

REPUBLIC OF KENYA



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REPORT

THE NATIONAL ASSEMBLY
DATE: 09 NOV 2022 Wednesday Afternoon
Hon Kimani Ichungwa, MP
Leader of the Majority Party
Mainah Wanjiku

OF

THE AUDITOR-GENERAL

ON

**KENYA PETROLEUM REFINERIES
LIMITED**

**FOR FIFTEEN MONTHS PERIOD ENDING
30 JUNE, 2017**



KENYA PETROLEUM REFINERIES LIMITED

REPORTS AND FINANCIAL STATEMENTS

**FOR THE 15 MONTH PERIOD ENDED
JUNE 30, 2017**

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

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Kenya Petroleum Refineries Limited
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I. KEY ENTITY INFORMATION

Background information

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

The entity is under the the Ministry of Petroleum and Mining (Previously Ministry of Energy & Petroleum)

Vision

To be the number one supplier of integrated energy

Mission

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

Principal Activities

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

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

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

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

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I. KEY ENTITY INFORMATION

KPRL Background (*Continued*)

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

that it would undertake the relevant modification of the facility to accommodate the Early Oil Pilot Scheme (EOPS) geared at the early monetization of crude oil discoveries in Kenya.

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

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

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I. KEY ENTITY INFORMATION

Directors

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

1. Hon. Suleiman Shakombo -(Chairman- Term ended on 21st October 2016)
2. Ms. Lilian B. Mahiri Zaja - (Appointed on 6th February 2017)
3. Mr. Henry G. Karinga - (Appointed on 6th February 2017)
4. Mr. Hesbon O. Gondi -(Appointed on 25th March 2003)
5. Mr. Patrick M. Nyoike -(Appointed on 31st January 2003- Alternate Mr. L.Thuku)
6. Mr. Joseph K.Kinyua -(Appointed 30th June 2004-Alternate Mr.J.Kariuki)
7. Mr. Charles Nguyai -(Ag. Chief Executive Officer-Appointed on 1st Sept 2016)*

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

Corporate Secretary

Mr. Job Weloba,
Cootow and Associates Advocates
Certified Public Secretaries of Kenya (ICPSK)
Social Security House, Nkrumah Road.
P. O. Box 16858 – 80100 GPO
Mombasa, KENYA.

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

*****Mr. Job Weloba retired upon expiry of his contract on 31st March 2018. Ms Muthoni Gatere (Ledger Registrars) was appointed as Corporate Secretary on 1st April 2018.***

Registered Office

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

Corporate Headquarters

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

Corporate Contacts

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

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I. KEY ENTITY INFORMATION

Corporate Bankers

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

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

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

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

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

Auditors

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

Principal Legal Advisors

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

Lumatete Muchai & Co. Advocates,
Mombasa Trade Centre, 9th Floor,
Nkrumah Road,
P.O. Box 90565 – GPO 80100
Mombasa, Kenya

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



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

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 10643-00100
Nairobi, Kenya

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II. THE BOARD OF DIRECTORS




Name	Provide a concise description of each Director's date of birth, key qualifications and work experience	
1. Mr. P. Nyoike (Alternate Mr. L.Thuku)	DOB-14/01/1949, Retired from Public service. (Mr. Thuku was the Principal Superintending Engineer (Mechanical) MoEP at the date of appointment.)	
2. Mr. J.Kinyua (Alternate Mr. J. M. Kariuki)	DOB-31/08/1951, Chief of Staff in the Office of the President. DOB-01/08/1963. Alternate Director, The National Treasury.	
3. Mr. Hesbon Gondi Olum	DOB-5/09/1941. He holds a M.Sc in Economics (Kiev Institute, USSR 1969) and B.Phil in Economics (UoN 1971). Currently the CECM Trade, Industry & Co-op Devt Siaya County. A career civil servant, he has held senior positions in the Ministry of Planning & National Devt. and Ministry of Health as well as the Central Bureau of Statistics.	
4. Ms. Lilian B. Mahiri-Zaja	DOB-08/12/1964 Lilian B. Mahiri-Zaja is an advocate of the High Court of Kenya and holds a Master of Law Degree from the University of Reading, United Kingdom (2002); a post-graduate Diploma in Legal Education from the Kenya School of Law (1989); and an LL.B. (Hons.) degree from the University of Nairobi, Kenya (1988). She was previously the Vice Chairperson at the IEC and has held various positions in the Department of Justice including Deputy Chief Legal Officer from 2004-2011.	

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Name	Provide a concise description of each Director's date of birth, key qualifications and work experience	
5. Mr. Henry G. Karinga	<p>DOB-13/03/1966 He holds a Bachelor of Science (UoN) 1990 and Global Executive MBA (USIU) 2016. Managing Director – H. Builders & General Contractors Ltd</p>	
Mr. Charles Nguyai	<p>DOB-06/10/1959 Currently the Acting Chief Executive Officer. He holds a Bsc. In Mechanical Engineering (UoN). He joined the refinery as a Planning Engineer and has over 30 years refinery experience gained working in various capacities within KPRL. He is a member of the Institute of Engineers of Kenya and a certified RBA Trustee.</p>	
Mr. Job Weloba	<p>DOB-20/09/1968 He holds an MBA (JKUAT); a post-graduate Diploma in Legal Education from the Kenya School of Law (1992); and LL.B. (Hons.) from UoN (1991). Certificate from the Institute of Certified Public Secretaries of Kenya (ICPSK) (2007), Certificate from California State University, Sacramento-Basic alternative Dispute Resolution (2005), Certificate from Chartered Institute of Arbitrators Kenya (2004). Partner – Cootow & Associates Advocates-Mombasa</p>	

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III. MANAGEMENT TEAM

Name	Responsibility	
Mr. Charles Nguyai	<p>DOB-06/10/1959 Currently the Acting Chief Executive Officer. He holds a Bachelor of Science in Mechanical Engineering (UoN). He joined the refinery as a Planning Engineer and has over 30 years refinery experience gained working in various capacities within KPRL. He is a member of the Institute of Engineers of Kenya and a certified RBA Pension Trustee.</p>	
Ms. Abigail Mwangi	<p>DOB-10/10/1968 Currently the Acting Chief Operating Officer. She holds a Bachelor of Science in Chemistry (UoN). Abigail 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 Bachelors degree in Social Sciences (UoN) and an MBA from Middlesex University. Martin Joined KPRL in Sept 2004 and has over 16 years experience in Human Resources Management. He has previously worked for Block Hotels, Sara Lee Limited and Unga Group Limited in the same capacity. He is a member of the Institute of Personnel Management and a certified RBA Pension Trustee.</p>	

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Name	Responsibility	
CPA. Joseph Ndoti	<p>DOB- 5/07/1972 Currently the Finance Manager/ Acting Chief Finance Officer KPRL from Sept 2016. He has over 20 years experience in Accounting & Financial Management. He joined KPRL in July 2000 as a Financial & Management Accountant and has scaled the career ladder to his current role. He holds a B.Com Accounting and MBA in Strategic Management (UoN) and is a Certified Public Accountant. He has previously worked in Cargill Kenya and P&O Nedloyd.</p>	
Eng. Evanson Momanyi	<p>DOB-01/01/1964 Currently the Engineering Manager at KPRL. He joined KPRL in Nov 1992 and has over 24 years 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 Bsc. Mechanical Engineering and MBA in Operations Management both from UoN. He is a Registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.</p>	
Mr. Job Weloba	<p>DOB-20/09/1968 He holds an MBA (JKUAT); a post-graduate Diploma in Legal Education from the Kenya School of Law (1992); and LL.B. (Hons.) from UoN (1991). Certificate from the Institute of Certified Public Secretaries of Kenya (ICPSK) (2007), Certificate from California State University, Sacramento-Basic Alternative Dispute Resolution (2005), Certificate from Chartered Institute of Arbitrators Kenya (2004). Partner – Cootow & Associates Advocates-Mombasa</p>	

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IV. DIRECTOR'S STATEMENT

In the year under review, April 2016 - June 2017, the company has been under transition from being a private enterprise to a 100% state owned entity. The Company has been experiencing serious financial constraints after the shutdown of the refining operations on 4th September 2013. The company source of revenue has been from hospitality and line lease business to date. On 20th March 2017, under GoK guidance, the company and Kenya Pipeline Company Limited(KPC) signed a 3 year operating lease agreement through which the company's assets and staff under Kenya Pipeline Company Limited(KPC) management. The lease agreement was renewed for a further period of 15 months and six months with effect from 18th March 2020 and 20th June, 2021 respectively.

However, the key unanswered issues still linger as there has been no Government policy statement or a long term plan for the Company. The Government has not given any indication as to whether there are plans to re-instate, re-define or revise the company's primary mandate. The company's refinery plant assets have been idle for approximately five years now. These assets are threatened by corrosion, decay and obsolescence.

It is important to take note that the petroleum storage terminal operation of company assets need urgent investment decision. This decision will enable the company to optimise on existing crude oil assets which need to be converted to white oils. The interconnecting pipelines and pumping infrastructure need urgent upgrade to optimise on the new capacities brought by the expected commissioning of Kenya Pipeline Company Limited(KPC)'s Line 5. It is expected that the implementation of the lease agreement will reduce ships demurrage costs on petroleum products leading to reduced pump price.

The Company's External Auditors (Deloitte and Touche) have raised concerns regarding the continued uncertainty of the Company's future and are seeking the way forward from the Board and the Shareholder about the following issues:

- i) Going concern situation and continued financial support from the shareholder.
- ii) The decision whether the company will continue refining.

In the year 2011 the Board approved the conversion of the KPRL Defined Benefit Pension Scheme to Defined Contribution Pension Scheme, which was implemented with effect from 1st January 2017. The impact of this conversion to the statement of comprehensive income for the year ended 30th June 2017 was a cost of KES 2.87bn, being release of surplus funds accruing to pensioners and actives as at 31st December 2016.

The Company remains under severe financial constraints due to limited revenue that has led to default of principal bank loan repayment. However, the company has only been servicing interest payment obligations while partial repayment of principal loan began in May 2020. The Board recognises the efforts of Government of Kenya in resolving the uncertainty about the future of the company.

Director.....



Date... 4th APRIL 2022

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

GoK Directive:

On the 24th June 2016, Essar Energy Overseas Limited (Essar) exited the KPRL shareholding and GoK through the Cabinet Secretary to the National Treasury became the sole shareholder of KPRL. Vide the letter Ref ME/CONF/7/1/11 dated 25th August 2016, the Cabinet Secretary, Ministry of Energy and Petroleum (MoEP) to the Chairpersons of the Boards of Directors of Kenya Petroleum Refineries Limited (KPRL) and Kenya Pipeline Company Limited (KPC), the Cabinet Secretary directed the two to work together to effect the takeover of KPRL Management by KPC so as to allow the Transaction Advisor (TA) to carry out his due diligence on KPRL and thereafter report to the Government of Kenya (GoK). The TA process by PriceWaterhouseCoopers (PWC) started on 12th November 2016. The final report was completed on 12th April 2017 and has been issued to KPC and GoK.

KPRL-KPC Lease Agreement:

As a step towards the take over of KPRL by KPC, GoK directed that KPRL enter into a lease agreement with KPC to facilitate utilisation of all the KPRL petroleum storage and handling assets by KPC. Further the Lease Agreement was to facilitate the funding and implementation of the KPRL scope of the Early Oil Pilot Scheme (EOPS) by KPC.

In furtherance of the above, the lease was signed on 7th March, 2017, and the integration process of the two corporates started with target of completion by 31st May, 2017. Key objectives of the lease were that KPC would take control of the entire KPRL petroleum storage and handling facilities, whereby custody and control were vested in KPC, and that all KPRL staff would be seconded to KPC while in KPRL employment and at their current terms, which were achieved as per target timeline.

As the lease is not a commercial arrangement KPRL would not earn any margin from it, but would recover all its actual costs from KPC. New operational, financial, and engineering procedures, among others, have been agreed upon for KPRL-Under-Lease regime, and the two corporates have embarked on operating under the lease. KPRL and Kenya Pipeline Company Limited (KPC) have finalised and executed an operational organisation structure, and KPRL has issued all the secondment letters to all staff with effect from 1st June 2017. Four members of permanent staff from Kenya Pipeline Company Limited (KPC) have been assigned to KPRL and have been integrated into the Organisation Structure.

In pursuit of its objectives, KPC embarked on development of crude oil tank conversions from crude oil to white oils at Kipevu Oil Terminal(KOT), including the interconnectivity with existing Kenya Pipeline Company Limited(KPC) infrastructure at KOSF. Further, the related projects of Interconnectivity of Kenya Petroleum Refineries Limited(KPRL) Changamwe storage to the new Line 5 Pipeline Project have been incorporated in the proposed Kenya Pipeline Company Limited(KPC) capex program, and add up to capex estimated at Kshs. 3.8B. It was anticipated that the necessary approvals and ultimate funding of these projects would be processed through the Kenya Pipeline Company Limited(KPC) system during the year under review. As at end of period of this reporting, the actual budgetary approvals by GoK/ National Treasury had not been confirmed.

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

Early Oil Pilot Scheme(EOPS)

KPRL was charged with implementation of the midstream role of receipt, storage and exportation of Kenya Crude Oil under the Early Oil Pilot Scheme Project (EOPS), which had an initial target to receive the first cargo for storage by March 2017 ready for export by June 2017. As per directives by GoK, and as built into the KPRL/KPC Lease Agreement, the funding and implementation of the EOPS project was vested on KPC. The main scope budget was estimated at USD 11.56mil.

On 14th March, 2017, KPRL signed the crude oil hospitality agreement with Tullow Kenya B.V. to facilitate receipt and storage and export of Kenya crude oil at KPRL. The target dates for delivery of oil to KPRL were March 2017 to May 2017, which resulted in KPRL expediting the works for receipt of crude through the 'Interim Receipt Scope' which anticipated receipt of crude oil and storage in HFO storage tanks T117/118/119 at the Refinery.

The first export of Kenya crude oil was targetted for June 2017, which required that KPRL develop the 'Interim Export Scope' within short timelines. This interim project was premised on diluting the crude oil with AGO already at KPRL, hence doing away with heating requirement. The diluted crude oil would be exported partly through the fuel oil pipeline system, and finally into the 18 inch crude oil pipeline to KOT jetty. The opportunity would be taken to export all the toll products and crude oil held at the Refinery from tolling regime, releasing all the tanks to alternative use thereafter.

Although the facilities for receipt and storage of crude oil at KPRL were ready as at 30th May 2017, the crude oil was not delivered. As at end of June 2017, no crude oil was received at KPRL hence no export cargo materialised as was anticipated. However, KPC is currently engaged on implementation of the main scope of the EOPS whereby materials' procurement and works tenders are being prepared for issuance in the 3rd and 4th Quarter of 2017.

Export of crude oil and unsaleable toll products residing at KPRL.

In May 2017, MOEP directed via letter ref no. ME/CONF/7/1/11 dated 10th May, 2017 that OMC's export the toll stocks at KPRL to create room to handle Kenya Crude oil at KPRL Facility. Therefore, KPRL (Shore terminal) and Oil Marketing Companies, through Supplycor collectively developed Tender Terms and Conditions to govern the collective export of these products, and tenders were invited from interested exporters. The tender bids were opened on 30th May 2017 with three (3) bidders participating, Vivo Energy Kenya Limited emerged the winner (the Buyer) having quoted the best price (Platts Dated Brent for the Pricing Month discounted at USD 10.60 per barrel) and was awarded the tender via letter Ref ME/CONF/7/1/2C, dated 31/05/2017 with subsequent clarification ME/CONF/7/1/2C dated 23rd June 2017. Subsequently the Buyer, clarified the Pricing Month as July 2017 and provided the indicative price.

All the unsaleable toll products and crude oil amounting to 43,141 MT inclusive of 430.509 MT of KPRL merchant crude oil, were exported in a comingled state on 15th August, 2017 aboard vessel MT Eagle Beaumont.

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

Based on contractual pricing month (July 2017) and provisional build up, the realizable value of Murban crude oil at Mombasa is USD 267.91 per ton compared to weighted average cost (book value) of USD 841.78. The difference between the carrying value of the stock in KPRL books and the realizable value is USD 573.87. The low crude prices in the market is caused by the prevailing persistent global glut of crude oil, i.e production is higher than demand.

The revenue realized from the sale of the company merchant crude oil is USD 115,338. This revenue is in the company's account since toll and merchant mode operations existed before commencement of the Lease Agreement.

Impacts of Lease Agreement and ultimate takeover of KPRL by KPC.

In the event that the Government initiates a take over of the company by the Kenya Pipeline Company Limited, the following concerns need to be addressed:

- a) **Management of Lenders (Banks and Financiers):** -Discussions have been taking place between Lenders/ Kenya Petroleum Refineries Limited/Ministry of Energy and Petroleum
- b) **Legacy matters:** -Ministry of Energy and Petroleum has committed to resolve outstanding matters.
- c) **Effective transfer of all KPRL commercial and project contract obligations:** -All Hospitality Agreements and Line Lease Agreements between the company and oil marketing companies have been terminated, while all the Collateral Management Agreements (i.e Third Party Holding Certificates) have been closed out or terminated. The company will be reimbursed for all operating expenses.
- d) **KPRL staff job security assurance:** - Incorporated in provisions of the Lease Agreement and Secondments effected.

Regulatory Authorities:

To ensure that the effectuation of the KPRL takeover by KPC meets the minimum requirements of a commercial transaction, it was considered vital to obtain:

- a) Consent from the Energy Regulatory Commission (ERC) to the Company in respect of the deemed transfer of license issued to the Company under Section 87(1) of the Energy Act (Act No. 12 of 2006), by virtue of the takeover by Kenya Pipeline Company Limited.
- b) Cabinet approval under Section 86 (1) of the Public Finance Management Act (Act No. 18 of 2012).

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER *continued*

- c) approval or an exemption under section 42 of the Competition Act (Act No. 12 of 2010) issued by the Competition Authority of Kenya ("CAK") or alternatively a letter from the CAK confirming that the provisions of the said Act do not apply to the takeover by Kenya Pipeline Company Limited .

Refining Assets:

In spite of the shutdown and gas freeing of the plants, the refining assets still constitute a key 'silent risk factor' in the pricing of the insurance premium. The refining assets constitute 50% of the total asset base. The basis of insurance is replacement cost estimated at USD 749,266,981 as at 31st March 2017. The negotiated asset policy insurance premium for the period April 2017 to March 2018 is USD 453,310. The company renewed the insurance cover for all the assets. The company will continue to seek funding for preservation of the refinery plant by mothballing process as per recommendations.

Ag. Chief Executive Officer.....



Date

04th APRIL 2022

Kenya Petroleum Refineries Limited
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VI. CORPORATE GOVERNANCE STATEMENT

The company is incorporated as a limited company in Kenya under the Companies Act Chapter 17 of 2015 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. Through the agreement and the disposal of the shares, KPRL is now 100% wholly owned by GoK and therefore has controlling interest in KPRL. However it is important to note that the company is still in transition state from a partial private owned company to a 100% state owned company.

The Board is made up of five Directors without a Chairman. After the exit of Director Suleiman Shakombo on 21st October 2016 vide gazette notice number 8733 the Government is yet to appoint a Chairman. He had been re-appointed as the Corporate Chairman vide gazette notice number 4915 dated 2nd July, 2015. Director Lilian Mahiri-Zaja and Director Henry G. Karinga were duly appointed on 6th February, 2017 vide Gazette Notice number 1664. The Board has held six full Board meetings during the year 2017 at the Kenya Petroleum Refineries Limited Boardroom on the following dates:

- 1st March, 2017
- 2nd March, 2017
- 12th April, 2017
- 16th June, 2017

In addition board also held one special meetings on 7th March, 2017 at the Ministry of Energy and Petroleum. The board further held a joint meeting with the Kenya Pipeline Company Limited Board on the 6th March, 2017 in Nairobi which was chaired by the Cabinet Secretary and Ministry of Energy and Petroleum. In the five meetings held from March to June 2017, all the five Directors were present.

It is important to note that the Board made visits to the company's operational sites and residential properties on 15th June, 2017. This visit gave the Board an opportunity to be updated on the operations of the company and developments within the petroleum industry. The Board has been very efficient and this has been due to the sufficient time for consideration of papers which are circulated two weeks prior to the meeting. The Directors have been able to contribute positively to the corporate decision-making process. None of the Board members had any conflict of interest in all the matters deliberated in the six meetings held.

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

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CORPORATE GOVERNANCE STATEMENT *continued*

THE ROLES AND FUNCTIONS OF THE BOARD

The corporate has two committees. These are the Business Committee and the Audit and Human Resource Committee.

Roles of the Business Committee:

This committee plays a major role in the Finance, Technical and Strategy Matters of the corporation. 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.

Roles of the Audit and Human Resource Committee:

This committee's role is in Governance, Risk and Human Resource matters in the corporation. The committee monitors the integrity of the company's financial statements and any formal announcements relating to financial performance. In addition the committee makes recommendations to the Board in relation to the appointment, reappointment or removal of the external auditors and the remuneration and terms of engagement of the external auditors.

Furthermore, the committee is obligated to review and monitor the independence of the external auditors, the objectivity and effectiveness of the audit process, taking into account relevant professional and regulatory requirements.

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

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VII. MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES HIGHLIGHTS

The core function of KPRL's Human Resources ethic is to manage the company's Human capital to ensure the company attracts, develops, motivates and retains the best talent required to achieve its corporate business goals and develop and implement human resource and training and development policies and procedures which will enable the company to meet current and future requirements.

The management of the Human Resources at KPRL continued robustly during the year under review even as the anticipated changes came into effect providing the required support to the business by giving employees an enabling environment to be productive in their respective roles. Even though the company experienced a dip in business over the year, staff engagement levels continued to be reasonably good though requiring realignments of some areas to suit the business as it continued to evolve.

Manpower strength during the year continued to decline and as at quarter ending 30th June 2017 stood at 149. Overall manning levels remained stable as the KPRL/KPC three year lease agreement took effect on 1st June 2017. Implementation of the lease agreement provided for secondment of all KPRL employees to KPC and this process was formally implemented on 14th June, 2017. Various joint technical committees were formed to handle lease implementation aspects including Human Resource issues. With the lease in place it is expected that engagement levels will increase as a state of normalcy of operations slowly kicks in. It is also expected that the previously suspended employees benefits, salary reviews and adjustments, promotions and career progressions will resume shortly as the lease agreement matures.

Above notwithstanding planning, monitoring and evaluation of medium and long term plans for manpower development and unitization continued in the year as well as determination and planning for organizational requirements in conjunction with functional heads and other managers. No recruitment of new staff was conducted in the year due to the freeze in employment instituted in 2015 which is still in force. Effective management of change and communications was carried out via frequent employee engagements including town hall meeting and electronic communiqués on the various changes happening in the company. Union activities have remained low and relations were cordial with regular information sharing meetings held with union officials.

The table below shows a summary of the overall turnover as at 30th June 2017.

	Staff Nos.	Turnover	Technical	Non-Technical
Staff as at 1 st January 2013	291			
Staff exits up to 31 st Dec 2016	(132)	45.40%	(115)	(17)
Staff as at 31 st Dec 2016	159			
New employees Jan - March 2017	1			
Exits During Jan - March 2017	(7)	4.30%	(6)	(1)
Staff as at 31st March 2017	153			
New employees April - June 2017	0			
Exits During April - June 2017	(4)	2.60%	(4)	(0)
Staff as at 30th June 2017	149			

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VII. MANAGEMENT DISCUSSION AND ANALYSIS

The high turnover rate of staff has primarily been fuelled by fears over individual careers by the Company's continued business uncertainty resulting from the loss of key mandate of crude oil refining, and delays in redefining new stable business model.

The company is an engineering company therefore Technical staff (Operations, Lab, Technology and Engineering make up the largest population of employees hence the turnover is most evident here. Many young Engineers and Operations staff have left the company to the Middle East where remuneration is very attractive as well as to other local company's offering a more certain career path and future.

ENGINEERING HIGHLIGHTS

Introduction:

The key activities under refinery complexes I and II plant are the maintenance of nitrogen top ups meant for partial preservation as full preservation awaits availability of funds. The replacement of concrete slabs on Complex II fire decks was partially done (slabs casted) and the rest of the work put on hold.

a) Rotating Equipment

The engineering activity of periodic rotating of rotors for pumps at pre-determined intervals has been going on. The equipment is still in gasoil preservation while compressors are in nitrogen preservation. The required condition monitoring of rotating equipment in operation has been done. Various pumps that had failed were repaired.

b) Storage Tanks and Pipelines

Crude tank T102 conversion to Premium Motor Spirit(PMS) service is on going. Tanks T117 and T118 are being prepared for receipt of crude under the Early Oil Pilot Scheme project. . The Kipevu Oil Terminal (KOT) receiving and discharge hoses were serviced. The scaffold erection for external inspection of tanks T-101, T-105, T-107, T-206 and T-306 by inspection department has been finalized. The company conducted hydro test of the Automotive Gas Oil (AGO) and Premium Motor Spirit (PMS) pipelines. The Multi Product Line(MPL) pipeline was extended to Mombasa Joint Terminal (MJT) Changamwe depot to enhance service delivery. The company is undertaking repairs and maintenance for certain tanks.

c) Captive Power Plant (CPP).

The captive power plant, which has been idle since January 2013 is operated for approx. 5 minutes as per Original Equipment Manufacturer(OEM) recommendation. The generator control panel malfunctioned, the local manufacturer agent identified the problem and they are yet to give repair quotation.

d) Electrical

Four pump motors windings were rewound. The central air-condition for new control-room was fully commissioned. . The company's overhead power supply lines to Kipevu Oil Terminal were relocated to accomodate the new airport road construction. The dedicated power lines from Kipevu substation were removed and the company temporarily connected to Miritini substation

VII. MANAGEMENT DISCUSSION AND ANALYSIS

ENGINEERING HIGHLIGHTS

to make way for the road construction project.. Kenya Power and Lighting Company Limited installed the new generation energy meter to facilitate meter reading through satellite.

e) Instrumentation & Control

The scheduled checks and testing of safeguarding systems were done as planned and no malfunction noted. The CCTV radio link malfunctioned, due to a bird nesting affecting the radio transmitter. The cameras which failed due to faulty power supply and translators were repaired. The weighbridge malfunctioned due to faulty loadcell which was repaired. Scheduled cleaning of Distributed Control System(DCS) equipment done as planned . The DCS manufacturer Yokogawa were consulted to review the options available in the current business situation for reviving the maintenance agreement. Their proposal is pending discussion.A new truck loading meter for AGO was received and is operational.

f) Inspection & Integrity

Tanks T117 and T118 were inspected in preparation for service change to Early Oil Pilot Scheme(EOPS) crude storage. The company received a second hand boiler for EOPS.Repair activities were carried out at Kipevu Oil Terminal (KOT) in preparation for EOPS.

The dedicated Premium Motor Spirit(PMS) line to Changamwe marketers (MJT) failed hydro test and the marketers were connected to the Multi Product Line(MPL).

Inspection in preparation for service change of tank T102 from crude oil to PMS Service was done. Detailed external inspection of active overdue tanks (tanks T-101, T-105, T-107, T-206, T-306, T-106 and T-203) was completed.

EARLY OIL PILOT SCHEME (EOPS)

The Government of Kenya approved the Early Oil Pilot Scheme (EOPS) which entails exporting early crude oil production through the port of Mombasa with KPRL facilities being used as the export terminal. The EOPS project is not a profit making venture; its purpose is to market Kenyan crude oil during the early phase (extended well testing) by the producers KJV (Kenya Joint Venture comprising Tullow Oil, Africa Oil and Maersk Oil) prior to full crude oil production. This is a Government of Kenya initiative.

- EOPS Interim crude oil receipt facilities funded by Ministry of Energy and Petroleum (MOEP) have been completed.
- EOPS Interim export facilities funded by Kenya Pipeline Company Limited (KPC) have been completed.
- EOPS Main scope which is to be funded by KPC has not yet been tendered out ;KPC budget for EOPS lapsed at the end of June 2017. The project completion date is anticipated to be 11 months from tender flotation date.
- GoK and partners KJV are projecting exports of Kenya crude oil to begin in first quarter 2018 (Q1 2018).

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VII. MANAGEMENT DISCUSSION AND ANALYSIS

OTHER PROJECTS

Below is the current status of the other projects that were under implementation in the quarter ended 30th June 2017:

The project on use of P604C as Common Spare Pump for both AGO and PMS Truck Loading Gantries was completed and commissioned. Upgrade of PMS Truck Loading System was also completed and commissioned and purchase of five. Utility Vans for the Company Pool was completed.

The lease agreement between KPRL and KPC was signed at the tail end of the last quarter on 7th March 2017. The Lease Agreement allows KPC to take control and custody of KPRL Facilities that are located on Changamwe and Kipevu Sites and interconnecting pipelines. In line with this agreement, KPC plans to integrate the KPRL infrastructure with the KOSF facility and have since formulated a concept paper to achieve this integration. As a consequence, the following projects that had been lined up for implementation have now been included in this concept paper for implementation by KPC and subject to its timelines.

1. Replacement of High-Voltage switch gear sub-station no.7
2. KPRL Interconnectivity into KPC Line 5

In addition, the following projects below have been put on hold and await further consideration by KPC .

1. Inspection and repair of Gasoil Tank 206/306
2. Conversion of T102 from crude service to PMS Service
3. Refinery Boundary Wall
4. T-610/611 Pressure Control Automation
5. Replacement of LPG pipe section across Kipevu Bridge
6. Cathodic Protection Upgrade
7. Tank Maintenance Program - T2751

COMMERCIAL HIGHLIGHTS

The KPRL/KPC Lease Agreement was signed on 7th March 2017 with a commencement date of 20th March 2017 and has since been implemented with effect from 1st June, 2017. As per terms of the lease agreement, KPC is operating the entire KPRL tank storage capacity. Currently both KPRL and KPC are working jointly to implement the lease agreement.

Following the implementation of the lease agreement, it is expected that more volumes will be handled through KPRL facility since OMCs can access products easily through the Global Entitlement Program.

It should be noted that the plan for financial year 2016/17 envisaged PMS / AGO tank capacity turn around factor of 1.5 / 1.0 respectively. The plan was based on actual through put after implementation of the flow improvement project, growing PMS demand and in anticipation of faster evacuation rate that would be achieved through implementation of global entitlement programme.

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Capacity Utilisation (Hospitality)

Total capacity available for refined products (networking ullage) at KPRL is 1,120 tons and 228,600 M³, for LPG and liquid products (Gasoline, Kerosene, Diesel and Fuel Oil) respectively. The tanks in crude oil and industrial diesel oil service have not been considered for hospitality business as they would require modifications for suitability in white oil service. So far tanks dedicated for refined products are sufficient to meet the demand for hospitality business.

Table 1 –Hospitality volumes under KPRL regime- Apr- May 2017

Product	Units	(Apr to May 2017)				YTD (Apr'2016 to May 2017)			
		Actual	Plan	Variance	% var	Actual	Plan	Variance	% var
LPG	tons	444	2,419	(1,976)	-82%	9,036	16,937	(7,901)	-47%
PMS	M ³	0	164,339	(164,339)	100%	374,518	1,150,371	(775,853)	-67%
DPK	M ³	0	0	0	0%	0	0	0	0%
AGO	M ³	107,658	109,248	(1,590)	-1%	716,219	764,736	(48,517)	-6%
FO	M ³	4,819	2,649	2,171	82%	49,459	18,542	30,918	167%
Sum total		112,921	278,655	(165,734)	-59%	1,149,232	1,950,585	(635,618)	-33%

Table 2–Hospitality volumes under KPRL- KPC lease regime - June, 2017

Product	Units	June 2017				YTD (Apr 2016 to June 2017)			
		Actual	Plan	Variance	% var	Actual	Plan	Variance	% var
LPG	tons	644	1,210	(565)	-47%	644	1,210	(565)	-47%
PMS	M ³	2,818	82,169	(232,315)	-283%	2,818	82,169	(79,351)	-97%
DPK	M ³	0	0	0	0%	0	0	0	0%
AGO	M ³	107,658	54,624	2,835	5%	107,658	54,624	53,034	97%
FO	M ³	0	1,324	20,545	1551%	0	1,324	(1,324)	-100%
Sum total		111,120	139,327	(209,500)	-150%	111,120	139,327	(28,207)	-20%

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

COMMERCIAL HIGHLIGHTS

Table 3- Line lease volumes under KPRL regime - Apr-May, 2017

Product	Units	Q 5 (April to June'2017)				YTD (Apr 2016 to June 2017)			
		Actual	Plan	Variance	% var	Actual	Plan	Variance	% var
LPG	tons	712	935	(222)	-24%	7,433	6,540	893	14%
PMS	M ³	2,588	3,929	(1,341)	-34%	46,830	27,498	19,331	70%
DPK	M ³	4,166	9,027	(4,861)	-54%	76,681	42,128	34,553	82%
AGO	M ³	1,779	10,438	(8,659)	-83%	50,412	73,066	(22,654)	-31%
FO	M ³	33,305	8,492	24,813	292%	130,216	59,445	70,771	119%
Sum total		42,550	32,820	9,730	30%	311,572	208,678	102,894	49%

Table 4- Line lease volumes under KPRL - KPC lease regime -June, 2017

Product	Units	(June 2017)				YTD (Apr 2016 to June 2017)			
		Actual	Plan	Variance	% var	Actual	Plan	Variance	% var
LPG	tons	314	467	(153)	-33%	314	467	(153)	-33%
PMS	M ³	0	1,964	(1,964)	100%	0	1,964	(1,964)	-100%
DPK	M ³	3,439	3,009	430	14%	3,439	3,009	430	14%
AGO	M ³	778	5,219	(4,441)	-85%	778	5,219	(4,441)	-85%
FO	M ³	11,621	4,246	7,375	174%	11,621	4,246	7,375	174%
Sum total		16,153	14,906	5,494	37%	16,153	14,906	1,248	8%

Key:

LPG: Liquid Petroleum Gas
PMS: Premium Motor Spirit (Petrol)
DPK: Dual Purpose Kerosene (Kerosene)
AGO: automotive Gas Oil (Diesel)
FO: Fuel Oil

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

HEALTH, SAFETY, SECURITY & ENVIRONMENT (HSSE) HIGHLIGHTS

HSSE PERFORMANCE - APRIL 2016- JUNE 2017				
	FY 2015-16	FY 2015-16	FY 2016-17	FY 2016-17
	ACTUAL	PLAN	ACTUAL	PLAN
Lost Time Injuries (LTI)	0	0	1	0
Restricted Work Cases (RWC)	0	0	1	0
Medical Treatment Cases (MTC)	0	0	0	0
First Aid Cases (FAC)	1	3	2	2
Fires (Minor)	3	2	1	2
Fires (Major)	0	0	0	0
Total Reportable Occupational Illnesses	0	0	0	0
Environmental Incidents & Complaints	2	1	0	4
Vehicle Accidents	11	6	16	6
Security Incidents (SI)	3	4	7	4

HSSE PERFORMANCE - APRIL 2016 TO JUNE 2017

- Lost Time Injury (LTI)

Incident No. 2083

On 20th June, 2017 at about 10.00am, a Zaisco contractor staff sustained heat burns on the face slightly extending to the neck and both hands. The contractor was preparing the Oxy/Acetylene gas set to cut steel plates when the Acetylene hose pipe disconnected at the Torch end and caught fire. He was immediately rushed to the KPRL dispensary where First Aid management was administered and later transferred to Mewa Hospital where he was admitted for further observation. Consequently our Key HSE Target to achieve the 2 million-work-hours-without-LTI was unsuccessful with 22 days to go. **(Rating: 3 D People Medium)**

- Medical Treatment Case: (MTC) _ None
- Restricted Work Case (RWC) _ None
- Medical Treatment Case (MTC)_ None
- Minor Fire Incident (FI) _ None
- Major Fire Incident (FI)_ None
- First Aid Case (FAC)

Incident No. 2082

On 25th, May 2017 at 10.00am a Shimoto contractor staff sustained a minor injury to his left foot while stacking and counting scaffolding poles in a container at the Shimoto Yard. He was attended to at the Dispensary and later resumed work.(Rating: 1 C People Low)

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

HSSE HIGHLIGHTS

• **Vehicle Incidents (VI)**

Incident No. 2051:

On 8th March 2017, while responding to an emergency drill towards gate No. 15 at the input tank area, a fire tender truck Registration No. KBU 861G suffered damage on its left side when it swiped against a Fire Water line gate valve which was also damaged. No injuries were reported.
(Rating: 1C Assets Low)

Incident No. 2075

On 4th April, 2017 a fuel truck Reg. No. KBL 023 Z/ZC 2066 belonging to a customer knocked and damaged part of the wall at the Engineering washing Bay while marshaling towards the loading bay. The relevant company paid for the damages before the truck was released.
(Rating 1 E Assets Low)

Incident No. 2084

On 18th, June, 2017 a KPRL vehicle Reg. No. KCJ 019 J while parked at the Shimanzi Oil Terminal (SOT) parking bay, the driver on return from drawing samples found the above vehicle dented on the rear by an unknown vehicle.
(Rating 1 E Assets Low)

Incident No. 2085

On 22nd May 2017 while driving through a flooded road around Kiembeni area vehicle Reg. No. KCJ 261 F was damaged on the front bumper and radiator guard when it hit a submerged rock
(Rating 1 E Assets Low).

• **Security Incidents (SI)**

Incident No. 2076

On 19th, April 2017 at around 07.00 hours a man who appeared insane was seen scaling the perimeter wall and entered the KPRL premises near the power plant. The man was later released and taken to hospital after being handed over to his colleagues.
(Rating 3 B Assets Low)

2016-2017 HSSE PLAN / HIGHLIGHTS:

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

To achieve 500,000 work hours without LTI. So far by June 30th we had done 20,619 work hours.

• **Statutory/External Audits Compliance Q5 FY 2016/17**

- ✓ June 29th and 30th a team of two auditors from Bureau Veritas carried out an Environmental Management System (EMS)-ISO 14001-2015 certification audit,
- ✓ following the audit, KPRL has been recommended for certification, effectively migrating the EMS to the new standard
- ✓ Occupational Safety & Health Audit: Planning in progress to have the audit done in August 2017.
- ✓ Fire Safety Audit : Planning in progress to have the audit done in August 2017

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VII. MANAGEMENT DISCUSSION AND ANALYSIS continued

FINANCIAL HIGHLIGHTS

KPRL changed the accounting period from 1st April - 31st March to 1st July- 30th June with effect from 1st April 2016 upon becoming a State Corporation following the transfer of the legal and beneficial interest in all the shares owned by Essar Energy Overseas Limited (Essar) to the Government of Kenya on 24th June 2016. Thus 2016/17 financial year is a 15 month accounting period because of the change.

Revenue

Combined hospitality and line lease volumes handled during the year were 1,138,919M3 and 331,023 M3 respectively. The combined hospitality and line lease volumes are 57% below plan. Total revenue for the year was KES 1.134bn representing 62% of planned revenue of KSh1.569bn. The total revenue is made up of product handling and storage fees of KES 861M, Line Lease fees 113M, recovery of operating expenses from KPC KES 64M, Lab Fees KES 13M, third party holding certificate KES 14M and other operating income of KES 70M. Low products volume handled during the year was mainly attributed to delayed implementation of KPRL –KPC lease agreement and global entitlement program.

Operating Expenses before Depreciation and Amortization

a) Pension Scheme Conversion costs

Included in administration expenses (note 6) are costs for the conversion of the Defined Benefit (DB) pension scheme to Direct Contribution (DC) pension Scheme which was implemented with effect from 1st January, 2017. The final draft actuarial valuation report was done in August 2017 and actual conversion costs charged to profit and loss statement and other comprehensive income were KES 2.346bn and KES 522M respectively. The conversion costs included release and payment of accumulated surplus from the defunct Direct Benefit Pension Scheme in a ratio of 50:50 between the Sponsor (KPRL) and the members of the pension scheme as at 31st December, 2016. The accumulated surplus as at 31st December 2016 was KES 3.726bn which was reported in KPRL books as Defined Benefit Fund (Asset) and capital reserve (retained earnings) respectively.

b) Operating costs excluding Pension Scheme Conversion Costs

Administration expenses excluding pension scheme conversions costs (KES2.346bn) during the year were KES 885M representing 81% of planned costs of KES 1.095bn. Included in administration expenses are utilities, repairs and maintenance, staff costs, insurance, consultancy, other overheads.

Depreciation and Amortization

Depreciation and amortization expenses for the year were KES 383M which is 7% below year plan of KES 412M.

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Finance Costs

Detailed breakdown of gross finance cost is shown in note 8 of the accounts. Finance cost is made up of interest on bank overdraft from Citi bank and CBA of KES 160M, interest cost and provision for default penalties on the 5 year term loan for the Captive Power Plant of KES 346M, provision for interest on toll hydrocarbon dead stocks KES 185M and exchange losses on foreign denominated transactions of KES 100M. Principal loan repayment on the outstanding bank loans is still on hold while the company continues to service the interest cost.

Loss before tax and other comprehensive income for the year was KES 3.194bn compared to previous year loss of KES 724M.

Loss after tax and after other comprehensive income for the year was KES 2.335bn compared to previous year loss of of KES 1.017bn.

ANALYSIS OF STATEMENT OF FINANCIAL POSITION

Detailed schedule of Property, Plant & Equipment (PPE) is shown in note 12 of the accounts. The net book value of Property, plant, equipment reported at historical cost as at 30th June, 2017 was at KES 4.173bn compared to KES 4.542 bn last year. The decline in net book value of the assets is due to provision for depreciation and lack of investment in new assets because of severe cash flow constraints when KPRL stopped refining with effect from 4th September 2013.

No provision has been made for impairment of refining assets and the captive power plant.

Following the conversion of defined benefit pension scheme to Direct Contribution pension scheme, the pension fund declined from KES 3.726bn to KES 585M. The fund was impaired by conversion costs and payment of accumulated surplus to members of the Defined Benefit pension scheme as at 31st December 2016.

Trade and other receivables as at 30th June, 2017 were KES 446M. Included in trade and other receivables is KES 255M of refundable VAT which shall be offset against future payable VAT generated from vatable sales.

Included in current liabilities as at 30th June 2017 are short-term loans from GoK KES 1.589 bn and funds from GoK to finance various projects amounting to KES 954M. Also included in the current liabilities are outstanding bank loans in respect of Captive Power Plant term loan and overdraft facilities amounting to KES 2.107bn.

Included in the trade and other payables of KES 1.384bn is provision for interest on hydrocarbon dead stocks KES 663M.

Share Capital

In June 2013, shareholders (GoK & Essar) injected additional capital amounting to USD 4M (KES 340M) to finance operating activities. GoK authorized release of USD 2M (KES 170M) from GoK cash advanced for the refinery upgrade project while Essar converted USD 2M (KES 170M) of existing debt owed to them by the business (KPRL) into share capital. The transaction was finalized on 2nd May 2019.

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

GoK Support in Financing of KPRL Essential Operating Expenses

The cumulative short term loans by GoK to KPRL as at 30th June 2017 was KES 1.589 Billion to finance essential operating activities pending the final decision about the future of KPRL. The advances are payable on demand by The National Treasury.

ANALYSIS OF STATEMENT OF CASHFLOWS

Cash generated from operations

Net cash generated from operating activities KES 564M compared to KES 597M last year. There was no significant growth in revenue during the year.

Cash flow from investing activities

Capital expenditure during the period was KES 81M compared to plan of KES 753M and last year actual of KES 46M. This is due to cash flow constraints leading to delay in implementation of the approved capital budget.

Net decrease in cash and cash equivalents

Net decrease in cash and cash equivalents for the period was KES 217M compared to decrease of KES 76M for the previous year due to cash flow constraints.

As at 30th June 2017 KPRL, is holding balances of GoK funds amounting to KES 954M that had been advanced by GoK towards the refinery upgrade project and Essar Put option. KPRL closing net cash position as at 30th June 2017 was KES 204M as reconciled on note 32c.

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Environmental Management System

On 29 and 30th June, 2017 a team of auditors from Bureau Veritas did an Environmental Management System (EMS)-ISO 14001-2015 certification audit. Following the audit, KPRL has been recommended for certification, effectively migrating the EMS to the new standard.

Occupational Health and Safety

- Registration of Workplace
 - I) Changamwe – Cert No. MSA01411/04/17/04- Date of Expiry – 01 April, 2018
 - II) Kipevu - Cert No. MSA01436/05/17/10- Date of Expiry – 01-May, 2018
- Certificate of Inspection with regards to Fire Fighting Appliances (Mombasa County Government) FY 2017 – *Compliant*
- OSH- Act 2007 Audits

Activity	Frequency	Status	Remarks
Occupational Safety and Health audit	Once every 12 months	Done in July 2016	Planning in progress to have the audit done July 2017.
Fire Safety audit	Once every 12 months	Done in July 2016	Planning in progress to have the audit done July 2017.
Fire Extinguishers Inspection	Once every 12 months	<i>Done in June 2017</i>	<i>Compliant</i>
First Aiders Training	Annual	Done in August 2016	Planning in progress to have the audit done in August 2017.
Medical Examination for exposed staff	Annual	<i>Compliant</i>	Done in November 2016
Health Safety Committee	Once every 3 years	<i>Compliant</i>	Done in June 2015
Noise Level Measurement	Annual	Last done in June 2014	Planned for Q2 FY2017/18

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VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Environmental Management and Coordination Act

Activity	Licensing body	Status	Remarks
Effluent Water Discharge License	Mombasa County Govt.	Applied for.	<i>Applied for</i>
Waste (Hydrocarbon Slops) Transport	NEMA	1. License No. TR/HW006865- Exp May 2017	<i>Applied for Nema Receipt No 40777</i>
		2. License No. TR/HW006864- Exp May 2017	<i>Applied for Nema Receipt No. 40778</i>
Environmental Impact Assessment License on Early Oil Pilot Scheme (EOPS)	NEMA	NEMA/EIA/PSL/4174- Date of issue 06, January, 2017	<i>Compliant</i>
Annual Environmental Self Audit	NEMA	Done in March 2016	<i>Compliant</i>
		NEMA/EA/5/2/1575	
Ground Water Monitoring	Once in 3 years	Done in Q2 2016	<i>Compliant</i>
Air Quality Monitoring	NEMA	Plan Q1 FY 2017/18	<i>Deferred in 2013 under Management of Change (MOC)</i>
Bio Degradation of Soil at the Shamba	NEMA	On-going despite the low sludge generation activities	<i>Compliant</i>
Effluent water sampling and analysis:	NEMA	Q2 FY 2017 Done	<i>Compliant</i>
Emissions License	NEMA	Plan Q3 Once the EOPS boiler on stream	<i>Deferred in 2013 under Management of Change (MOC)</i>

Compliance with Statutory requirements

Operating Licenses

KPRL operating mode is governed by the following licenses / licensing bodies

- a) Energy Regulatory Commission (ERC); KPRL is licensed to Refine and store petroleum products at Changamwe, Storage of petroleum products at Kipevu, Import, Export and Wholesale of Petroleum Product (Except LPG) and Wholesale of LPG. All licenses are in place.
- b) Kenya Revenue Authority (KRA); KPRL is a custom bonded warehouse (Bond no 30). Renewal process for the Customs Bonded warehouse license for 2017 was initiated last year and the license is now in place.
- c) Business Permit by Mombasa County Government. The renewal process was initiated last year and completed. The business permit is in place.

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

VII. MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Other compliance requirements

	Description	Status	Remarks
1	Failure to file returns and audited accounts with the Registrar of Companies	The audited accounts for financial years ended 31st March 2014, 2015 & 2016 were not filed as the going concern of the company was uncertain due to the protracted exit of a shareholder.	<i>Approval of accounts is a shareholder matter.</i>
2	PAYE (Pay As You Earn) Tax return	PAYE returns filed on a monthly basis on or before 9th of the following month.	<i>Compliant</i>
3	VAT (Value Added Tax) return	VAT returns filed on a monthly basis on or before 20th of the following month	<i>Compliant</i>
4	Withholding Tax return	Withholding Tax returns filed on a monthly basis on or before 20th of the following month	<i>Compliant</i>
5	State Corporations Act/ Public Finance & Management Act/ Public Procurement & Assets Disposal Act and Other requirements under the Constitution of Kenya	This has been occasioned by the recently concluded transfer of shares & beneficial interest in the ESSAR 50% stake to the Government of Kenya (GoK) thus giving GoK controlling interest and thereby making KPRL a State Corporation	<i>Management has formally engaged the Government of Kenya through the MOEP to commence the process of achieving compliance as soon as is practicable.</i>
6	Company Secretary Appointment	The contract was effected on 2 nd March 2017 with effect from January 2017.	<i>Compliant-Company Secretary is appointed by the Board.</i>
7	Failure to hold Quarterly Board meetings since October 2016	Board was not quorate and as such cannot convene. The appointment of KPRL Board Chairman was revoked in October 2016.	<i>The Board is now fully constituted with effect from 28th February 2017.</i>

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Due to budgetary constraints the company's participation in CSR activities remained very low although a review of this is under review in the new lease arrangement with KPC, objective being to increase KPRL's visibility to the outside world.

IX. REPORT OF THE DIRECTORS

The Directors submit their report together with the unaudited financial statements for the year ended June 30, 2017 which show the state of the company's affairs.

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 that of a toll refinery to merchant refining with effect from 1st July, 2012. To this end, 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 and the plant was shut down effective the same date. The main reason for the shutdown was that the prices of the products produced by the refinery were marginally higher than those of imported products. This was caused by lack of secondary refining capabilities that would optimise the production of fuel oil which accounted for more 30% of yields prior to shut down and convert Tops yield to petrol.

After the shutdown of the refining plant on 4th September 2013, the company has continued in operation and the main sources of revenue are now from storage of imported petroleum products and the leasing of its storage tanks and pipelines.

Results

The results of the entity for the year ended June 30, 2017 are set out on page 36 to 40. Below is summary of the profit or loss made during the year.

	Note	2,017	2,016
		Shs	Shs
TOTAL REVENUES	1,2,3	1,134,690,467	576,193,341
TOTAL OPERATING EXPENSES	4,5,12,13,14	3,614,418,229	736,056,983
OPERATING LOSS	6	(2,479,727,763)	(159,863,642)
Net Finance Costs	7,8	714,783,291	564,507,643
LOSS BEFORE TAX		(3,194,511,054)	(724,371,285)
INCOME TAX EXPENSE/(CREDIT)			
Corporate & Deferrred Tax charge/(Credit)	9	(263,972,376)	31,102,682
PROFIT/(LOSS) AFTER TAXATION		(2,930,538,678)	(755,473,967)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Defined Benefit Expense		522,498,642	373,295,103
Deferred Tax Credit through OCI		(1,117,870,667)	(111,988,531)
PROFIT/(LOSS) AFTER TAXATION & OTHER COMPREHENSIVE INCOME		(2,335,166,654)	(1,016,780,539)

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

IX. REPORT OF THE DIRECTORS

Dividends

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

Directors

The members of the Board of Directors who served during the year are shown on page 4. In accordance with the Company's Articles of Association.

Auditors

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

By Order of the Board

Name:

Corporate Secretary

Date: 04/04/22



Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of KPRL's financial statements, which give a true and fair view of the state of affairs of the company for and as at the end of the financial year (period) ended on June 30, 2017. 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.

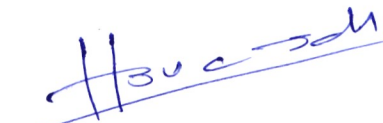
The Directors accept responsibility for KPRL's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. 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, 2017, and of 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 KPRL's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

The company's financial statements were approved by the Board on 4th APRIL 22 and signed on its behalf by:



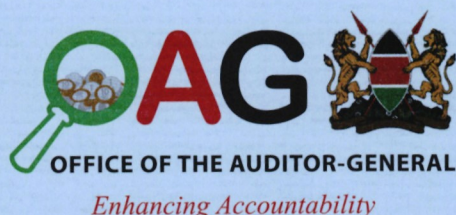
Director



Director

REPUBLIC OF KENYA

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HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED FOR THE FIFTEEN MONTHS PERIOD ENDING 30 JUNE, 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 36 to 82, which comprise the statement of financial position as at 30 June, 2017, 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 fifteen months period 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, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and do not comply with the Companies Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracy of the Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents at the end of the year amounting to Kshs.204,449,698. However, as disclosed in Note 19 to the financial statements, the statement of financial position reflects Kshs.18,185,728 in respect to bank and cash balances. The resultant difference amounting to Kshs.186,263,970 between the two financial statements was not explained or reconciled.

Consequently, the accuracy of the statement of cash flows for the fifteen months ended 30 June, 2017 could not be confirmed.

2. Impairment of Refinery Property, Plant and Equipment

The statement of financial position reflects Kshs.4,172,976,670 in respect to property, plant, and equipment which includes Kshs.2,637,639,250 relating to crude oil refining plant and equipment. However, the Company ceased refinery operations and was shut down on 04 September, 2013. The plant has remained closed and inactive to the date of

approval of the financial statements for the period under review. Further, no formal decision had been made on the future of the refinery assets and the captive power plant.

Lack of refining operations and the idle state of the Company's main plant indicates that a major portion of the refinery property, plant and equipment may be significantly impaired. However, the Management had not made an impairment assessment as required by International Accounting Standard (IAS) 36 on Impairment of Assets. Further, although the Company's Board of Directors approved impairment of redundant assets, the matter was awaiting endorsement and approval of The National Treasury.

Accordingly, it was not determined whether any adjustments were necessary to the financial statements in respect to the carrying amount of the refinery property, plant and equipment amounting to Kshs.2,637,639,250. This balance includes work in progress on feasibility studies for the upgrade of the refinery and captive power plant with a net book value of Kshs.1,166,365,616 which was not commissioned and has remained idle since the shutdown of refinery operations. Additionally, the related impact of such adjustments on the deferred tax liability and other tax elements were yet to be assessed.

3. Obsolete Inventories

As disclosed in Note 16 to the financial statements, the statement of financial position reflects Kshs.1,247,922,584 in respect to inventories which includes engineering materials valued at Kshs.798,881,989. The materials were acquired prior to stoppage of refining operations on 04 September, 2013 which was occasioned by technological limitations, changing market economies and impairment indications at refinery plant. Despite the items being rendered unusable, they have continually been carried in the books of the company at cost instead of at salvage value if any. Management indicated that the matter awaits the shareholders decision on the future of the company.

In the circumstances, the Inventories balance of Kshs.1,247,922,584 as at 30 June, 2017 is not fairly stated.

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

Emphasis of Matter

Going Concern Status

As disclosed in Note 1 to the financial statements containing general information, the State Corporation ceased refining operations on 04 September, 2013 due to lack of secondary refining capabilities that would optimize the production of fuel oil. In addition, the Company's current liabilities amounting to Kshs.6,067,862,571 exceeded current assets of Kshs.2,867,170,237 by Kshs.3,200,692,334. As at the time of audit in May, 2021, critical operations and obligations of the company were being sustained by a lease agreement with Kenya Pipeline Company (KPC) which has been in place since 20 March, 2017 and was due to expire in June, 2021. These conditions, along with the pending decision regarding the future business model, signify existence of a material

uncertainty which casts significant doubts on the ability of Company to continue as a going concern.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

- ii. In my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.

Responsibilities of Management and the Board of Directors

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

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

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

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

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 June, 2022

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

XII. STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2017	2016
		Shs	Shs
REVENUES			
Sales	1	1,050,048,429	564,607,715
Gains on Disposal of Non-Financial Assets	2	1,169,031	1,775,000
Other Income	3	83,473,007	9,810,626
TOTAL REVENUES		1,134,690,467	576,193,341
OPERATING EXPENSES			
Administration Costs	4	3,231,243,716	376,990,709
Selling and Distribution Costs	5	0	8,506,884
Depreciation of property, plant and equipment	12	373,871,330	321,778,317
Amortisation of Intangible Assets	13	9,096,919	28,612,906
Amortisation of Operating Lease rentals	14	206,264	168,167
TOTAL OPERATING EXPENSES		3,614,418,229	736,056,983
OPERATING LOSS	6	(2,479,727,763)	(159,863,642)
Finance Income	7	75,563,439	50,167,901
Finance Costs	8	790,346,730	614,675,544
LOSS BEFORE TAX		(3,194,511,054)	(724,371,285)
INCOME TAX EXPENSE/(CREDIT)			
Corporate Tax Charge	9	9,300,322	14,479,958
Deferred Tax Charge/(Credit)	9	(273,272,698)	16,622,724
LOSS AFTER TAXATION		(2,930,538,678)	(755,473,967)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Defined Benefit Expense	30	522,498,642	373,295,103
Deferred Tax Credit through OCI		(1,117,870,667)	(111,988,531)
LOSS AFTER TAXATION & OTHER COMPREHENSIVE INCOME		(2,335,166,654)	(1,016,780,539)
Earnings per share – basic and diluted	10	(117.94)	(51.35)
Dividend per share	11	0	0

* On 24th June 2016, GoK acquired 100% shareholding in KPRL. Consequently KPRL adopted the Public Sector Accounting Standards Board Template with effect from FY 2016/17. Thus the opening balances in the financial statements have been reclassified to conform to the template.

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

XIII. STATEMENT OF FINANCIAL POSITION

	Note	2017 Current Year Shs	2016 Prior Year Shs
ASSETS			
Non-Current Assets			
Property, plant and equipment	12	4,172,976,670	4,542,223,039
Intangible assets	13	0	9,096,920
Prepaid operating lease rentals	14	7,222,651	7,428,914
Investments - KPRL Pension Trust Ltd	15	10,000,000	10,000,000
Defined Benefit Retirement benefit asset	30	0	3,726,235,557
KPRL Investment in DC Pension Fund	31	584,675,814	0
Total Non-Current Assets		4,774,875,135	8,294,984,430
Current Assets			
Inventories	16	1,247,922,584	1,271,866,460
Trade and other receivables	17	445,817,691	460,426,997
Short-term deposits	18	1,155,244,233	1,336,282,689
Bank and cash balances	19	18,185,728	13,864,808
Total Current Assets		2,867,170,237	3,082,440,955
Total Assets		7,642,045,372	11,377,425,385
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	20	736,722,400	736,722,400
Share premium		144,000,000	144,000,000
Retained earnings		318,150,905	2,903,892,908
Capital and Reserves		1,198,873,305	3,784,615,308
Non-Current Liabilities			
Deferred tax liability	29	375,309,496	1,766,452,861
Total Non-Current Liabilities		375,309,496	1,766,452,861
Current Liabilities			
Borrowings (CPP Term loan & Overdraft)	23	2,106,988,077	2,081,172,339
Short Term Loans From GoK	24	1,589,226,461	1,557,617,304
GoK Advances	25	954,033,154	1,005,157,249
Trade and other payables	26	1,383,612,842	1,152,880,181
Provision for leave pay	27	11,476,338	12,570,707
KPRL Pension Trust Ltd	28	10,000,000	10,000,000
Corporate Tax payable	9(c)	12,525,699	6,959,438
Total Current Liabilities		6,067,862,571	5,826,357,217
TOTAL EQUITY AND LIABILITIES		7,642,045,372	11,377,425,385

The financial statements were approved by the Board on 04/04/2022 and signed on its behalf by:

Ag. Chief Executive Officer
 Name: Joseph B. Ndoti



Signature:

Head of Finance
 Name: Joseph B. Ndoti



ICPAK M/NO: 3749

Director
 Name: L. MAHIRI-ZAJA



Signature

LM2

Kenya Petroleum Refineries Limited

Reports and Financial Statements for the 15 month period ended 30th June 2017

XIV. STATEMENT OF CHANGES IN EQUITY

	Ordinary share capital Shs	Share Premium Shs	Revaluation reserve Shs	Retained earnings Shs	Proposed dividends Shs	Total Shs
At April 1, 2015	736,722,400	144,000,000	0	3,920,673,447	0	4,801,395,847
Transfer of excess depreciation on revaluation	0	0	0	0	0	0
Deferred tax on excess depreciation	0	0	0	0	0	0
Total comprehensive income	0	0	0	(1,016,780,539)	0	(1,016,780,539)
Share premium	0	0	0	0	0	0
Interim dividends paid	0	0	0	0	0	0
Proposed final dividends	0	0	0	0	0	0
At March 31, 2016	736,722,400	144,000,000	0	2,903,892,908	0	3,784,615,308
At April 1, 2016	736,722,400	144,000,000	0	2,903,892,908	0	3,784,615,308
Issue of new share capital	0	0	0	0	0	0
Prior year adjustment-DB Pension Asset	0	0	0	(250,575,349)	0	(250,575,349)
Deferred tax on excess depreciation	0	0	0	0	0	0
Total comprehensive income	0	0	0	(2,335,166,654)	0	(2,335,166,654)
Dividends paid – 2016	0	0	0	0	0	0
Interim dividends paid – 2017	0	0	0	0	0	0
Proposed final dividends	0	0	0	0	0	0
At June 30, 2017	736,722,400	144,000,000	0	318,150,905	0	1,198,873,305

Kenya Petroleum Refineries Limited

Reports and Financial Statements for the 15 month period ended 30th June 2017

XV. STATEMENT OF CASH FLOWS

		2017	2016
		Shs	Shs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	32	(99,375,214)	228,638,767
Interest received		(24,182,628)	(43,677,423)
Interest paid		506,152,605	284,751,536
Accrued Interest on dead stock		185,079,069	135,316,883
Taxation paid	9(c)	(3,734,061)	(7,470,715)
Net cash generated from/(used in) operating activities		563,939,772	597,559,049
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	12	(81,078,100)	(45,953,526)
Proceeds from disposal of property, plant and equipment		1,169,031	1,775,000
Net cash generated from/(used in) investing activities		(79,909,069)	(44,178,526)
FINANCING ACTIVITIES			
Reclass of Captive Power Plant loan from Long term to Short-term		0	(156,009,375)
Short Term Loans From GoK	24	31,609,157	0
GoK Advances for Special Projects		(51,124,095)	(84,993,750)
Repayment of borrowings	23	(14,962,324)	(11,879,397)
Interest received		24,182,628	43,677,423
Interest paid	32(d)	(506,152,605)	(284,751,536)
Accrued Interest on dead stock		(185,079,069)	(135,316,883)
Net cash generated from/(used in) financing activities		(701,526,309)	(629,273,520)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(217,495,606)	(75,892,997)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		396,717,179	373,891,426
Effects of foreign exchanges rate fluctuations		25,228,125	98,718,750
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	32(c)	204,449,698	396,717,179

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XVI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30th JUNE 2017

	Apr 2016- June 2017	Apr 2016- June 2017	Apr 2016- June 2017	Variance	Variance	
Revenue	Actual	Plan	Shs	Shs	%	Remarks
Sales	1,050,048,429	1,541,088,734	1,541,088,734	(491,040,305)	-32%	Low Volume Handle due to delay in implement of lease KPRL -KPC lease agreement and global entitlement program for accessing products through KPC system
Other Operating Income	84,642,038	28,439,429	28,439,429	56,202,609	198%	Includes Kes 24M wayleave compensation
Total Revenue	1,134,690,467	1,569,528,163	1,569,528,163	(434,837,696)	-28%	
Operating Expenses						
Utilities	85,303,596	91,913,646	91,913,646	6,610,050	7%	
Staff Costs	564,878,471	539,789,074	539,789,074	(25,089,397)	-5%	
Defined Benefit Pension Service Cost/(Gain)	2,345,579,721	(344,428,327)	(344,428,327)	(2,690,008,048)	781%	Conversion costs for Defined Benefit (DB) pension scheme to Direct Contribution (DC).
Repairs, Maintenance & Material Costs	141,538,155	186,442,189	186,442,189	44,904,034	24%	
Consultancy, Legal & Audit Costs	21,978,273	19,562,500	19,562,500	(2,415,773)	-12%	
Insurance	98,067,533	97,670,870	97,670,870	(396,663)	0%	
Other Overheads	(26,102,036)	159,962,724	159,962,724	186,064,760	116%	Following the exit of Essar , various outstanding liabilities (Ksh 219M) payable to Essar were extinguished by the deed of settlement resulting into a credit to P &I.
Depreciation & Ammortization	383,174,513	412,149,961	412,149,961	28,975,448	7%	
Net Finance Loss/(Income)	714,783,293	385,790,697	385,790,697	(328,992,596)	-85%	Included is unbudgeted provision for interest on Toll dead stock KSh185M and foreign exchange exchange losses of Ksh 48M
Long-term Plant Preservation Costs	0	191,953,409	191,953,409	191,953,409	100%	Long term plant preservation not carried out
Total Operating Expenses	4,329,201,520	1,740,806,743	1,740,806,743	(2,588,394,777)	-149%	
Surplus/(Deficit)	(3,194,511,054)	(171,278,580)	(171,278,580)			

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

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XVII. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Kenya Petroleum Refineries Limited is established by and derives its authority and accountability from the Company's Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

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 that of a toll refinery to merchant refining with effect from 1st July, 2012. To this end, 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.

After the shutdown of the refining plant on 4th September 2013, the company has continued in operation and the main sources of revenue are now from storage of imported petroleum products and the leasing of its storage tanks and pipelines.

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the *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 Number 1 to 40.

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

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

3. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard/Amendment to a standard	Effective date	Impact
IFRS 14 <i>Regulatory Deferral Accounts (issued in January 2014)</i>	1 st Jan 2016	The new standard, effective for annual accounting periods beginning on or after 1 January 2016, defines a regulatory deferral account balance and allows entities to continue to apply their existing policy for regulatory deferral account balances, but requires certain disclosures.
Amendments to IFRS 11 titled <i>Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)</i>	1 st Jan 2016	The amendments, require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3) to apply all of the business combinations accounting principles and disclosure in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).
Amendments to IAS 16 and IAS 38 titled <i>Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014)</i>	1 st Jan 2016	The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

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Standard/Amendment to a standard	Effective date	Impact
Amendments to IAS 16 and IAS 41 titled <i>Agriculture: Bearer Plants (issued in June 2014)</i>	1 st Jan 2016	The amendments, define bearer plants – ie living plants which are used solely to grow produce over several periods and usually scrapped at the end of their productive lives (eg grape vines, rubber trees, oil palms) - and include them within IAS 16's scope while the produce growing on bearer plants remains within the scope of IAS 41.
Amendments to IAS 27 titled <i>Equity Method in Separate Financial Statements (issued in August 2014)</i>	1 st Jan 2016	The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.
Amendment to IAS 19 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
Amendment to IFRS 5 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.
Amendment to IFRS 7 (<i>Annual Improvements to IFRSs 2012–2014 Cycle , issued in September 2014</i>)	1 st Jan 2016	The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.
Amendments to IFRS 10, IFRS 12 and IAS 28 titled <i>Investment Entities: Applying the Consolidation Exception (issued in December 2014)</i>	1 st Jan 2016	The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.
Amendments to IAS 1 titled <i>Disclosure Initiative (issued in December 2014)</i>	1 st Jan 2016	The amendments, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

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Standard/Amendment to a standard	Effective date	Impact
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i>	1 st Jan 2017	<p>The amendments clarify that:</p> <ul style="list-style-type: none"> • Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. <p>An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.</p>
<i>Disclosure Initiative (Amendments to IAS 7: Statement of Cash flows)</i>	1 st Jan 2017	<p>The amendments' objective is that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.</p>
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments</i>	1 st Jan 2017	<p>Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that</p>

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Standard/Amendment to a standard	Effective date	Impact
<i>to IFRS 12 Disclosure of interests in other entities</i>		are classified as held for sale, as held for distribution or as discontinued operations in accordance with <u>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</u> .

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective Date	Impact
FRS 15 <i>Revenue from Contracts with Customers (issued in May 2014)</i>	1 Jan 2018	The new standard, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.
IFRS 9 <i>Financial Instruments (issued in July 2014)</i>	1 Jan 2018	This standard will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition: <ul style="list-style-type: none"> • IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics. • o For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch • For the impairment of financial assets, IFRS 9 introduces an “expected credit loss” model

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Standard	Effective Date	Impact
		<p>based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.</p> <ul style="list-style-type: none"> • For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures. • The derecognition provisions are carried over almost unchanged from IAS 39.
IFRS 16: <i>Leases</i> (issued in January 2016)	1 Jan 2019	The new standard introduces a new lessee accounting model, and will require a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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 year 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognised in the year in which the *entity* delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognised in the year in which the *entity* actually receives such grants.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) In-kind contributions

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

c) Property, plant and equipment

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

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

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.

d) Depreciation and impairment of property, plant and equipment

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

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

Buildings, road-works, piping	25 – 50 years
Plant and equipment	10 – 30 years
Office equipment	10 – 20 years
Motor vehicles	5 – 20 years

A full year's depreciation charge is recognised both in the year of asset purchase and in the year of asset disposal.

Kenya Petroleum Refineries Limited
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 Depreciation and impairment of property, plant and equipment (Continued)

Items of property, plant and equipment are reviewed annually for impairment. Where the carrying amount of an asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

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

g) Investment property

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

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

h) Finance and operating leases

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

All other leases are treated as operating leases and the leased assets are recognised in the statement of financial position to the extent of prepaid lease rentals at the end of the year. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

n) Taxation

Current income tax

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

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

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

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

o) Cash and cash equivalents

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

p) Borrowings

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

q) Trade and other payables

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

r) Retirement benefit obligations

The company operated a defined benefit pension scheme until 31st Dec 2016 when it was converted to a defined contribution scheme for all full-time employees on January 1, 2017. The scheme is administered by a board of Trustees who have appointed AON as the scheme administrators. It is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligation under the scheme is limited to specific contributions legislated from time to time and is currently at Kshs.200 per employee per month.

s) Provision for staff leave pay

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

t) **Exchange rate differences**

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

u) **Budget information**

Kenya Petroleum Refineries Limited was incorporated as a private limited company. Following the exit of Essar on 24th June 2016, the company became 100% state owned. The budget for FY 2016-2017 was prepared and approved by the KPRL board while it was still a private limited company.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance.

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 XVI of these financial statements.

v) **Comparative figures**

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

w) **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, 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 4.

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

Kenya Petroleum Refineries Limited**Reports and Financial Statements for the 15 month period ended June 30, 2017****NOTES TO THE FINANCIAL STATEMENTS (Continued)**

	2017	2016
	Shs	Shs
1. SALES		
Gross sales of goods	0	(308,839)
Gross sales of services	1,050,048,429	564,916,554
	1,050,048,429	564,607,715

	2017	2016
	Shs	Shs
2. GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS		
Disposal of vehicles and other transport equipment	1,169,031	1,775,000
Disposal of computers and related equipment	0	0
	1,169,031	1,775,000

	Shs	Shs
3. OTHER INCOME		
Sale of tender documents	8,000	-
Third Party Holding Certificate Charges	14,221,852	4,381,269
House Rent Recoveries	6,354,650	3,856,400
Interest on staff loans	463,797	732,705
Fines and penalties on Petroleum products	38,666,771	(158,042)
Other miscellaneous receipts	23,757,937	998,295
	83,473,007	9,810,626

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
4. ADMINISTRATION COSTS	Shs	Shs
Staff costs - note 4 (a)	564,878,471	409,831,394
Defined Benefit Pension Service Cost/(Gain)	2,345,579,721	(411,186,315)
Directors' emoluments	1,006,835	1,692,036
Electricity and water	85,303,596	58,526,316
Communication services and supplies	6,737,450	4,836,127
Transportation, travelling and subsistence	11,490,775	13,721,323
Advertising, printing, stationery and photocopying	3,471,963	2,963,610
Insurance costs	98,067,533	88,878,460
Security	49,845,153	39,287,487
Board expenses	8,049,120	5,079,366
Bank charges and commissions	1,050,086	838,303
Office and general supplies and services	3,452,262	2,979,672
Software Licenses	(42,342,167)	32,655,374
Property/ Land Rates	5,309,865	4,438,370
Auditors' remuneration	8,000,000	3,500,000
Legal fees	8,055,996	6,590,746
Consultancy fees	5,922,277	5,228,060
Repairs and maintenance	92,724,852	69,462,641
Materials costs	47,673,242	23,434,896
Provision for bad and doubtful debts	0	10,352,040
Occupational Health & Safety	1,784,330	1,131,586
Other operating expenses	(74,817,644)	2,749,218
	3,231,243,716	376,990,709

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Shs	Shs
4 (a). STAFF COSTS		
Salaries and allowances of permanent employees	493,054,445	380,611,471
Compulsory national social security schemes	478,000	0
DC pension contributions	27,377,509	0
Leave pay and gratuity provisions	(1,094,369)	3,651,986
Staff welfare	281,706	63,294
Medical expenses	28,304,687	16,868,613
Canteen Expenses	3,026,764	2,119,006
Staff training & Development	9,408,643	1,549,797
Long Service Awards	979,377	1,034,000
Grants ammortisation	1,656,571	3,181,166
Recruitment	78,523	178,158
Pension Admin Expense	1,326,616	573,903
	564,878,471	409,831,394

The average number of employees at the end of the year was:

Permanent employees – Management	114	120
Permanent employees – Unionisable	25	38
Temporary and contract employees	10	8
	<u>149</u>	<u>166</u>
	=====	=====

	2017	2016
	Shs	Shs
5. SELLING AND DISTRIBUTION COSTS		
Salaries and wages of sales personnel	0	0
Marketing and promotional expenses	0	0
Sales commissions	0	0
Sales discounts and rebates	0	0
Other selling and distribution costs	0	8,506,884
	0	8,506,884

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 OPERATING PROFIT/(LOSS)

	2017	2016
	Shs	Shs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 4a)	564,878,471	409,831,394
Defined Benefit Pension service cost	2,345,579,721	(411,186,315)
Depreciation of property, plant and equipment	373,871,330	350,559,390
Amortisation of intangible assets	9,096,919	28,612,906
Amortisation of operating lease rentals	206,264	168,167
Provision for bad and doubtful debts	0	10,352,040
Directors' emoluments	1,006,835	1,692,036
Board expenses	8,049,120	5,079,366
Auditors' remuneration	8,000,000	3,500,000
Gain on disposal of property, plant and equipment	1,169,030	1,775,000
Net foreign exchange loss	47,734,246	188,116,646
Interest receivable	(24,646,425)	(44,410,128)
Interest payable	691,231,675	420,068,419
Rent receivable	(6,354,650)	(3,856,400)

7. FINANCE INCOME	2017	2016
	Shs	Shs
Exchange gains on foreign currency denominated loans	12,097,118	0
Exchange gains on short-term bank deposits	0	6,490,478
Exchange gains on cash and bank balances	1,399,336	0
Exchange gains on foreign currency denominated payables & accruals	34,275,930	0
Exchange gains on foreign currency denominated receivables	3,608,427	0
Interest income on short-term bank deposits	24,182,628	43,677,423
	75,563,439	50,167,901

8. FINANCE COSTS	2017	2016
	Shs	Shs
Exchange losses on foreign currency denominated loans	37,460,669	101,362,331
Exchange loss on foreign currency denominated payables and accruals	54,236,233	67,221,457
Exchange loss on foreign currency denominated receivables	1,789,857	11,882,044
Exchange losses on cash and bank balances	5,628,296	14,141,292
Interest expense on loans	346,237,780	157,830,587
Interest expense on bank overdrafts	159,914,825	126,920,950
Provision for interest on dead stock	185,079,069	135,316,883
	790,346,730	614,675,544

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
9. INCOME TAX EXPENSE/(CREDIT)		
(a) Current taxation	Shs	Shs
Current year tax	9,300,322	14,479,958
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	(273,272,698)	16,622,724
	(263,972,376)	31,102,682
(b) Reconciliation of tax expense/(credit) to the expected tax based on profit		
Profit before taxation	(3,194,511,054)	(724,371,285)
Tax at the applicable tax rate of 30%	(958,353,321)	(217,311,386)
Prior year over provision	0	0
Tax effects of expenses not deductible for tax purposes	694,690,730	4,851,068
Tax effects of excess capital allowances over depreciation/amortisation	(309,785)	243,563,000
Deferred tax prior year over-provision	0	0
	(263,972,376)	31,102,682
(c) Current tax movement		
At beginning of the period	6,959,438	(49,806)
Income tax charge for the year	9,300,322	14,479,958
Income tax paid during the year	(3,734,061)	(7,470,715)
	12,525,699	6,959,438
(d) Tax recognised in Other Comprehensive Income		
Deferred Tax (credit) /charge attributable to re-measurement of defined benefit asset	(1,117,870,667)	(111,988,531)

10 EARNINGS PER SHARE

The earnings per share is calculated by dividing the loss after tax of Kshs **2,335,166,654/-** (2016: Kshs. **1,016,780,539**) by the average number of ordinary shares in issue during the year of 19,800,000 (2016: 19,800,000). There were no dilutive or potentially dilutive ordinary shares as at the reporting date.

11 DIVIDEND PER SHARE

There were no dividends proposed as the company has reported losses for the period ended 30th June 2017.

Kenya Petroleum Refineries Limited

Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land Shs	Buildings Shs	Turnaround Costs Shs	Plant, Equipment & motor vehicles Shs	Capital work in progress Shs	Total Shs
Cost						
At 1 April 2015	295,160	384,034,988	761,667,439	7,086,854,342	815,309,541	9,048,161,470
Additions	0	0	0	0	45,953,526	45,953,526
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,086,854,342</u>	<u>861,263,068</u>	<u>9,094,114,996</u>
Transfers to assets	0	0	0	197,453,908	(197,453,908)	0
Transfer to intangible assets	0	0	0	0	(4,689,989)	(4,689,989)
Disposal of assets	0	0	0	(4,131,300)	0	(4,131,300)
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,280,176,950</u>	<u>659,119,170</u>	<u>9,085,293,707</u>
At 31 March 2016	295,160	384,034,988	761,667,439	7,280,176,950	659,119,170	9,085,293,707
	=====	=====	=====	=====	=====	=====
At 1 April 2016	295,160	384,034,988	761,667,439	7,280,176,950	659,119,170	9,085,293,707
Additions	0	0	0	0	81,078,100	81,078,100
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,280,176,950</u>	<u>740,197,270</u>	<u>9,166,371,808</u>
Transfers to assets	0	0	0	8,067,163	(8,067,163)	(0)
Write off	0	0	0	0	(76,453,138)	(76,453,138)
Disposal of assets	0	0	0	(7,948,616)	0	(7,948,616)
	<u>295,160</u>	<u>384,034,988</u>	<u>761,667,439</u>	<u>7,280,295,498</u>	<u>655,676,969</u>	<u>9,081,970,053</u>
At 31st June 2017	295,160	384,034,988	761,667,439	7,280,295,498	655,676,969	9,081,970,053
	=====	=====	=====	=====	=====	=====
Depreciation						
At 1 April 2015	0	228,260,650	761,667,439	3,235,495,561	0	4,225,423,650
Charge for the year	0	14,547,401	0	290,619,650	0	305,167,052
Disposal of Assets	0	0	0	(4,131,300)	0	(4,131,300)
Asset rationalisation	0	0	0	16,611,268	0	16,611,268
	<u>0</u>	<u>242,808,051</u>	<u>761,667,439</u>	<u>3,538,595,179</u>	<u>0</u>	<u>4,543,070,669</u>
At 31 March 2016	0	242,808,051	761,667,439	3,538,595,179	0	4,543,070,669
	=====	=====	=====	=====	=====	=====
At 1 April 2016	0	242,808,051	761,667,439	3,538,595,179	0	4,543,070,669
Charge for the year	0	18,054,571	0	355,816,759	0	373,871,330
Disposal of Assets	0	0	0	(7,948,615)	0	(7,948,615)
	<u>0</u>	<u>260,862,622</u>	<u>761,667,439</u>	<u>3,886,463,322</u>	<u>0</u>	<u>4,908,993,383</u>
At 30th June 2017	0	260,862,622	761,667,439	3,886,463,322	0	4,908,993,383
	=====	=====	=====	=====	=====	=====
Net book value	=====	=====	=====	=====	=====	=====
At 30th June 2017	295,160	123,172,366	0	3,393,832,175	655,676,969	4,172,976,670
	=====	=====	=====	=====	=====	=====
At 31 March 2016	295,160	141,226,937	0	3,741,581,771	659,119,170	4,542,223,039
	=====	=====	=====	=====	=====	=====

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property, plant and equipment include the following items that are fully depreciated:

	Cost or valuation Shs	Notional annual depreciation charge Shs
Storage & Handling facilities	164,345,505	6,867,608
Refining Plant units	382,928,559	19,593,884
General Purpose facilities including motor vehicles	187,472,605	22,050,431
Auxiliary Facilities	112,341,800	6,608,635
	<u>847,088,469</u>	<u>55,120,558</u>
	=====	=====

13 INTANGIBLE ASSETS

	2017 Shs	2016 Shs
COST		
As at April 1	214,907,528	210,217,539
Additions	0	4,689,989
Disposals	0	0
As at June 30	<u>214,907,528</u>	<u>214,907,528</u>
	=====	=====
AMORTISATION		
As at April 1	205,810,608	177,197,702
Charge for the year	9,096,919	28,612,906
Disposals	0	0
Impairment loss	0	0
At June 30	<u>214,907,528</u>	<u>205,810,608</u>
	=====	=====
NET BOOK VALUE		
At June 30	<u>0</u>	<u>9,096,920</u>
	=====	=====

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs	2016 Shs
14 PREPAID OPERATING LEASE RENTALS		
COST		
As at April 1	9,796,958	9,796,958
Additions	0	0
Transfer to investment property (note 16)	0	0
Disposals	0	0
At June 30	9,796,958	9,796,958
AMORTISATION		
As at April 1	2,368,044	2,199,877
Charge for the year	206,264	168,167
Transfer to investment property (note 19)	0	0
Disposals	0	0
At June 30	2,574,307	2,368,044
NET BOOK VALUE		
At June 30	7,222,651	7,428,914
	=====	=====

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Shs	2016 Shs
15 UNQUOTED INVESTMENTS		
COST		
As at April 1	10,000,000	10,000,000
Additions	0	0
Disposals	(0)	(0)
At June 30	10,000,000	10,000,000
IMPAIRMENT		
At April 1	0	0
Disposals	(0)	(0)
Impairment loss in the year	(0)	(0)
At June 30	0	0
NET BOOK VALUE		
At June 30	10,000,000	10,000,000
	=====	=====

The company holds 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Ksh 1000/- each) . The subsidiary functions in a trustee capacity only and, as such, made neither a profit nor a loss for the financial period ended 30th June 2017. The subsidiary thus did not contribute to the group's revenue and profit before tax for the year ended 30th June 2017.

Name of entity where investment is held	No of shares			Nominal value of shares/ purchase price Shs	Value of shares less impairment Current year Shs	Value of shares less impairment Prior year Shs
	Direct shareholding	Indirect shareholding	Effective shareholding			
	%	%	%			
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

	2017 Shs	2016 Shs
16. INVENTORIES		
Engineering stores	798,881,989	813,838,048
Fuel, oil and lubricants	82,516,866	82,815,100
Crude & finished product stocks	353,267,606	353,267,606
Goods in transit	0	7,555,327
Stationery, Safety and general stores	13,256,123	14,390,379
	1,247,922,584	1,271,866,460

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17(a) RECEIVABLES	2017	2016
	Shs	Shs
Trade receivables	182,325,374	238,209,659
Deposits and prepayments	54,010,998	20,611,778
VAT recoverable	254,893,878	294,641,751
Staff receivables	6,634,415	10,032,948
Other receivables	94,775,512	43,753,348
Provision for bad and doubtful receivables	(146,822,486)	(146,822,486)
Net trade and other receivables	445,817,691	460,426,997

17 (b) TRADE RECEIVABLES	2017	2016
	Shs	Shs
Gross trade receivables	182,325,374	238,209,659
Provision for doubtful receivables	(146,822,486)	(146,822,486)
	<u>35,502,888</u>	<u>91,387,173</u>
	=====	=====

At June 30, the ageing analysis of the gross trade receivables was as follows:

Less than 30 days	3,584,934	52,486,047
Between 30 and 60 days	4,317,999	(68,577,825)
Between 61 and 90 days	10,166,487	73,311,396
Between 91 and 120 days	(6,535,136)	7,943,512
Over 120 days	23,968,603	26,224,043
	<u>35,502,888</u>	<u>91,387,173</u>
	=====	=====

17 (c) STAFF RECEIVABLES

Gross staff loans and advances	6,634,415	10,032,948
Provision for impairment loss	0	0
	<u>6,634,415</u>	<u>10,032,948</u>
Less: Amounts due within one year	(786,835)	(1,336,490)
Amounts due after one year	5,847,580	8,696,458
	=====	=====

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Shs	Shs
18. SHORT TERM DEPOSITS		
a) GoK funds		
National Bank of Kenya Ltd	74,379,579	0
Equity Bank Kenya Ltd	0	263,088,621
Central Bank- Treasury bills	877,560,507	739,424,252
Accrued interest receivable	2,093,068	2,644,377
	954,033,154	1,005,157,249
b) KPRL funds		
National Bank of Kenya Ltd	195,847,392	0
Equity Bank Kenya Ltd	0	329,222,243
Accrued interest receivable	5,363,688	1,903,197
	201,211,080	331,125,440
Total	1,155,244,233	1,336,282,689

The Short Term deposits include KES 954,033,154 and KES 1,005,157,249 in respect of GoK advances for KPRL upgrade and buyout of Essar's shares in KPRL as at 30th June 2017 and 31st March 2016 respectively. The average effective interest rate on the short term deposits as at June 30, 2017 was 8.03% (2016: 11.59 %).

	2017	2016
	Shs	Shs
19. BANK AND CASH BALANCES		
Cash in hand	434,658	658,933
Cash at bank	17,751,070	13,205,875
	18,185,728	13,864,808

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The make – up of bank balances is as follows:

Detailed analysis of the cash and cash equivalents

		2017	2016
Financial institution	Account number	Shs	Shs
a) Current account			
SCB-KES-CORP.-01040	'104092661400	13,421,938	7,201,474
BBK-KES-5009479	165009479	513,311	656,476
BBK-SC-KES-5009770	165009770	45,412	65,220
Stale Cheques		0	(420,125)
BBK-USD-7252715	227252715	1,903	5
SCB-USD-87040	'8704092661400	3,466,190	5,352,962.56
CITI EURO-478	100485478	265	257.33
CITI GBP - 486	100485486	205	792.66
CITI ZAR - 494	100485494	(90)	(60)
KPRL Upgrade Current A/c	100485505	223,557	230,156.92
NATIONAL BANK OF KENYA	'1020066603700	78,434	118,771.83
SCB Collections - KES A/C 1049	'104992661400	(55)	(55)
Sub- total		17,751,070	13,205,875
b) Others(specify)			
cash in hand		434,658	658,933
Sub- total		434,658	658,933
Grand total		18,185,728	13,864,808

	2017	2016
	Shs	Shs
20 ORDINARY SHARE CAPITAL		
Authorised:		
19,800,000 ordinary shares of Kshs.20 par value each	396,000,000	396,000,000
	=====	=====
Issued and fully paid:		
19,800,000 ordinary shares of Kshs.20 par value each	396,000,000	396,000,000
Capital injection from shareholders awaiting conversion to share capital	340,722,400	340,722,400
	=====	=====
Total	736,722,400	736,722,400
	=====	=====

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 REVALUATION RESERVE

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

22 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
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017	2016
	Shs	Shs
23. BORROWINGS		
Balance at beginning of the period	2,081,172,339	1,965,151,999
External borrowings during the year	0	0
Domestic borrowings during the year	0	0
Repayments of external borrowings during the period	0	0
Repayments of domestic borrowings during the period	(14,962,324)	(11,879,397)
Exchange losses/(gains) on foreign denominated loans	25,228,125	98,718,750
Exchange losses/(gains) on foreign denominated overdraft facility	15,549,937	29,180,987
Balance at end of the period	2,106,988,077	2,081,172,339
Total Repayments on borrowings	(14,962,324)	(11,879,397)
The analyses of both external and domestic borrowings are as follows:		
External Borrowings		
Dollar denominated loan	0	0
Sterling Pound denominated loan	0	0
	0	0
Domestic Borrowings		
Kenya Shilling overdraft from Commercial Bank of Africa	525,974,186	513,177,203
Kenya Shilling overdraft from Citibank N.A.	277,176,121	278,177,812
Dollar denominated overdraft from Citibank N.A.	165,829,958	162,075,312
Dollar denominated loan from Barclays Bank-CPP	1,138,007,813	1,112,779,687
Dollar denominated finance lease- Improchem	0	14,962,324
	2,106,988,077	2,081,172,339
Total balance at end of the period	2,106,988,077	2,081,172,339

Foreign denominated loans are restated based on Absa Bank Kenya Plc mean rates at the end of the financial year

	2017	2016
	Shs	Shs
24. SHORT TERM LOANS FROM GoK		
Balance at the beginning of the Year	1,557,617,304	1,090,151,000
Additions during the year	31,609,157	467,466,304
Repayment during the year	0	0
Balance at end of Year	1,589,226,461	1,557,617,304

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. GoK ADVANCES	2017	2016
	Shs	Shs
GOK Advance - Upgrade Project	590,626,818	541,609,836
GoK Advance-Put Option	288,874,328	463,547,413
GoK Advance-Early Oil Pilot Scheme Project	74,532,008	0
Balance at end of Year	954,033,154	1,005,157,249

	2017	2016
	Shs	Shs
26. TRADE AND OTHER PAYABLES		
Trade payables	169,656,723	293,636,413
Accrued expenses	550,901,796	395,036,548
Other payables- Provision for interest on dead stock	663,054,323	464,207,219
	1,383,612,842	1,152,880,181

	2017	2016
	Shs	Shs
27 PROVISION FOR LEAVE PAY		
Balance at beginning of the year	12,570,707	8,918,721
Additional provision at end of year	0	3,651,986
Leave paid out or utilised during the year	(1,094,369)	0
Balance at end of the year	11,476,338	12,570,707
	=====	=====

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

	2017	2016
	Shs	Shs
28 KPRL PENSION TRUST		
As at April 1	10,000,000	10,000,000
Additions	0	0
Disposals	(0)	(0)
At June 30	10,000,000	10,000,000
	=====	=====

This represents liability in respect of KPRL shareholding of 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Ksh 1000/- each) . KPRL acts in a trustee capacity only and, as such, made neither a profit nor a loss for the financial period ended 30th June 2017.

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. DEFERRED TAX LIABILITY

	Balance at 01/04/2016 Shs	Under / over provision in prior years Shs	Recognised through profit or loss Shs	Recognised through other comprehensive income Shs	Balance at 30/06/2017 Shs
Staff gratuity provision	1,117,870,667	0	0	(1,117,870,667)	0
Other provisions and accruals	(132,908,261)	0	(55,195,410)	0	(188,103,672)
Property, plant & equipment	830,340,074	0	(63,760,510)	0	766,579,564
Unrealised exchange gain	(48,849,619)	0	40,943,881	0	(7,905,737)
Sub-total	1,766,452,861	0	(78,012,039)	(1,117,870,667)	570,570,155
Not recognised					
Tax losses	(1,007,126,394)	0	(195,260,659)	0	(1,202,387,053)
Total	759,326,467	0	(273,272,698)	(1,117,870,667)	(631,816,898)
	Balance at 01/04/2015 Shs	Under / over provision in prior years Shs	Recognised through profit or loss Shs	Recognised through other comprehensive income Shs	Balance at 31/03/2016 Shs
Staff gratuity provision	1,106,503,000	0	123,356,000	(111,988,531)	1,117,870,667
Other provisions and accruals	(96,627,000)	0	(36,281,000)	0	(132,908,261)
Property, plant & equipment	880,954,000	0	(50,614,000)	0	830,340,074
Unrealised exchange gain	(29,011,000)	0	(19,838,000)	0	(48,849,619)
Sub-total	1,861,819	0	16,623,000	(111,988,531)	1,766,452,861
Net recognised					
Tax losses	(763,563,000)	0	(243,563,000)	0	(1,007,126,394)
Total	1,098,256,000	0	(226,940,000)	(111,988,531)	759,326,467

DEFERRED TAX	2017	2016
	Shs	Shs
The movement on the deferred tax account is as follows::		
Balance at the	1,766,452,861	1,861,818,668
Deferred Tax charge (note 9a)	(273,272,698)	16,622,724
Deferred Tax charge/(credit) attributable to DB Pension asset	(1,117,870,667)	(111,988,531)
Closing balance as at 30th June 2017	375,309,496	1,766,452,861

Kenya Petroleum Refineries Limited**Reports and Financial Statements for the 15 month period ended June 30, 2017****NOTES TO THE FINANCIAL STATEMENTS (Continued)****30 RETIREMENT BENEFIT OBLIGATIONS**

The entity 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 pension scheme for its members. Pensioners under the fund were bought out by an insurer. Active and deferred members joined the DC scheme and transferred their fund benefits to the DC scheme. The liability at the end of the year is as follows:

	2017	2016
	Kshs	Kshs
Net Asset at the beginning of the year	3,726,235,557	3,688,344,345
Net (Expense)/Asset recognized in Income statement	(2,345,579,721)	411,186,315
Net (Expense)/Asset recognized in Comprehensive Income	(522,498,642)	(373,295,103)
Net asset transferred to DC Fund	(858,157,194)	0
Net asset at the close of the year	<u>0</u>	<u>3,726,235,557</u>
	=====	=====

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

31 KPRL INVESTMENT HELD IN DC PENSION FUND

	2017	2016
	Shs	Shs
Transfer net DB Pension Asset 30th June 2017	858,157,194	0
Less: Employers DC contribution (Jan-May 2017)	(22,906,031)	0
Tax payable	(250,575,349)	0
Balance as at 30th June 2017	584,675,814	0

Following the conversion of Defined Benefit (DB) pension scheme to Defined Contribution (DC) pension scheme, the company's share of surplus was transferred to the DC pension fund to be invested with the DC fund until such time as liquidation process of the DB fund is fully completed. Ultimately the fund would go partly to future funding of employer's statutory contribution towards the DC pension scheme. The DB pension scheme is still undergoing the process of liquidation. Consequently, in line with RBA rules, the KPRL Board, for the Sponsor, passed a resolution to meet any contingent liability that may arise in the future, which would be covered by a component of the sponsors DC fund of KES 585M. Once the process of liquidation is complete then the funds in KPRL pension DC fund will be available to KPRL.

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
32 NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Operating profit/(loss)	(3,194,511,054)	(724,371,285)
Depreciation	373,871,330	321,778,317
Amortisation	9,303,183	28,781,073
(Gain)/loss on disposal of property, plant and equipment	(1,169,031)	(1,775,000)
Prior year Capex cost write off	71,981,654	<u>0</u>
Operating profit/(loss) before working capital changes	(2,740,523,918)	(375,586,895)
(Increase)/decrease in inventories	23,943,876	12,464,358
(Increase)/decrease in trade and other receivables	14,609,305	465,767,772
Increase/(decrease) in trade and other payables	230,732,661	537,179,847
Increase/(decrease) in retirement benefit obligations	2,372,957,230	(411,186,315)
Increase/(decrease) in provision for staff leave pay	(1,094,369)	0
Cash generated from/(used in) operations	<u>(99,375,214)</u>	<u>228,638,767</u>
(b) Analysis of changes in loans		
Balance at beginning of the year	2,081,172,339	1,965,151,999
Receipts during the year	0	0
Repayments during the year	(14,962,324)	(11,879,397)
Foreign exchange (gains)/losses	40,778,062	127,899,737
Balance at end of the year	<u>2,106,988,077</u>	<u>2,081,172,339</u>
(c) Analysis of cash and cash equivalents		
Short term deposits	1,155,244,234	1,336,282,689
Cash at bank	(951,229,195)	(940,224,444)
Cash in hand	434,658	658,933
Balance at end of the year	<u>204,449,698</u>	<u>396,717,179</u>

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2017	2016
	Kshs	Kshs
(d) Analysis of interest paid		
Interest on loans (note 8)	346,237,780	157,830,587
Interest on bank overdraft (note 8)	159,914,825	126,920,950
	506,152,605	284,751,537
Interest on loans capitalised	0	0
Balance at beginning of the year	0	0
Balance at end of the year	0	0
Interest paid	<u><u>506,152,605</u></u>	<u><u>284,751,537</u></u>
(e) Analysis of dividend paid		
Balance at beginning of the year	0	0
2015 dividends paid	0	0
2016 dividends paid	0	0
2017 interim dividends paid	0	0
Balance at end of the year	0	0
Dividend paid	<u><u>0</u></u>	<u><u>0</u></u>

33 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the company, holding 100% of KPRL'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) Key management;
- ii) Board of directors;

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 Kshs	2016 Kshs
Transactions with related parties		
a) Sales to related parties		
Sales of goods	0	0
Sales of services	0	0
Total	<u>0</u> =====	<u>0</u> =====
b) Grants from the Government		
Grants from National Govt	0	0
Grants from County Government	0	0
Donations in kind	0	0
Total	<u>0</u> =====	<u>0</u> =====
c) Expenses incurred on behalf of related party		
Payments of salaries and wages for employees	0	0
Payments for goods and services	0	0
Total	<u>0</u> =====	<u>0</u> =====
d) Key management compensation		
Directors' emoluments	1,006,835	1,692,036
Compensation to the CEO	19,415,893	15,004,532
Compensation to key management	52,266,806	45,735,563
Total	<u>72,689,534</u> =====	<u>62,432,131</u> =====
34 CAPITAL COMMITMENTS		
Amounts authorised and contracted for	10,890,947	11,732,954
Less: Amounts incurred and included in work-in-progress	(0)	(0)
	<u>10,890,947</u> =====	<u>11,732,954</u> =====

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 CONTINGENT LIABILITIES

		2017	2016
		Kshs	Kshs
i)	Guarantees	504,797,794	504,782,785
ii)	Legal claims against KPRL by Total Kenya Ltd	186,750,000	181,890,000
iii)	Other Legal claims against KPRL	8,424,608	8,424,608
iv)	KRA Disputed Tax Demand	1,633,968,000	1,633,968,000
		<u>2,333,940,401</u>	<u>2,329,065,393</u>
		=====	=====

36 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:

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2017				
Receivables from exchange transactions	592,640,177	70,404,475	375,413,216	146,822,486
Receivables from non exchange transactions	0	0	0	0
Bank balances and Short Term Deposits	1,173,429,960	1,173,429,960	0	0
Total	1,766,070,137	1,243,834,435	375,413,216	146,822,486
At 30 June 2016				
Receivables from exchange transactions	607,249,484	61,911,705	413,547,462	146,822,486
Receivables from non exchange transactions	0	0	0	0
Bank balances and Short Term Deposits	1,350,147,498	1,350,147,498	0	0
Total	1,957,396,982	1,412,059,203	413,547,462	146,822,486

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

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

ii) Liquidity risk management

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

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk management (Continued)

	Less than 1 month	Between 1-3 months	Over 5 months	Total
	Kshs	Kshs	Kshs	Kshs
At 30 June 2017				
Trade payables	63,475,117	106,181,606	0	169,656,723
Current portion of borrowings	0	3,696,214,539	0	3,696,214,539
Provisions	0	1,225,432,457	0	1,225,432,457
Employee benefit obligation	0	0	0	0
Total	63,475,117	5,027,828,602	0	5,091,303,719
At 31st March 2016				
Trade payables	180,162,812	113,473,601	0	293,636,413
Current portion of borrowings	0	3,638,789,643	0	3,638,789,643
Provisions	0	871,814,474	0	871,814,474
Employee benefit obligation	0	0	0	0
Total	180,162,812	4,624,077,718	0	4,804,240,531

(iii) Market risk

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

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

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

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Foreign currency risk

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

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

	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2017			
Cash in Hand and at Bank	14,694,619	3,491,109	18,185,728
Trade & other Receivables	445,817,691	0	445,817,691
Deposits	1,155,244,233	0	1,155,244,233
	1,615,756,543	3,491,109	1,619,247,653
Liabilities			
Trade and other payables	485,247,468	909,841,711	1,395,089,179
Borrowings	2,392,376,768	1,303,837,771	3,696,214,539
	3,051,472,024	2,202,294,617	5,091,303,718
Net foreign currency asset/(liability)	(1,435,715,481)	(2,198,803,508)	(3,472,056,065)

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.

	Ksh	Other currencies	Total
	Kshs	Kshs	Kshs
At 31st March 2016			
Cash in Hand and at Bank	8,488,214	5,376,594	13,864,808
Trade & other Receivables	460,426,997	0	460,426,997
Deposits	1,336,282,289	0	1,336,282,689
	1,805,197,500	5,376,594	1,810,574,494
Liabilities			
Trade and other payables	491,200,899	674,249,989	1,165,450,888
Borrowings	2,348,972,320	1,289,817,323	3,638,789,643
	2,840,173,219	1,964,067,312	4,804,240,531
Net foreign currency asset/(liability)	(1,034,975,719)	(1,958,690,718)	(2,993,666,037)

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Market risk (Continued)

Foreign currency sensitivity analysis

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

	Change in currency rate	Effect on Profit before tax	Effect on equity
	Kshs	Kshs	Kshs
2017			
Euro	10%	0	0
USD	10%	221,585,333	0
2016			
Euro	10%	0	0
USD	10%	198,950,253	0

b) Interest rate risk

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

Management of interest rate risk

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

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 19,017,154 (2016: KShs 17,919,501). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs 95,085,768 (2016 – KShs 89,597,505)

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

iv) Capital Risk Management

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

	2017	2016
	Kshs	Kshs
Retained earnings	2,653,317,559	3,920,673,447
Share Capital	736,722,400	736,722,400
Share Premium	144,000,000	144,000,000
Total funds	3,534,039,959	4,801,395,847
Total borrowings	3,696,214,539	3,638,789,643
Less: cash and bank balances	(1,173,429,962)	(1,350,147,497)
Net debt/(excess cash and cash equivalents)	2,522,784,577	2,288,642,146
Gearing	71%	48%

37 INCORPORATION

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

38 EVENTS AFTER THE REPORTING PERIOD

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

39 CURRENCY

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

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

XVIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS


The delay in finalization of audits and accounts for FY 2016/17 was due to uncertainty about the going concern status of KPRL.

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

Guidance Notes:

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

Ag. Chief Executive Officer

 Date..... 04/04/2022

Director



Date..... 04/04/2022

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

XIX. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation Funded by development partners

PROJECTS DETAILS						
Project title	Number	Donor	Period/ duration	Donor commitment	Separate donor reporting (yes/no)	Comments
Boundary wall to Plot 2504 Section VI Mainland North	15002	Not applicable	less than 12 Months	N/A	No	Internally Funded
Use Of P604C As Common Spare Pump For Both AGO And PMS Truck Loading Gantries	16001	Not applicable	less than 12 Months	N/A	No	Internally Funded
Upgrade of PMS Truck Loading System	16002	Not applicable	less than 12 Months	N/A	No	Internally Funded
Pipeline modifications to KOSF booster pump P641 to minimize product contamination	16003	Not applicable	less than 12 Months	N/A	No	Internally Funded
T610/ 611 Pressure control automation during LPG receipt	16004	Not applicable	less than 12 Months	N/A	No	Internally Funded
KPRL Interconnectivity into KPC 20 inch line	16005	Not applicable	less than 15 Months	N/A	No	Internally Funded
Replacement of High-Voltage switch gear sub-station no.7	16006	Not applicable	less than 15 Months	N/A	No	Internally Funded
Purchase of 5 no. Utility Vans For Company Pool	16008	Not applicable	less than 12 Months	N/A	No	Internally Funded
Inspection and repair of Gasoil Tank 206/306	16009	Not applicable	less than 12 Months	N/A	No	Internally Funded
Convert T101 from crude service to PMS service*	16010	Not applicable	less than 12 Months	N/A	No	Internally Funded
Replacement of CFPP Cooling Bath	16011	Not applicable	less than 12 Months	N/A	No	Internally Funded
Early Oil Pilot Scheme Project	16012	Not applicable	24 Months	N/A	No	Internally Funded
Long Term Refining Plant Equipment Preservation	16013	Not applicable	less than 12 Months	N/A	No	Internally Funded
Thermal Relief Valves for Gasoil/ IDO Systems in Tank Farm	17001	Not applicable	less than 12 Months	N/A	No	Internally Funded
Maintenance of Tanks T305 and T704	17002	Not applicable	less than 12 Months	N/A	No	Internally Funded
Purchase of 06 Nos, utility vehicles and staff van	17003	Not applicable	less than 12 Months	N/A	No	Internally Funded
Purchase of 10 Lap tops	17201	Not applicable	3 Months	N/A	No	Internally Funded

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

XIX. APPENDIX 1: PROJECTS IMPLEMENTED BY THE ENTITY
Status of Projects completion

STATUS OF PROJECTS COMPLETION							
No.	Project	Total project Cost KES	Total expended to date KES	Completion % to date %	Budget KES	Actual per quarter KES	Sources
15002	Boundary wall to Plot 2504 Section VI Mainland North	11,100,000	0	0.00%	11,100,000	0	Internal
16001	Use Of P604C As Common Spare Pump For Both AGO And PMS Truck Loading Gantries	1,647,686	1,647,686	100.00%	2,500,000	156,557	Internal
16002	Upgrade of PMS Truck Loading System	7,636,942	7,636,942	100.00%	11,500,000	1,322,096	Internal
16003	Pipeline modifications to KOSF booster pump P641 to minimize product contamination	4,600,000	87,293	1.90%	4,600,000	0	Internal
16004	T610/ 611 Pressure control automation during LPG receipt	6,800,000	513,976	10.00%	6,800,000	0	Internal
16005	KPRL Interconnectivity into KPC 20 inch line	559,000,000	0	0.00%	559,000,000	0	Internal
16006	Replacement of High-Voltage switch gear sub-station no.7	67,000,000	0	0.00%	67,000,000	0	Internal
16008	Purchase of 5 no. Utility Vans For Company Pool	4,250,000	4,250,000	100.00%	4,800,000	0	Internal
16009	Inspection and repair of Gasoil Tank 206/306	25,500,000	0	0.00%	25,500,000	0	Internal
16010	Convert T101 from crude service to PMS service*	10,700,000	4,671,350	50.00%	57,500,000	4,662,350	Internal
16011	Replacement of CFPP Cooling Bath	2,136,132	2,136,132	100.00%	2,500,000	0	Internal
16012	Early Oil Pilot Scheme Project	1,179,530,000	37,569,479	5.00%	1,179,530,000	19,862,440	Internal
16013	Long Term Refining Plant Equipment Preservation	202,000,000	0	0.00%	202,000,000	0	Internal
17001	Thermal Relief Valves for Gasoil/ IDO Systems in Tank Farm	7,050,000	0	0.00%	7,050,000	0	Internal
17002	Maintenance of Tanks T305 and T704	23,340,000	0	0.00%	23,340,000	0	Internal
17003	Purchase of 06 Nos. utility vehicles and staff van	19,000,000	0	0.00%	7,100,000	0	Internal
17201	Purchase of 10 Lap tops	690,000	609,500	100.00%	690,500	609,500	Internal
	Total Capital Cost Budget	2,131,980,760	59,122,357	1.49%	2,172,510,500	26,612,943	

Kenya Petroleum Refineries Limited
Reports and Financial Statements for the 15 month period ended June 30, 2017

XX. APPENDIX 2: INTER-ENTITY TRANSFERS

ENTITY NAME:		KENYA PETROLEUM REFINERIES LTD		
Break down of Transfers from the State Department				
FY 2016/17				
a. Recurrent Grants				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		Total	0	
b. Development Grants				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		Total	0	
c. Direct Payments				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		Total	0	
d. Donor Receipts				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
			0	
			0	
			0	
		Total	0	

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

Chief Finance Officer
 KPRL

Head of Accounting Unit
 MoPM

Sign



Sign-----

XXI. APPENDIX 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

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