is located at the Office of the Auditor-General's website at: <https://www.oagkenya.go.ke/auditor-generals-responsibilities-for-audit/>. This description forms part of my auditor's report.

  
FCPA Nancy Gathungu, CBS  
**AUDITOR-GENERAL**

**Nairobi**

**27 December, 2024**

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**16. Statement of Profit/Loss & Other Comprehensive Income for year ended 30<sup>th</sup> June 2024.**


	Note	FY 2023/2024	FY 2022/2023
		Kshs	Kshs
<b>REVENUES</b>			
Finance income	6	16,080	656,103
Other Income	7	1,738,424,721	1,512,626,116
Other gains/(losses)	8	237,766,691	(494,780,192)
<b>TOTAL REVENUES</b>		<b>1,976,207,492</b>	<b>1,018,502,027</b>
<b>OPERATING EXPENSES</b>			
Administration Costs	9	3,151,759,849	1,334,840,553
Finance Costs	10	(1,069,019,143)	318,582,958
<b>TOTAL OPERATING EXPENSES</b>		<b>2,082,740,706</b>	<b>1,653,423,512</b>
<b>PROFIT/(LOSS) BEFORE TAXATION</b>	11	<b>(106,533,214)</b>	<b>(634,921,485)</b>
<b>INCOME TAX EXPENSE/(CREDIT)</b>	12	<b>(15,409,311)</b>	<b>(170,421,273)</b>
<b>PROFIT/(LOSS) AFTER TAXATION</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>
Earnings per share – basic and diluted	13	(2.5)	(13)
Dividend per share	14	0	0
<b>OTHER COMPREHENSIVE INCOME</b>			
<b>Profit/ (Loss) after taxation</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>
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
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(91,123,903)</b>	<b>(464,500,212)</b>

**Kenya Petroleum Refineries Limited**  
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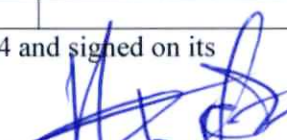
**17. Statement of Financial Position as at 30 June 2024**

	Note	FY 2023/2024	FY 2022/2023
		Kshs	Kshs
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	15	1,701,498,502	2,669,510,952
Prepaid operating lease rentals	16	6,013,191	6,181,358
Investments -KPRL Pension Trust ltd	17	10,000,000	10,000,000
KPRL Investment in DC Pension Fund	18	922,669,022	844,681,230
Deferred Tax Asset	19	256,334,435	197,832,231
<b>Total Non-Current Assets</b>		<b>2,896,515,150</b>	<b>3,728,205,771</b>
<b>Current Assets</b>			
Inventories	20	319,546,164	1,125,949,941
Trade and other receivables	21	415,324,151	336,797,609
Tax recoverable	22	909,961,264	832,788,256
Bank and cash balances	23	53,531,100	5,427,978
<b>Total Current Assets</b>		<b>1,698,362,678</b>	<b>2,300,963,784</b>
<b>Total Assets</b>		<b>4,594,877,828</b>	<b>6,029,169,555</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Ordinary share capital	24	736,000,000	736,000,000
Share Premium		144,000,000	144,000,000
Retained earnings	27	(474,549,442)	(383,425,539)
<b>Capital and Reserves</b>		<b>405,450,558</b>	<b>496,574,461</b>
<b>Non-Current Liabilities</b>			
Deferred tax liability		0	0
<b>Total Non-Current Liabilities</b>		<b>0</b>	<b>0</b>
<b>Current Liabilities</b>			
Borrowings (CPP & Overdraft)	28	1,770,356,056	1,939,201,651
Short Term Loans From GoK	29	1,634,945,444	1,634,945,444
Cash Advances- KPC	30	323,100,558	162,000,000
Trade and other payables	31	436,276,722	1,771,664,383
KPRL Pension Trust Ltd	33	10,000,000	10,000,000
Provision for leave pay	34	14,748,489	14,783,615
<b>Total Current Liabilities</b>		<b>4,189,427,269</b>	<b>5,532,595,094</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,594,877,828</b>	<b>6,029,169,555</b>

The financial statements were approved by the Board on 13/12/2024 and signed on its behalf by:

  
Name: LILIAN MAHIRI  
Director - ZAJA

  
Name: Joseph B Ndohi  
Acting Chief Executive Officer

  
Name: Joseph B Ndohi  
Chief Finance Officer  
ICPAK M/NO: 3749

**Kenya Petroleum Refineries Limited**  
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**18. Statement of Changes in Equity for the year ended 30 June 2024**

	Ordinary share capital +Share Premium Kshs	Revaluation reserve Kshs	Retained earnings Kshs	Proposed dividends Kshs	Capital Development Grants/Fund Kshs	Total Kshs
<b>At July 1, 2022</b>	<b>880,000,000</b>	-	<b>81,074,673</b>	-	-	<b>961,074,673</b>
Issue of new share capital	-	-	-	-	-	-
Total comprehensive income	-	-	(464,500,212)	-	-	(464,500,212)
Capital/Development grants received during the year	-	-	-	-	-	-
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-
Interim dividends paid – 2022	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-
<b>At June, 2023</b>	<b>880,000,000</b>	-	<b>(383,425,539)</b>	-	-	<b>496,574,461</b>
		-		-	-	
<b>At July 1, 2023</b>	<b>880,000,000</b>	-	<b>(383,425,539)</b>	-	-	<b>496,574,461</b>
Issue of new share capital	-	-	-	-	-	-
Total comprehensive income	-	-	(91,123,903)	-	-	(91,123,903)
Capital/Development grants received during the year	-	-	-	-	-	-
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-
Interim dividends paid – 2023	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-
<b>At 30th June, 2024</b>	<b>880,000,000</b>	-	<b>(474,549,442)</b>	-	-	<b>405,450,558</b>

**Kenya Petroleum Refineries Limited**  
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**19. Statement of Cash Flows for the year ended 30 June 2024**

	Note	FY 2023/2024	FY 2022/2023
		Shs	Shs
<b>OPERATING ACTIVITIES</b>			
<b>Cash generated from/(used in) operations</b>	35	175,272,911	(163,127,622)
Interest received		(16,080)	(656,103)
Interest paid		261,973,762	208,947,072
Provision for Interest on dead stock		(1,330,992,905)	109,635,886
Taxation paid		(120,265,901)	(151,619,873)
<b>Net cash generated from/(used in) operating activities</b>		<b>(1,014,028,213)</b>	<b>3,179,360</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of Fixed Assets		841,150	0
		0	0
<b>Net cash generated from/(used in) investing activities</b>		<b>841,150</b>	<b>0</b>
<b>FINANCING ACTIVITIES</b>			
Cash Advance from KPC		161,100,558	82,000,000
Repayment of borrowings	28	(43,897,374)	(57,292,525)
Interest received	6	16,080	656,103
Interest paid	10	(261,973,762)	(208,947,072)
Provision for Interest on dead stock	10	1,330,992,905	(109,635,886)
<b>Net cash generated from/(used in) financing activities</b>		<b>1,186,238,407</b>	<b>(293,219,380)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>173,051,344</b>	<b>(290,040,020)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>		<b>(719,926,102)</b>	<b>(630,435,453)</b>
Effects of foreign exchanges rate fluctuations		(90,414,377)	200,549,370
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>		<b>(637,289,136)</b>	<b>(719,926,102)</b>

*Note: The closing deficit cash and cash equivalents as at 30<sup>th</sup> June, 2024 of Kshs 637,289,136/- is made up of Bank and cash balances Kshs 53,531,100/- as shown in note 23 and bank overdrafts as detailed in note 28 comprising: CBA Kshs 351,614,745/- Citibank Kshs 132,789,449/- & Citibank USD facility equivalent Kshs 206,416,042/-*

**Kenya Petroleum Refineries Limited**  
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**20. Statement of Comparison of Budget & Actual amounts for the period ended 30 June 2024**

	Final Budget	Year to date Budget	Adjustments	Final Year to date Budget	Actual on comparable basis	Performance difference	% utilisation	Remarks
	FY 2023/2024	a	b	c=a+b	e	F=c-e		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
<b>Revenue</b>								
KPC Lease recoveries	1,856,609,472	1,856,609,472	0	1,856,609,472	1,653,784,578	(202,824,894)	-89%	Lease recoveries lower than plan due to lower operating expenses driven by austerity measures
Other Operating Income	90,625,584	90,625,584	0	90,625,584	84,640,143	(5,985,441)	-93%	Lower than budgeted accrued Investment Income on Sponsor DB actuarial surplus invested in the DC Pension fund.
Finance Income	0	0	0	0	16,080	16,080	100%	Interest on Staff advances
Other gains/(Losses)	0	0	0	0	237,766,691	237,766,691	100%	Unrealised exchange gains on foreign currency denominated transactions caused by strengthening of the Ksh against the USD
<b>Total Revenue</b>	<b>1,947,235,056</b>	<b>1,947,235,056</b>	<b>0</b>	<b>1,947,235,056</b>	<b>1,976,207,492</b>	<b>28,972,436</b>	<b>-101%</b>	
<b>Operating Expenses</b>								
Compensation of Employees	489,293,736	489,293,736	0	489,293,736	447,744,823	41,548,913	92%	
Use of goods and services	1,013,457,545	1,013,457,545	0	1,013,457,545	928,526,534	84,931,011	92%	Operating expenses lower than plan due to austerity measures
Depreciation and Ammortisation	207,768,768	207,768,768	0	207,768,768	208,573,845	(805,077)	100%	
Finance Costs	384,393,200	384,393,200	0	384,393,200	(1,069,019,143)	1,453,412,343	-278%	Included in finance costs is reversal for provision for interest on dead stock amounting to Kshs 1.331bn relating to the Yield Shift Legacy matter.
Provision for Impairment of Redundant Assets	0	0	0	0	1,566,914,647	(1,566,914,647)	-100%	The provision is in respect of the redundant refining assets.
<b>Total expenditure</b>	<b>2,094,913,248</b>	<b>2,094,913,248</b>	<b>0</b>	<b>2,094,913,248</b>	<b>2,082,740,706</b>	<b>12,172,542</b>	<b>99%</b>	
<b>Surplus/(Deficit) for the period</b>	<b>(147,678,192)</b>	<b>(147,678,192)</b>	<b>0</b>	<b>(147,678,192)</b>	<b>(106,533,214)</b>	<b>41,144,978</b>	<b>72%</b>	Improved loss than budget due to unrealised forex gains
<b>Capital Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		

## **21. 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 24<sup>th</sup> 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.

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC.

### **Vision**

To be the number one supplier of integrated energy.

### **Mission**

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

### **Principal Activities**

The company's principal business activity is to refine crude oil into various petroleum products for sale to the oil marketing companies in Kenya. The company's business changed from 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 12<sup>th</sup> 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 4<sup>th</sup> 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 11<sup>th</sup> 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 20<sup>th</sup> 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<sup>st</sup> June, 2017.

## **21. Notes to the Financial Statements**

### **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 18<sup>th</sup> March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20<sup>th</sup> 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 20<sup>th</sup> June, 2021. On 26<sup>th</sup> April 2022, KPC engaged PwC as transaction advisor for the takeover of KPRL. The consultant delivered the final draft report to KPC on 16<sup>th</sup> December, 2022.

On 18<sup>th</sup> July, 2023 the Cabinet considered and approved the acquisition of KPRL by KPC. According to GoK, this State intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure.

On 27<sup>th</sup> October 2023, GoK through The National Treasury (TNT) & Economic Planning transferred its 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC. During FY 2023/24 the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This lease agreement is a transitional arrangement until the transition towards full integration of KPRL and KPC is completed.

Consequently on 4<sup>th</sup> October, 2024 and 6<sup>th</sup> November, 2024, both KPC and KPRL respectively passed board resolutions to extend the lease agreement until the implementation of the post acquisition integration plan is completed. Thus, KPRL operations and financial obligations are funded by the Shareholder (KPC) through the lease agreement.

**Notes to the Financial Statements (Continued)**

**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 34. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the company, and all values are rounded off to the nearest Kenya shillings. The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

**Kenya Petroleum Refineries Limited**  
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**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 and effective in the year ended 30 June 2024.***

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
Amendments to IAS 1 titled Classification of Liabilities as Current or Noncurrent (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, 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, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier 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, 2024**

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**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 2024.*

<b>Title</b>	<b>Description</b>	<b>Effective Date</b>
IFRS 18 Presentation and Disclosure in Financial statements	The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.	The new standard is effective for annual periods beginning on or after January 1, 2027. Earlier application 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 Entity did not early – adopt any new or amended standards in the financial year.

**Notes to the Financial Statements (Continued)**

**4. Summary of 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 company 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.

**Notes to the Financial Statements (Continued)**

**Summary of 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. KPRL assets are held at Historical cost. On 27<sup>th</sup> October, 2023 GoK through The National Treasury (TNT) & Economic Planning transferred it's 100% shareholding in KPRL to KPC. Consequently, KPRL became a wholly owned subsidiary of KPC. KPRL is now in the process of aligning the Fixed Asset Policy to adopt the KPC Assets Policy.

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.

**Notes to the Financial Statements (Continued)**

**Summary of 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, furniture and fittings	5-10 years

A full year's depreciation charge is recognised both 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.

**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.

**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. These bonds are measured at amortized cost/ at fair value through other comprehensive income (FVTOCI) or at fair value through profit or loss (FVTPL).

**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 through profit or loss (FVTPL).

**k) Unquoted investments**

Unquoted investments are measured at fair value through profit or loss (FVTPL). 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 30<sup>th</sup> June, 2024. The subsidiary thus did not contribute to the group's revenue and profit before tax for the period ended 30<sup>th</sup> June, 2024.

**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 amortized cost 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.

**Notes to the Financial Statements (Continued)**

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

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

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. 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

**Notes to the Financial Statements (Continued)**

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.

**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.

**Notes to the Financial Statements (Continued)**

**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 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 company or not, less any payments made to the suppliers.

**t) Retirement benefit obligations**

The company operates a defined contribution scheme for all fulltime employees from January 1st , 2017. The scheme is administered by a Fund Administrator 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.2,160/- per employee per month..

**u) Provision for staff leave pay**

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

**v) Exchange rate differences**

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

**Notes to the Financial Statements (Continued)**

**Summary of Accounting Policies**

**w) Budget information**

The original budget for FY 2023/2024 was approved by the National Assembly on 25<sup>th</sup> July, 2023. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, there were no additional appropriations during the year.

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

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 20 of these financial statements.

**x) Service concession arrangements**

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

**Notes to the Financial Statements (Continued)**

**Summary of Accounting Policies**

**y) Comparative figures**

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

**z) 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, 2024.

**5. Significant Judgments and Sources of Estimation Uncertainty**

The preparation of the KPRL 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.

**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.

**Notes to the Financial Statements (Continued)**

**Summary of Accounting Policies**

**Going Concern Status of KPRL**

The going concern principle is the assumption that an entity will remain in business for the foreseeable future. While the lease agreement was a transitional arrangement, the acquisition of KPRL by KPC on 27<sup>th</sup> October, 2023 has significantly addressed the uncertainty about the going concern status of KPRL. Government of Kenya (GoK) intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure.

The current liabilities (Kshs 4.189bn) exceed current assets (Kshs 1.698bn) by Kshs 2.491bn due to outstanding short-term loans from GoK, KPC advance, bank overdrafts 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 recoveries from KPC as provided for in the lease agreement.

Both the Shareholder (KPC) and KPRL boards approved the restructuring of the outstanding bank loans. The CPP term loan will be restructured to a maximum tenor of 3 years. The process for settling bank overdrafts is under negotiation pending recall of the sponsor surplus invested in the Kenya Petroleum Refinery Defined Contribution (KPR DC) Pension fund.

This process of restructuring and or settlement of the outstanding bank loans is ongoing and is expected to be concluded before 30th June, 2025.

During FY 2023/24 the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This lease agreement is a transitional arrangement until the transition towards full integration of KPRL and KPC is completed. Consequently on 4<sup>th</sup> October, 2024 and 6<sup>th</sup> November, 2024, both KPC and KPRL respectively passed board resolutions to extend the lease agreement until the implementation of the post acquisition integration plan is completed. Thus, KPRL operations and financial obligations are funded by the Shareholder (KPC) through the lease agreement.

**Notes to the Financial Statements (Continued)**

**Summary of Accounting Policies**

**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 34.

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.

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**Notes to the Financial Statements (Continues)**

**6. Finance Income**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Interest from commercial banks and financial institutions	0	607,260
Interest on staff loans	16,080	48,843
Dividends	0	0
<b>Total</b>	<b>16,080</b>	<b>656,103</b>

There were no short term deposits held in commercial banks during the period ended 30<sup>th</sup> June, 2024.

**7. Other Income**

<b>Other income</b>	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
*KPC lease recoveries	1,653,784,578	1,481,642,253
House Rent Recoveries	6,602,761	6,632,070
*Investment Income- KPRL investment in DC Pension fund	77,987,792	24,281,922
Other miscellaneous receipts	49,590	69,871
<b>Total</b>	<b>1,738,424,721</b>	<b>1,512,626,116</b>

\*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 actuarial 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 and funding any contingent liability arising in the future.

As per the Audited Accounts of the DC Fund for the year ended 30<sup>th</sup> June 2024, the investment in the DC Pension Fund registered investment income of Kshs. 78M compared to Kshs. 24M for the previous year.

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**Notes to the Financial Statements (Continued)**

**8. Other Gains and Losses**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Foreign exchange gains / (losses)	(579,664)	(37,131,269)
Unrealized foreign exchange gains/(losses)	237,505,205	(457,648,923)
Gain on sale of fixed assets	841,150	0
<b>Total</b>	<b>237,766,691</b>	<b>(494,780,192)</b>

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. The sale of Fixed assets relates to motor vehicles sold during the year.

**9. Administration Costs**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Staff costs - note 9 (a)	447,744,823	422,976,502
Electricity and water	135,683,897	122,514,814
Communication services and supplies	8,448,252	7,482,976
Transportation, travelling and subsistence	32,345,840	24,602,888
Advertising, printing, stationery and photocopying	4,399,461	4,977,447
Insurance costs	90,905,896	82,903,573
Security	39,986,100	35,964,826
Board expenses	15,101,013	11,399,750
Bank charges and commissions	806,709	831,339
Office and general supplies and services	6,057,795	4,789,418
Licenses	30,395,166	23,620,261
Property/ Land Rates	8,606,240	6,491,179
Auditors' remuneration	6,000,000	4,345,628
Legal fees	2,759,771	7,410,069
Consultancy fees	18,203,715	4,797,284
Repairs and maintenance	439,573,144	296,431,621
Materials costs	54,462,470	40,153,585
Occupational Health & Safety	4,940,761	8,376,842
Canteen Expenses	10,336,068	6,521,767
Staff training & Development	21,338,102	16,065,761
Other operating expenses	(1,823,868)	11,894,423
Provision for bad and doubtful debts	0	(23,215,119)
Provision for Impairment of Redundant Assets	1,566,914,647	0
Depreciation	208,405,678	213,291,172
Ammortisation	168,167	212,546
<b>Total</b>	<b>3,151,759,849</b>	<b>1,334,840,553</b>

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**Notes to the Financial Statements (Continued)**

**9(a) Staff Costs**

<b>Description</b>	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
	<b>Kshs</b>	<b>Kshs</b>
Salaries and allowances of permanent employees	333,225,729	328,544,758
Compulsory national social security schemes	2,074,679	789,440
Affordable housing levy	4,412,614	0
DC pension contributions	51,079,571	51,228,106
Leave pay and gratuity provisions	(35,126)	1,700,363
Performance Incentive	8,512,091	7,006,294
Staff welfare	12,354,358	3,570,461
Medical expenses	33,151,367	28,219,595
Long Service Awards	363,000	846,000
Grants amortisation adjustments	391,000	(22,162)
Recruitment	0	4,640
Pension Admin Expense	2,215,539	1,089,007
<b>Total</b>	<b>447,744,823</b>	<b>422,976,502</b>
<b>The number of employees at the end of the year was:</b>	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
Permanent employees – Management	87	89
Permanent employees – Unionisable	26	27
Temporary and contracted employees	0	0
<b>Total</b>	<b>113</b>	<b>116</b>

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**Notes to the Financial Statements (Continued)**

**10. Finance Costs**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Interest expense on loans	154,995,221	126,575,711
Interest expense on bank overdrafts	106,978,541	82,371,362
Provision for interest on dead stock	(1,330,992,905)	109,635,886
<b>Total</b>	<b>(1,069,019,143)</b>	<b>318,582,958</b>

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. Included in finance costs is reversal for previous years' provision for interest on Dead Stock amounting to Kshs1.331bn relating to the Yield Shift legacy matter which is being resolved as guided by GoK.

**11. Operating Profit/ (Loss)**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>The operating profit/(loss) is arrived at after charging/(crediting):</b>		
Staff costs (note 9a)	447,744,823	422,976,502
Depreciation of property, plant and equipment	208,405,678	213,291,172
Ammortisation of operating leasehold land	168,167	212,546
Provision for bad and doubtful debts	0	(23,215,119)
Gain on sale of Fixed Assets	(841,150)	0
Auditors' remuneration - current year fees	6,000,000	7,000,000
Net foreign exchange loss	(237,766,691)	494,780,192
Interest receivable	(16,080)	(656,103)
Interest payable	(1,069,019,143)	318,582,958
Rent receivable	(6,602,761)	(6,632,070)

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended June 30, 2024**

**Notes to the Financial Statements (Continued)**

**12. Income Tax Expense/(Credit)**

**(a) Income tax charge/ credit**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Current taxation based on the adjusted profit for the year at 30%	43,092,893	2,186,452
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	(58,502,204)	(172,607,725)
Prior year under-provision for deferred tax	0	0
<b>Total</b>	<b>(15,409,311)</b>	<b>(170,421,273)</b>

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

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Profit/(loss) before taxation	(106,533,214)	(634,921,485)
Tax at the applicable tax rate of 30%	(31,959,964)	(190,476,445)
Prior year under-provision	0	0
Tax effects of expenses not deductible for tax purposes	16,550,653	20,055,172
Effect of change in Tax rate	0	0
Tax effects of excess capital allowances over depreciation/amortization	0	0
Deferred tax prior year over-provision	0	0
<b>Total</b>	<b>(15,409,311)</b>	<b>(170,421,273)</b>

**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. 91,123,903) (2022/2023): (Kshs. 464,500,212) by the average number of ordinary shares in issue during the year of 36,800,000 (2022/2023): 36,800,000). There were not dilutive or potentially dilutive ordinary share as at the reporting date.

**14. Dividend per Share**

Proposed dividends are accounted for as a separate component of equity until they have been ratified and declared at the relevant Annual General Meeting (AGM).

There were no dividends proposed as the company has reported losses for the year ended 30<sup>th</sup> June, 2024.

**Kenya Petroleum Refineries Limited**  
**Annual Report and Financial Statements for the year ended 30<sup>th</sup> June 2024**

**Notes to the Financial Statements (Continued)**

**15. Property, Plant and Equipment**

Description	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office, Lab & other equipment	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Cost</b>								
<b>At July 1, 2023</b>	295,160	682,522,315	6,221,790,503	118,955,612	96,461,656	545,129,371	621,267,926	8,286,422,543
Additions	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-
Provision for impairment	-	(5,135,219)	(117,962,635)	-	-	(15,240,991)	(621,267,926)	(759,606,772)
Disposals	-	-	-	(5,295,841)	-	-	-	(5,295,841)
<b>At June 30, 2024</b>	<b>295,160</b>	<b>677,387,096</b>	<b>6,103,827,868</b>	<b>113,659,771</b>	<b>96,461,656</b>	<b>529,888,380</b>	<b>-</b>	<b>7,521,519,930</b>
<b>Depreciation</b>								
At July 1, 2023	-	559,438,057	4,373,523,454	118,616,612	94,689,448	470,644,021	-	5,616,911,591
Charge for the year	-	9,600,904	185,342,967	226,000	1,595,471	11,640,337	-	208,405,678
Impairment loss	-	-	-	-	-	-	-	-
Eliminated on disposal	-	-	-	(5,295,841)	-	-	-	(5,295,841)
<b>At June 30, 2024</b>	<b>-</b>	<b>569,038,961</b>	<b>4,558,866,422</b>	<b>113,546,770</b>	<b>96,284,918</b>	<b>482,284,357</b>	<b>-</b>	<b>5,820,021,428</b>
<b>Net book value at June 30, 2024</b>	<b>295,160</b>	<b>108,348,135</b>	<b>1,544,961,446</b>	<b>113,001</b>	<b>176,737</b>	<b>47,604,023</b>	<b>-</b>	<b>1,701,498,502</b>

*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 30<sup>th</sup> June 2024**

**15. Property, Plant and Equipment**

Description	Freehold land	Buildings & civil works	Plant and machinery	Motor vehicles, including, motor cycles	Computers & related equipment	Office, Lab & other equipment	Capital work in progress	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
<b>Cost</b>								
<b>At July 1, 2022</b>	295,160	682,522,315	6,221,790,503	118,955,612	96,461,656	545,129,371	621,267,926	8,286,422,543
Additions	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0
<b>At June 30, 2023</b>	<b>295,160</b>	<b>682,522,315</b>	<b>6,221,790,503</b>	<b>118,955,612</b>	<b>96,461,656</b>	<b>545,129,371</b>	<b>621,267,926</b>	<b>8,286,422,543</b>
<b>Depreciation</b>								
At July 1, 2022	0	549,663,873	4,184,123,701	118,339,024	92,490,597	459,003,223	0	5,403,620,418
Charge for the year	0	9,774,184	189,399,753	277,588	2,198,851	11,640,798	0	213,291,173
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
<b>At June 30, 2023</b>	<b>0</b>	<b>559,438,057</b>	<b>4,373,523,454</b>	<b>118,616,612</b>	<b>94,689,448</b>	<b>470,644,021</b>	<b>0</b>	<b>5,616,911,591</b>
<b>Net book value at June 30, 2023</b>	<b>295,160</b>	<b>123,084,258</b>	<b>1,848,267,049</b>	<b>339,001</b>	<b>1,772,208</b>	<b>74,485,350</b>	<b>621,267,926</b>	<b>2,669,510,952</b>

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

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

**Valuation**

KPRL freehold land, buildings and other assets are held at historical cost.

**Property, Plant and Equipment at Cost**

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

	<b>Cost</b>	<b>Normal annual depreciation charge</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Buildings & Civil works	279,051,490	12,186,846
Plant & machinery	1,560,789,436	70,306,073
Office, Lab & other equipment	321,800,784	20,694,744
Motor vehicles, including motor cycles	113,659,771	12,916,068
Computers and related equipment	91,159,596	13,286,554
	—————	—————
<b>Total as at 30th June 2024</b>	<b>2,366,461,077</b>	<b>129,390,286</b>
	=====	=====

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

**16. Right-of-use assets**

Description	Leasehold land Kshs
<b>COST</b>	
As at 1st July 2022	9,796,958
Additions	0
Disposals	0
<b>As at 30th June, 2023</b>	<b>9,796,958</b>
Additions	0
Disposals	0
<b>As at 30th June, 2024</b>	<b>9,796,958</b>
<b>AMORTISATION</b>	
As at 1st July 2022	3,403,054
Charge for the year	212,546
<b>As at 30th June, 2023</b>	<b>3,615,600</b>
Charge for the year	168,167
<b>As at 30th June, 2024</b>	<b>3,783,767</b>
<b>Carrying Amount</b>	
<b>As at 30th June, 2023</b>	<b>6,181,358</b>
<b>As at 30th June, 2024</b>	<b>6,013,191</b>

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

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**Notes To The Financial Statements (Continued)**

**17. Unquoted Investments – KPRL Pension Trust Ltd**

	FY 2023/2024	FY 2022/2023
	Kshs	Kshs
<b>COST</b>		
At July 1	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
	=====	=====
At end of year	<b>10,000,000</b>	<b>10,000,000</b>
	=====	=====
<b>IMPAIRMENT</b>		
At July 1	0	0
Disposals	0	0
Impairment loss in the year	0	0
	=====	=====
At end of year	<b>0</b>	<b>0</b>
	=====	=====
<b>NET BOOK VALUE</b>		
At end of year	<b>10,000,000</b>	<b>10,000,000</b>
	=====	=====

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 period ended 30<sup>th</sup> June, 2024.

The subsidiary thus did not contribute to the group's revenue and profit before tax for the period ended 30<sup>th</sup> June, 2024.

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			
Description	%	%	%	Kshs	Current year	Prior year
					Kshs	Kshs
Kenya Petroleum Refineries Pension Trust Ltd	100	0	100	10,000,000	10,000,000	10,000,000
	<b>100</b>	<b>0</b>	<b>100</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>10,000,000</b>

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

**18. KPRL Investment in the DC Pension Fund**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Shs</b>	<b>Shs</b>
Balance as at 1st July	844,681,230	820,399,307.7
Accrued investment income	77,987,792	24,281,922
<b>Balance</b>	<b>922,669,022</b>	<b>844,681,230</b>

Following the conversion of the Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme, the company's share of actuarial 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 the 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 share of actuarial surplus invested in the DC fund Kshs 923M (2022/23: 845M).

**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:

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Accelerated capital allowances	395,041,599	451,316,731
Unrealised exchange gains/(losses)	71,251,562	(137,294,677)
Provisions for liabilities and charges	(622,763,873)	(414,271,098)
Tax losses carried forward	(1,105,914,324)	(1,103,633,787)
Prior year over/under provision	0	0
<b>Net deferred tax liability</b>	<b>(1,262,385,036)</b>	<b>(1,203,882,832)</b>

The movement on the deferred tax account is as follows:

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Balance at beginning of the year</b>	<b>(197,832,231)</b>	<b>(25,224,506)</b>
Credit to revaluation reserve	0	0
Under provision in prior year	0	0
Income statement charge/(credit)	(58,502,204)	(172,607,725)
<b>Balance at end of the year</b>	<b>(256,334,435)</b>	<b>(197,832,231)</b>

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

**20. Inventories**

	FY 2023/2024	FY 2022/2023
Description	Kshs	Kshs
Engineering stores	812,729,072	810,292,418
Fuel, oil and lubricants	940,659	1,310,618
Crude & finished product stocks	305,694,169	305,694,169
Stationery, Safety and general stores	8,260,649	9,423,847
Less: Provision for Impairment of stocks	(808,078,385)	(771,111)
<b>Total</b>	<b>319,546,164</b>	<b>1,125,949,941</b>

**Reconciliation of Impairment Allowance for Inventories**

	FY 2023/2024	FY 2022/2023
Description	Kshs	Kshs
At the beginning of the year	771,111	771,111
Additional provisions during the year	807,307,875	0
Recovered during the year	0	0
Written off during the year	(601)	0
At the end of the year	<b>808,078,385</b>	<b>771,111</b>

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

**21. Trade and Other Receivables**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Trade Receivables (Note 21 (a))	499,961,934	431,805,668
Deposits and prepayments	46,973,294	33,594,536
Vat recoverable	0	0
Staff receivables (Note 21 (c))	1,970,923	4,329,989
Other receivables	19,287,994	19,937,409
<b>Gross Trade and Other Receivables</b>	<b>568,194,144</b>	<b>489,667,602</b>
Provision for Bad And Doubtful Receivable	(152,869,993)	(152,869,993)
<b>Net Trade and Other Receivables</b>	<b>415,324,151</b>	<b>336,797,609</b>

**21 (a) Trade Receivables**

	<b>FY 2023/24</b>	<b>FY2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Gross Trade Receivables	499,961,934	431,805,668
Provision for Doubtful Receivables	(152,869,993)	(152,869,993)
Net Trade Receivables	347,091,941	278,935,675
<b>Ageing analysis of gross Trade Receivables</b>		
Less than 30 Days	335,724,247	278,725,333
Between 30 and 60 Days	(202,221)	4,541,200
Between 61 and 90 Days	2,257,226	2,860,880
Between 91 and 120 Days	(3,410,194)	3,206,195
Over 120 Days	165,592,876	142,472,060
<b>Total</b>	<b>499,961,934</b>	<b>431,805,668</b>

**21 (b) Reconciliation of Impairment Allowance for Trade Receivables**

	<b>FY 2023/24</b>	<b>FY2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
At the beginning of the year	152,869,993	464,816,750
Additional provisions during the year	0	0
Recovered during the year	0	(23,215,119)
Written off during the year	0	(288,731,638)
At the end of the year	<b>152,869,993</b>	<b>152,869,993</b>

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

**21 (c) Staff Receivables**

	<b>FY 2023/24</b>	<b>FY2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Gross staff loans and advances	1,970,923	4,329,989
Provision for impairment loss	0	0
<b>Net staff loans</b>	<b>1,970,923</b>	<b>4,329,989</b>
Less: Amounts due within one year	(1,970,923)	(4,329,989)
Amounts due after one year	0	0

**21 (d) Reconciliation of Impairment Allowance for Staff Receivables**

	<b>FY 2023/24</b>	<b>FY2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
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	<b>0</b>	<b>0</b>

**22. Tax Recoverable**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
At beginning of the period	832,788,256	683,354,835
Less: Income tax charge for the year	43,092,893	2,186,452
Income tax paid during the year	120,265,901	151,619,873
<b>Tax recoverable at the end of the year</b>	<b>909,961,264</b>	<b>832,788,256</b>

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**Notes To The Financial Statements (Continued)**

**23. Bank and Cash Balances**

	FY 2023/24	FY 2022/23
Description	Kshs	Kshs
Cash at bank	53,038,600	5,072,123
Cash in hand	492,501	355,856
<b>Total</b>	<b>53,531,100</b>	<b>5,427,978</b>

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

**Detailed analysis of the cash and cash equivalents**

Description	Account number	FY 2023/24	FY 2022/23
<b>a) Current Account</b>			
Standard Chartered Bank of Kenya-KES A/C	01 040 926614 00	46,513,147	1,801,859
Standard Chartered Bank of Kenya-USD A/C	87 040 926614 00	5,554,558	184,184
ABSA Bank Kenya PLC-Main KES A/C	016 5009 479	23,814	68,421
ABSA Bank Kenya PLC-Staff Imprest KES A/C	016 5009 770	190,970	195,858
ABSA Bank Kenya PLC-USD A/C	22 7252 715	464,331	29,332
National Bank of Kenya	010 200 666 03700	291,780	2,792,470
<b>Sub- Total</b>		<b>53,038,600</b>	<b>5,072,123</b>
<b>b) On- Call Deposits</b>			
<b>National Bank of Kenya</b>		0	0
Sub-Total		0	0
<b>c) Fixed Deposits Account</b>			
National Bank of Kenya		0	0
Sub-Total		0	0
<b>d) Others (Specify)</b>			
Cash in transit		0	0
Cash in hand		492,501	355,856
Mobile money account		0	0
<b>Sub- Total</b>		<b>492,501</b>	<b>355,856</b>
<b>Grand Total</b>		<b>53,531,100</b>	<b>5,427,978</b>

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**Notes To The Financial Statements (Continued)**

**24. Ordinary Share Capital**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Authorized:</b>		
36,800,000 (36,800,000 FY 2022/2023) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000
<b>Issued and fully paid:</b>		
36,800,000 (36,800,000 FY 2022/2023) ordinary shares of Kshs.20 par value each	<b>736,000,000</b>	<b>736,000,000</b>

**25. 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.

**26. 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.

**27. 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)**

**28. Borrowings**

	FY 2023/2024	FY 2022/2023
Description	Kshs	Kshs
<b>Domestic borrowings</b>		
Balance at beginning of the year	1,939,201,651	1,783,661,690
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the period (CPP Term loan)	(43,897,374)	(57,292,525)
Movement in Bank Overdraft during the year	(13,121,266)	(28,383,607)
Exchange losses/(gains) on foreign denominated loans	(90,414,377)	200,549,370
Exchange losses/(gains) on foreign denominated overdraft facility	(21,412,578)	40,666,723
Balance at end of the year	<b>1,770,356,056</b>	<b>1,939,201,651</b>
Less: Amounts due with one year (current portion)	1,770,356,056	1,939,201,651
Amounts due after one year (non-current portion)	0	0

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

	FY 2023/2024	FY 2022/2023
Description	Kshs	Kshs
<b>External Borrowings</b>		
Dollar denominated loan	0	0
Euro denominated loan	0	0
	<b>0</b>	<b>0</b>
<b>Domestic Borrowings</b>		
Kenya Shilling overdraft from NCBA	351,614,745	357,913,397
Kenya Shilling overdraft from Citibank N.A.	132,789,449	143,550,251
Dollar denominated overdraft from Citibank N.A.	206,416,042	223,890,432
Dollar denominated loan from Barclays Bank-CPP	1,079,535,819	1,213,847,570
	<b>1,770,356,056</b>	<b>1,939,201,651</b>
<b>Total balance at end of the year</b>	<b>1,770,356,056</b>	<b>1,939,201,651</b>

The short term borrowings include Kshs 691M bank overdrafts as detailed in the analysis of borrowings above and KShs. 1.079bn in respect of a term loan for the Captive Power Plant (CPP). Foreign denominated loans have been restated based on CBK closing mean rates at the end of the financial year

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**Notes to the Financial Statements (Continued)**

**28. Borrowings (continued)**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Short term borrowings (current portion)	1,770,356,056	1,939,201,651
Long term borrowings	0	0
<b>Total</b>	<b>1,770,356,056</b>	<b>1,939,201,651</b>

Current portion of borrowings represents borrowings that are payable within one year or in the next financial year.

Due to the shut down of refining operations with effect from 4<sup>th</sup> Sept, 2013, KPRL immediately defaulted on principal loan repayment but continued to service interest payments. On 8<sup>th</sup> 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 repayment. This is an interim arrangement pending full restructuring of the bank loans. On 29<sup>th</sup> July 2024, the KPRL Board approved restructuring of the KPRL loans and the restructuring process is currently on going.

**29. Short term loans from GoK**

	<b>FY 2023/24</b>	<b>FY 2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
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
<b>Balance at end of Year</b>	<b>1,634,945,444</b>	<b>1,634,945,444</b>

**30. Cash Advance from KPC**

	<b>FY 2023/24</b>	<b>FY 2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Balance at the beginning of the Year	162,000,000	80,000,000
Additions during the year	161,100,558	82,000,000
Repayment during the year	0	0
<b>Balance at end of the year</b>	<b>323,100,558</b>	<b>162,000,000</b>

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, 2024, Kshs 81M in June 2024 and Kshs 162M in the prior years to further support KPRL/KPC lease operations.

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**Notes to the Financial Statements (Continued)**

**31. Trade and Other Payables**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Trade payables	276,313,674	184,083,512
Accrued expenses	146,446,351	117,435,413
Retention/ Contract monies	11,225,072	7,478,590
Deposits	1,266,050	1,266,050
Employee payables	1,025,574	1,057,945
Other payables (Provision for Interest on dead stock)	0	1,460,342,873
<b>Total</b>	<b>436,276,722</b>	<b>1,771,664,383</b>

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

**Aging Analysis for Trade and other Payables**

	<b>FY 2023/24</b>	<b>% of the total</b>	<b>FY 2022/23</b>	<b>% of the total</b>
Under one year	186,739,243	43%	241,140,208	14%
1-2 years	11,001,470	3%	53,600	0%
2-3 years	15,942,438	4%	0	0%
Over 3 years	222,593,571	51%	1,530,470,575	86%
<b>Total</b>	<b>436,276,722</b>	<b>100%</b>	<b>1,771,664,383</b>	<b>100%</b>

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**Notes to the Financial Statements (Continued)**

**32. Retirement Benefit Obligations**

KPRL operated a funded defined benefit plan for its full-time employees until 31<sup>st</sup> 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 1<sup>st</sup> 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 contributes 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 2,160/- per employee per month with effect from February, 2024.

**33. KPRL Pension Trust Limited**

	<b>FY 2023/24</b>	<b>FY 2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
As at beginning of the year	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
<b>At end of the year</b>	<b>10,000,000</b>	<b>10,000,000</b>
	=====	=====

**34. Provisions**

	<b>FY 2023/2024</b>	<b>FY 2022/2023</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Balance at beginning of the year	14,783,615	13,083,252
Additional provision	0	1,700,363
Leave paid out or utilised during the year	(35,126)	0
Change due to discount and time value for money	0	0
<b>Balance at end of the year</b>	<b>14,748,489</b>	<b>14,783,615</b>
	=====	=====

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

**35. Notes to the Statement of Cash Flows**

Description		FY 2023/2024	FY 2022/2023
		Kshs	Kshs
<b>(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations</b>			
Profit/(loss before tax		(106,533,214)	(634,921,485)
Depreciation		208,405,678	213,291,172
Amortisation		168,167	212,546
Gain from Disposal of fixed assets		(841,150)	0
Provision for impairment on Redundant Assets		1,566,914,647	0
<b>Operating profit/(loss) before working capital changes</b>		<b>1,668,114,128</b>	<b>(421,417,767)</b>
(Increase)/decrease in inventories		(904,098)	12,258,343
(Increase)/decrease in trade and other receivables		(78,526,542)	(48,642,065)
Increase/(decrease) in trade and other payables		(1,335,387,659)	317,255,426
Increase/(decrease) in retirement benefit obligations		(77,987,792)	(24,281,922)
Increase/(decrease) in provision for staff leave pay		(35,126)	1,700,363
<b>Cash generated from/(used in) operations</b>		<b>175,272,911</b>	<b>(163,127,622)</b>
<b>(b) Analysis of changes in loans</b>			
Balance at beginning of the period		1,939,201,651	1,783,661,690
Receipts during the period		0	0
Repayments of domestics borrowings during the period (CPP Term loan)		(43,897,374)	(57,292,525)
Movement in Bank Overdraft during the quarter		(13,121,266)	(28,383,607)
Foreign exchange losses /(gains)		(111,826,955)	241,216,093
<b>Balance at end of the year</b>	<b>28</b>	<b>1,770,356,056</b>	<b>1,939,201,651</b>
<b>(c) Analysis of cash and cash equivalents</b>			
Bank overdraft- CBA KES	28	(351,614,745)	(357,913,397)
Bank overdraft- Citi bank KES	28	(132,789,449)	(143,550,251)
Bank overdraft- Citi bank USD	28	(206,416,042)	(223,890,432)
Cash at bank	23	53,038,600	5,072,123
Cash in hand	23	492,501	355,856
<b>Balance at end of the year</b>		<b>(637,289,136)</b>	<b>(719,926,102)</b>

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**Notes to the Financial Statements (Continued)**

**35. Notes to the Statement of Cash Flows**

Description	FY 2023/2024	FY 2022/2023
	Kshs	Kshs
<b>(d) Analysis of interest paid</b>		
Interest expense on loans	154,995,221	126,575,711
Interest expense on bank overdrafts	106,978,541	82,371,362
Total Interest paid	<b>261,973,762</b>	<b>208,947,072</b>
	=====	=====
<b>(e) Analysis of dividend paid</b>		
Balance at beginning of the year	0	0
2021 dividends paid	0	0
2022 dividends paid	0	0
2023 interim dividends paid	0	0
Balance at end of the year	0	0

**36. Going concern**

**Going Concern Status of KPRL**

The going concern principle is the assumption that an entity will remain in business for the foreseeable future. While the lease agreement was a transitional arrangement, the acquisition of KPRL by KPC on 27<sup>th</sup> October, 2023 has significantly addressed the uncertainty about the going concern status of KPRL. Government of Kenya (GoK) intervention is expected to enhance petroleum supply chain infrastructure and thereby result in security of supply and cost-efficiency through reduced demurrage costs and enhanced penetration of LPG usage in the country through the development of LPG bulk import handling and storage facility. This will enhance efficiency and also foster synergy in the petroleum value chain by optimizing the use of our existing downstream petroleum infrastructure.

The current liabilities (Kshs 4.189bn) exceed current assets (Kshs 1.698bn) by Kshs 2.491bn due to outstanding short-term loans from GoK, KPC advance, bank overdrafts 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 recoveries from KPC as provided for in the lease agreement.

Both the Shareholder (KPC) and KPRL boards approved the restructuring of the outstanding bank loans. The CPP term loan will be restructured to a maximum tenor of 3 years. The process for settling bank overdrafts is under negotiation pending recall of the sponsor surplus invested in the Kenya Petroleum Refinery Defined Contribution (KPR DC) Pension fund. This process of restructuring and or settlement of the outstanding bank loans is ongoing and is expected to be concluded before 30th June, 2025.

**Notes to the Financial Statements (Continued)**

**36. Going concern (*continued*)**

During FY 2023/24 the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20<sup>th</sup> March, 2017. This lease agreement is transitional until the transition towards full integration of KPRL and KPC is completed. Consequently on 4<sup>th</sup> October, 2024 and 6<sup>th</sup> November, 2024, both KPC and KPRL respectively passed board resolutions to extend the lease agreement until the implementation of the post acquisition integration plan is completed. Thus, KPRL operations and financial obligations are funded by the Shareholder (KPC) through the lease agreement.

**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 (DCL) 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 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"

On 3<sup>rd</sup> October 2024, Ministry of Energy & Petroleum communicated to KPRL the GoK policy decision regarding the resolution of the Yield Shift legacy matter which has been pending since the year 2012. The decision of the Government is to pay Refinery Users (OMCs) the pending Yield Shift claim of KShs 3,515,911,634 as per the DCL report and subsequent approvals /concurrence by The National Treasury and Attorney General Office. Consequently KPRL initiated the process of settling the Yield Shift claim and is expected to conclude the process before 30<sup>th</sup> June, 2025.

**Notes to the Financial Statements (Continued)**

**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 Energy and Petroleum
- ii) County Government of Mombasa
- iii) County Government of Kilifi
- iv) Kenya Pipeline Corporation
- v) National Bank of Kenya
- vi) Key management
- vii) Board of Directors

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**Notes to the Financial Statements (Continued)**

**Transactions with related parties**

<b>Description</b>	<b>FY 2023/24 Kshs</b>	<b>FY 2022/23 Kshs</b>
<b>a) Sales to related parties</b>		
Sales of electricity to govt agencies	0	0
Rent income from KPC	1,656,220,534	1,421,065,936
Water sales to govt. agencies	0	0
Interest income from govt commercial banks	0	0
Interest income from bills and bonds	0	0
Others	0	0
<b>Total</b>	<b>1,656,220,534</b>	<b>1,421,065,936</b>
<b>b) Purchases from related parties</b>		
Purchases of electricity from KPLC	120,393,576	110,887,075
Purchase of water from govt service providers	15,290,322	11,621,739
Rent expenses paid to govt agencies	8,606,240	6,491,179
Training and conference fees paid to govt. Agencies	6,162,855	1,448,016
Bank charges paid to govt commercial banks	0	0
Interest expense to investments by other govt. Entities	0	0
Others-Licenses/Armed Security/Audit Fee/Consultancy/ Milk/LPG/Catering	25,581,522	31,619,382
<b>Total</b>	<b>176,034,515</b>	<b>162,067,392</b>
<b>c) Grants from the government</b>		
Grants from national govt	0	0
Grants from county government	0	0
Donations in kind	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>d) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for employees	0	0
Payments for goods and services	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>e) Key management compensation</b>		
Directors' emoluments	0	0
Compensation to key management	61,554,449	60,347,871
<b>Total</b>	<b>61,554,449</b>	<b>60,347,871</b>

The Table below shows the breakdown of other purchases from Government entities.

<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Purchase of Milk/Water/LPG- from KCC/TUM/NOCK	9,051,544	2,805,043
Advertisements-Govt. Advertising Agency	702,196	1,521,187
Licenses-NEMA/NTSA/DCI. County Govt /KPA	6,263,382	1,361,428
Audit Costs-Office of the Auditor General	5,172,400	21,551,724
Administration Police- (Armed Security)	4,392,000	4,380,000
<b>Total</b>	<b>25,581,522</b>	<b>31,619,382</b>

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**Notes to the Financial Statements (Continued)**

**39. Capital Commitments**

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

	FY 2023/24	FY 2022/23
Description	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
	<b>0</b>	<b>0</b>

**40. Contingent Assets and Liabilities**

**Contingent Assets**

	FY 2023/24	FY 2022/23
Description	Kshs	Kshs
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
Reimbursable performance bond	1,586,668	0
Receivables from Olivine	5,545,564	0
<b>Total</b>	<b>7,132,232</b>	<b>0</b>

**Contingent Liabilities**

	FY2023/24	FY2022/23
Description	Kshs	Kshs
Court case by Total (K) Ltd against KPRL (Rejected Crude Oil)	233,148,600	252,942,300
Court cases by County Government of Mombasa against KPRL (Land Rates matters)	64,570,610	120,728,230
Bank guarantees in favour of 3rd parties	505,222,344	505,222,344
Contingent liabilities arising from contracts including PPPs	0	0
Disputed Tax Assessment by KRA	380,629,000	421,286,374
Disputed Tax demand by KRA	1,633,968,000	1,633,968,000
Others- Legal fees & Damage claims against KPRL	0	0
<b>Total</b>	<b>2,817,538,554</b>	<b>2,934,147,248</b>

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

**Notes To The Financial Statements (Continued)**

**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),**

***Credit Risk (Continued)***

Description	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2024</b>				
Receivables from exchange transactions	568,194,144	330,740,089	84,584,062	152,869,993
Receivables from non-exchange transactions	0	0	0	0
Bank balances	53,531,100	53,531,100	0	0
<b>Total</b>	<b>621,725,245</b>	<b>384,271,189</b>	<b>84,584,062</b>	<b>152,869,993</b>
<b>At 30 June 2023</b>				
Receivables from exchange transactions	489,667,602	278,022,726	58,774,883	152,869,993
Receivables from non-exchange transactions	0	0	0	0
Bank balances	5,427,978	5,427,978	0	0
<b>Total</b>	<b>495,095,580</b>	<b>283,450,704</b>	<b>58,774,883</b>	<b>152,869,993</b>

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 and Kenya Pipeline Company Limited (KPC).

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

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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.

Description	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2024</b>				
Trade payables	268,109,976	53,171,000	129,744,236	451,025,212
Current portion of borrowings	0	0	3,405,301,499	3,405,301,499
Provisions	0	0	0	0
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>268,109,976</b>	<b>53,171,000</b>	<b>3,535,045,735</b>	<b>3,856,326,711</b>
<b>At 30 June 2023</b>				
Trade payables	167,686,007	31,346,266	127,072,854	326,105,127
Current portion of borrowings	0	0	3,574,147,094	3,574,147,094
Provisions	0	0	1,460,342,873	1,460,342,873
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
<b>Total</b>	<b>167,686,007</b>	<b>31,346,266</b>	<b>5,161,562,821</b>	<b>5,360,595,094</b>

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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		Other currencies	Total
	Kshs	Kshs	Kshs
<b>At 30 June 2024</b>			
<b>Financial assets</b>			
Investments	0	0	0
Cash	47,481,690	6,049,411	53,531,100
Debtors	365,484,467	49,839,684	415,324,151
	<b>412,966,157</b>	<b>55,889,094</b>	<b>468,855,251</b>
<b>Financial liabilities</b>			
Trade and other payables	412,996,992	38,028,220	451,025,212
Borrowings	2,119,349,639	1,285,951,861	3,405,301,500
	<b>2,532,346,631</b>	<b>1,323,980,081</b>	<b>3,856,326,712</b>
Net foreign currency asset/(liability)	<b>(2,119,380,474)</b>	<b>(1,268,090,987)</b>	<b>(3,387,471,461)</b>

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**Notes To The Financial Statements (Continued)**

**a) Foreign currency risk (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
<b>At 30 June 2023</b>			
<b>Financial Assets</b>			
Investments	0	0	0
Cash	5,214,462	213,496	5,427,958
Debtors	328,751,875	8,045,733	336,797,608
	<b>333,966,337</b>	<b>8,259,229</b>	<b>342,225,567</b>
<b>Financial Liabilities</b>			
Trade and Other Payables	302,973,661	8,347,848	311,321,508
Borrowings	2,136,409,092	1,437,738,002	3,574,147,094
	2,439,382,753	1,446,085,850	3,885,468,602
Net Foreign Currency Asset/(Liability)	<b>(2,105,416,416)</b>	<b>(1,437,826,620)</b>	<b>(3,543,243,036)</b>

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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 currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
<b>2024</b>			
Euro	10%	(578,265)	0
GBP	10%	(26,167)	0
USD	10%	(272,901,249)	0
<b>2023</b>			
Euro	10%	(34,321,751)	0
GBP	10%	201,340	0
USD	10%	(235,191,258)	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 17,703,561/- (2023: Kshs 19,392,016/-). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 88,517,805/-(2023 – KShs 96,960,083/-)

**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 company'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:

<b>At 30 June 2024</b>	<b>Level 1 Kshs</b>	<b>Level 2 Kshs</b>	<b>Level 3 Kshs</b>	<b>Total Kshs</b>
<b>Financial assets</b>				
Quoted equity investments	0	0	0	0
<b>Non- financial assets</b>				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0
<b>At 30 June 2023</b>				
<b>Financial assets</b>				
Quoted equity investments	0	0	0	0
<b>Non- financial assets</b>				
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.

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**Notes To The Financial Statements (Continued)**

**iv) Capital Risk Management**

The objective of the company'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:

	<b>FY 2023/24</b>	<b>FY 2022/23</b>
<b>Description</b>	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	0	0
Retained earnings	(474,549,442)	(383,425,539)
Share Capital	736,000,000	736,000,000
Share Premium	144,000,000	144,000,000
<b>Total Funds</b>	<b>405,450,558</b>	<b>496,574,461</b>
Total Borrowings	3,405,301,500	3,574,147,096
Less: Cash and Bank balances	(53,531,100)	(5,427,978)
Net Debt/(Excess Cash and Cash Equivalents)	3,351,770,400	3,568,719,117
<b>Gearing</b>	<b>827%</b>	<b>719%</b>

**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.

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**44. 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)	(Date when you expect the issue to be resolved)
1	Material uncertainty relating to Going concern	KPRL became a wholly owned subsidiary of KPC with effect from 27 <sup>th</sup> October, 2023. During FY 2023/24 the company continued to operate under the KPRL/KPC Lease Agreement which was entered on 20 <sup>th</sup> March, 2017. This lease agreement is a transitional arrangement until the transition towards full integration of KPRL and KPC is completed. Consequently on 4 <sup>th</sup> October, 2024 and 6 <sup>th</sup> November, 2024, both KPC and KPRL respectively passed board resolutions to extend the lease agreement until the implementation of the post acquisition integration plan is completed. Thus, KPRL operations and financial obligations are funded by the Shareholder (KPC) through the lease agreement.	Going Concern Risk significantly reduced	
2	Refinery assets not assessed for impairment	Provision for impairment was done in FY2023/24	Done	
3	Inclusion of Non-Capital Expenses in Work in Progress	Provision for impairment done in FY2023/24	Done	
4	Obsolete Inventories	Provision for impairment of obsolete stocks was done in FY 2023/24	Done	
5	Unresolved Yield Shift Variances	On 3 <sup>rd</sup> October 2024, Ministry of Energy & Petroleum communicated to KPRL the GoK policy decision regarding the resolution of the Yield Shift legacy matter which has been pending since the year 2012. The decision of the Government is to pay Refinery Users (OMCs) the pending Yield Shift claim of KShs 3,515,911,634.00 as per the DCL report and subsequent approvals /concurrence by The National Treasury and Attorney General Office. Consequently KPRL initiated the process of settling the Yield Shift claim and is expected to conclude the process before 30 <sup>th</sup> June, 2025.	Process to be concluded before 30 <sup>th</sup> June, 2025	
6	Variances between KPRL Revenue and KPC Lease recovery Records	The variance relates to expenses incurred by KPC and booked in KPC ledger. Those are KPC expenses not KPRL expenses	reconciled	

Name: Joseph B. Ndahi

Accounting Officer: Ag. Chief Executive Officer

Signed: [Signature]

Date: 13/12/2024

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**Appendix II: Projects implemented by KPRL**  
**Projects**

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

	<b>Project title</b>	<b>Donor</b>	<b>Period/ duration</b>	<b>Donor commitment</b>	<b>Separate donor reporting required as per the donor agreement (Yes/No)</b>	<b>Consolidated in these financial statements (Yes/No)</b>
1	The Installation of Pipework, Pumps and Other Works at KPRL, Changamwe and Kipevu Oil Terminal, Mombasa.	Not applicable	2 years	N/A	No	Yes
2	Completion of Upgrade of Truck loading facility at PS15	Not applicable	2 years	N/A	No	Yes
3	Fire Tender	Not applicable	2 years	N/A	No	Yes
4	KPRL R22 Refrigerant air-conditioning systems	Not applicable	2 years	N/A	No	Yes
5	Industrial Vacuum Tanker (Gulley Sucker)	Not applicable	2 years	N/A	No	Yes
6	Replacement of utilities air compressor	Not applicable	2 years	N/A	No	Yes
7	Replacement of 3 Primary and 3 Disaster Recovery Data Centres Servers, 6 LAN Base POE Switches and Associated Devices	Not applicable	2 years	N/A	No	Yes
8	Power supply of KPRL Fire water pump (PS 15) from substation No.3	Not applicable	1 years	N/A	No	Yes
9	Replacement of Automatic Distillation Units	Not applicable	2 years	N/A	No	Yes
10	Replacement of AGO Cold Filter Plugging Point CFPP Analyser	Not applicable	1 years	N/A	No	Yes

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	<b>Project title</b>	<b>Donor</b>	<b>Period/ duration</b>	<b>Donor commitment</b>	<b>Separate donor reporting required as per the donor agreement (Yes/No)</b>	<b>Consolidated in these financial statements</b>
11	Staff Parking Sheds	Not applicable	1 years	N/A	No	Yes
12	Replacement of Automatic Density Meter	Not applicable	2 years	N/A	No	Yes
13	Replacement of Mercaptan Sulphur Titrator	Not applicable	2 years	N/A	No	Yes
14	Replacement of 30 Enterprise Desktop Computers complete with Uninterruptible Power Supply (UPS) Units	Not applicable	2 years	N/A	No	Yes
15	P652 Motor Replacement	Not applicable	2 years	N/A	No	Yes
16	Replacement of Hydrogen gas generator	Not applicable	2 years	N/A	No	Yes
17	Purchase of 100Nos Office chairs; 2pc Executive chairs; 6pcs Management Chairs High back; 21pcs High back Chairs for HODs; 50pcs Midback Chairs for Supervisors; 32pc visitors Chairs; 2pcs Coffee tables for Reception	Not applicable	2 years	N/A	No	Yes

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**Status of Projects completion**

	Project	Project Duration	Total project Cost (Kshs)	Total expended to date (Kshs)	Completion date	Budget (Kshs)	Actual (Kshs)	Sources of funds
1	The Installation of Pipework, Pumps and Other Works at KPRL, Changamwe and Kipevu Oil Terminal, Mombasa.	2 years	109,242,343	109,242,343	Mar-23	413,432,000	109,242,343	KPC/KPRL Lease
2	Completion of Upgrade of Truck loading facility at PS15	2 years	83,729,609	83,729,609	Jun-24	85,427,000	83,729,609	KPC/KPRL Lease
3	Fire Tender	2 years		0	Ongoing	53,078,020	0	KPC/KPRL Lease
4	KPRL R22 Refrigerant air-conditioning systems	2 years		10,212,292	Ongoing	39,320,578	0	KPC/KPRL Lease
5	Industrial Vacuum Tanker (Gulley Sucker)	2 years		0	Ongoing	27,582,898	0	KPC/KPRL Lease
6	Replacement of utilities air compressor	2 years		0	Ongoing	24,000,000	0	KPC/KPRL Lease
7	Replacement of 3 Primary and 3 Disaster Recovery Data Centres Servers, 6 LAN Base POE Switches and Associated Devices	2 years		0	Ongoing	23,783,480	0	KPC/KPRL Lease
8	Power supply of KPRL Fire water pump (PS 15) from substation No.3	1 years	19,486,115	19,486,115	May-24	20,000,000	19,486,115	KPC/KPRL Lease
9	Replacement of Automatic Distillation Units	2 years	0	0		16,000,000	0	KPC/KPRL Lease
10	Replacement of AGO Cold Filter Plugging Point CFPP Analyser	1 years	7,288,137	7,288,137	Jun-24	9,000,000	7,288,137	KPC/KPRL Lease
11	Staff Parking Sheds	1 years	4,100,390	4,100,390	Jun-24	5,000,000	4,100,390	KPC/KPRL Lease
12	Replacement of Automatic Density Meter	2 years	0	0	ongoing	5,000,000	0	KPC/KPRL Lease

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	<b>Project</b>	<b>Project Duration</b>	<b>Total project Cost(Kshs)</b>	<b>Total expended to date (Kshs)</b>	<b>Completion % to date</b>	<b>Budget (Kshs)</b>	<b>Actual (Kshs)</b>	<b>Sources of funds</b>
13	Replacement of Mercaptan Sulphur Titrator	2 years	0	0	ongoing	5,000,000	0	KPC/KPRL Lease
14	Replacement of 30 Enterprise Desktop Computers complete with Uninterruptible Power Supply (UPS) Units	2 years	0	0	ongoing	4,350,000	0	KPC/KPRL Lease
15	P652 Motor Replacement	2 years	4,091,436	4,091,436	Apr-24	4,200,000	4,091,436	KPC/KPRL Lease
16	Replacement of Hydrogen gas generator	2 years	0	0		4,000,000	0	KPC/KPRL Lease
17	Purchase of 100Nos Office chairs; 2pc Executive chairs; 6pcs Management Chairs High back; 21pcs High back Chairs for HODs; 50pcs Midback Chairs for Supervisors; 32pc visitors Chairs; 2pcs Coffee tables for Reception	2 years	0	0	Ongoing	2,500,000	0	KPC/KPRL 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 Kshs	Where Recorded/Recognized				Total Transfers during the Year Kshs
					Capital Fund Kshs	Deferred Income Kshs	Receivables Kshs	Others - must be specific Kshs	
Ministry of Energy and Petroleum	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
<b>Total</b>			<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Appendix V Inter-Entity Confirmation Letter**

Name of Transferring entity.....

Name of Beneficiary entity.....

Confirmation of amounts received by..... as at 30 <sup>th</sup> June 2024					
Reference Number	Date Disbursed	Recurrent (A)	Development (B)	Total (C)=(A+B)	Remarks
Total					

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

**Head of Accounts Department - Disbursing Entity:**  
 Name ..... Sign ..... Date .....

**Head of Accounts Department - Beneficiary Entity:**  
 Name ..... Sign ..... Date.....

**Appendix VI: Reporting of Climate Relevant Expenditures**

Kenya Petroleum Refineries Limited  
 Telephone Number: 072457102/ 0713583441  
 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 Kshs	Q2 Kshs	Q3 Kshs	Q4 Kshs		
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

**Appendix VII: Reporting Disaster Management Expenditure**

<b>Column I</b>	<b>Column II</b>	<b>Column III</b>	<b>Column IV</b>	<b>Column V</b>	<b>Column VI</b>	<b>Column VII</b>
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments
N/A	N/A	N/A	N/A	0	0	N/A

