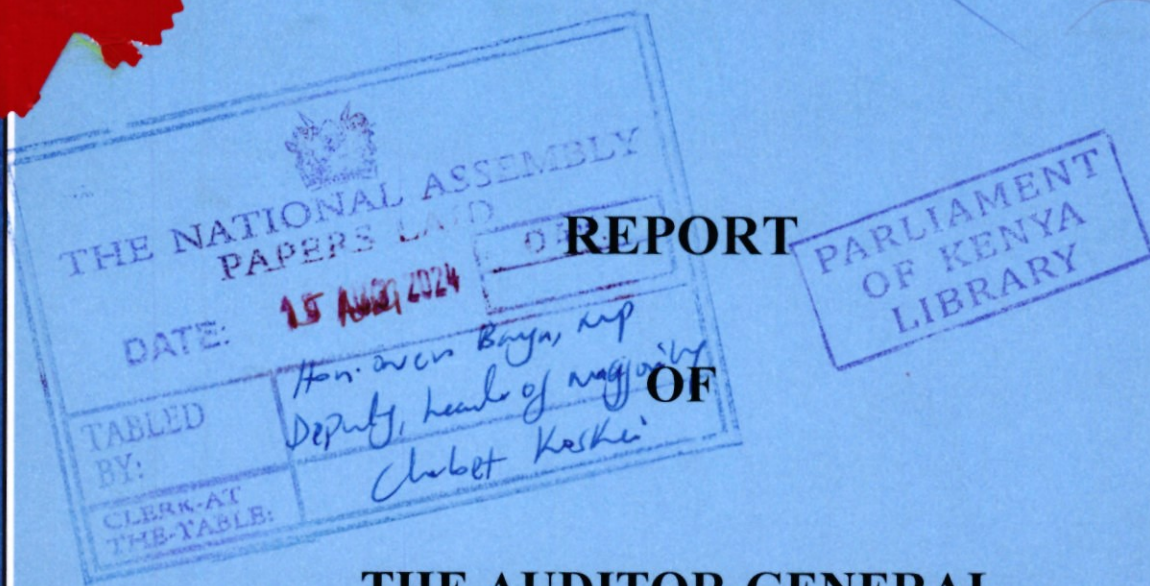


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability



REPORT

THE AUDITOR-GENERAL

ON

KENYA PETROLEUM REFINERIES LIMITED

**FOR THE YEAR ENDED
30 JUNE, 2023**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30984 - 00100, NAIROBI
REGISTRY

29 MAY 2024

RECEIVED



KENYA PETROLEUM REFINERIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2023

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, 2023

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1. Acronyms and Glossary of Terms

<i>IFRS</i>	<i>International Financial Reporting Standards</i>
<i>MD</i>	<i>Managing Director</i>
<i>CEO</i>	<i>Chief Executive Officer</i>
<i>TNT</i>	<i>The National Treasury</i>
<i>PFM</i>	<i>Public Finance Management.</i>
<i>PSASB</i>	<i>Public Sector Accounting Standards Board</i>
<i>GoK</i>	<i>Government of Kenya</i>
<i>EEHL</i>	<i>Essar Energy Holdings Limited</i>
<i>MOEP</i>	<i>Ministry of Energy and Petroleum</i>
<i>HSSE</i>	<i>Health Safety Security & Environment</i>
<i>EOPS</i>	<i>Early Oil Pilot Scheme</i>
<i>KPC</i>	<i>Kenya Pipeline Company Limited</i>
<i>PWC</i>	<i>Price Waterhouse Coopers</i>

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 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK. The entity is under the Ministry of Energy 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 12th April 2012 to amend the energy regulations under the Energy Act to give legal effect to the company's merchant refining business.

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

2. Key Entity Information (continued)

b) Principal Activities (continued)

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

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

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

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement, KPC and KPRL expressed interest and mutually agreed to extend the term of the Agreement for a further period of six (6) months with automatic month to month renewal of the agreement effective 20th June, 2021. On 26th April 2022, KPC engaged PwC as transaction advisor for the takeover of KPRL. The consultant delivered the final draft report to KPC on 16th December, 2022.

On 18th 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 27th 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.

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2. Key Entity Information (continued)

c) Directors

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

- | | |
|---------------------------------|--|
| 1. Henry Gathara Karinga | Appointed on 06/02/17 (re-appointed 21/02/2020)
Re-appointed on 20/02/2023 |
| 2. Lilian Bokeeye Mahiri – Zaja | Appointed on 06/02/17 (re-appointed 21/02/2020)
Re-appointed on 20/02/2023 |
| 3. Hesbon Olum Gondi | Appointed on 25/03/2003 exited on 20/02/2023 |
| 4. Joseph Macharia Kariuki | Alternate to CS National Treasury:
Appointed 10/05/2017 retired on 06/01/2023 |
| 5. Joseph Wafula Wepukhulu | Alternate to Ps Petroleum: Appointed On 27/11/2017 |
| 6. Joseph Zachary Ngugi | Alternate to CS National Treasury:
Appointed 04/04/2023 |
| 7. Peter Okombe Ongori | Representing Attorney General: Appointed 12/06/2023 |
| 8. Joseph Bale Ndoti | Ag. Chief Executive Officer-Appointed on 07/10/2019 |

d) Corporate Secretary

Muthoni Gatere/George Mokuu
Ledger Registrars
Epic Business Park 7th 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.

f) Corporate Headquarters

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

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2. Key Entity Information (continued)

g) Corporate Contacts

Chief Executive Officer,
P.O. Box 90401-80100 GPO,
Mombasa, KENYA.
Telephone : (254) 0724257102/0713583441
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,
PO 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 (continued)

j) Principal Legal Advisers

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

Advocates

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

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

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


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

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3. The Board of Directors

Name of Director	Key qualifications and work experience	
<p>1. Mr. Mohamed Liban</p> <p>(Alternate Mr. J. Wafula)</p>	<p>DOB- Permanent Secretary, State Department of Petroleum.</p> <p>DOB-06/06/1975 Mr. Wafula is a Senior Economist at the State Department of Petroleum.</p>	
<p>2. Prof. Njuguna Ndungú, CBS</p> <p>(Alternate Mr. J. Kariuki)</p>	<p>DOB-1960 Cabinet Secretary for The National Treasury.</p> <p>DOB-08/01/1963. Alternate Director, The National Treasury. (retired on 06/01/2023)</p>	
<p>3. (Alternate Mr. Joseph Zachariah. Ngugi Appointed 04/04/2023)</p>	<p>DOB-14/06/1966 Alternate Director, The National Treasury. 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 & past alternate Director at Kenya Trade Network, Retirement Benefits Authority & Coffee Development Fund. (now Commodity Fund)</p>	
<p>4. Mr. Hesbon Gondi Olum (Resigned on 20/02/2023)</p>	<p>DOB-05/09/1941. He holds a M.Sc. in Economics (Kiev Institute, USSR 1969) and B.Phil. in Economics (UoN 1971). Formerly the CECM Trade, Industry & Co-op Devt Siaya County. A career civil servant, he has held senior positions in the Ministry of Planning & National Devt. and Ministry of Health as well as the Central Bureau of Statistics.</p>	

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Name of Director	Key qualifications and work experience	
5. Ms. Lilian B. Mahiri-Zaja (Re-appointed on 04/08/2023)	DOB-08/12/1964 She is an advocate of the High Court of Kenya and holds a Master of Law Degree from the University of Reading, United Kingdom (2002); a post-graduate Diploma in Legal Education from the Kenya School of Law (1989); and an LL.B. (UoN, 1988). She was previously the Vice Chairperson at the IEBC and has held various positions in the Department of Justice including Deputy Chief Legal Officer from 2004-2011. She also served as a Commissioner with the Energy and Petroleum Regulatory Authority (EPRA).	
6. Mr. Henry G. Karinga (Re-appointed on 04/08/2023)	DOB-13/03/1964 He holds a Bachelor of Science (UoN), 1990 and Global Executive MBA (USIU) 2016. Managing Director - H.K. Builders & General Contractors Ltd	
7. Peter Okombe Ongori (Appointed 12/06/2023)	DOB-1971 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.	
8. CPA. Joseph Ndoti	DOB-05/07/1972 Currently the Acting Chief Executive Officer KPRL from 7 th October 2019 and also serves as CFO since August, 2016. He has over 20 years' experience in financial management and business administration. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled through the career ladder to his current role. He holds a B.Com Accounting and MBA in Strategic Management (UoN) and is a Certified Public Accountant of Kenya (CPA(K)) and member of ICPAK. He has previously worked in Cargill Kenya and P&O Nedloyd East Africa Ltd.	

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Name of Director	Key qualifications and work experience	
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>	

Board Committees

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

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4. Key Management Team

Name of the Staff		Responsibility
CPA. Joseph Ndoti		<p>DOB-05/07/1972 Currently the Acting Chief Executive Officer KPRL from 7th October 2019 and serves as CFO since August 2016. He has over 20 years' experience in financial management and business administration. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled through the career ladder to his current role. He holds a B.Com Accounting and MBA in Strategic Management (UoN) and is a Certified Public Accountant of Kenya (CPA(K)) and member of ICPAK. He has previously worked in Cargill Kenya PLC and P&O Nedloyd East Africa Ltd.</p>
Ms. Abigail Mwangi		<p>DOB-10/10/1968 Currently the Chief Operating Officer now seconded to the Ministry of Energy and Petroleum. She holds a Bsc. Chemistry (UoN). Ms. Mwangi joined KPRL in 1992 and has held a number of senior positions including Commercial Manager (Jul 2012-Oct 2016) Manager Hydrocarbons & Economics (June 2012-Oct 2010) and Manager Process Operations (June 2008-Oct 2010)</p>
Mr. Martin Wahome		<p>DOB-24/04/1965 Currently the Human Resource Manager, KPRL. Holds a Bachelor's degree in Social Sciences (UoN) and an MBA from Middlesex University. Mr. Wahome Joined KPRL in Sept 2004 and has over 25 years' experience in Human Resources Management. He has previously worked for Block Hotels, Sara Lee Limited and Unga Group Limited in the same capacity. He is a member of the Institute of Personnel Management and a certified RBA Trustee.</p>

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Name of the Staff		Responsibility
Eng. Evanson Momanyi		<p>DOB-11/09/1964 Currently the Engineering Manager at KPRL. He joined KPRL in Nov 1992 and has over 24 year's professional engineering experience in various industries and fields in Manufacturing, Projects, Operations management, Quality, Health & Safety Management. Before joining KPRL he worked in Bamburi Portland Cement Ltd and the Ministry of Works. He holds a B.Sc. Mechanical Engineering (UoN) and MBA in Operations Management (UoN). He is registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.</p>
Michael Kariuki		<p>DOB-26/07/1977 Currently the Manager Technology Development and Operations at KPRL. He joined KPRL in July 2005 as a Process Engineer and has over 15 years' experience in Manufacturing, Projects, Operations and Health, Environment & Safety. Before joining KPRL, he worked at Chandaria Industries and Kel Chemicals Ltd. Michael holds an MBA in operations Management (UoN) and B.Tech degree in Chemical and Process Engineering (Moi University). He is a Certified Energy Manager and a registered Engineer with the Engineers Board of Kenya and the Institute of Engineers of Kenya</p>
Kadzo Kalama		<p>DOB-17/11/1983 Kadzo is the Head of Legal Services; charged with the legal advisory and corporate governance roles in the company. She is an Advocate of the High Court of Kenya with experience in commercial matters in the Energy, Petroleum and Pension sectors with keen interest 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>

5. Chairman's Statement

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

On 24th June 2016, the Government of Kenya (GoK) entered into an agreement with Essar Energy Overseas Limited (Essar), Essar Energy Holdings Limited (EEHL) and Kenya Petroleum Refineries Limited (KPRL) for the transfer of the legal and beneficial interest in all of the shares owned by Essar in KPRL to GoK. The agreement and the disposal of the shares converted Kenya Petroleum Refineries Limited to become 100% wholly owned by GoK. KPRL is under the Ministry of Energy and Petroleum.

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

As an interim measure, on 7 March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC.

The Lease Agreement was operationalized with effect from 1 June, 2017. Under the Lease Agreement, the consideration for using the KPRL facility is that KPC would retain all the staff of KPRL and reimburse the company all operating expenses. The agreement further provides that KPC may at its option undertake any upgrading, modification, expansion and/or new investment within the facility at its cost, which shall be treated as KPC's cost of investment. In the unlikely event of termination of the agreement before the takeover is actualized, KPC would be entitled to a refund of the upgrading costs by the GoK. A further conditionality for KPC's takeover of the facility was that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement, KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed.

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5. Chairman's Statement (continued)

Both KPRL and KPC take note that the implementation of the proposed roadmap on takeover is being handled by a Steering Committee Chaired by The National Treasury & Planning.

On 26th April, 2022 KPC engaged PwC as transaction advisor for the takeover of KPRL. The final draft due diligence report was delivered on 16th December, 2022. On 18th 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 27th 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.

Signed by Director of the Board

6. Report of the Chief Executive Officer

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

During the financial year 2022/23, the company continued to operate under the KPRL –KPC Lease Agreement which was entered on 20th March, 2017.

On 18th 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 27th 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.

The roadmap for implementation of post-acquisition activities was approved by the respective boards of KPRL and KPC. Status quo remains in terms of the lease arrangement between KPRL and KPC. It is expected that by the 1st anniversary date (27th October, 2024) of the Share Transfer Agreement (STA), most of the post-acquisition activities will have been implemented to pave the way for operations of KPRL as a full-fledged subsidiary of KPC.

Exit of Members of KPRL Board Upon Expiry of their Terms of Appointment.

During the quarter ended 31st March 2023, four (4) Directors exited from the KPRL Board upon expiry of their terms of Appointment. Since 20th March 2023, KPRL has been operating without a full board of Directors. Also the KPRL Board had been operating with five (5) Directors and without the Chairman of the Board since November, 2016. The Shareholder (The National Treasury) and the Parent Ministry of Energy & Petroleum are apprised of the matter.

During the quarter ended 30th June, 2023 , GoK appointed two Directors to serve in the KPRL Board. The two Directors, namely Joseph Zachariah Ngugi and Peter Okombe Ongori represent The National Treasury & Planning and Attorney General Office respectively.

Going Concern Status of KPRL

The matter of uncertainty about the going concern status of KPRL dates back to 4th Sept, 2013 when refining operations stopped. The going concern principle is the assumption that an entity will remain in business for the foreseeable future.

The lease agreement and the acquisition of KPRL by KPC are some of the measures taken by the Shareholder (The National Treasury) and the Parent Ministry of Energy & Petroleum to address the uncertainty about the going concern status of KPRL.

6. Report of the Chief Executive Officer (continued)

Status of External Audit for FY2021/22

On 28th November 2022, the Office of the Auditor General (OAG) commenced audit for FY 2021/2022 and completed the field work on 16th December, 2022. The audit was finalized in January, 2023 and the accounts were subsequently approved by the KPRL Board on 15th February, 2023. On 30th May, 2023 KPRL received two (2) sets of the audited financial statements for the year ended 30th June, 2022 duly certified and with the seal of the Auditor-General affixed there on.

Status of KRA Audit and Tax Matters

The KRA audit for the period 2017- 2022 was triggered by the KPRL tax refund claim of KShs 553,921,224/-. Vide their letter reference no. P000618527A, dated 30th September, 2022 KRA advised that the tax refund claim will be put on hold until the audit process is concluded. KRA vide their letter reference no. P000618527A, dated 18th December, 2023, issued final draft audit findings and assessments, demanding from KPRL KSh 734M in respect of Corporate Tax (KSh 695M), VAT (KSh11M) and PAYE (KSh 28M).

On 16th January, 2024 KPRL raised an objection to the KRA assessment. On 15th March 2024, KRA vide their letter reference no. P000618527A responded to the KPRL objection and revised the tax assessment from KSh 734M to KSh421M. On 9th April, 2024, vide KPRL letter reference no, CEO.063/04/2024, KPRL appealed to the Tax Appeals Tribunal against the revised tax assessment of KSh 421M.

Operationalization of the Captive Power Plant (CPP)

On 14th October 2022, KPRL and KenGen signed a Technical Support Agreement(TSA) and commenced work towards operationalizing the Captive Power Plant. The next step is to start the process of application and negotiations for approval of a Power Purchase Agreement (PPA) with KPLC. Vide a letter Ref.No. MOE/CONF/1/12 dated 15th May, 2023, the Principal Secretary for the State Department of Energy guided 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).

On 27th March, 2024 KPRL concluded the contractual process of engaging KPLC to conduct a comprehensive grid study. The work is schedule to commence on Tuesday, 16th April, 2024 and is expected to be concluded in 2 months time. The procurement and installation of the export infrastructure will take about 260 days because of critical equipment like transformers that are manufactured upon placement of specific orders. Further engagement to be done with KPLC to assist in the procurement of the export infrastructure equipment.

6. Report of the Chief Executive Officer (continued)

Implementation of KPRL Budget for FY 2022/23

The budgets for KPC and KPRL were approved by The National Treasury on 30th June, 2022. 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.

HR Matters

Based on guidance/parameters from the Salaries and Remuneration Commission (SRC) on the negotiations of the long delayed 2017 – 2020 CBA which was received at the end of March, KPRL engaged the Union to negotiate the CBA on 10th, 11th and 12th May 2023 in Nairobi. Management wrote to SRC for guidance after disagreement and breakdown of negotiations whereas SRC reiterated that negotiations must be carried out as per guidelines issued by them. The Union have since engaged a lawyer to deal with the matter on their behalf.

KPRL/KPC lease agreement remains in place while the takeover process is ongoing. This will be followed by a job mapping exercise between the two companies whose main aim will be to align human resources requirements.

HSSE Performance

There were no major safety incidents reported during the year ended 30th June 2023. The Company is compliant with all statutory requirements relating to matters of Health, Safety, Security and Environment. Work-Hours without Lost Time Injury (LTI) are shown on Table 1 below.

Table 1

Work-Hours without Lost Time Injury (LTI)

Target	4,000,000
Hours achieved (30 th June 2023)	3,994,901 (estimated 1 day remaining to achieve target)

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6. Report of the Chief Executive Officer (continued)

Table 2 below shows condensed Statement of Comprehensive Income for the period ended 30th June, 2023.

Table 2

	Note	FY 2022/2023	FY 2021/2022
		Kshs	Kshs
REVENUES			
Finance income	6	656,103	8,961,271
Other Income	7	1,512,626,116	1,246,362,387
Other gains/(losses)	8	(494,780,192)	(200,270,794)
TOTAL REVENUES		1,018,502,027	1,055,052,865
OPERATING EXPENSES			
Administration Costs	9	1,334,840,553	1,224,839,459
Finance Costs	10	318,582,958	204,621,625
TOTAL OPERATING EXPENSES		1,653,423,511	1,429,461,084
LOSS BEFORE TAXATION	11	(634,921,485)	(374,408,219)
INCOME TAX EXPENSE/(CREDIT)	12	(170,421,273)	(91,294,485)
LOSS AFTER TAXATION		(464,500,212)	(283,113,734)
Earnings per share - basic and diluted	13	(13)	(8)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
(Loss after taxation		(464,500,212)	(283,113,734)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(464,500,212)	(283,113,734)

The loss after tax and other comprehensive income for the year ended 30th June, 2023 was KES 465M compared to previous year's loss of KES 283M against planned loss of KES 106M. The loss is mainly due to realized losses of KES 37M arising from USD denominated transactions, unrealized losses of KES 458M arising from revaluation of USD denominated transactions, non-recovery of provision for interest on toll dead stocks KES 110M and depreciation expense of KES 120M on the defunct refining plant, idle captive power plant(CPP) and associated equipment for both plants


Signed by Acting Chief Executive Officer

7. Statement of Performance against Predetermined Objectives for FY 2023

Background Information about KPRL Strategic & Annual Budgeting Process

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

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

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

Under the Lease Agreement, the consideration for using KPRL facility is that KPC shall reimburse all KPRL operating and finance expenses at cost without a profit margin. KPRL staff were seconded to KPC except the CEO who manages the residual functions of KPRL as a legal entity. The agreement further provides that KPC may at its option undertake any upgrading, modification, expansion and/or new investment within the facility at its cost, which shall be treated as KPC's cost of investment. In the unlikely event of termination of the agreement before the takeover is actualized, KPC would be entitled to a refund of the upgrading costs by the GoK. A further conditionality for KPC's takeover of the operations of the KPRL facility was that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

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

On 18th 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 27th 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.

The roadmap for implementation of post-acquisition activities was approved by the respective boards of KPRL and KPC. Status quo remains in terms of the lease arrangement between KPRL and KPC. It is expected that by the 1st anniversary date (27th October, 2024) of the Share Transfer Agreement (STA), most of the post-acquisition activities will have been implemented to pave the way for operations of KPRL as a subsidiary of KPC.

7. Statement of Performance against Predetermined Objectives for FY 2023 (continued)

On 27th 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.

Strategic Pillars

Since 4th September, 2013 when refining operations were stopped, KPRL strategic plan is yet to be updated and unveiled. Despite the uncertainty about the going concern status of KPRL, the company is still guided by 5 strategic pillars and objectives within its Medium Term Budget for the FY2020/21-2023/24. These strategic pillars are as follows:

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

In line with the KPRL-KPC lease agreement, KPRL develops its annual work plans in collaboration with KPC based on the above 5 pillars. Assessment of the Board's performance against its annual work plan is done on a quarterly basis. The Company achieved its performance targets set for the FY 2022/2023 period for the 5 strategic pillars, as indicated in the diagram below:

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7. Statement of Performance against Predetermined Objectives for FY 2023 (continued)

Strategic Pillar	Objective	KPI	Activities	Achievements
Pillar 1:	To comply with ethical, governance and statutory requirements	Level of compliance with internal and external requirements.	Adherence to all company policies, operating procedures and statutory requirements.	<ul style="list-style-type: none"> • KPRL's level of compliance with internal and statutory requirements is very good. There were no penalties associated with gross non-compliance of internal and statutory reporting requirements.
Pillar 2:	Enhance and sustain shareholder value	<ul style="list-style-type: none"> • Operate within the approved budget. • Profitability 	<ul style="list-style-type: none"> • Budgeted operating activities under the revenue expenditure budget • Capital Expenditure Program 	<ul style="list-style-type: none"> • Actual total operating expenses for the year were KShs1.653bn representing 92% of approved total revenue expenditure budget of KShs1.809bn. The absorption rate of the budget was within plan.. • Actual expenses recovered from KPC were KShs1.482bn representing 91% of budgeted recoveries of KShs 1.627bn. The recovery rate of the expenses was within budget. • Year to date loss after tax and other comprehensive income for the year ended 30th June, 2023 was KES 465M compared to previous years loss of Kshs283M against planned loss of Kshs 106M. The loss is mainly due to realized losses of Kshs 37M arising from USD denominated transactions, unrealized losses of Kshs 458M arising from revaluation of USD denominated transactions, non-recovery of provision for interest on toll dead stocks Kshs 110M and depreciation expense of Kshs 120M on the defunct refining plant, idle captive power plant(CPP) and associated equipment for both plants. • Capital Expenditure Program on KPRL assets is controlled & executed by KPC and is KPC's cost of investment in their books.

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Strategic Pillar	Objective	KPI	Activities	Achievements
Pillar 3:	Secure long-term future of KPRL which was affected by closure of the refining operations since 4 th September, 2013.	-Sustainable operations that meet obligations of all stakeholders	Support Implementation of the Cabinet Directive of 11 th August 2016 that directed that the management of KPRL to be taken over by KPC.	<p>KPRL continued to operate under the KPRL/KPC lease. Agreement which was entered on 20th March, 2017. This arrangements is transitional until the modalities for operations of KPRL as a subsidiary are completed.</p> <p>On 26th April, 2022 KPC engaged PwC as transaction advisor for the takeover of KPRL. The final draft due diligence report was delivered on 16th December, 2022. On 18th July 2023 the Cabinet considered and approved the acquisition of KPRL by KPC.</p> <p>On 18th 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 27th 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.</p>
Pillar 4:	Respect and recognize the HSSE concerns of the community, OMCs, employees, service providers and compliance with the law.	HSSE incidents and level of compliance with applicable laws.	Implement HSSE Programs	<p>By 30th June 2023, KPRL had achieved 3,994,901 work hours without Lost Time Injury (LTI) against target of 4,000,000 work hours without LTI. Work Hours remaining to target were 5,099.</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 1,174,452M3 against plan of 1,153,824M3. Full potential is a turnaround tank capacity of 1.4 (196,000M3 per month) which is yet to be achieved by KPC.

8. Corporate Governance Statement

Leadership and Responsibilities

Overview

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization. Throughout the year ended June 2023, the Company endeavored to comply with its constitutive documents, The Constitution of Kenya 2010, Code of Governance for State Corporations 'Mwongozo' and The State Corporations Act. The Company is committed to supporting corporate governance guidelines through embedment of internal rules of engagement that reflect the highest standards of behavior.

Role of the Board

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

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

Division of Responsibilities

The chairperson is responsible for the leadership of the Board by ensuring effectiveness on all aspects of its role and facilitating productive contribution of all Directors. The Chair sets the Agenda for the Board meetings in consultation with the Chief Executive Officer and the Company Secretary.

Currently the board does not have a substantive Chairperson and nominates a Director from those present to facilitate coordination and functions of the Board and Management. This Director also executes any approved documents on behalf of the board. This position will continue until the appointment of a substantive chairperson by the relevant authority.

The Chief Executive Officer has overall responsibility for the performance of the business. He provides leadership to facilitate successful planning and execution of the objectives and strategies agreed by the Board. Currently, KPRL does not have a substantive Chief Executive Officer as a policy decision is awaited from the government on the future of the Company.

Information and Support

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

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8. Corporate Governance Statement (Continued)

Composition and Appointment of the Board

The composition of the Board as at 30th June 2023 is as set out in the key entity information on page (vi). During the current financial year, two (2) independent Directors retired upon expiry of their term, one (1) director resigned voluntarily while the alternate director from National Treasury retired upon attaining the mandatory retirement age.

As at 30th June, 2023 no appointments had been made to replace the retired Directors. The Directors come from a diverse industry and professional backgrounds with varied experience and expertise aligned to the needs of the business.

As detailed in the below schedule, the Board held five (5) full Board meetings, one (1) Business Committee meeting and two (2) Audit and Compliance Committee meetings during the year 2022/2023 with one (1) Annual General Meeting held on 8th December, 2022 at the Company's Boardroom.

Schedule of Meetings – Financial Year Ended 30th June 2023:

	Special Board	Full Board	Audit & Compliance Committee	Business Committee	Annual General Meeting
1	N/A	17 th August, 2022 (HK,HOG,JK,JWW,GM,LMZ)	16 th August, 2022 (LMZ,JK,HOG,GM)	16 th August, 2022 (HK,HOG,JK,JWW,GM,LMZ)	N/A
2	N/A	28 th September, 2022 (LMZ,JK,HOG,HK)	N/A	N/A	N/A
3	N/A	9 th November, 2022 (LMZ,JK,HOG,HK,JWW)	8 th November, 2022 (LMZ,HOG,JK)	N/A	N/A
4	N/A	9 th December, 2022 (LMZ,HK,HOG,JK,GM)	N/A	N/A	8 th December, 2022 (JK,HK,GM)
5	N/A	15 th February, 2023 (LMZ,HK,HG,JWW,J.SITIENEY)	N/A	N/A	N/A

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8. Corporate Governance Statement (Continued)

The attendance was as follows:

Name	Lilian Mahiri-Zaja	Hesbon Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula
Meetings to Attend	08	07	07	08	08
Meetings Attended	08	07	07	08	04

Information, Professional Development, Induction and Training

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

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

During the year under review, the following briefings and trainings were undertaken:

Name	Lilian Mahiri-Zaja	Hesbon Gondi	Henry Karinga	Joseph Kariuki	Joseph Wafula	Gerald Mwangi
Board evaluation under Mwongozo Code of Conduct: 21 st July 2022	Y	Y	Y	Y	Y	Y
KPRL Strategic Business Options and Performance Contracting: 17 th , 18 th & 19 th October 2022	Y	Y	Y	Y		

Conflict of Interest

Directors are required to give advance notice of any conflict of interest issues to the Chairperson and Company Secretary prior to any Board meeting. Declaration of no or any conflict of interest is the first agenda item for all Board meetings and a register is maintained. No conflicts were reported by any of the Directors during FY 2022/23.

Board Charter

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

8. Corporate Governance Statement (Continued)

Board and Member Performance

A board and Member performance appraisal was successfully undertaken under the direction of the State Corporations Advisory Committee. The results were discussed and a Performance Implementation Plan prepared.

Directors Remuneration

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

Role of the Business Committee

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

This committee also oversees the Company's human resources policy, practices and procedures.

Role of the Audit and Compliance Committee

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

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

Governance Audit

An audit of the Legal and Governance functions was undertaken in 2019. An audit is carried out every two years.

9. Management Discussion and Analysis

HUMAN RESOURCE HIGHLIGHTS

Establishment strength during the year ended 30th June 2023 stood at 116.

Management received guidance from the Salaries and Remuneration Commission (SRC) on the negotiations of a long delayed 2017 – 2020 CBA negotiations. KPRL engaged the Union who registered a disagreement and opted to seek further legal advice.

Staff performance evaluation and target setting for year FY 2022/2023 was undertaken. Managers and Supervisors were trained on the evaluation procedure as part of the annual activity.

The new Cabinet Minister and Permanent Secretary for Energy and Petroleum Mr Davis Chirchir and Mr Mohamed Liban respectively visited the Refinery on 19th December, 2022 and toured the facility as part of a familiarisation exercise of operations and projects under the Ministry at the Coast.



Tree planting during tour of the refinery by the CS Energy and Petroleum Mr. Davis Chirchir and PS for State Department of Petroleum Mr. Mohamed liban.

9. Management Discussion and Analysis (continued)

HEALTH SAFETY SECURITY & ENVIRONMENT HIGHLIGHTS

KPRL embarked on a journey towards achieving 3.5 Million workhours without Lost Time Injury on 12th July 2022. Delightfully, the milestone was achieved on 27th December 2022 after one hundred and seventy (170) working days of commitment and focus towards good HSE practices by all staff and contractors. Management approved issuance of a safety token towards this milestone in line with our policy on rewarding HSE Performance.

The Company's Health, Safety and Environment Management System (HSE-MS) underwent its 3rd cycle of Recertification Audit on 27th to 30th June 2023. Following the audit, KPRL was recommended for certification for another three (3) year cycle.

On 3rd May 2023, the world celebrated International Firefighters Day. KPRL was represented by three (3) members of staff to the event held in Shika Adabu Fire Station in Likoni Constituency, Mombasa County. KPRL was awarded a trophy for best drill demonstrated on the day and dedication in Fire Safety within the company and neighbouring community and the three staff members were awarded recognition certificates for commitment in upgrading the skill levels of County Firefighters



KPRL Team awarded recognition certificates for commitment in upgrading skill levels of County Firefighters

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9. Management Discussion and Analysis (continued)

HEALTH SAFETY SECURITY & ENVIRONMENT HIGHLIGHTS

The table 4 below shows the status of HSSE licenses.

S/NO	LICENSE	EXPIRY DATE
1	ISO 14001 Certificate	Certificate No. KE002541 Expiry 05/07/2023 Recertification audit was done on 27 th to 30 th June 2023. Currently awaiting Certificate issuance.
2	NEMA Effluent Water Discharge License	License No: NEMA/WQ/EDL/12354 Expiry- 31/12/2022 Certificate renewal was done on 24 th October 2022. Following up on issuance from NEMA.
3	DOSHS Workplace Certificate.	Changamwe - Certificate No. 0008190-02-23-R Expiry 20/01/2024 PortReitz - Certificate No. 0008192-02-23-R Expiry 20/01/2024
4	Fire Equipment Inspection by Mombasa County	Inspection done on 23/11/2022, Certificate Ref No ARN-AAA00IV2- Changamwe REF No. ARN-AAA03UK3- PortReitz Dated 20 th February 2023, expiry February 2024
5	Business License by EPRA	Storage of Petroleum Products Except LPG Expiry 17/07/2023(Renewal done awaiting license) Storage of LPG in Bulk Expiry 21/08/2023
6	Annual County Government Business license.	Date of Issue: 31/01/2023 Expiry: 31/12/2023

9. Management Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

Revenue

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

Year to date lease recoveries for FY2022/23 were Kshs 1.482bn against planned recoveries for the year of Kshs 1.627bn, representing 9 % below plan.

Operating Expenses

Total operating expenses are made up of administration and finance costs as detailed below.

Administration Costs

Administration costs for the year were Kshs1.335bn against annual budget of Kshs1.535bn, representing 13% below plan.

Finance Costs

Interest charged on the outstanding bank loans was Kshs 209M against plan of Kshs 208M. Also included in the finance costs is provision for interest on hydrocarbons dead stock amounting to KES 110M against year to date budget of KES 65M representing 69% unfavourable variance caused by weakening of the KES against the USD.

Loss after Tax and Other Comprehensive Income (OCI)

The loss after tax and other comprehensive income for the year ended 30th June, 2023 was Kshs 465M compared to previous year's loss of Kshs 283M and budgeted loss of Kshs 106M. The loss is mainly due to realized losses of Kshs 37M arising from USD denominated transactions, unrealized losses of Kshs 458M arising from revaluation of USD denominated transactions, non-recovery of provision for interest on toll refinery dead stocks Kshs 110M and non-recovery of depreciation expense of Kshs 120M on the defunct refining plant, idle captive power plant(CPP) and associated equipment for both plants.

9. Management Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

STATEMENT OF FINANCIAL POSITION

The statement of financial position is shown on page 2.

Non- Current Assets

The net book value of non-current assets reported at historical cost as at 30th June, 2023 was Kshs 2.67bn compared to Kshs 2.88bn at the beginning of the financial year. Detailed breakdown of property, plant and equipment is shown on note 15 of the financial statements. The decline in net book value of the assets is due to provision for depreciation. No provision has been made for impairment of the defunct refining plant, and associated equipment. KPRL stopped refining operations with effect from 4th September, 2013.

Following the conversion of the Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme with effect from 1st 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 30th June, 2023 was Kshs 845M compared to Kshs 820M 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 845M in the DC fund.

Deferred Tax Asset

As at 30th June 2023, deferred tax asset was Kshs 198M. A deferred tax asset is business tax credit for future taxes, and a deferred tax liability means the business has a tax debt that will need to be paid in future. The significant change affecting the treatment of deferred tax is that the Finance Act, 2021 removed the time restriction on carry forward of losses effective 1st January 2022, thus enabling KPRL to recognise deferred tax asset from previous years.

Current Assets

As at 30th June 2023, total value of current assets was Kshs 2.301bn, made up of inventories totaling Kshs 1.126bn made up of crude & finished products inventories Kshs 306M, plant, equipment spares & other consumables Kshs 820M, trade & other receivables Kshs 337M, tax recoverable Kshs 833M, and bank & cash balances Kshs 5.4M. Detailed analysis of the trade and other receivables is shown on note 21 of the financial statements.

Current Liabilities

As at 30th June 2023, total current liabilities were Kshs 5.533bn made up of borrowings Kshs 1.939bn, Short Term Loans from GoK Kshs 1.635bn, Cash Advance from KPC Kshs 162M, trade & other payables KES 1.772bn. Detailed analysis of the borrowings, trade and other payables is shown on notes 29, 30, 31 and 32 to the financial statements.

9. Management Discussion and Analysis (continued)

FINANCIAL HIGHLIGHTS

The current liabilities exceed current assets by Kshs 3.232bn due to outstanding short-term loans from GoK, bank overdraft and CPP term loan which was converted to a current loan after default. In May 2020 KPRL began partial repayment of the bank loans using depreciation recoveries from KPC as provided for in the lease agreement.

STATEMENT OF CASH FLOWS

The statement of cash flows is shown on page 4.

Cash generated from operations

Net cash generated from operating activities for the year was Kshs 3.18M.

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 end 30th June, 2023.

Financing activities

The net cash applied in financing activities was Kshs 293M. This amount includes cash advance of KShs 82M from KPC, partial principal loan repayment of Kshs 57M towards captive power plant term loan, interest paid on outstanding bank loans Kshs 209M and provision for interest on dead stock Kshs 110M. Full restructuring of the power plant term loan and bank overdrafts is still pending.

Net increase in cash and cash equivalents

The net decrease in cash and cash equivalents was Kshs 89M. The closing deficit of cash and cash equivalents as at 30th June, 2023 was Kshs 720M as shown in more detail in note 36(c) to the Financial Statements.

9. Management Discussion and Analysis (continued)

ENGINEERING HIGHLIGHTS

Introduction:

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

I) Rotating & Mobile Equipment

The periodic rotating of rotors for pumps at pre-determined intervals continued and some compressor were noted to be stuck and vales were opened to release stuck pistons. The pumps are still in gasoil preservation while compressors are in nitrogen preservation. The required condition monitoring of rotating equipment in operation continued. Gulley sucker engine and one fire tender were serviced and all scheduled relieve valves. Nine pumps were worked on, Four Instrument air compressors were worked on where K1601 which had been out for a long time was brought back to serve in the instrument air service and Workshop overhead crane was serviced.

II) Storage Tanks and Pipelines

There was work carried out on eighteen tanks where 19no. were completed and commissioned for operational use while repairs are progressing on nine tanks with expected completion by end of the year 2023. Pressure Vacuum (PV's) and relief valves were serviced as per schedule. Routine maintenance was carried out on fire water pipelines and corroded access platforms to various tanks. Intelligent inspection Pigging of 8" Multi-product & LPG lines from KPRL Changamwe to Shimanzi Oil Terminal carried out in October 2022.

III) Site Works

There was general site cleaning and clearing of grass where herbicides on grass and landscaping were carried out. Routine site works were carried out on; boundary fences, houses, roads, plumbing and cleaning of storm drains and desludging. The following works were carried out; Phased tiling of KPRL main office first floor and external painting, Phased upgrade of KPRL tank farm storm drains and Roofing and upgrade of the loading, Replacement of damaged KOT fences and reinstatement of broken tank bund/gabions and installation of stone pitching, Fencing and gating of engineering yard, Renovation of KPRL sports club and pavilion demolition, Rerouting of KPRL Estate sewer line at Zone A, phased surface dressing of KPRL carpark, Waterproofing of main office Annex, training center block and sub 2. The main interceptor cleaning /desludging commenced in May 2023.

IV) Captive Power Plant (CPP).

CPP weekly engine spinning using turning gear method went on as routine. Replacement of the defective solenoid valve was done on 15th September 2022 and on attempts to conduct the normal preservation spin thereafter, the procedure turned out unsuccessful due to an error on the external PC hard disc. The challenge now being that the Wartsila Operator Interface System(WOIS) page is not turning ON.

9. Management Discussion and Analysis (continued)

ENGINEERING HIGHLIGHTS

V) Instrumentation & Control

The scheduled checks and testing of safeguarding systems were done as planned. Normal maintenance requirement noted and carried out for all instrumentation & control system (CCTV, Smoke & fire detection system, truck loading meters, safe guarding (ESD) system, transmitters, ATG, LPG leak detection system etc) . Carried out Calibration of the 100T and 80T weighbridges and AGO and PMS meters. quarterly maintenance on all CCTV surveillance system and routine checks on all floating roof tanks fire detection systems. Completed Installation and commissioning of the new fire & alarm detection systems within KPRL Changamwe Facility.

VI) Electrical

KPRL Substation No.1, 2Nos. Transformer tap-changers inspection, repairs and maintenance scope of works were implemented by the Original Equipment Manufacturer (OEM) as from the 14th November 2022 and were completed. Repairs of the KPRL electric fence which was reported to have been vandalised on 4th Nov 2022 was repaired and system restored. Routine activities involving batteries maintenance for emergency generators, UPS's and fire water pumps batteries were carried out. Cathodic protection system surveys and inspection of Portreitz overhead transmission lines went on as planned. KPRL Substation No.1, Transformer No.2 incomer switchgear has malfunctioned and a follow up with OEM to restore normal operation is ongoing. Tripping battery charging units' replacement for Substation No.3 switchgear protection relays which failed, is to be retendered in FY2023/24 due to the vendor inability to deliver. P607B Control cable for truck loading failed. Procurement for a replacement is now complete and awaiting installation works.

VII) Inspection & Integrity

Provided technical inspection support to PS14 team and supervision on KOT2 piping works (pipelines painting and purging) and Tank 602 new nozzle installation. Certification of qualifications of new welders for line 5 connectivity, pipeline and pumps and tank works. Carried out quality assurance control and (QA/QC) surveillance for; Line 5 connectivity project works, 8" LPG and MPL Transfer lines intelligent pigging, 19no. tank works and pipeline and pump works. Routine visual and NDT of KPRL storage tanks, piping and safety relief devices overhaul and inspection as per program scheduled. Pilot inspection of 18" crude line to address cathodic protection Integrity and is still progressing.

VIII) Early Oil Pilot Scheme Project:

The Contract for supply/installation of pipelines, pumps & other accessories at Changamwe and KOT was terminated as the contract expired on 30th June, 2021. Tender for remaining works was done to the same contractor to facilitate completion and awarded. The tender lapsed on 28th November 2022 and an extension of time was granted up to 29th January 2023. The second extension was given which ended on 23rd March, 2023. The contract is on defect liability period in which the contractor is working on punch list expected to be complete by July, 2023.

9. Management Discussion and Analysis (continued)

ENGINEERING HIGHLIGHTS

IX) Other Projects

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

1. Upgrading of truck loading facility – The contract expired and terminated on default; Procurement of pending project items to be tendered and awarded, materials procurement progressing for in-house implementation of the remaining works by end on the year 2023.
2. 2022/23 CAPEX Projects status is as indicated below:
 - a. KPRL Changamwe connectivity to Main Line 5- Contract signed and works commenced on 11th April 2022. Project progress is currently at 71% completion, expected completion is on 30th September 2023.
 - b. LPG Truck Loading Facility at KPRL - Contract signed and works commenced on 16th June, 2022. Project progress is currently at 60 % completion.
 - c. Rehabilitation of KPRL Port Reitz tanks KOT contract – Contract commencement date was 15th June, 2022 and the implementation progress is at 51%.
 - d. Connectivity of KPRL Portreitz Tank Farm to Line 5, KOT 2, & KOSF - The contract was awarded and works commenced on 18th July 2022. Implementation is ongoing at 46%
 - e. Replacement of Desktops and Laptops – 22 Laptops delivered to KPRL on 11th November 2022.
 - f. Replacement of 30 Laptop Computers – Laptops delivered in June 2023
 - g. Replacement of Data Centre Servers and LAN Base Switches – Contract commenced in September 2022 and was completed in June 2023.
 - h. Power supply of KPRL Fire water pump from substation No.3– Contract signed in June and runs for 6 months to late Dec 2023, currently at 5%.
 - i. Replacement of LPG Analysers - Contract was awarded and equipment delivered, tested and handed over. Project complete.
 - j. Replacement of KPRL Fire Detection Alarm System- Contract signed and works implementation is completed.
 - k. Upgrade of KPRL administration block switchgear room and standby power supply- tender terminated due to non-responsiveness. – No budget allocation for this financial year.
 - l. KPRL R22 Refrigerant air-conditioning system- Contract awarded in late June 2023, to run for six months to end of December 2023.
 - m. Construction of staff car parking sheds- Proposed in-house implementation did not kick off. – No budget was allocated this financial year.

9. Management Discussion and Analysis (continued)

REVIEW OF THE PETROLEUM SECTOR AND ONGOING PROJECTS

Oil and Gas Exploration

In March 2023, Tullow and its JV Partners submitted an updated Field Development Plan to the Ministry of Energy and Petroleum and the Energy and Petroleum Regulatory Commission Authority, for their approval. The plan provides a roadmap of how the resources in the South Lokichar basin are to be exploited. This is currently under review by the relevant authorities.

The New Kipevu Oil Terminal (KOT-2)

The new Kipevu Oil Terminal was commissioned on 4th August 2022. The Oil terminal has three functional berths and can discharge and backload three larger petroleum tankers simultaneously to facilitate the importation and exporting of petroleum products into and out of the country. This facility has enhanced efficiency in handling petroleum products addressing the major challenges of safety and efficiency experienced by the old KOT jetty.

The Kenya Pipeline Company is undertaking a project to connect the new KOT terminal with its storage facilities located at KPRL Port Reitz. Once completed, this project will add about 100 million litres storage capacity of petroleum products and will significantly reduce demurrage costs associated with availability of storage capacity.

Government to Government (G to G) Importation of Petroleum Products

In January 2023, the government published a new regulation for Petroleum importation under legal Notice NO. 3. The new Government to Government (G to G) arrangement importation of petroleum products through the Government to Government arrangement that was projected to deflate demand for the USD to curb speculation and reduce the depreciation of the Kenya Shilling (KES) resulting in enormous macro-economic benefits considering that Kenya is a net importer of various finished products. In April 2023, the first consignment was received and the immediate gain was the ease of making payments to the importer in Kenya Shillings.

LPG Projects

The Government has a plan is to drive the per capita consumption of LPG at the household level to 13kg by 2030 and through the Ministry of Energy and Petroleum, the Government aims at ensuring the transition of all learning institutions in the country from the use of biomass for cooking to the use of LPG by the year 2025. This LPG Enhancement Program is aimed at reducing deforestation and also helps in reducing health complications associated with indoor pollution.

To meet this objective, a number of LPG projects are at different stages of implementation in Kenya. The Kenya Pipeline Company has undertaken a Front End Engineering Design (FEED) for a 30,000MT LPG facility in Mombasa. The project is expected to proceed to implementation in 2024. Among the planned investments in LPG by private sector includes a facility by Taifa Gas. The company is expected to build the 30,000-tonne Kenya facility at the Special Economic Zone in Dongo Kundu, near the port of Mombasa and the project was launched by H.E. The president in February, 2023

10. Environmental and Sustainability Reporting

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

i) Sustainability strategy and profile

KPRL has been in transition mode since 4th September, 2013. The company's refining operations stopped on 4th September, 2013 and the plant was shut down effective the same date. The main reason quoted for the shutdown was that the refinery gate prices of the products produced by the refinery were marginally higher than those of imported products. As an interim measure, on 20th March, 2017, KPRL signed a 3 year operating lease agreement with KPC. The Lease Agreement was a culmination of the exit of Essar from shareholding at KPRL, and the termination of the crude oil processing at KPRL, where upon the major assets of KPRL were underutilized. The lease arrangement was therefore seen as an interim phase to allow the finalisation of the due diligence and decision making on the pending takeover of KPRL by KPC. The Lease Agreement was operationalized with effect from 1st June, 2017.

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

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement, KPC and KPRL expressed interest and mutually agreed to extend the Term of the Agreement for a further period of six (6) months with effect from 20th June, 2021 with automatic month to month extension until the implementation of the joint proposed roadmap on takeover of KPRL by KPC is completed.

On 26th April, 2022 KPC engaged PwC as transaction advisor for the takeover of KPRL. The final draft due diligence report was delivered on 16th December, 2022. On 18th 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 18th 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 27th 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.

10. Environmental and Sustainability Reporting (Continued)

Strategic Pillars

Since 4th September, 2013 when refining operations were stopped, KPRL strategic plan is yet to be updated and unveiled. Despite the uncertainty about the going concern status of KPRL, the company is still guided by 5 strategic pillars and objectives within its Medium Term Budget for the FY2020/21-2023/24. These strategic pillars are as follows:

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

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 activities undertaken. Consequently, the company continued to comply with applicable laws.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2023

10. Environmental and Sustainability Reporting (Continued)

ii) Environmental performance (continued)

Table 5 below shows status of HSSE Audits

S/NO	AUDIT	REMARKS
1	Fire Safety Audit	• The audit was done on 20 th to 22 nd December 2022.
		• Final report submitted had no major findings.
		• The next audit is scheduled for December 2023.
2	Occupational Health and Safety Audit	• This was carried out on 6 th to 8 th June 2023. The final report was submitted to KPRL on 29th June 2023 with no major findings.
		• Close out of the minor findings & observations is ongoing.
		• The next audit is scheduled for April 2024
3	ISO 14001:2015 Second Surveillance Audit	• Re-certification Audit was done on 27 th to 30 th June 2023. Close out of audit items is in progress.
		• The 1st Surveillance Audit by Bureau Veritas is scheduled for July 2024
4	Air Quality Monitoring	• This was done on 12 th and 15 th June, 2023.
		• All measured parameters were within permissible limits.
		• The next Survey is scheduled for June 2024.
	Noise Survey	• Noise Survey carried out on 5 th , 8 th and 15 th May 2023.
		• No exposure was noted as all parameters were within occupational noise level guidelines.
5	Statutory Medical Examination	• The exposed staff were examined on 24 th to 25 th January 2023.
		• No occupational illness was reported.
		• The next examination is scheduled for January 2023.

Corrective actions from the audits and inspections continue to be implemented with the aim of improving KPRL HSSE performance.

10. Environmental and Sustainability Reporting (Continued)

ii) Environmental performance (continued)

Hazardous and non-hazardous wastes were disposed in accordance with applicable waste management regulations. In the year under review, KPRL implemented phase one removal, transportation and disposal of asbestos off site as per National Guidelines on Safe Management and Disposal of Asbestos (2013). Phase two will progress in FY2023/2024 which will include not only removal but also replacement of roofing sheets in some areas.

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 planted over two hundred and seventy (270) trees on site.



KPRL CEO CPA Joseph Ndoti (extreme right in orange) led members of staff and contractors in planting trees near the KPRL Truck parking area.

10. Environmental and Sustainability Reporting (Continued)

iii) Employee welfare

Statutory and CPD related training were carried out as per Government direction during the year. Training remains an important facet in Human Resources Management and in realisation of overall corporate objectives.



KPRL Staff and in house contractors after successfully completing First Aid Training for the year 2023.

KPRL accepted students from various universities and colleges for its attachment programme during the year as well as the PSC interns who are well settled in their respective programmes.

Kenya Pipeline Company/Kenya Petroleum Refineries Ltd organized a Sports Day/Team Building exercise in November 2022 at the KPA Mbaraki Sports Club. The activity included indoor and outdoor games for participants. KPRL employees participated in the full day event.

In December 2022, various employees were recognised for having attained 10 years of service and above. Long service certificates were issued accordingly.

10. Environmental and Sustainability Reporting (Continued)

iv) Market place practices

a) Responsible competition practice.

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

b) Responsible supply chain and supplier relations

KPRL honours contractual obligations. As at 30th June, 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 20th March, 2017, KPRL operates under the KPC-KPRL lease agreement that transferred customer care, marketing practices and contractual arrangement between KPRL and Oil Marketing Companies (OMCs) to KPC.

e) Corporate Social Responsibility / Community Engagements

KPRL supports the community it operates in by donating towards various activities. The organization donated 20 cartons of water and milk to the Changamwe Sub County Adult and Continuing Education office to celebrate the International Literacy Day celebrated on 8th September every year.

In support of Mashujaa day celebration in Changamwe Sub County held on 20th October, 2022, KPRL donated 29 crates of soda.

KPRL also donated 35 cartons of water to the Changamwe sub-county Gender office in celebration of the International Women's Day which is celebrated globally. The donation was handed over on 3rd March, 2023.

10. Environmental and Sustainability Reporting (Continued)

e) Corporate Social Responsibility / Community Engagements (continued)

KPRL staff participated in the Standard Chartered Marathon held on 23rd September, 2022. Participants were awarded medals and tree seedlings to plant back home.

Most of these seedlings were planted at the KPRL staff Estate.



KPRL Staff participating in the Standard Chartered Marathon, Mombasa chapter

10. Environmental and Sustainability Reporting (Continued)

e) Corporate Social Responsibility / Community Engagements (continued)



KPRL Human Resources Manager, Mr. Martin Wahome issuing a cheque to one of the beneficiary of the bursary award programme that was a collaboration between KPRL and Torch Sacco. KPRL contributed Kshs. 200,000/- toward the initiative.

11. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023, 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 the Lease Agreement and Road Map for Take Over of KPRL by KPC

On 26th April, 2022 KPC engaged PwC as transaction advisor for the takeover of KPRL. The final draft due diligence report was delivered on 16th December, 2022. On 18th 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 27th 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.

ii) Results

The results of the entity for the year ended June 30th 2023, are set out on page 1 to 5. Following is a summary of the profit or loss made during the year.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2023

11. Report of the Directors (continued)

SUMMARISED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME			
	Note	FY 2022/2023	FY 2021/2022
		Kshs	Kshs
REVENUES			
TOTAL REVENUES	6,7,8	1,018,502,027	1,055,052,865
TOTAL OPERATING EXPENSES	9,10	1,653,423,511	1,429,461,084
LOSS BEFORE TAXATION	11	(634,921,485)	(374,408,219)
INCOME TAX EXPENSE/(CREDIT)	12	(170,421,273)	(91,294,485)
LOSS AFTER TAXATION		(464,500,212)	(283,113,734)
Earnings per share – basic and diluted	13	(13)	(8)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Loss after taxation		(464,500,212)	(283,113,734)
Surplus or deficit on revaluation of PPE		0	0
Re-measurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(464,500,212)	(283,113,734)

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 vi

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

.....

Name

Corporate Secretary

Date

12. 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, 2023. 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, 2023

Statement of Directors' Responsibilities (Continued)

The Directors are of the opinion that the KPRL financial statements give a true and fair view of the state of the company's transactions during the financial year ended June 30, 2023, 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 _____ 2024 and signed on its behalf by:

.....

Name
Director



Name
Ag. Chief Executive Officer

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 1 to 59, which comprise of the statement of financial position as at 30 June, 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant

accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kenya Petroleum Refineries Limited as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, and do not comply with International Financial Reporting Standards (IFRS), the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Undisclosed Material Uncertainty Relating to Going Concern

During the year under review the Company recorded a loss of Kshs.464,500,212 (2022: loss of Kshs.283,113,734) eroding its retained earnings by the same amount. Further, the Company's current liabilities of Kshs.5,532,595,094 exceeded its current assets of Kshs.2,300,963,784 by Kshs.3,231,631,390 thus the Company may struggle to meet its 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 is dependent on the Government and creditors.

2. Property, Plant and Equipment

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.2,669,510,952 as disclosed in Note 15 to the financial statements. However, review of the support documents in respect of the assets revealed the following inaccuracies:

2.1 Refinery Assets Not Assessed for Impairment

The property, plant and equipment balance of Kshs.2,669,510,952 includes refinery assets which have been idle since the company ceased refinery operations in 2013. The idle state of the assets presents an indication that the refinery's property, plant and equipment may be significantly impaired. However, the Company has not made an impairment adjustment in the financial statements as required by International Accounting Standards (IAS) 36 Impairment of assets. This is despite a Board approval vide Board paper No. 3 of 2020, that approved impairments of redundant assets with a net book value of Kshs.3,263,071,874 as at 20 January, 2020. However, as at the time of audit in the month of April, 2024, the decision was still awaiting endorsement by the Ministry of Petroleum.

2.2 Inclusion of Non-Capital Expenses in Work in Progress

The property, plant and equipment includes capital work-in-progress totalling Kshs.621,267,926. The amount was incurred on a feasibility study for upgrading of the refinery in 2012. As indicated in the preceding paragraph, petroleum refining operations were discontinued in September, 2013 and therefore the study did not result in an upgrade or improvement of the refinery. The cost of the feasibility study ought to have been expensed as recurrent expenditure in line with the IAS 16 - Property, Plant and Equipment.

2.3 Fully Depreciated Assets

Review of the asset register revealed several assets which were fully depreciated but were still in use, with a total gross cost of Kshs.2,218,160,515. 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 made disclosures of the gross carrying of the assets in the financial statement as recommended by IAS 16.

In the circumstances, the accuracy and completeness of the property, plant and equipment balance of Kshs.2,669,510,952 could not be confirmed.

3. Unconfirmed Trade and Other Payables Balance

The statement of financial position reflects Kshs.1,771,664,383 in respect of trade and other payables as disclosed in Note 32 to the financial statements. The following observations were made:

3.1 Unresolved Yield Shift Variances

The trade and other payables balance includes an amount of Kshs.1,460,342,873 in respect of other payables which relates to cumulative provision for interest on dead stock. The provision was as a result of unresolved yield shift matter between the Company and Oil Marketing Companies (OMCs) on yet to be lifted dead stock products that the Company was still holding. However, the movement in provision of Kshs.340,362,287 between the prior year and the current year provisions of Kshs.1,119,980,586 and Kshs.1,460,342,873 respectively, was reflected as Kshs.109,635,886 under finance cost, resulting to an unexplained variance of Kshs.230,726,401.

In addition, a forensic auditor engaged by OMCs and Kenya Petroleum Refineries Limited (KPRL) as directed the Ministry of Energy and Petroleum reported a difference between programme yields and actual yields. The value of the yield shifts for the period March 2002 to August, 2012 was valued at Kshs.7,174,097,776, out of which, Kshs.3,515,911,634 was yet to be reflected in the OMCs statements. The forensic auditor recommended that both KPRL and the OMCs adjust the stock balances to reflect the yield shift and that discussions be held on how the losses would be borne. However, KPRL indicated that they were not liable for losses arising from yield shifts under the toll processing agreements.

3.2 Long Outstanding Trade and Other Payables

Review of the payables revealed that Kshs.18,538,380 and Kshs.3,237,279 in respect of tax penalties and paymaster general, respectively had been long outstanding. Management did not justify non-settlement of the amounts which may continue incurring interest and penalties and did not provide support for the amounts relating to Paymaster General.

In the circumstances, the accuracy and completeness of trade and other payables balance of Kshs.1,771,664,383 could not be confirmed.

4. Unconfirmed Inventories Balance

The statement of financial position reflects inventories with a net book value of Kshs.1,125,949,941 as disclosed in Note 20 to the financial statements. Review of inventory records and other supporting documents revealed inaccuracies and anomalies as detailed below:

4.1 Valuation of Engineering Stores

The inventories balance includes engineering stores totaling Kshs.810,292,418 valued at cost. The materials were acquired before refining operations were shut down on 4 September, 2013. However, despite the items being unused for over a decade, they have continually been carried in the books of the Company at cost, instead of their salvage values, if any. Management indicated that action on the matter was awaiting the Government decision on the future of the Company.

4.2 Obsolete Stocks

Review of documents and records of inventory stores revealed no evidence of reports from the officer in charge of the stores to the Head of Procurement indicating obsolete and unserviceable stores despite some of the stock items having no movement for years. Further, the In-charge of Refinery Department did not identify items due for disposal including stock items which have not been used for years since the refinery was closed.

In the circumstances, the accuracy and fair value of the inventories balance of Kshs.1,125,949,941 could not be confirmed.

5. Unreconciled Related Entities Balances

The statement of financial position reflects trade and other receivables amounting to Kshs.336,797,609 after a provision of bad and doubtful debt of Kshs.152,869,993 as disclosed in Note 21 to the financial statements. Included in the trade and other receivables balance is an amount of Kshs.228,055,852 due from the Kenya Pipeline Company (KPC). However, records from KPC reflects a payable amount of Kshs.285,996,792 resulting to an unexplained variance of Kshs.64,778,538.

Further, receivables amounting to Kshs.160,828,667 had been outstanding for over one hundred and eighty (180) days and Management did not demonstrate measures taken to ensure recovery of the debts.

In the circumstances, the accuracy and completeness of trade and other receivables balance of Kshs.336,797,609 could not be confirmed.

6. Variances in Staff Cost Expenses

The statement of profit or loss and other comprehensive income reflects an expenditure of Kshs.1,334,840,553 as disclosed in Note 9 to the financial statements incurred on administration costs. The amount includes staff costs of Kshs.439,042,263, out of which, Kshs.344,302,478 was in respect of gross salaries as reflected in the Company's payroll. However, the amount differed with the declared salaries in the Kenya Revenue Authority (KRA) iTax portal, which reflects Kshs.332,200,365 resulting in an unexplained variance of Kshs.12,102,113.

Further, Note 9 (a) reflect an expenditure of Kshs.328,544,758 in respect of salaries and allowances of permanent employees. However, the supporting ledger provided for audit revealed an expenditure of Kshs.344,302,478 resulting in an unexplained variance of Kshs.14,122,280.

In the circumstances, the accuracy and completeness of the staff costs amounting to Kshs.439,042,263 could not be confirmed.

7. Unexplained Variance on Other Income

The statement of profit or loss and other comprehensive income reflects Kshs.1,512,626,116 in respect of other income as disclosed in Note 7 to the financial statements. The other income balance includes an amount of Kshs.1,481,642,253 relating to lease recoveries from the Kenya Pipeline Company (KPC). However, confirmation of the amount from (KPC) records revealed total reimbursements from KPC amounting to Kshs.1,492,737,848 resulting to an unreconciled variance of Kshs.11,095,595.

In the circumstances, the accuracy and completeness of other income amount of Kshs.1,512,626,116 could not be confirmed.

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

Key Audit Matters

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

Other Information

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Under Declaration of Taxable Income and Liabilities

Review of the Kenya Revenue Authority (KRA) iTax portal revealed liabilities resulting from non-filing of tax returns amounting to Kshs.15,979,132, Kshs.6,312,992 and Kshs.71,191 in respect of interest accruing from Value Added Tax (VAT), Corporation Tax and VAT services, respectively. In addition, a penalty of Kshs.325,650 was levied due to corporate tax violations. It was not clear why Management failed to file accurate sales returns and clear VAT obligations with KRA. This was contrary to Section 19 (2) of the Value Added Tax Act, 2013 which states that a registered person may defer payment of tax due to a date not later than the twentieth day of the month succeeding that in which the tax became due.

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

2. Non-Implementation of e-Procurement

During the year under review, the Management procured goods, works and services for Company operation. However, the procurements were not done through e-procurement 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.

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 confirmed.

4. Employees Acting for More than Six Months

Review of human resource records revealed that six (6) employees had been performing roles in acting capacity for a period of more than 6 months contrary to set provisions in the public service framework. Some of the appointees to the acting positions had been in the roles for periods exceeding twenty (20) months. No explanation was provided on why the positions have not been advertised and competitively filled.

In addition, review of records provided for audit revealed that the acting Chief Executive Officer (CEO) was appointed on 4 October, 2019 for an initial twelve (12) months and has held the position in acting capacity for over four years. This is 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. Further, the Board of Directors has since been extending his tenure as acting CEO for a period of twelve months. As at 30 June, 2023, the CEO was still in an capacity contrary to the directive of filling of acting positions within six (6) months of occurrence.

In the circumstances, the Management was in breach of Public Service policies and guidelines.

5. Irregular Variation of System Maintenance Fees

During the year under review, USD 69,308.56 (Kshs.7,706,342) was paid a service provider for maintenance an Enterprise Resource Planning (ERP) system. The contract with the provider signed on 25 April, 2022 provided for an annual software license, maintenance and support fees of USD 7,400. The contract had expired, and the firm has

been engaged under deed variations to extend the contract. However, the deed of variation did not provide the fees to be paid for the annual software license, maintenance and support fees. The basis for the price changed was not provided for audit review.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Non-Compliance with Mwongozo Code of Governance

Review of Board composition and activities during the year revealed the following anomalies and non-compliance:

- i. Biodata of Directors provided for audit reflected that the Board of KRPL did not have a Director with financial expertise as required and defined in Mwongozo 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 to be (7) Members. Consequently, the Board could not achieve the required quorum for full Board meetings, thus limiting its ability to discharge of its mandate and roles.
- iii. Further, one Director had served in the Board for twenty (20) years before exiting in February, 2023 while two (2) other Directors had served for over seven (7) years. This was contrary Mwongozo code of Governance for State Corporations 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. Excess Board Meetings

Review of Board meetings minutes and attendance registers revealed that the Board held nine (9) full Board meetings exceeding the maximum number of six (6) meetings set by the Head of Public Service circular dated 11 March, 2020. Further, the meetings were held at a hotel in Diani which was not the registered office of the Company. No approval was provided from the Cabinet Secretary to approve the extra meetings and the venue as required by the circular.

3. 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, the 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.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement,

whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and 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

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 June, 2024

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2023

14. Statement of Profit or Loss and Other Comprehensive Income for the year ended 30th June 2023.

	Note	FY 2022/2023	FY 2021/2022
		Kshs	Kshs
REVENUES			
Finance income	6	656,103	8,961,271
Other Income	7	1,512,626,116	1,246,362,387
Other gains/(losses)	8	(494,780,192)	(200,270,794)
TOTAL REVENUES		1,018,502,027	1,055,052,865
OPERATING EXPENSES			
Administration Costs	9	1,334,840,553	1,224,839,459
Finance Costs	10	318,582,958	204,621,625
TOTAL OPERATING EXPENSES		1,653,423,511	1,429,461,084
LOSS BEFORE TAXATION	11	(634,921,485)	(374,408,219)
INCOME TAX EXPENSE/(CREDIT)	12	(170,421,273)	(91,294,485)
LOSS AFTER TAXATION		(464,500,212)	(283,113,734)
Earnings per share - basic and diluted	13	(13)	(8)
Dividend per share	14	0	0
OTHER COMPREHENSIVE INCOME			
Loss after taxation		(464,500,212)	(283,113,734)
Surplus or deficit on revaluation of PPE		0	0
Remeasurement of net defined benefit liability		0	0
Fair value gain/(loss) on investments in equity instruments designated as at FVTOCI		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(464,500,212)	(283,113,734)

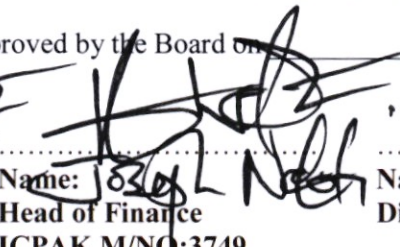
Kenya Petroleum Refineries Limited Annual Report and Financial Statements for the year ended June 30, 2023

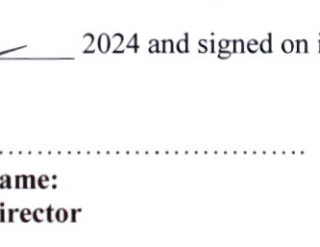
15. Statement of Financial Position as at 30th June 2023

	Note	FY 2022/2023 Kshs	FY 2021/2022 Kshs
ASSETS			
Non-Current Assets			
Property, plant and equipment	15	2,669,510,952	2,882,802,124
Prepaid operating lease rentals	16	6,181,358	6,393,904
Investments -KPRL Pension Trust ltd	17	10,000,000	10,000,000
KPRL Investment in DC Pension Fund	18	844,681,230	820,399,308
Deferred Tax Asset	19	197,832,231	25,224,506
Total Non-Current Assets		3,728,205,771	3,744,819,842
Current Assets			
Inventories	20	1,125,949,941	1,138,208,284
Trade and other receivables	21	336,797,609	288,155,544
Tax recoverable	22	832,788,256	683,354,835
Short-term deposits	23	0	51,322,260
Bank and cash balances	24	5,427,978	31,313,252
Total Current Assets		2,300,963,784	2,192,354,175
Total Assets		6,029,169,555	5,937,174,017
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	25	736,000,000	736,000,000
Share Premium		144,000,000	144,000,000
Retained earnings	28	(383,425,539)	81,074,673
Capital and Reserves		496,574,461	961,074,673
Non-Current Liabilities			
Deferred tax liability		0	0
Total Non-Current Liabilities		0	0
Current Liabilities			
Borrowings (CPP & Overdraft)	29	1,939,201,651	1,783,661,690
Short Term Loans From GoK	30	1,634,945,444	1,634,945,444
Cash Advances- KPC	31	162,000,000	80,000,000
Trade and other payables	32	1,771,664,383	1,454,408,958
KPRL Pension Trust Ltd	34	10,000,000	10,000,000
Provision for leave pay	35	14,783,615	13,083,252
Total Current Liabilities		5,532,595,094	4,976,099,344
TOTAL EQUITY AND LIABILITIES		6,029,169,555	5,937,174,017

The financial statements were approved by the Board on _____ 2024 and signed on its behalf by:

Name: 
C.E.O

Name: 
Head of Finance
ICPAK M/NO:3749

Name: 
Director

Kenya Petroleum Refineries Limited
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16. Statement of Changes in Equity for the year ended 30 June 2023

	Ordinary share capital +Share Premium	Revaluation reserve	Retained earnings	Proposed dividends	Capital Development Grants/Fund	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At July 1, 2021	880,000,000	-	88,347,144	-	-	968,347,144
Issue of new share capital	-	-	-	-	-	-
Total comprehensive income	-	-	(283,113,734)	-	-	(283,113,734)
Prior year adjustment in respect to Advance Tax on KPRL investment in DC Pension Fund	-	-	275,841,263	-	-	275,841,263
Capital/Development grants received during the year	-	-	-	-	-	-
Transfer of depreciation/amortisation from capital fund to retained earnings	-	-	-	-	-	-
Interim dividends paid – 2021	-	-	-	-	-	-
Proposed final dividends	-	-	-	-	-	-
At June 30th , 2022	880,000,000	-	81,074,673	-	-	961,074,673
At July 1, 2022	880,000,000	-	81,074,673	-	-	961,074,673
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	-	-	-	-	-	-
At June 30th, 2023	880,000,000	-	(383,425,539)	-	-	496,574,461

Kenya Petroleum Refineries Limited
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17. Statement of Cash Flows for the year ended 30 June 2023

	Note	FY 2022/2023	FY 2021/2022
		Kshs	Kshs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	36(a)	(163,127,622)	114,528,565
Interest received		(656,103)	(8,885,292)
Interest paid		208,947,072	146,664,290
Accrued Interest on dead stock		109,635,886	57,957,334
Taxation paid		(151,619,873)	(147,515,268)
Net cash generated from/(used in) operating activities		3,179,360	162,749,630
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		0	0
Net cash generated from/(used in) investing activities		0	0
FINANCING ACTIVITIES			
GoK Advances for Special Projects			-
Cash Advance from KPC	31	82,000,000	80,000,000
Repayment of borrowings	29	(57,292,525)	(58,876,192)
Interest received		656,103	8,885,292
Interest paid		(208,947,072)	(146,664,290)
Accrued Interest on dead stock		(109,635,886)	(57,957,334)
Net cash generated from/(used in) financing activities		(293,219,380)	(174,612,524)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(290,040,020)	(11,862,894)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(630,435,453)	(711,905,524)
Effects of foreign exchanges rate fluctuations		200,549,370	93,332,965
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	36(c)	(719,926,102)	(630,435,453)

Note: The closing deficit cash and cash equivalents as at 30th June, 2023 of Kshs 719,926,102/- is made up of Bank and cash balances Kshs 5,427,978/- as shown in note 24 and bank overdrafts as detailed in note 29 comprising: CBA Kshs 357,913,397/- Citibank Kshs 143,550,251/- & Citibank USD facility equivalent Kshs 223,890,432/-

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended June 30, 2023

18. Statement of Comparison of Budget and Actual amounts for the year ended 30 June 2023

	Final Budget	Original budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference	% utilisation	Remarks
	FY 2022/2023	a	b	c=a+b	d	F=c-d		
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue								
KPC Lease recoveries	1,626,985,740	1,626,985,740	0	1,626,985,740	1,481,642,253	(145,343,487)	-91%	Lease recoveries lower than plan due to lower operating expenses.
Other Operating Income	75,285,840	75,285,840	0	75,285,840	30,983,863	(44,301,977)	-41%	Lower than budgeted accrued Investment Income on Sponsor DB surplus invested in the DC Pension fund.
Finance Income	0	0	0	0	656,103	656,103	100%	Interest on Short term deposits
Other gains/(Losses)	0	0	0	0	(494,780,192)	(494,780,192)	-100%	Unrealised exchange losses on foreign currency denominated transactions
Total Revenue	1,702,271,580	1,702,271,580	0	1,702,271,580	1,018,502,027	(683,769,553)	-60%	
Operating Expenses								
Compensation of Employees	464,806,260	464,806,260	0	464,806,260	422,976,502	41,829,758	91%	
Use of goods and services	944,976,336	867,976,336	0	867,976,336	698,360,333	169,616,003	80%	Operating expenses lower than plan.
Depreciation and Ammortisation	202,819,044	202,819,044	0	202,819,044	213,503,718	(10,684,674)	105%	
Finance Costs	196,109,112	273,109,112	0	273,109,112	318,582,958	(45,473,846)	117%	Interest higher than budget due to rise in USD Libor rate & CBR rates.
Total expenditure	1,808,710,752	1,808,710,752	0	1,808,710,752	1,653,423,511	155,287,241	91%	
Surplus/(Deficit) for the period	(106,439,172)	(106,439,172)	0	(106,439,172)	(634,921,485)	(528,482,313)	597%	
Capital Expenditure	0	0	0	0	0	-		

19. Notes to the Financial Statements

1. General Information

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

Principal Activities

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

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

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

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

Notes to the Financial Statements (Continued)

Principal Activities (continued)

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

On 18th March, 2020 the lease agreement was extended for a further term of 15 months which expired on 20th June, 2021. In line with clause 3.2 of the Agreement, KPC and KPRL expressed interest and mutually agreed to extend the term of the Agreement for a further period of six (6) months with automatic month to month renewal of the agreement effective 20th June, 2021. On 26th April 2022, KPC engaged PwC as transaction advisor for the takeover of KPRL. The consultant delivered the final draft report to KPC on 16th December, 2022.

On 18th 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. The Ministry of Energy and Petroleum has established a committee chaired by the Principal Secretary, State Department for Petroleum to implement the Cabinet Approval on the takeover.

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

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 35. The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the *entity*, 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 Annual Report and Financial Statements for the year ended June 30, 2023

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 2023.

Title	Description	Effective Date
IFRS 17 Insurance Contracts (issued in May 2017)	The new standard establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. <i>The Company does not issue insurance contracts.</i>	Effective for annual periods beginning on or after 1 st January 2023.
IAS 8- Accounting Policies, Errors, and Estimates	The amendments, applicable to annual periods beginning on or after 1st January 2023, introduce a definition of 'accounting estimates' and include other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.	The amendments are effective for annual reporting periods beginning on or after January 1, 2023.
Amendments to IAS 1 titled Disclosure of Accounting Policies (issued in February 2021)	The amendments, applicable to annual periods beginning on or after 1st January 2023, require entities to disclose their material accounting policy information rather than their significant accounting policies.	The amendments are effective for annual periods beginning on or after January 1, 2023.
Amendments to IAS 12 titled	The amendments, applicable to annual periods beginning on or after 1st January	The amendments are effective for annual

Kenya Petroleum Refineries Limited Annual Report and Financial Statements for the year ended June 30, 2023

Title	Description	Effective Date
Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (issued in May 2021)	2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.	periods beginning on or after January 1, 2023.

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, 2023

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 2023.*

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (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 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 entity 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.

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 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.

Notes to the Financial Statements (Continued)

Summary of Accounting Policies

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

g) Investment property

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

Notes to the Financial Statements (Continued)

Summary of Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

Notes to the Financial Statements (Continued)

Summary of Accounting Policies

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 30th June, 2023. The subsidiary thus did not contribute to the group's revenue and profit before tax for the period ended 30th June, 2023.

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

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

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

Deferred Tax

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

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

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

Notes to the Financial Statements (Continued)

Summary of Accounting Policies

p) Borrowing costs

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

q) Cash and cash equivalents

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

r) Borrowings

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

period in which they arise. Loan interest accruing during the construction of a project is capitalised as part of the cost of the project.

s) Trade and other payables

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

t) Retirement benefit obligations

The company operates a defined contribution scheme for all full-time 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.1,080 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 entity operates, Kenya Shillings. Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Notes to the Financial Statements (Continued)

Summary of Accounting Policies

w) Budget information

The original budget for FY 2022/2023 was approved by the National Assembly on 30th June, 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. There were no additional appropriations during the year.

The entity's budget is prepared on the same basis as 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, similar to the 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 18 of these financial statements.

Appendix VII: Reporting Disaster Management Expenditure

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

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Appendix VI: Reporting of Climate Relevant Expenditures

Name of the Organization: Kenya Petroleum Refineries Limited
 Telephone Number: 0724257102/0713583441
 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	Q2	Q3	Q4		
N/A	N/A	N/A	N/A	0	0	0	0	N/A	N/A

Appendix V- Inter-Entity Confirmation Letter



Kenya Petroleum Refineries Limited

[Insert name of beneficiary entity]

[Insert Address]

The Kenya Petroleum Refineries Limited wishes to confirm the amounts disbursed to you as at 30th June 2023 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below Please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by [Insert name of beneficiary entity] as at 30 th June 2023							
Reference Number	Date Disbursed	Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30 th June 2023				Amount Received by [beneficiary entity] (Kshs) as at 30 th June 20xx (E)	Differences (Kshs) (F)=(D-E)
		Recurrent (A)	Development (B)	Inter-Ministerial (C)	Total (D)=(A+B+C)		
Total							

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

Head of Accountants department of beneficiary entity:

Name SignDate

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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 Planning and Devolution	Not applicable	Recurrent	0	0	0	0	0	0	0
Ministry of Planning and Devolution	Not applicable	Development	0	0	0	0	0	0	0
USAID	Not applicable	Donor Fund	0	0	0	0	0	0	0
Ministry of Planning and Devolution	Not applicable	Direct Payment	0	0	0	0	0	0	0
Total			0	0	0	0	0	0	0

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Status of Projects completion

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
		Kshs		%	Kshs	Kshs	
1	Replacement of Data Centre Servers and LAN Base Switches	7,474,864	7,474,864	100%	8,400,000	7,474,864	KPRL/KPC Lease
2	Replacement of (PS 15) Fire Detection Alarm System	243,973.75 (USD)	243,973.75 (USD)	100%	30,000,000	221,794.32 (USD)	KPRL/KPC Lease
3	Replacement of LPG analysers	59,434,103	59,434,103	100%	60,000,000	59,434,103	KPRL/KPC Lease
4	Supply of Enterprise lap top computers	3,828,000	3,828,000	100%	4,005,000	3,828,000	KPRL/KPC Lease
5	Provision of Transaction Advisory Services for the Acquisition of KPRL by KPC	585,209.35 (USD)					KPRL/KPC Lease
6	Installation of Pipeworks, Pumps and other Works under EOPS at KPRL	288,596,956	200,238,806	100%	413,432,000	200,238,806	KPRL/KPC Lease
7	KPRL R22 Refrigerant air-conditioning systems	39,320,578	0	0%	40,000,000	0	KPRL/KPC Lease
8	Completion of Upgrade of Truck loading facility at PS15	602,691.62 (USD)	0	0%	85,427,000	0	KPRL/KPC Lease
9	Power supply of KPRL Fire water pump (PS 15) from substation No.3	19,486,115	0	5%	20,000,000	0	KPRL/KPC Lease
10	P652 Motor Replacement	4,091,436	0	0%	4,200,000	0	KPRL/KPC Lease
11	Replacement of 30 Laptop Computers	3,897,200	0	100%	3,900,000	3,897,200	KPRL/KPC Lease

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Appendix II: Projects implemented by KPRL

Projects

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

	Project title	Project Number	Donor	Period/duration	Donor commitment	Separate donor reporting required (Yes/No)	Consolidated in these financial statements (Yes/No)
1	Replacement of Data Centre Servers and LAN Base Switches		Not applicable	1 year	N/A	No	Yes
2	Replacement of (PS 15) Fire Detection Alarm System		Not applicable	1 year	N/A	No	Yes
3	Replacement of LPG analysers		Not applicable	1 year	N/A	No	Yes
4	Supply of Enterprise lap top computers		Not applicable	1 year	N/A	No	Yes
5	Provision of Transaction Advisory Services for the Acquisition of KPRL by KPC		Not applicable	1 year	N/A	No	Yes
6	Installation of Pipeworks, Pumps and other Works under EOPS at KPRL		Not applicable	1 year	N/A	No	Yes
7	KPRL R22 Refrigerant air-conditioning systems		Not applicable	1 year	N/A	No	Yes
8	Completion of Upgrade of Truck loading facility at PS15		Not applicable	1 year	N/A	No	Yes
9	Power supply of KPRL Fire water pump (PS 15) from substation No.3		Not applicable	1 year	N/A	No	Yes
10	P652 Motor Replacement		Not applicable	1 year	N/A	No	Yes
11	Replacement of 30 Laptop Computers		Not applicable	1 year	N/A	No	Yes

Capex Program

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

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20. 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:
			<i>(Resolved / Not Resolved)</i>	<i>(Put a date when you expect the issue to be resolved)</i>
3	Unreconciled Related Entities Balance	The receivables outstanding on account of KPC have now been reconciled	Resolved	
4	Impairment of Refinery Property, Plant and Equipment	KPRL is still waiting for policy decision on the future of the refinery plant from GoK.	Not yet resolved	KPRL is in transition after takeover by KPC
5	Obsolete Inventories	The inventories made up of plant spares and equipment are tied to the refinery plant and the pending policy decision on the future of the plant.	Not yet resolved	KPRL is in transition after takeover by KPC
6	Going Concern Status	The uncertainty about the going concern status of KPRL was caused by shutdown of the refinery plant with effect from 4 th Sept, 2013.	Not yet resolved	The matter of going concern to be determined after modalities of operating KPRL as a subsidiary after takeover by KPC

Name

Ag. Chief Executive Officer

Date

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Notes To The Financial Statements (Continued)

iv) Capital Risk Management

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

Description	FY 2022/23	2021/2022
	Kshs	Kshs
Revaluation reserve	0	0
Retained earnings	(383,425,539)	81,074,673
Share Capital	736,000,000	736,000,000
Share Premium	144,000,000	144,000,000
Total Funds	496,574,461	961,074,673
Total Borrowings	3,574,147,096	3,418,607,134
Less: Cash and Bank balances	(5,427,978)	(82,635,512)
Net Debt/(Excess Cash and Cash Equivalents)	3,568,719,117	3,335,971,622
Gearing	719%	347%

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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Notes to the Financial Statements (Continued)

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

At 30 June 2023	Level 1 Kshs	Level 2 Kshs	Level 3 Kshs	Total Kshs
Financial assets				
Quoted equity investments	0	0	0	0
Non- financial assets				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0
At 30 June 2022				
Financial assets				
Quoted equity investments	0	0	0	0
Non- financial assets				
Investment property	0	0	0	0
Land and buildings	0	0	0	0
	0	0	0	0

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

Financial instruments not measured at fair value

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

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 19,392,016/- (2022: Kshs 17,836,617/=). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of Kshs 96,960,083/- (2022 KShs 89,183,085/-)

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.

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

b) Foreign currency sensitivity analysis

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

Details	Change in	Effect on Profit	Effect on
	currency rate	before tax	equity
	Kshs	Kshs	Kshs
2023			
Euro	10%	(34,321,751.32)	0
GBP	10%	201,340.15	0
USD	10%	(235,191,258.23)	0
2022			
Euro	10%	(38,395,133.43)	0
GBP	10%	37,025.36	0
USD	10%	(172,366,418.65)	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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The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

Description	In Kshs	Other Currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2022			
Financial Assets			
Investments	51,322,260	0	51,322,260
Cash	23,932,410	7,380,842	31,313,252
Debtors	263,856,026	24,299,519	288,155,545
	339,110,696	31,680,360	370,791,056
Financial Liabilities			
Trade and Other Payables	304,337,503	30,090,868	334,428,371
Borrowings	2,160,762,474	1,257,844,660	3,418,607,134
	2,465,099,977	1,287,935,528	3,753,035,506
Net foreign currency asset/(liability)	(2,125,989,281)	(1,256,255,168)	(3,382,244,449)

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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 company'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	
At 30 June 2023			
Financial assets			
Investments	0	0	0
Cash	5,214,462	213,496	5,427,958
Debtors	328,751,875	8,045,733	336,797,609
	333,966,337	8,259,229	342,225,567
Financial liabilities			
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)	(2,105,416,415)	(1,437,826,620)	(3,543,243,036)

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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
At 30 June 2023				
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
Total	167,686,007	31,346,266	5,161,562,821	5,360,595,094
At 30 June 2022				
Trade payables	112,650	154,092,165	194,606,809	348,811,624
Current portion of borrowings	0	0	3,418,607,134	3,418,607,134
Provisions	0	0	1,119,980,586	1,119,980,586
Deferred income	0	0	0	0
Employee benefit obligation	0	0	0	0
Total	112,650	154,092,165	4,733,194,529	4,887,399,344

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Notes to the Financial Statements (Continued)

Description		Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2023			
Financial assets			
Investments	0	0	0
Cash	5,214,462	213,496	5,427,958
Debtors	328,751,875	8,045,733	336,797,609
	333,966,337	8,259,229	342,225,567
Financial liabilities			
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)	(2,105,416,415)	(1,437,826,620)	(3,543,243,036)

Credit Risk (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts. The entity has significant concentration of credit risk on amounts due from Oil Marketing Companies (OMC's) and Kenya Pipeline Company Limited.

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

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)

39. Capital Commitments

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

Description	FY 2022/23 Kshs	FY 2021/22 Kshs
Amounts authorised and contracted for	0	0
Amounts authorized but not contracted for	0	0
Less: Amounts included in Work in progress	0	0
	0	0

40. Contingent Assets and Liabilities

Contingent Assets

Description	FY 2022/23 Kshs	FY 2021/22 Kshs
Contingent assets		
Insurance reimbursements	0	0
Assets arising from determination of court cases	0	0
Reimbursable indemnities and guarantees	0	0
Receivables from other government entities	0	0
Others	0	0
Total	0	0

Contingent Liabilities

Description	FY 2022/23 Kshs	FY 2021/22 Kshs
Contingent Liabilities		
Court case by Total (K) Ltd against KPRL (Rejected Crude Oil)	252,942,300	191,880,000
Court cases by County Government of Mombasa against KPRL (Land Rates matters)	120,728,230	0
Bank guarantees in favour of 3rd parties	505,222,344	504,947,743
Contingent liabilities arising from contracts including PPPs	0	0
Disputed Tax Assessment by KRA	421,286,374	0
Disputed Tax demand by KRA	1,633,968,000	1,633,968,000
Others- Legal fees & Damage claims against KPRL	0	9,167,595
Total	2,934,147,248	2,339,963,338

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

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Notes to the Financial Statements (Continued)

Transactions with related parties

Description	FY 2022/23 Kshs	FY 2021/22 Kshs
a) Sales to related parties		
Sales of electricity to govt agencies	0	0
Rent income from govt. agencies	1,421,065,936	1,268,358,987
Water sales to govt. agencies	0	0
Interest income from govt commercial banks	0	1,257,616
Interest income from bills and bonds	0	
Others (specify)	0	0
Total	1,421,065,936	1,269,616,603
b) Purchases from related parties		
Purchases of electricity from KPLC	110,887,075	79,644,049
Purchase of water from govt service providers	11,621,739	17,132,771
Rent expenses paid to govt agencies	6,491,179	0
Training and conference fees paid to govt. Agencies	1,448,016	0
Bank charges paid to govt commercial banks	0	600
Interest expense to investments by other govt. Entities	0	0
Others (specify)**** See breakdown below on table 10	31,619,382	10,234,027
Total	162,067,392	107,011,448
c) Grants from the government		
Grants from national govt	0	0
Grants from county government	0	0
Donations in kind	0	0
Total	0	0
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	0	0
Payments for goods and services	0	0
Total	0	0
e) Key management compensation		
Directors' emoluments	0	(307,624)
Compensation to key management	60,347,871	56,667,899
Total	60,347,871	56,360,275

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

Breakdown of other Purchases from related parties	Kshs
Purchase of Milk/Water/LPG from KCC/TUM/NOCK	2,805,043
Advertisements-Govt. Advertising Agency	1,521,187
Licences-NEMA/NTSA/DCl.County Govt/KPA	1,361,428
Audit Costs-Office of the Auditor General	21,551,724
Administration Police- (Armed Security)	4,380,000
	31,619,382

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) Kenya Pipeline Corporation
- iv) National Bank of Kenya
- v) Key management
- vi) Board of Directors

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Notes to the Financial Statements (Continued)

36. Notes to the Statement of Cash Flows

Description	FY 2022/23 Kshs	FY 2021/22 Kshs
(d) Analysis of interest paid		
Interest expense on loans	126,575,711	75,475,527
Interest expense on bank overdrafts	82,371,362	71,188,764
Interest on loans capitalised	0	0
	208,947,072	146,664,290
	=====	=====
(e) Analysis of dividend paid		
Balance at beginning of the year	0	0
2020 dividends paid	0	0
2021 dividends paid	0	0
2022 interim dividends paid	0	0
Balance at end of the year	0	0

37. Yield Shift

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

Based on the findings of the report, there was indeed a difference between programmed yields and actual yields. The value of yield shifts for the period was valued 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

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

36. Notes to the Statement of Cash Flows

		FY 2022/2023	FY 2021/2022
		Kshs	Kshs
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations			
Loss before tax		(634,921,485)	(374,408,219)
Depreciation		213,291,172	222,172,089
Amortisation		212,546	165,145
Asset retirement		0	0
Operating profit/(loss) before working capital changes		(421,417,767)	(152,070,985)
(Increase)/decrease in inventories		12,258,343	3,407,985
(Increase)/decrease in trade and other receivables		(48,642,065)	10,028,543
Increase/(decrease) in trade and other payables		317,255,426	224,783,709
Increase/(decrease) in retirement benefit obligations		(24,281,922)	28,633,792
Increase/(decrease) in provision for staff leave pay		1,700,363	(254,479)
Cash generated from/(used in) operations		(163,127,622)	114,528,565
(b) Analysis of changes in loans			
Balance at beginning of the year		1,783,661,690	1,795,245,248
Receipts during the year		0	0
Repayments of domestics borrowings during the period (CPP Term loan)		(57,292,525)	(58,876,192)
Movement in Bank Overdraft during the quarter		(28,383,607)	(62,582,484)
Foreign exchange losses /(gains)		241,216,093	109,875,117
Balance at end of the year	29	1,939,201,651	1,783,661,690
(c) Analysis of cash and cash equivalents			
Bank overdraft- CBA KES	29	(357,913,397)	(364,067,582)
Bank overdraft- Citi bank KES	29	(143,550,251)	(161,749,448)
Bank overdraft- Citi bank USD	29	(223,890,432)	(187,253,935)
Short Term deposit	23	0	51,322,260
Cash at bank	24	5,072,123	31,053,416
Cash in hand	24	355,856	259,836
Balance at end of the year		(719,926,102)	(630,435,453)

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Notes to the Financial Statements (Continued)

34. KPRL Pension Trust Limited

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
As at beginning of period	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
At end of period	10,000,000	10,000,000
	=====	=====

35. Provisions

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Balance at beginning of the year	13,083,252	13,337,731
Additional provision	1,700,363	0
Leave paid out or utilised during the year	0	(254,479)
Change due to discount and time value for money	0	0
Balance at end of the year	14,783,615	13,083,252
	=====	=====

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Notes to the Financial Statements (Continued)

32. Trade and Other Payables

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Trade payables	184,083,512	180,871,437
Accrued expenses	117,435,413	143,470,393
Retention/ Contract monies	7,478,590	7,573,061
Deposits	1,266,050	1,266,050
Employee payables	1,057,945	1,247,431
Other payables	1,460,342,873	1,119,980,586
Total	1,771,664,383	1,454,408,958

Aging Analysis for Trade and other Payables

	FY 2022/23		FY 2021/22	
Description	Kshs	% of the total	Kshs	% of the total
Under one year	241,140,208	14%	239,180,329	16%
1-2 years	53,600	0%	0	0%
2-3 years	0	0%	0	0%
Over 3 years	1,530,470,575	86%	1,215,228,629	84%
Total	1,771,664,383	100%	1,454,408,958	100%

33. Retirement Benefit Obligations

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

Active and deferred members joined the DC scheme and transferred their fund benefits to the DC scheme. Employees contribute 10% while the employer 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. 1,080/- per employee per month with effect from February, 2023.

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Notes to the Financial Statements (Continued)

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Short term borrowings (current portion)	1,939,201,651	1,783,661,690
Long term borrowings	0	0
Total	1,939,201,651	1,783,661,690

The short term borrowings include Kshs 725M bank overdrafts as detailed in the analysis of borrowings above and KShs. 1.214bn in respect of a term loan for the Captive Power Plant (CPP). The foreign denominated loans have been restated using the CBK closing mean rates at the end of the period. Due to the shut down of refining operations with effect from 4th Sept, 2013, KPRL immediately defaulted on principal loan repayment but continued to service interest payments. On 8th May, 2020 KPRL released depreciation recoveries of KShs 380M to the Banks. The depreciation recovery was invoiced to KPC and paid in accordance with the terms of the KPRL-KPC lease agreement. The funds were applied against principal loan repayment. Subsequently, depreciation recovery is invoiced quarterly and the proceeds applied against the principal loan repayment. This is an interim arrangement pending full restructuring of the bank loans. (Current portion of borrowings represents borrowings that are payable within one year or in the next financial year. Foreign denominated loans have been restated based on CBK closing mean rates at the end of the financial period)

30. Short term loans from GoK

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Balance at the beginning of the Year	1,634,945,444	1,634,945,444
Additions during the year	0	0
Repayment during the year	0	0
Balance at end of Year	1,634,945,444	1,634,945,444

31. Cash Advance from KPC

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Balance at the beginning of the Year	80,000,000	0
Additions during the year	82,000,000	80,000,000
Repayment during the year	0	0
Balance at end of Year	162,000,000	80,000,000

KPRL facilities are currently leased by KPC. In addition to the monthly expenses recovered from KPC every month, KPC advanced KPRL Kshs 80M in February, 2022 and Kshs 82M in February, 2023 to further support lease operations.

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Notes to the Financial Statements (Continued)

29. Borrowings

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Domestic borrowings		
Balance at beginning of the year	1,783,661,690	1,795,245,248
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the period (CPP Term loan)	(57,292,525)	(58,876,192)
Movement in Bank Overdraft during the year	(28,383,607)	(62,582,484)
Exchange losses/(gains) on foreign denominated loans	200,549,370	93,332,965
Exchange losses/(gains) on foreign denominated overdraft facility	40,666,723	16,542,152
Balance at end of the year	1,939,201,651	1,783,661,690

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

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
External Borrowings		
Dollar denominated loan	0	0
Euro denominated loan	0	0
	0	0
Domestic Borrowings		
Kenya Shilling overdraft from NCBA	357,913,397	364,067,582
Kenya Shilling overdraft from Citibank N.A.	143,550,251	161,749,448
Dollar denominated overdraft from Citibank N.A.	223,890,432	187,253,935
Dollar denominated loan from Barclays Bank-CPP	1,213,847,570	1,070,590,725
	1,939,201,651	1,783,661,690
Total balance at end of the period	1,939,201,651	1,783,661,690

Notes To The Financial Statements (Continued)

25. Ordinary Share Capital

	FY 2022/23	FY 2021/22
	Kshs	Kshs
Authorized:		
36,800,000 (36,800,000 FY 2021/2022) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000
Issued and fully paid:		
36,800,000 (36,800,000 FY 2021/2022) ordinary shares of Kshs.20 par value each	736,000,000	736,000,000

26. Revaluation Reserve

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

27. Fair Value Adjustment Reserve

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

28. Retained Earnings

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

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2023

Notes To The Financial Statements (Continued)

24. Bank and Cash Balances

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Cash at bank	5,072,123	31,053,416
Cash in hand	355,856	259,836
Total	5,427,978	31,313,252

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

Detailed analysis of the cash and cash equivalents

Description		FY 2022/23	FY 2021/22
Financial institution	Account number	Kshs	Kshs
a) Current Account			
Standard Chartered Bank of Kenya-KES A/C	01 040 926614 00	1,801,859	22,225,719
Standard Chartered Bank of Kenya- USD A/C	87 040 926614 00	184,184	6,385
ABSA Bank Kenya PLC-Main A/C	016 5009 479	68,421	112,902
ABSA Bank Kenya PLC-Staff Imprest A/C	016 5009 770	195,858	210,898
ABSA Bank Kenya PLC-USD A/C	22 7252 715	29,332	7,343,935
National Bank of Kenya	010 200 666 03700	2,792,470	1,153,577
Sub- Total		5,072,123	31,053,416
b) On - Call Deposits			
National Bank of Kenya		0	0
Sub- Total		0	0
c) Fixed Deposits Account			
Other Commercial banks		0	0
Sub- Total		0	0
d) Staff Car Loan/ Mortgage			
Other Commercial banks		0	0
Sub- Total		0	0
e) Others (Specify)			
Cash in transit		0	0
Cash in hand		355,856	259,836
Mobile money account		0	0
Sub- Total		355,856	259,836
Grand Total		5,427,978	31,313,252

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2023

Notes to the Financial Statements (Continued)

21 (c) Staff Receivables

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Gross staff loans and advances	4,329,989	2,196,083
Provision for impairment loss	0	0
Net staff loans	4,329,989	2,196,083
Less: Amounts due within one year	4,329,989	2,196,083
Amounts due after one year	0	0

21 (d) Reconciliation of Impairment Allowance for Staff Receivables

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
At the beginning of the year	0	0
Additional provisions during the year	0	0
Recovered during the year	0	0
Written off during the year	0	0
At the end of the year	0	0

22. Tax Recoverable

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
At beginning of the period	683,354,835	264,625,870
Income tax charge for the year	2,186,452	4,627,566
Income tax paid during the year	151,619,873	147,515,268
Advance Tax paid in respect of KPRL Investment in the KPRL DC Pension Fund.	0	275,841,263
At end of year	832,788,256	683,354,835

23. Short Term Deposits

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
ABSA Bank PLC	0	0
Citiban N.A	0	0
NCBA Bank	0	0
National Bank of Kenya	0	51,322,260
Standard Chartered Bank of Kenya	0	0
Total	0	51,257,616

There were no short term deposits held in the period ended 30th June 2023.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2023

Notes To The Financial Statements (Continued)

21. Trade and Other Receivables

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Trade Receivables (Note 21 (a))	431,805,668	676,928,942
Deposits and prepayments	33,594,536	56,010,546
Vat recoverable	0	0
Staff receivables (Note 21 (c))	4,329,989	2,196,083
Other receivables	19,937,409	17,836,723
Gross Trade and Other Receivables	489,667,602	752,972,294
Provision for Bad And Doubtful Receivable	(152,869,993)	(464,816,750)
Net Trade and Other Receivables	336,797,609	288,155,544

21 (a) Trade Receivables

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
Gross Trade Receivables	431,805,668	676,928,942
Provision for Doubtful Receivables	(152,869,993)	(464,816,750)
Net Trade Receivables	278,935,675	212,112,192
Ageing analysis of gross Trade Receivables		
Less than 30 Days	278,725,333	187,215,777
Between 30 and 60 Days	4,541,200	6,470,178
Between 61 and 90 Days	2,860,880	(691,378)
Between 91 and 120 Days	3,206,195	(583,213)
Over 120 Days	142,472,060	484,517,578
Total	431,805,668	676,928,942

21 (b) Reconciliation of Impairment Allowance for Trade Receivables

Description	FY 2022/23	FY 2021/22
	Kshs	Kshs
At the beginning of the year	464,816,750	493,746,047
Additional provisions during the year	0	0
Recovered during the year	(23,215,119)	(7,889,323)
Written off during the year	(288,731,638)	(21,039,974)
At the end of the year	152,869,993	464,816,750

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2023

Notes To The Financial Statements (Continued)

20. Inventories

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
Engineering stores	810,292,418	806,915,482
Fuel, oil and lubricants	1,310,618	1,741,186
Crude & finished product stocks	305,694,169	321,056,287
Stationery, Safety and general stores	9,423,847	9,266,440
Less: Impairment of stocks	(771,111)	(771,111)
Total	1,125,949,941	1,138,208,284

20 a) Reconciliation of Impairment Allowance for Inventories

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
At the beginning of the period	771,111	73,152,293
Additional provisions during the period	0	0
Recovered during the period	0	0
Written off during the period	0	(72,381,182)
At the end of the period	771,111	771,111

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2023

Notes To The Financial Statements (Continued)

18. KPRL Investment in DC Pension Fund

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Balance as at 1st July	820,399,308	849,033,099
Accrued investment income	24,281,922	(28,633,792)
Balance as at end of period	844,681,230	820,399,308

Following the conversion of Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme. In line with RBA rules, the KPRL Board, for the Sponsor, passed a resolution to meet any contingent liability that may arise in the future, which would be covered by a component of the sponsors DC fund of KES 845M (2021/22: 820M).

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:

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Accelerated capital allowances	451,316,731	504,536,724
Unrealised exchange gains/(losses)	(137,294,677)	(59,905,177)
Provisions for liabilities and charges	(414,271,098)	(385,732,871)
Tax losses carried forward	(1,103,633,787)	(1,090,173,782)
Prior year	0	0
Net deferred tax liability	(1,203,882,832)	(1,031,275,106)

The movement on the deferred tax account is as follows:

	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Balance at beginning of the year	(25,224,506)	70,697,545
Credit to revaluation reserve	0	0
Under provision in prior year	0	0
Income statement charge/(credit)	(172,607,725)	(95,922,051)
Balance at end of the year	(197,832,231)	(25,224,506)

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

17. Unquoted Investments – KPRL Pension Trust Ltd

	FY 2022/23	FY 2021/22
Description	Kshs	Kshs
COST		
At July 1	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
At end of period	10,000,000	10,000,000
IMPAIRMENT		
At July 1	0	0
Disposals	0	0
Impairment loss in the year	0	0
At end of period	0	0
NET BOOK VALUE		
At end of period	10,000,000	10,000,000
	=====	=====

KPRL holds 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Kshs 1,000/- each). The subsidiary functions in a trustee capacity only and as such made neither a profit nor a loss for the period ended 30th June, 2023.

The subsidiary thus did not contribute to the group's revenue and profit before tax for the period ended 30th June, 2023.

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
	100	0	100	10,000,000	10,000,000	10,000,000

Notes To The Financial Statements (Continued)

16. Right-of-use assets

	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
COST		
At beginning of period	9,796,958	9,796,958
Additions in the period	0	0
Transfer to investment property	0	0
Disposals	0	0
At end of period	9,796,958	9,796,958
AMORTISATION		
At beginning of period	3,403,054	3,237,909
Charge for the period	212,546	165,145
Disposals	0	0
At end of period	3,615,600	3,403,054
NET BOOK VALUE	6,181,358	6,393,904

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.

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements for the year ended 30th June 2023

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:

	Cost	Normal annual depreciation charge
	Kshs	Kshs
Buildings & Civil works	225,435,314	10,196,027
Plant machinery & Equipment	918,714,246	49,439,936
Storage Tanks , Pipelines and other auxiliary assets	877,426,849	44,971,339
Motor vehicles, including motor cycles	112,018,260	14,103,408
Computers and related equipment	84,565,846	11,614,334
	=====	=====
Total as at 30th June 2023	2,218,160,515	130,325,044
	=====	=====

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
Cost								
At July 1, 2021	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
At June 30, 2022	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
Depreciation								
At July 1, 2021	0	538,120,441	3,991,041,954	115,140,233	89,946,189	447,199,513	0	5,181,448,329
Charge for the year	0	11,543,433	193,081,747	3,198,791	2,544,408	11,803,710	0	222,172,089
Impairment loss	0	0	0	0	0	0	0	0
Eliminated on disposal	0	0	0	0	0	0	0	0
At June 30, 2022	0	549,663,873	4,184,123,701	118,339,024	92,490,597	459,003,223	0	5,403,620,418
Net book value at June 30, 2022	295,160	132,858,442	2,037,666,802	616,588	3,971,059	86,126,148	621,267,926	2,882,802,124

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

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
Cost								
At July 1, 2022	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
At June 30, 2023	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
Depreciation								
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
At June 30, 2023	0	559,438,057	4,373,523,454	118,616,612	94,689,448	470,644,021	0	5,616,911,591
Net book value at June 30, 2023	295,160	123,084,258	1,848,267,049	339,001	1,772,208	74,485,350	621,267,926	2,669,510,952

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

Notes to the Financial Statements (Continued)

13. Earnings Per Share

The earnings per share is calculated by dividing the loss after tax of (Kshs. 464,500,212) (2021/2022): (Kshs. 283,113,734) by the average number of ordinary shares in issue during the year of 36,800,000 (2021/2022): 36,800,000). There were no 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 30th June 2023.

Kenya Petroleum Refineries Limited Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Continued)

12. Income Tax Expense/(Credit)

(a) Income tax charge/ credit

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Current taxation based on the adjusted profit for the year at 30%	2,186,452	4,627,566
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	(172,607,725)	(95,922,051)
Prior year under-provision for deferred tax	0	0
Total	(170,421,273)	(91,294,485)

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

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
Profit/(loss) before taxation	(634,921,485)	(374,408,219)
Tax at the applicable tax rate of 30%	(190,476,445)	(112,322,466)
Prior year under-provision	0	0
Tax effects of expenses not deductible for tax purposes	20,055,172	21,027,981
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
Total	(170,421,273)	(91,294,485)

Notes to the Financial Statements (Continued)

10. Finance Costs

Description	FY 2022/2023 Kshs	FY 2021/2022 Kshs
Interest expense on loans	126,575,711	75,475,527
Interest expense on bank overdrafts	82,371,362	71,188,764
Provision for interest on dead stock	109,635,886	57,957,334
Total	318,582,958	204,621,625

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.

11. Operating Profit/ (Loss)

Description	FY 2022/2023 Kshs	FY 2021/2022 Kshs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9a)	439,042,263	429,030,466
Depreciation of property, plant and equipment	213,291,172	222,172,089
Ammortisation of operating leasehold land	212,546	165,145
Provision for bad and doubtful debts	(23,215,119)	(7,889,323)
Directors' emoluments	-	(307,624)
Auditors' remuneration - current year fees	7,000,000	6,500,000
Net foreign exchange loss	494,780,192	200,270,794
Interest receivable	(656,103)	(8,961,271)
Interest payable	318,582,958	204,621,625
Rent receivable	(6,632,070)	(6,463,950)

The Provision for audit fee for the current financial year is Kshs 7,000,000/-. The charge for Auditors' remuneration of Kshs 4,345,628/- shown under Note 9, Administration Costs is as a result of reversal of previous years' over provision.

Kenya Petroleum Refineries Limited Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Continued)

9(a) Staff Costs

Description	FY 2022/2023	FY 2021/2022
	Kshs	Kshs
Salaries and allowances of permanent employees	328,544,758	333,391,759
Compulsory national social security schemes	789,440	284,800
DC pension contributions	51,228,106	48,651,548
Leave pay and gratuity provisions	1,700,363	(254,479)
Performance Incentive	7,006,294	(3,544,432)
Staff welfare	3,570,461	1,679,680
Medical expenses	28,219,595	33,948,591
Staff training & Development	16,065,761	10,794,331
Long Service Awards	846,000	358,000
Grants ammortisation adjustments	(22,162)	2,559,729
Recruitment	4,640	150,441
Pension Admin Expense	1,089,007	1,010,499
Total	439,042,263	429,030,466
The number of employees at the end of the period was:	FY 2022/2023	FY 2021/2022
Permanent employees – Management	89	93
Permanent employees – Unionisable	27	27
Temporary and contracted employees	0	0
Total	116	120

Kenya Petroleum Refineries Limited Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Continued)

8. Other Gains and Losses

Description	FY 2022/2023 Kshs	FY 2021/2022 Kshs
Foreign exchange gains / (losses)	(37,131,269)	(586,868)
Unrealized foreign exchange gains/(losses)	(457,648,923)	(199,683,925)
Gain on sale of fixed assets	0	0
Total	(494,780,192)	(200,270,794)

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

9. Administration Costs

Description	FY 2022/2023 Kshs	FY 2021/2022 Kshs
Staff costs - note 8 (a)	439,042,263	429,030,466
Directors' emoluments	0	(307,624)
Electricity and water	122,514,814	96,776,821
Communication services and supplies	7,482,976	7,522,443
Transportation, travelling and subsistence	24,602,888	16,612,333
Advertising, printing, stationery and photocopying	4,977,447	5,150,479
Insurance costs	82,903,573	87,622,495
Security	35,964,826	41,811,265
Board expenses	11,399,750	17,539,657
Bank charges and commissions	831,339	776,443
Office and general supplies and services	4,789,418	5,750,778
Licenses	23,620,261	20,220,376
Property/ Land Rates	6,491,179	4,269,620
Auditors' remuneration	4,345,628	670,467
Legal fees	7,410,069	4,491,292
Consultancy fees	4,797,284	16,671,998
Repairs and maintenance	296,431,621	205,792,911
Materials costs	40,153,585	31,509,153
Provision for bad and doubtful debts	(23,215,119)	(7,889,323)
Occupational Health & Safety	8,376,842	2,934,020
Canteen Expenses	6,521,767	5,421,085
Other operating expenses	11,894,423	10,125,069
Depreciation	213,291,172	222,172,089
Ammortisation	212,546	165,145
Total	1,334,840,553	1,224,839,459

Kenya Petroleum Refineries Limited Annual Report and Financial Statements for the year ended June 30, 2023

Notes to the Financial Statements (Continued)

6. Finance Income

	FY 2022/23	FY 2021/2022
Description	Kshs	Kshs
Interest from commercial banks and financial institutions	607,260	8,885,292
Interest on staff loans	48,843	75,979
Dividends	0	0
Total	656,103	8,961,271

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

7. Other Income

	FY 2022/2023	FY 2021/2022
Description	Kshs	Kshs
*KPC lease recoveries	1,481,642,253	1,268,358,987
House Rent Recoveries	6,632,070	6,463,950
**Investment Income- KPRL investment in DC Pension fund	24,281,922	(28,633,792)
National Lands Commission Award	0	0
Other miscellaneous receipts	69,871	173,242
Total	1,512,626,116	1,246,362,387

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

**Following the conversion of the Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund. Ultimately, the fund would go partly towards future funding of the employer's statutory contribution towards the DC pension scheme.

As per the management accounts of the DC fund for the year ended 30th June 2023, the investment in the DC Pension Fund registered investment income of KShs 24M compared to negative returns of KShs 28M for the previous year.

Notes to the Financial Statements (Continues)

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

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 35.

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

These include provision for bad debts, provisions for obsolete stocks and provision for leave not utilized at the end of the reporting period.

Notes to the Financial Statements (Continues)

a) 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.

b) Comparative figures

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

c) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2023.

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.