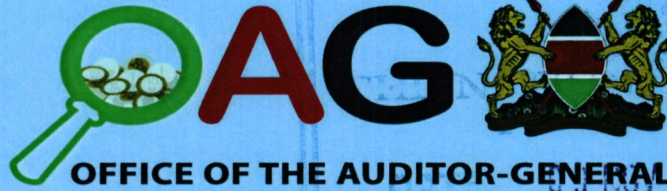


REPUBLIC OF KENYA



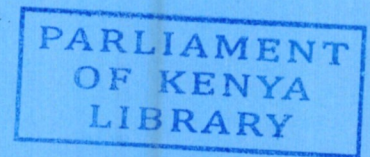
OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

Stamp: NATIONAL ASSEMBLY
DATE: 09 NOV 2022
Tabled BY: Hon Kimani Ichungu, MP
Clerk at the Table: Mainah Wang'andu
Wednesday - Afternoon



REPORT



OF

THE AUDITOR-GENERAL

ON

**KENYA PETROLEUM REFINERIES
LIMITED**

**FOR THE YEAR ENDED
30 JUNE, 2018**



KENYA PETROLEUM REFINERIES LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2018

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018

Table of Contents	Page
KEY ENTITY INFORMATION	ii
THE BOARD OF DIRECTORS.....	vi
MANAGEMENT TEAM.....	viii
DIRECTOR'S STATEMENT.....	x
REPORT OF THE CHIEF EXECUTIVE OFFICER	xii
CORPORATE GOVERNANCE STATEMENT	xvi
MANAGEMENT DISCUSSION AND ANALYSIS	xx
CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CSR).....	xxx
REPORT OF THE DIRECTORS	xxxii
STATEMENT OF DIRECTORS' RESPONSIBILITIES	xxxiii
REPORT OF THE INDEPENDENT AUDITORS ON KENYA PETROLEUM REFINERIES LIMITED	xxxiv
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF CHANGES IN EQUITY	3
STATEMENT OF CASH FLOWS.....	5
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018.....	6
NOTES TO THE FINANCIAL STATEMENTS	8
APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	55
APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY	56
APPENDIX III: INTER-ENTITY TRANSFERS.....	58
APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES ...	59

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

KEY ENTITY INFORMATION

Background information

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

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

Vision

To be the number one supplier of integrated energy.

Mission

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

Principal Activities

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

However, the company's refining operations stopped on 4th September 2013. The main reason 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.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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.

Directors

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

1. Ms. Lilian B. Mahiri Zaja - (Appointed on 6th February 2017)
2. Mr. Henry G. Karinga - (Appointed on 6th February 2017)
3. Mr. Hesbon O. Gondi - (Appointed on 25th March 2003)
4. Mr. Patrick M. Nyoike - (Appointed on 31st January 2003- Alternate Mr. J.Wafula)
5. Mr. Joseph K.Kinyua - (Appointed 30th June 2004- Alternate Mr.J. Kariuki)
6. 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.**

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

KEY ENTITY INFORMATION

Corporate Secretary

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

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

KEY ENTITY INFORMATION

Corporate Bankers

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

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

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

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

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

Independent Auditors

Main Auditor

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

Principal Legal Advisers

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

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

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



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

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




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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

THE BOARD OF DIRECTORS




Name of Director	Provide a concise description of each Director's date of birth, key qualifications and work experience	
1. Mr. P. Nyoike (Alternate Mr. J.Wafula)	DOB-14/01/1949, Retired from Public service. Mr.Wafula is a Senior Economist at the State Department of Petroleum.	
2. Mr. J. Kinyua (Alternate Mr. J. 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). Formerly the CECM Trade, Industry & Co-op Devt Siaya County. A career civil servant, he has held senior positions in the Ministry of Planning & National Devt. and Ministry of Health as well as the Central Bureau of Statistics.	
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 IEBC and has held various positions in the Department of Justice including Deputy Chief Legal Officer from 2004-2011. Ms Mahiri-Zaja is currently a Commissioner with the Energy Regulatory Commission (ERC).	

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018



Name of Director	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.K. 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>	
Ms. Muthoni Gatere	<p>DOB-05/03/1963 Muthoni is a practising Advocate with 30years experience. She holds a Masters degree in International Maritime Law (IMO- IMLI Malta); a post- graduate Diploma in Legal Education from the Kenya School of Law (1987), LL.B. (Hons.) from UoN (1986) and is a Certified Public Secretary (ICPSK) and member of the Law Society of Kenya (LSK). She has previously worked at KPA as a Board Secretary for 15 years and has expertise in negotiating complex commercial contracts and Pension schemes set up and management. She is currently a Consultant with Ledger Registrars (Certified Public Secretaries).</p>	

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT TEAM

Name of the Staff	Responsibility	
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>	
Ms. Abigail Mwangi	<p>DOB-10/10/1968 Currently the Acting Chief Operating Officer now seconded to the Ministry of Energy and Petroleum. She holds a Bsc. Chemistry (UoN). Ms. Mwangi joined KPRL in 1992 and has held a number of senior positions including Commercial Manager (Jul 2012-Oct 2016) Manager Hydrocarbons & Economics (June 2012-Oct 2010) and Manager Process Operations (June 2008-Oct 2010)</p>	
Mr. Martin Wahome	<p>DOB-24/04/1965 Currently the Human Resource Manager, KPRL. Holds a Bachelor's degree in Social Sciences (UoN) and an MBA from Middlesex University. Mr. Wahome joined KPRL in Sept 2004 and has over 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 Trustee.</p>	

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Name of the Staff	Responsibility	
CPA. Joseph Ndoti	DOB-05/07/1972 Currently the 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.	
Eng. Evanson Momanyi	DOB-01/01/1964 Currently the Engineering Manager at KPRL. He joined KPRL in Nov 1992 and has over 24 year's professional engineering experience in various industries and fields in Manufacturing, Projects, Operations management, Quality, Health & Safety Management. Before joining KPRL he worked in Bamburi Portland Cement Ltd and the Ministry of Works. He holds a B.Sc. Mechanical Engineering and MBA in Operations Management both from UoN. He is registered Professional Engineer (PE) and a corporate member of the Institute of Engineers of Kenya.	

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

DIRECTOR'S STATEMENT

In the year under review, July 2017 - June 2018, the Company has been under the Lease agreement which was entered in March 2017, between KPRL and the Kenya Pipeline Company Limited (KPC).

The Lease Agreement was a culmination of the exit of Essar Energy Overseas Limited (Essar) from shareholding at KPRL and the termination of the crude oil processing at KPRL in September 2013, where upon the major assets of KPRL became grossly underutilised and the Government of Kenya (GOK) was under pressure to determine the alternative business model for KPRL. In accordance to letter from the then line ministry, Ministry of Energy and Petroleum, dated 16th August 2016, the Cabinet had directed that the KPC take over the management of KPRL. Subsequently KPC initiated a due diligence process which was conducted by PriceWaterhouseCoopers(PWC), to facilitate evaluation of KPRL, and form the basis for the takeover decision. The lease regime was therefore seen as an interim phase to allow the finalisation of due diligence and decision making on form and strategy of takeover of KPRL by KPC.

In the prevailing circumstances, the KPRL objective and role became supportive to KPC operations and business activities. The optimal utilisation of the KPRL assets would facilitate elimination of ship demurrage in open tender system (OTS) imports into the country, as there would be adequate ullage for white oils. It was anticipated that all crude tanks at KPRL would be converted to white oils service to greatly enhance the ullage available to Imports, and hence have a significant impact on reduction of pump price of fuels. By facilitating and supporting the developments of ullage, and other related projects, KPRL would be contributing towards and achieving its short term goals. Regrettably, most of these key projects are behind schedule.

In addition to the above, KPRL assets are being converted to receive the Turkana crude under the **Early Oil Pilot Scheme**. In the year the initial early conversion of tanks and modifications of tanks and pipelines were completed and the first truckloads of crude were received at KPRL by truck on schedule on 7th June 2018. As of the date of this report, 41 trucks have been received, and have delivered 774 metric tons of crude oil (equivalent to 5,712 barrels at 60deg F). The majority of tenders for the main works were issued and awarded, with works starting in June-July period. KPRL continues to support the Early Oil Pilot Scheme to achieve the GOK objective of a first export of crude in the first quarter of 2019.

The Board of KPRL has been pursuing the key matter of KPRL future mandate(s). It needs to be recognised that KPRL future existence is dependent on the redefinition and formal adoption of a new business model. Adoption of a new business model would reverse the low staff morale and end dependence of funding from KPC and loss of real corporate controls. Also it should be noted that the term of interim model is finite and in course of time would nonetheless terminate.

The going concern issue has been raised by the external auditors, Deloitte and Touché Certified Public Accountants (Kenya), who need assurance that GOK has solid plans for continuity, and settlement of outstanding loans, but conclusive feedback from GOK has not been obtained, resulting in non-closure of audit of accounts of 2013/14, 2014/15, 2015/16. This is a major non-compliance of the Corporate.


Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

DIRECTOR'S STATEMENT *Continued*

Further, KPRL has continued to request a final decision from the Shareholder, GOK, on the fate of the Refinery Plant and assets to facilitate closure of asset accounting, reduction of insurance premiums, and removal of hazardous structures. The company's refinery plant and power plant assets have been idle for approximately five years, and are suffering loss of value by active corrosion, decay and obsolescence.

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 process is effectively completed and the Corporate Trustee of the pension fund has appointed a liquidator to wind up the Defined Benefit Pension Fund. Upon approval of the appointed liquidator by the regulator, Retirement Benefits Authority, the liquidation process will commence.

The KPRL Board anticipates a joint board meeting with KPC Board in the second quarter of the 2018/19 financial year to review the existing implementation of the Lease Agreement with a view to improve the outcomes of the investments for the mutual benefit of both corporates and the Country.

Director.......... Date..........

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

REPORT OF THE CHIEF EXECUTIVE OFFICER

Introduction:

Currently KPRL operating assets are under lease with Kenya Pipeline Company for a period of 3 years effective 7th March, 2017, and shall expire on 6th March, 2020. The KPRL assets remain largely underutilized, though some projects are underway to convert crude oil tanks to white oil service, while part of the asset is undergoing upgrade to receive, store and export Kenya crude oil from Turkana County under the Early Oil Pilot Scheme Project.

The Lease Agreement Regime:

The period starting 7th March 2017 – 30th June 2018 can be described as the Lease Regime. During the period all the operating assets of KPRL are in control of Kenya Pipeline Company Limited as a consequence to the KPRL-KPC Lease Agreement. Further the entire staff are seconded to KPC and report through the KPC management system.

The long range strategic plan of KPRL is seen as in formative mode in view of the current arrangement, and for the reasons that the assets and staff are in control of another entity. This scenario is not new and since 2013, when crude oil refining operations ceased, KPRL has severally explored alternative utilization of the company assets, including seeking strategic partners to revive refining operations, carry out terminal /depot operations, and carry out hospitality operations. The various options have not obtained adequate Stakeholder/GOK support and some were proven to be unviable.

The KPRL-KPC Lease Agreement therefore, comprises an interim arrangement which means that the short term strategic plan of KPRL must at very least be aligned to that of KPC, if not synonymous, until such time as fundamental decisions are made regarding the ultimate relationship between the two GOK corporates.

The performance of the assets during the current period can therefore be assessed by review of the core objectives of the Lease Agreement. The objective were as follows:-

- i) Implement EOPS to allow receipt, storage and export of Kenya crude oil from Turkana as from June 2017.
- ii) Optimize the utilization of the idle KPRL assets to improve the fuel supply chain, including conversion of crude oil tanks to white oil services.
- iii) Utilise ullage available at KPRL to reduce ships' demurrage;
- iv) Extend Global Entitlement Program to products stored at KPRL.

All four items are at various degrees of implementation and performance. KPRL and KPC have proposed an annual joints board meeting to review the implementation of the Lease with view to optimising operations.

Redefining the Mandate:

In June 2018, the KPRL Management compiled a conceptual document entitled '*Redefining the Mandate of Kenya Petroleum Refineries Limited*', which contains ideas from KPRL Management and Board following a workshop held on 17th May 2018, involving external experts on local and

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

REPORT OF THE CHIEF EXECUTIVE OFFICER *Continued*

international petroleum industry. The inception report is a collection of high level ideas which, if considered and approved by the Government of Kenya/ Shareholder, can be developed into comprehensive feasibility studies prior to project definition and commercialisation.

Operational Budget (Opex).

Funding for all KPRL Operations has been as per the lease agreement and business activities have been funded, albeit with time delay.

In the FY 2017/18 the gross throughput revenue was KSh 1.33bn compared to KSh1.13bn for the 15-month period ending 30th June 2017 (all due to KPC). Needless to say, the day to day operations of receipt, storage and transfer of products are in full control of KPC as per the lease agreement.

Capital Expenditure:

To effectively implement the lease agreement KPC undertook to implement capital projects to the tune of KSh919bn. The approval of budgets was delayed in FY2017/18, and were only approved in mid-December 2017. The KPC/KPRL teams were then challenged to expedite the projects, and in particular the Early Oil Pilot Scheme project activities. Most of the technical preparatory works were carried out but slow bureaucratic procurement processes resulted in many of the tendered works attaining ready to start only by end June 2018.

Furthermore, some of the critical jobs regarding EOPS were not finalised to award for various reasons regarding the tender processes, while some tenders had to be re-issued. It is key to note that the procurement and contract management processes are not in the control of KPRL, and little information is shared to KPRL to facilitate a full disclosure.

Land matters:

KPRL has been having key land issues with respect to documentation. Management has been pursuing closure of some of these matters with the courts and land commission. Management is also engaged in eviction of squatters who occupy the Kalahari plot comprising a part of the KPRL oil pipeline route at Port Reitz. After a meeting held with the Chairman of the National Land Commission, the chair directed the Registrar of Titles, Mombasa, to issue title to KPRL plot no 2513/VI/MN, which various external parties have tried to dispossess KPRL over the years. The Chair also undertook to pursue other documentation matters related to KPRL lands which had been unclear due to 'missing file' syndrome at the registry in Mombasa.

KPRL Legacy matters:

Key among legacy matters outstanding during the period under review are the following:

- a) Management of Lenders (Banks and Financiers): Discussions have been taking place between Lenders and Kenya Petroleum Refineries Limited and Ministry of Petroleum and Mining. In the course of the year Management made detailed proposals to the Ministry on possible settlement of part of the KPRL outstanding loans. The Ministry made a 'no objection' feedback to the National Treasury, who also despatched a team to KPRL for further fact finding and clarity. The matter is still with The National Treasury.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

REPORT OF THE CHIEF EXECUTIVE OFFICER *Continued*

In the meantime, Absa Bank Plc and the other lenders have threatened to take further action against KPRL if the matter is not resolved by end of the month of September.

- b) KPRL customer matters : Resolution of toll mode legacy issues (comprising, yield shift, release of deadstock and line fills, net-off of sludges, recovery of negativities and residual yield shift) shall be handled by the Ministry of Petroleum and Mining.
- c) Effective transfer of all KPRL commercial and project contract obligations: All contracts and project obligations were transferred to KPC, including the Crude Oil Hospitality Agreement entered with Tullow Oil for Early Oil Pilot Scheme project.
- d) Hospitality Agreements: All hospitality contracts between KPRL and Marketing Companies were terminated. Furthermore, in the course of the year, all the remaining toll crude and white oil materials stored at KPRL were finally sold off and paid to owners.

Asset Maintenance:

There are concerns over delayed maintenance of the refining assets and civil structures. This presents an unacceptable state of affairs with respect to safety compliance and would lead to grave insurance liabilities in event of an incident due to collapse of structures arising from corrosion and lack of expected interventions.

a. *Preservation of Refining Plant:*

Management has proposed to GOK (MOPM) to utilize GOK funds held at KPRL for the exercise. The full preservation has been countered as costly as no immediate use of the plants is foreseen to warrant utilization of KSh300 million. In view of this position, Management has reviewed the budget cost to KSh50 million to deal with potential safety and environmental hazards posed by aging plant. This budget will be utilized mainly to make the plants safe by gas freeing and lowering of elevated structures to make them safe.

b. *Liquefied Petroleum Gas (LPG) Storage Gas Detectors:*

Various audit and insurance survey reports have highlighted the exposure due to lack of gas detectors at the remote LPG storage area. This item is yet to be funded, and is planned to commence in FY 2018/19.

c. *Relocation of LPG Storage Spheres and Bullets:*

The current location of LPG spheres has been identified as a high risk location due to proximity to public road. The ultimate mitigation for this risk is installation and commissioning of the proposed new bulk LPG storage facilities at a safe location, and decommissioning of the existing facilities.

Insurance cost-idle Refining Assets and power plant:

As key components of KPRL assets, the refinery process plants and power plant remain idle and continue to require preservation maintenance for value protection and also for safety reasons.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

REPORT OF THE CHIEF EXECUTIVE OFFICER *Continued*

The Company therefore continues to provide insurance cover for the protection of the assets with the assumed objective that they will in future be put to use. Consequently the basis for insurance is replacement cost, currently 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 will continue to seek funding for preservation of the refinery plant by mothballing process as per professional recommendations while awaiting the formal Shareholder/GOK policy decision on whether or not to proceed with full impairment of the disused and idle assets.

Staff morale and retention:

The staff morale has taken a dip in the period under review following the failure of the Company to implement significant job progression, salary review nor reward scheme. Further, proposed promotions for various job categories were not effected in the year. The scenario is well displayed by the departures indicating that the KPRL staff roll is now 132 from 150 at the beginning of the period. However, KPRL board approved the staff car loan scheme, which is in process of implementation in following quarters.

Health Safety and Environment:

KPRL has continued to retain a good record of HSE at the site with 684,385 work hours without Lost Time Incident (LTI) to date. There is heightened safety challenge presented by the increased number of contractor workers at the site and the joint KPRL/KPC teams will have to be very vigilant to maintain a safe work site, bearing in mind that many of the workers are new to the refinery work environment.



Signed: Ag. Chief Executive Officer

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

CORPORATE GOVERNANCE STATEMENT
Leadership and Responsibilities

Overview

Corporate governance refers to the structures and processes guiding the leadership of the Company. The Company has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the organization. Throughout the year ended June 2018, the Company, now 100% wholly owned by GoK, endeavored to comply with its constitutive documents, The Constitution of Kenya 2010, Code of Governance for State Corporations 'Mwongozo' and The State Corporations Act. The Company is committed to supporting corporate governance guidelines through embedment of internal rules of engagement that reflect the highest standards of behavior.

Role of the Board

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

The key responsibilities of the Board include;

- Approving Company Strategy
- Approving Company Policies
- Approving Annual Reports
- Approving the Company budget
- Agreeing on governance framework
- Reviewing risk management and internal controls
- Reviewing periodic financial reports

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

Division of Responsibilities

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

He is also responsible for ensuring that the interests of the shareholder are safeguarded and effective communication is maintained with the shareholder. The chairperson is accountable to the Board for leading the direction of the Company's corporate and financial strategy and for overall supervision of the policies governing the conduct of the business.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

CORPORATE GOVERNANCE STATEMENT *Continued*

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

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

Information and Support

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

The Composition of the Board

The composition of the Board as at 30th June 2018 is as set out in the key entity information on page (iii). It is however noteworthy to advise of the following changes/appointments during the current financial year:

Director	Former Alternate Director	Current Alternate Director	Date of Appointment
Principal Secretary, State Department of Petroleum	Mr Lawrence Thuku	Mr Joseph Wafula	27 th Nov. 2017

As detailed in the below schedule, the Board held three (3) full Board meetings, six (6) Special Board meetings during the year 2017/2018 and One (1) Annual General Meeting held on 14th December 2017 at the Company's Boardroom. The Board was also privileged to receive Honourable Mr. J. Munyes, Cabinet Secretary – Ministry of Petroleum and Mining accompanied by the Principal Secretary – State Department of Petroleum, during the Cabinet Secretary's introductory visit to KPRL on 1st March 2018.

In addition the board also held six (6) Board Committee meetings and one (1) Board-breakaway session on 17th -18th May, 2018. The Board further held a joint meeting with the Kenya Pipeline Company Limited Board on the 12th October, 2017 in Mombasa, chaired by Mr. H. Karinga.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

CORPORATE GOVERNANCE STATEMENT *Continued*

Schedule of Meetings – Financial Year Ended 30th June 2018:

Special Board Meetings	Full Board Meetings	Board Committee Meetings
7 th July 2017	31 st August 2017	14 th July 2018
1 st September 2017	14 th December 2017	26 th September 2017
1 st March 2018	13 th April 2018	12 th October 2017
25 th May 2018		13 th December 2017
7 th June 2018		25 th January 2018
		12 th April 2018
		18 th May 2018

The attendance at both Board meetings and the Annual General Meeting in 2017/18 financial year was as follows;

	Name	Meeting Attended	Meetings eligible to attend
1.	Lilian Mahiri-Zaja	10	10
2.	Hesbon.O. Gondi	8	9
3.	Henry Karinga	8	9
4.	Festus King'ori	1	1
	Joseph Kariuki	8	9
5.	Lawrence Thuku	3	3
	Joseph Wafula	2	6

Balance and Diversity

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

Conflict of Interest

Directors are required to give advance notice of any conflict of interest issues to the Chairperson and Company Secretary and these are considered at the next Board meeting. Declaration of conflicts of interest is the first agenda item for all Board meetings. No conflicts were reported by the Directors in 2017/2018.

Information and Professional Development

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

Training and Development

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

CORPORATE GOVERNANCE STATEMENT *Continued*

Directors Remuneration

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

Roles of the Business Committee

The Business Committee plays a major role in the Finance, Human Resources, Technical and Strategy Matters of the Company. The committee oversees the integrity of financial reporting, the independence and effectiveness of internal and external audit functions and compliance with legal and regulatory requirements.

The responsibilities of the committee include reviewing the business risk management processes as well as the health, safety, security and environment functions. This committee further oversees the company's major projects, the strategic direction of the company and

operations of the business. It also guides the development, review and authorization of procuring and contracting procedures.

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

Role of the Audit and Compliance Committee

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

In addition the committee makes recommendations to the Board in relation to the appointment, reappointment or removal of the external auditors and the remuneration and terms of engagement of the external auditors.

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

ENGINEERING HIGHLIGHTS

Introduction:

The key activities under Refinery Complexes I and II plants is maintenance of nitrogen pressure refills in plant equipment and pipelines for partial preservation. Replacement of concrete slabs on firedecks of Complex II was partially done but put on hold due to funding.

I) Rotating & Mobile Equipment

The rotating equipment in the idle refinery plant were preserved in gasoil, and their rotors were periodically rotated as a means of preservation in functional condition. All the gas compressors are preserved by nitrogen injection and periodic rotor rotation.

All other working rotating equipment, mobile equipment and vehicles, air compressors, etc, continued receiving due maintenance including conditional monitoring.

II) Storage Tanks and Pipelines

Thermal Insulation works on Tank T117 commenced and completed within the period. Tanks T111 and T112 pressure vacuum valves were removed for service. For the pipelines, the replacement of LPG pipeline section at the Kipevu Bridge continued during the period, and replacement of 16" pipeline at the Kipevu Oil terminal in readiness for crude oil export was carried out. The repairs of the 16" inlet fuel oil pipeline to tank T-208 which ruptured due to overpressure was carried out and in the process a thermal relief valve (trv) was installed to protect the pipeline from overpressure.

III) Captive Power Plant.

For the idle captive power plant, short term preservation mode is operating the engine and rotors for approximately 5 minutes per week. This operation has been interrupted due to failure of generator control panel for which the local agent has been contacted to effect the repairs. Required parts are on order.

IV) Electrical

Within the period, Pump motor P- 652 windings got burnt in service and was rewound, while the emergency generator for power supply to administration building failed, and is yet to be repaired. KPRL also experienced failure of 33KV Port Reitz overhead power lines, which were repaired and power restored.

V) Instrumentation & Control

All the scheduled routine maintenance of all safeguarding systems were carried out, while the LPG project for automation control of pressure in the LPG spheres was implemented and commissioned. Premium motor spirit (PMS) truck loading meter was calibrated by SGS, while the Control room Uninterrupted Power Supply (UPS) experienced intermittent failures which affected the performance and availability of the Distributed Control System (DCS). Procurement process for a programmed maintenance contract was initiated and awaits approval.

There were a various CCTV camera failures resulting in a proposal to replace the faulty cameras with locally available ones.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

ENGINEERING HIGHLIGHTS

VI) Inspection & Integrity

The key activities in Inspection and Integrity department were:-

The QA/QC and NDT testing approval for welding works during; installation of pump P701B and repairs of the corroded 16" crude oil pipeline at the jetty a head of interim EOPS, pump P604D piping modifications at location of former P604A, repairs of ruptured inlet pipeline to T-208 from Pump P605 and 8" LPG replacement at Kipevu bridge was carried out.

The inspection schedule for tank external shell wall thickness measurement for Changanwe and input tank farm tanks and Safety relief devices RVs and PVs testing and documentation was carried out. The statutory inspection of all KPRL lifting equipment by an approved Government authorized inspector as per OSHA act 15 of 2017 was carried out. The steam header Inspection from new EOPS boiler to tank farm during Commissioning in preparation for Turkana crude receipt was carried out.

EARLY OIL PILOT SCHEME (EOPS)

The Early Oil Pilot Scheme (EOPS) is a Government initiative which entails exporting early crude oil production through the port of Mombasa using KPRL facilities. 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 Total Oil) prior to full crude oil production.

As a requirement of the Lease Agreement, the funding, procurement and implementation of EOPS became the obligation of Kenya Pipeline Company. Tendering for EOPS commenced in January 2018, though the process did not reach conclusion until June 2018 due to extension of time for bidders and delays in awarding/finalizing of contracts. By end Q4, two tenders out of eleven remained pending:

- excavating/insulating 18" crude oil pipeline – was re-tendered and contract not yet awarded
- Pipelines and pumps – the awarded contract not yet signed.

Execution for all other EOPS tenders commenced towards end of June 2018 with target completion of September / December 2018 (Interim receipt T-118 / T-119) and April 2019 for export of crude oil.

It is noteworthy that the KPRL Board was requested for, and gave consent of budget variation of Kes 409 Mil, following an increase of project cost after the receipt and evaluation of the EOPS tenders.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

OTHER PROJECTS

Below is the current status of the other projects that were under implementation in the year ended 30th June 2018:

1. T-610/611 Pressure Control Automation project completed and commissioned
2. Replacement of Internet Security Gateway Device was delivered, installed and commissioned.
3. Replacement of LPG pipe section across Kipevu Bridge implementation started and progressing
4. Tank Maintenance Program –T2751 and T305 retendered and bids opened for evaluation.
5. Cathodic Protection Upgrade which was partly funded- Scope for supply of ground bed cathodic protection materials tendered and bids opened for evaluation.
6. Replacement of 02Nos, utility vehicles - Specifications prepared for tender.
7. Replacement of faulty LPG transfer meter- Scope and specifications prepared for tendering.
8. Replacement of Desktop and Laptop Computers tendered, bids evaluated and awaiting Award
9. Disaster Recovery Centre (DRC) servers tendered, bids evaluated and awaiting approval of Professional Opinion.
10. Upgrade of Yokogawa DCS System tendered, evaluated/negotiated and awaiting professional opinion approval on the bid.
11. Upgrading of the truck loading facility tendered, Award and Contract signed

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. The targeted (planned) tank turnaround factor is 1.4 translating to monthly volume of 196,000M³.

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.

Actual throughput handled during the financial year ending 30th June 2018 was 10,148 tons and 1,796,948 M³ for LPG and liquid products as per table below. Line lease volumes were 7,117 tons and 270,603 M³ for LPG and liquid products.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Table 1–Hospitality volumes under KPRL- KPC lease regime - June, 2018

KES/US\$

101.3833

Product	Units	(July 2017 to June 2018)				
		Actual Throughput 2017	Actual Throughput 2018	TARIFF US\$	REVENUE US\$	REVENUE KES
LPG	tons	9,680	10,148	25	253,700	25,720,943
PMS	M ³	377,336	640,504	6.56	4,201,706	425,982,844
DPK	M ³	-	0			
AGO	M ³	872,394	1,066,455	6.56	6,995,945	709,271,970
FO		-	79,841	6.56	523,757	53,100,209
Sum total		1,259,410	1,796,948		11,975,108	1,214,075,967

Table 2– Line lease volumes under KPRL - KPC lease regime –June, 2018

Product	Units	(July 2017 to June 2018)				
		Actual Throughput 2017	Actual Throughput 2018	TARIFF US\$	REVENUE US\$	REVENUE KES
LPG	tons	7,433	7,117	20	142,340	14,430,899
PMS	M ³	46,830	270,603	3	811,809	82,303,875
DPK	M ³	42,128				
AGO	M ³	73,066				
FO	M ³	59,445				
Sum total		228,902	277,719	0	954,149	96,734,774

Key:

LPG: Liquid Petroleum Gas

PMS: Premium Motor Spirit (Petrol)

DPK: Dual Purpose Kerosene (Kerosene)

AGO: automotive Gas Oil (Diesel)

FO: Fuel Oil

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

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, 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.

As the KPRL/KPC three year lease agreement took effect on 1st June 2017, manpower strength continued to decline and as at 30th June 2018 stood at 132 compared to 149 as at 30th June 2017. The year has witnessed various KPRL/KPC Joint activities including Tender Opening & Evaluations exercises, Training Workshops, joint Enterprise Risk Management (ERM) exercise, EOPs Technical Steering Meetings at KPRL, KPC and MOPM and several benchmarking exercises done jointly.

Previously suspended employee benefits including enhancement and upgrading of skills through trainings saw all Operations staff spend 2076 Man-hours and 44 office employees undergo various trainings in Nairobi, Eldoret, Kisumu and Malindi. It is expected that other benefits such as salary reviews and adjustments, promotions and career progressions will resume shortly as the lease agreement progresses.

During the last quarter KPRL welcomed a delegation from the Ministry of Petroleum and Mining led by the newly Appointed Cabinet Secretary Hon. John Munyes, Principal Secretary Department of Petroleum, Andrew Kamau, KPRL Board of Directors, Managing Director KPC Mr. Joe Sang and KPC Board representatives for a familiarization tour of the Changamwe plant and Kipevu Oil Terminal (KOT) on 1st March 2018.

On 7th June, 2018, a delegation from the Ministry of Petroleum and Mining led Mr Hon. Eng. John Kipngetich Mosonik, Mr. Martin Heya and Ms. Abigail Mwangi both from the State Department of Petroleum, Ms. Stella Opakas (Director - Natural Resources) and Mr Francis Ekaales (Chief Officer) from Turkana County Government, Mr. Martin Mbogo Managing Director Tullow and KPRL Board of Directors were at hand to witness the arrival and official receipt of initial Turkana crude oil (EOPS) in Mombasa at KPRL.

On the Corporate Social Responsibility (CSR) front, KPRL has been engaged in various activities to support local communities and has contributed in nurturing of young talent by providing the County Government of Mombasa; Department of Education and Children, Modern Coast youth club, Magongo Rangers FC and Neighbours Refinery volleyball team (local football and volleyball Clubs) with its well maintained and secured training field to conduct Sub-County ECDE Inter-

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*
HUMAN RESOURCES HIGHLIGHTS

Schools and Sub-County primary schools and open Sport competitions as well as a daily football and volley practice venue to the local clubs.

Despite its constrained budget KPRL was able to share with the less fortunate by donating assorted foodstuff worth KSh10,000 and one full canter of firewood to Sons of Abraham Children Center, 2 full canters of firewood to Children Restoration Centre in Kiembeni Kashani area, 1 full canter of firewood to Pahali pa Usalama Rescue Center in Tudor and water/ Soda worth Kshs 20,000 to Changamwe Sub- County Officers during Mashujaa and Jamhuri day celebrations on 20th October 2017 and 12th December 2017 respectively.

Planning, monitoring and evaluation of medium and long term plans for manpower development continued in the year as well as the 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 as well as a more recent embargo on fresh recruitments by GOK. Effective management of change and communications was carried out via frequent employee engagements including town hall meetings and electronic communiqués on the various changes happening in the company.

Union activities have remained mild and relations were cordial with regular information sharing meetings held with union officials.

On 2nd March 2018 Kenya Petroleum workers Union and KPRL Management signed a Recognition Agreement after which the Union submitted their 2017/2018 CBA proposal to KPC/KPRL Management for consideration. It is expected that the negotiations will follow shortly.

The table below shows a summary of the overall turnover as at 30th June 2018.

Description	Staff Nos.	Turnover
Staff as at 1st Jan 2013	291	
Exits up to 30th June 2017	(143)	49%
New Employees as at 30th June 2017	1	
Staff as at 30th June 2017	149	
Exits up to 30th June 2018	(18)	12%
New Employees as at 30th June 2018	1	
Staff as at 30th June 2018	132	

The high turnover rate of staff has been fuelled by fears over uncertain individual career growth and by the Company's unstable economic base which resulted from the loss of the key mandate of crude oil refining, and delays in redefining a new and steady business model. Being an Engineering Company, Operations, Lab, Technology and Engineering departments have been the worst affected by high turnover with many young Engineers and Technicians moving to other local company's offering a more certain career path and future and to the Middle East where remuneration is highly attractive.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

HEALTH, SAFETY, SECURITY & ENVIRONMENT (HSSE) HIGHLIGHTS

HSSE PERFORMANCE - JULY 2017 TO JUNE 2018				
	FY 2016-17	FY 2016-17	FY 2017-18	FY 2017-18
	PLAN	ACTUAL	PLAN	ACTUAL
Fatality /Lost Time Injuries (LTI)	0	1	0	0
Restricted Work Cases (RWC)	0	1	0	0
Medical Treatment Cases (MTC)	0	0	0	0
First Aid Cases (FAC)	2	2	2	4
Fires (Minor)	2	1	2	0
Fires (Major)	0	0	0	0
Total Reportable Occupational Illnesses	0	0	0	0
Environmental Incidents & Complaints	4	0	4	1
Vehicle Accidents	6	16	6	8
Security Incidents (SI)	4	7	4	3

FY2017-2018 HSSE PLAN / HIGHLIGHTS:

Man-Hours without Lost Time Injury (LTI)

Target	1,000,000 work -hours
Hours so far achieved (30 th June 2018)	684,385 work-hours
Hours remaining	315,615 work -hours

Statutory/External Audits Compliance FY 2017/18

- ✓ **EMS- ISO 14001-2015 (BUREAU VERITAS)**
 - *ISO- 14001:2015 CERTIFICATION (License No. IND17.4557 U/E). Compliant*
 - *Monthly Internal ISO: 14001: 2015 Q4 FY 2017/18 - Up to date*

- ✓ **Statutory Occupational Safety & Health Audit (DOSHS)**
 - Audit done from 27th November 2017 to 1st December 2017. Auditor's verdict was that KPRL was compliant.

- ✓ **Statutory Fire Audit (DOSHS)**
 - Audit done from 19th to 20th December, 2017. Auditor's verdict was that KPRL was compliant
 - Audit recommendations closed out.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

HSSE HIGHLIGHTS *continued*

✓ **Statutory Medical Surveillance for Exposed Staff (DOSHS)**

- Medical surveillance for 64 staff was done. None of the staff tested was found with any Occupational Health Disease according to the Doctors report.

✓ **Statutory first aid training & refresher DOSHS)**

- Thirty Four (34) First Aiders (KPRL& Contractor Personnel) were trained on 4th - 6th December, 2017.

• **Other Compliance issues**

Effluent Water:

- Weekly Effluent Water sampling DONE for Q4
- Composite samples to be issued for analysis during first week of July 2018. Results for Q3 FY 2017/18 (Jan- March) compliant with the water (Quality) Regulations 2006.
- Effluent Water Discharge License **No. NEMA/WQ/EDL/4384** is valid. Expiry 3rd September, 2018

- **Bio degradation of oil sludge** and contaminated soil at the shamba site –on-going (High sludge generation likely to increase due to Tank cleaning activities (EOPS))
- **Near miss reporting** - On going with numbers expected to rise due to EOPS activities on site
- **SAWA (Safety At Work Audits) -** On going with numbers expected to rise due to EOPS and also increased number of trained S.A.W.A auditors

EARLY OIL PILOT SCHEME PROJECT (EOPS) HIGHLIGHTS

- ✓ A working **EOPS HSSE plan** is in place.
- ✓ HSE trainings below have been conducted for the EOPS Project:

No.	Training	Number of people trained
1.	Safety Induction training	500
2	Authorized Job Performer (AJP)	19
3	Safety Fire Watcher (SFW)	11
4	Confined Space Entry persons (CSE)	31

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

EOPS HSSE PLAN

- ❖ Weekly meeting with all contractor Safety Officers set for every Tuesday to review safety performance.
- ❖ Train and refresh Safety at Work Always (SAWA) auditors
- ❖ Train and Refresh Permit to Work (PTW) Auditors
- ❖ Meet all Contractor and KPRL First Aiders
- ❖ Monthly Safety Quizzes/ Raffles
- ❖ Sensitize staff on Near Miss reporting
- ❖ Ensure Good Housekeeping during the project implementation period
- ❖ Ensure safe disposal of waste generated

FINANCIAL HIGHLIGHTS

Revenue

As per the terms of the lease agreement, KPRL recovers only operating expenses without a profit margin. The expenses recovered exclude provision for interest on dead stock and depreciation of refining plant and equipment. Total recoveries during the year were Kshs1.133bn against planned recoveries of Kshs1.399 bn representing 19% below plan. This was due to delays in the implementation of the FY2017/18 budget particularly in respect of repairs and maintenance activities since the recurrent budget even though approved by KPRL had to undergo another approval process through KPC management and Board. Other income for the year was Kshs 180M made up of house rent recoveries of Kshs 7M and accrued investment income of KES 162M on KPRL funds from share of surplus from the defunct Defined Benefit Scheme. The revised budget for FY 2017/18 was eventually approved by The National Treasury mid December 2017.

Operating Expenses Before depreciation and amortization

Total operating costs including depreciation and amortization during the year were Kshs1.094bn against planned expenses of Kshs 1.333 bn representing 18% below plan. This was due to delays in the implementation of the FY2017/18 budget particularly in respect of repairs and maintenance activities.

Depreciation and Amortization

Provision for depreciation and amortization during the year was Kshs 297M against plan of Kshs 342M which was 13% below plan due to lower than planned assets capitalization which was affected by the delay in implementation of the Capital Budget for FY 2017/18.

Net Finance Costs

Net finance costs for the year was Kshs 30M against planned net finance costs of Kshs 369M. The net finance costs for the year include unrealized exchange gain of KES 57M mainly from the CPP term loan and other transactions denominated in foreign currency.

KPRL continues to service interest cost while principal loan repayment is on hold due to cash flow constraints. Net interest cost paid during the year in respect of outstanding bank loans is Kshs 223M against plan of Kshs 223M. The matter is before the parent ministry for determination about the way forward.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

MANAGEMENT DISCUSSION AND ANALYSIS *continued*

FINANCIAL HIGHLIGHTS

Loss/Profit after Tax

Profit after tax and after other comprehensive for the year was Kshs 174M against budgeted loss of Kshs 295M. The planned loss is mainly due to non-recovery of provision for interest on toll dead stocks and depreciation for the refining plant and associated equipment.

Non- Current Assets

Net book value of non-current assets reported at historical cost as at 30th June, 2018 was Kshs 3.882 bn compared to Kshs 4.172 bn in the prior year. The decline in net book value of the assets is due to provision for depreciation. No provision has been made for impairment of the refining plant assets and captive power plant.

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 gradually utilized as employer's contribution towards the DC scheme. The employer and the employees contribute in the ratio of 2:1 i.e. 20% and 10% respectively. The value of the fund after tax as at 30th June 2018 is Kshs 698M.

Current Assets

As at 30th June 2018, current assets include inventories amounting to Kshs 1.215 bn, Trade & other receivables Kshs 553M, GoK funds held at KPRL Kshs 973M and KPRL funds Kshs 124M. Included in trade and other debtors is Kshs 185M, being input VAT recoverable from future vatable sales and Kshs 147M in respect of depreciation charges recoverable from KPC at the end of the lease period.

Current Liabilities

As at 30th June 2018, current liabilities include Trade & other payables Kshs 945M, bank loans Kshs 2.178 bn, short-term loans from GoK amounting to Kshs 1.635 bn, GoK funds held at KPRL Kshs 973M which were allocated to finance various projects, namely the refinery upgrade project, Essar exit costs and Early Oil Pilot Scheme (EOPS) project.

Share Capital

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

Cash generated from operations

Net cash deficit generated from operating activities for the year ended 30th June 2018 was Kshs 76M compared to net cash generated from operations of KSh 564M in the previous year.

Cash flow from investing activities

Capital expenditure during the year was Kshs 27M. Capital expenditure is low due to delay in implementation of FY2017/18 budget.

Net decrease in cash and cash equivalents

Net increase in cash and cash equivalents for the year was Kshs 42M respectively.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

CORPORATE SOCIAL RESPONSIBILITY STATEMENT (CSR)

As a Corporate Social Responsibility (CSR) initiative, KPRL has been engaged in different activities to support the local communities. In the last financial year 2017/2018, KPRL has contributed to nurturing of young talents by providing the County Government of Mombasa; Department of Education and Children, Modern Coast youth club, Magongo Rangers FC and Neighbours Refinery volleyball team (local football and volleyball Clubs) with its well maintained and secured training field to conduct Sub-County ECDE Inter-Schools and Sub-County primary schools sport competitions as well as daily football and volley practice respectively to the local clubs.

Despite being constrained budget wise, KPRL was able to share with the less fortunate by donating assorted foodstuff worth Kshs 10,000 and 1 full canter of firewood to Sons of Abraham children centre, 2 full canters of firewood to Children Restoration Centre in Kiembeni Kashani area, 1 full canter of firewood to Pahali pa Usalama rescue centre in Tudor and water/ Soda worth Kshs 20,000 to Changamwe Sub- County Officers during Mashujaa and Jamhuri day celebration on 20th October 2017 and 12th December 2017 respectively.

Training

In the period, 45 diploma and degree students were accorded industrial attachment at KPRL in a variety of disciplines as part of their in-course educational requirements.

For KPRL Employees, 1740 work hours were expended on 44 staff members on enhancement and upgrade of skills through training in Nairobi, Eldoret, Kisumu and Malindi.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the company's affairs.

Principal activities

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

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

In March 2017, KPRL went into lease agreement with KPC, whereby the facility is now used as import terminal for white oils by KPC under the Open Tender System, (OTS), alongside the KOSF. In addition the facility is offering truck loading and LPG hospitality.

Results

The results of the entity for the year ended June 30, 2018 are set out on page 1 to 6. Below is summary of the profit or loss made during the year.

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2018	2017
		Shs	Shs
REVENUES			
TOTAL REVENUES	6,7,8	1,326,267,283	1,134,690,467
OPERATING EXPENSES			
TOTAL OPERATING EXPENSES	9,10,17,18,19	1,093,894,238	3,614,418,229
OPERATING PROFIT/(LOSS)	11	232,373,046	(2,479,727,762)
Finance Income	12	124,680,168	75,563,439
Finance Costs	13	94,923,977	790,346,730
PROFIT/(LOSS) BEFORE TAXATION		262,129,237	(3,194,511,054)
INCOME TAX EXPENSE/(CREDIT)			
Corporate & Deferred Tax charge/(Credit)	14	88,107,065	(263,972,376)
PROFIT/(LOSS) AFTER TAXATION		174,022,172	(2,930,538,678)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Defined Benefit Pension expense		0	522,498,642
Deferred Tax Charge/(Credit)		0	(1,117,870,667)
PROFIT/(LOSS) AFTER TAXATION & OTHER COMPREHENSIVE INCOME		174,022,172	(2,335,166,654)

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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 (iii) 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
Corporate Secretary



Date: 04/04/2022

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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 which give a true and fair view of the state of affairs of KPRL at the end of the financial year and the operating results for that year. The Directors are also required to ensure that KPRL keeps proper accounting records which disclose with reasonable accuracy the financial position of KPRL. The Directors are also responsible for safeguarding the assets of KPRL.

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 KPRL 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 KPRL; (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 KPRL; (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 KPRL's financial statements give a true and fair view of the state of KPRL's transactions during the financial year ended June 30, 2017, and of KPRL's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for KPRL, 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.

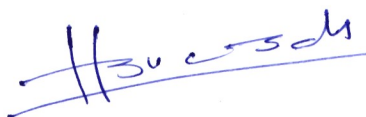
Nothing has come to the attention of the Directors to indicate that KPRL will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The KPRL's financial statements were approved by the Board on 04th APRIL 2022 and signed on its behalf by:

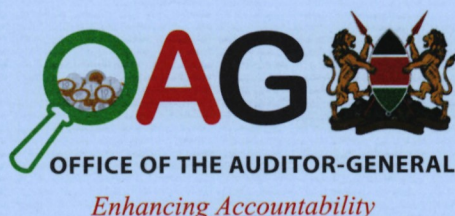


Director



Director

REPUBLIC OF KENYA



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HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA PETROLEUM REFINERIES LIMITED FOR THE YEAR ENDED 30 JUNE, 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Kenya Petroleum Refineries Limited set out on pages 1 to 55, which comprise the statement of financial position as at 30 June, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Kenya Petroleum Refineries Limited as at 30 June, 2018, 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.246,282,054. However, as disclosed in Note 24 to the financial statements, the statement of financial position reflects Kshs.88,137,609 in respect to bank and cash balances as at 30 June, 2018. The resultant difference amounting to Kshs.158,144,445 between the two financial statements was not explained or reconciled.

Consequently, the accuracy of the statement of cash flows for the year ended 30 June, 2018 could not be confirmed.

2. Impairment of Refinery Property, Plant and Equipment

The statement of financial position reflects Kshs.3,881,623,132 in respect to property, plant, and equipment which, as previously reported, includes Kshs.2,486,249,157 (2017-Kshs.2,637,639,250) relating to crude oil refining assets of the Company. However, the refinery operations which constituted the Company's core operations ceased and the refining plant was shut down on 04 September, 2013. The plant has since remained closed and no formal decision had been made on the future of the refinery assets and the captive power plant.

The lack of refinery operations and idle state of the 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, without which, the redundant assets continue to degrade leading to gradual loss of salvage value.

Consequently, 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.2,486,249,157. This balance includes work in progress in feasibility studies for the upgrade of the refinery and captive power plant with a net book value of Kshs.1,107,309,129 which was not commissioned and has remained idle since the shutdown of refinery operations. Further, the related impact of such adjustments on the deferred tax liability and other tax elements were yet to be assessed.

In the circumstances, the accuracy and completeness of property, plant and equipment values reflected in the financial statements and attributable depreciation could be confirmed

3. Obsolete Inventories

As disclosed in Note 26 to the financial statements, the statement of financial position reflects Kshs.1,215,942,381 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.

Consequently, the inventories balance of Kshs.1,215,942,381 as at 30 June, 2018 is not fairly stated.

4. Going Concern Status

As disclosed in Note 1 to the financial statements, 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.5,769,290,750 exceeded current assets of Kshs.2,954,592,033 by Kshs.2,814,698,717 (2017: 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, which was due to expire in June, 2021. These conditions, along with the pending decision regarding the future business model of the Company signify existence of a material uncertainty which casts significant doubts on the ability of Company to continue as a going concern.

Further, this material uncertainty in relation to going concern and any mitigating measures put in place by the Company Directors to address the matter have not been disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1) on presentation of financial statements.

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion 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 to as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Company or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide 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

28 June, 2022

Kenya Petroleum Refineries Limited

Annual Reports and Financial Statements

For the year ended June 30, 2018

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

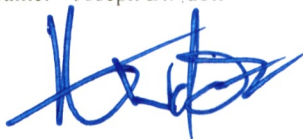
	Note	2018	2017
		Shs	Shs
REVENUES			
Sales	6	12,617,819	1,050,048,429
Gains on Disposal of Non-Financial Assets	7	0	1,169,031
Other Income	8	1,313,649,464	83,473,007
TOTAL REVENUES		1,326,267,283	1,134,690,467
OPERATING EXPENSES			
Administration Costs	9	765,930,397	3,231,243,716
Selling and Distribution Costs	10	30,278,273	0
Depreciation of property, plant and equipment	17	297,517,401	373,871,330
Amortisation of Intangible Assets	18	0	9,096,919
Amortisation of Operating Lease rentals	19	168,167	206,264
TOTAL OPERATING EXPENSES		1,093,894,238	3,614,418,229
OPERATING PROFIT/(LOSS)	11	232,373,046	(2,479,727,762)
Finance Income	12	124,680,168	75,563,439
Finance Costs	13	94,923,977	790,346,730
PROFIT/(LOSS) BEFORE TAXATION		262,129,237	(3,194,511,054)
INCOME TAX EXPENSE/(CREDIT)			
Corporate Tax charge	14	5,422,270	9,300,322
Deferrred Tax charge/(credit)	34	82,684,795	(273,272,698)
PROFIT/(LOSS) AFTER TAXATION		174,022,172	(2,930,538,678)
OTHER COMPREHENSIVE (LOSS)/INCOME			
Defined Benefit Pension expense		0	522,498,642
Deferrred Tax charge/(credit)		0	(1,117,870,667)
PROFIT/(LOSS) AFTER TAXATION & OTHER COMPREHENSIVE INCOME		174,022,172	(2,335,166,654)
Earnings per share – basic and diluted		8.79	(117.94)
Dividend per share		0	0

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements
For the year ended June 30, 2018
STATEMENT OF FINANCIAL POSITION

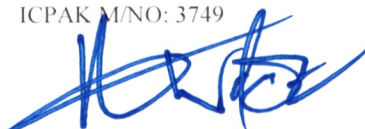
	Note	2018 Shs	2017 Shs
ASSETS			
Non-Current Assets			
Property, plant and equipment	17	3,881,623,132	4,172,976,670
Prepaid operating lease rentals	19	7,054,484	7,222,651
Investments - KPRL Pension Trust Ltd	20	10,000,000	10,000,000
Investment in KPRL Defined Contribution Pension Fund	36	698,269,780	584,675,814
Total Non-Current Assets		4,596,947,396	4,774,875,135
Current Assets			
Inventories	21	1,215,942,381	1,247,922,584
Trade and other receivables	22	553,739,236	445,817,691
Short-term deposits	23	1,096,772,808	1,155,244,233
Bank and cash balances	24	88,137,609	18,185,728
Total Current Assets		2,954,592,033	2,867,170,237
Total Assets		7,551,539,429	7,642,045,372
EQUITY AND LIABILITIES			
Capital and Reserves			
Ordinary share capital	25	736,722,400	736,722,400
Share premium		144,000,000	144,000,000
Retained earnings		443,531,989	318,150,905
Capital and Reserves		1,324,254,389	1,198,873,305
Non-Current Liabilities			
Deferred tax liability	34	457,994,291	375,309,496
Total Non-Current Liabilities		457,994,291	375,309,496
Current Liabilities			
Borrowings (CPP & Overdraft)	28	2,178,790,578	2,106,988,077
Short Term Loans From GoK	29	1,634,945,444	1,589,226,461
GoK Advances for Special Projects	30	973,042,245	954,033,154
Trade and other payables	31	944,856,075	1,383,612,842
Provision for leave pay	32	12,089,817	11,476,338
KPRL Pension Trust Ltd	33	10,000,000	10,000,000
Tax payable	14(c)	15,566,590	12,525,699
Total Current Liabilities		5,769,290,750	6,067,862,571
TOTAL EQUITY AND LIABILITIES		7,551,539,429	7,642,045,372

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



Head of Finance
Name: Joseph B. Ndoti
ICPAK M/NO: 3749



Director
Name: **L. MAHRI-RAJA**



Kenya Petroleum Refineries Limited
Annual Report and Financial Statements
For the year ended June 30, 2018

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, 2016	736,722,400	144,000,000	0	2,903,892,908	0	3,784,615,308
Revaluation gain	0	0	0	0	0	0
Prior year adjustment- DB Pension Asset	0	0	0	(250,575,349)	0	(250,575,349)
Fair value adjustment on quoted investments	0	0	0	0	0	0
Total comprehensive income	0	0	0	(2,335,166,654)	0	(2,335,166,654)
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
At July 1, 2017	736,722,400	144,000,000	0	318,150,905	0	1,198,873,305
Issue of new share capital	0	0	0	0	0	0
Prior year adjustment-KPRL Investment in DC Pension Fund	0	0	0	(48,641,088)	0	(48,641,088)
Total comprehensive income	0	0	0	174,022,172	0	174,022,172
Dividends paid - 2017	0	0	0	0	0	0
Interim dividends paid - 2018	0	0	0	0	0	0
Proposed final dividends	0	0	0	0	0	0
At June 30, 2018	736,722,400	144,000,000	0	443,531,989	0	1,324,254,389

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Note:

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

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements
For the year ended June 30, 2018

STATEMENT OF CASH FLOWS

	Note	2018	2017
		Shs	Shs
OPERATING ACTIVITIES			
Cash generated from/(used in) operations	37(a)	(95,575,812)	(99,375,214)
Interest received		(10,913,866)	(24,182,628)
Interest paid		(48,018,939)	506,152,605
Accrued Interest on dead stock		81,218,386	185,079,069
Taxation paid	14(c)	(2,381,379)	(3,734,061)
Net cash generated from/(used in) operating activities		(75,671,609)	563,939,772
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	17	(27,092,930)	(81,078,100)
Proceeds from disposal of property, plant and equipment	7	0	1,169,031
Net cash generated from/(used in) investing activities		(27,092,930)	(79,909,069)
FINANCING ACTIVITIES			
Reclass of accrued Interest to CPP Term loan		144,908,124	0
Short Term Loans From GoK	29	45,718,983	31,609,157
GoK Advances for Special Projects		19,009,091	(51,124,095)
Repayment of borrowings	28	0	(14,962,324)
Interest received		10,913,866	24,182,628
Interest paid		48,018,939	(506,152,605)
Accrued Interest on dead stock		(81,218,386)	(185,079,069)
Net cash generated from/(used in) financing activities		187,350,617	(701,526,309)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		84,586,077	(217,495,606)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		204,449,698	396,717,179
Effects of foreign exchanges rate fluctuations		(42,753,721)	25,228,125
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	37c	246,282,054	204,449,698

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements
For the year ended June 30, 2018

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

	Original Budget	Adjustments	Final budget	Actual	
	2018	2018	2018	2018	
	Shs	Shs	Shs	Shs	
Revenue					
Sale of goods	0	0	0	12,617,819	In respect of murban crude oil on account of merchant stocks that was sold at salvage value.
KPC Lease recoveries	1,399,078,836	0	1,399,078,836	1,132,813,767	KPRL recovers operating expenses from KPC without a margin. Variance is due to delays in the implementation of the FY2017/18 budget particularly in respect of repairs and maintenance activities.
Finance Income	476,976			68,672,168	This is mainly attributable to Exchange gains on foreign currency denominated transactions
Other Operating Income	7,374,816	0	7,374,816	180,693,495	Includes unbudgeted for Investment income of KES 162M from KPRL's investment in the DC Pension fund.
Total Revenue	1,406,930,628	0	1,406,930,628	1,394,797,250	
Operating Expenses					
Cost of Sales Murban Crude	0	0	0	(30,278,273)	Unbudgeted cost of sales amounting to KES 30.28M in respect of murban crude oil on account of merchant stocks.
Staff Costs	(441,534,444)	0	(441,534,444)	(430,514,674)	
Use of goods & services	(542,570,748)	0	(542,570,748)	(335,415,724)	Variance is due to delay in implementation of the FY2017/18 budget approved in Dec 2017.
Finance Costs	(368,866,500)	0	(368,866,500)	(38,773,775)	Savings mainly due to write back of KES 271M interest in respect of the CPP term loan.
Depreciation & Ammortization	(349,042,068)	0	(349,042,068)	(297,685,567)	Variance is due to delay in implementation of the FY2017/18 budget approved in Dec 2017
Total Expenditure	(1,702,013,760)	0	(1,702,013,760)	(1,132,668,013)	
	(295,083,132)		(295,083,132)	262,129,237	

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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

Budget notes: Provide explanation of differences between actual and budgeted amounts (10% over/ under) Provide an explanation of changes between original and final budget indicating whether the difference is due to reallocations or other causes. Where the total of actual on comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual) provide a reconciliation.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 39 to 40.

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

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Amendment/Interpretation to a standard	Effective date	Impact
IFRS 9: Financial Instruments <i>(Issued 24 July 2014)</i>	Effective for annual periods beginning on or after 1 January 2018	<p>Finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing <u>IAS 39</u> <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> • Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • Impairment. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised • Hedge accounting. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • Derecognition. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39
IFRS 15: Revenue from Contracts with Customers <i>(Issued 28 May 2014)</i>	Applicable to an entity's first annual IFRS financial statements for	<p>IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</p> <p>The five steps in the model are as follows:</p>

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Amendment/Interpretation to a standard	Effective date	Impact
	a period beginning on or after 1 January 2018	<ul style="list-style-type: none"> • Identify the contract with the customer • Identify the performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contracts • Recognise revenue when (or as) the entity satisfies a performance obligation. <p>Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.</p>
IFRIC 22: Foreign Currency Transactions and Advance Consideration (Issued 8 December 2016)	Applicable to annual reporting periods beginning on or after 1 January 2018	<p>The interpretation addresses foreign currency transactions or parts of transactions where:</p> <ul style="list-style-type: none"> • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary. <p>The Interpretations Committee came to the following conclusion:</p> <ul style="list-style-type: none"> • The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. • If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
<i>Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)</i> (Issued 19 January 2016)	Effective for annual periods beginning on or after 1 January 2017	<p>Amends <u>IAS 12</u> <i>Income Taxes</i> to clarify the following aspects:</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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Amendment/Interpretation to a standard	Effective date	Impact
		<p>the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.</p> <ul style="list-style-type: none"> • 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. • 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)</i> <i>(Issued 29 January 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2017</p>	<p>Amends <u>IAS 7 Statement of Cash Flows</u> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p>
<p><i>Clarifications to IFRS 15 'Revenue from Contracts with Customers'</i> <i>(Issued 12 April 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Amends <u>IFRS 15 Revenue from Contracts with Customers</u> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p>
<p><i>Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)</i> <i>(Issued 20 June 2016)</i></p>	<p>Effective for annual periods beginning on or after 1 January 2018</p>	<p>Amends <u>IFRS 2 Share-based Payment</u> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</p>
<p><i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)</i> <i>(Issued 12 September 2016)</i></p>	<p>Overlay approach to be applied when IFRS 9 is first applied. Deferral approach effective for</p>	<p>Amends <u>IFRS 4 Insurance Contracts</u> provide two options for entities that issue insurance contracts within the scope of IFRS 4:</p> <ul style="list-style-type: none"> • an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Amendment/Interpretation to a standard	Effective date	Impact
	annual periods beginning on or after 1 January 2018 and only available for three years after that date	<p>arising from designated financial assets; this is the so-called overlay approach;</p> <ul style="list-style-type: none"> • an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach. <p>The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.</p>
<i>Transfers of Investment Property (Amendments to IAS 40)</i> <i>(Issued 8 December 2016)</i>	Effective for annual periods beginning on or after 1 January 2018	<p>The amendments to <u>IAS 40 Investment Property</u>:</p> <ul style="list-style-type: none"> • Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. • The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.
<i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> <i>(Issued 8 December 2016)</i>	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose • IFRS 12 - Clarifies 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 are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> • IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Amendment/Interpretation to a standard	Effective date	Impact
		venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

Amendment/Interpretation to a standard	Effective date	Impact
<i>IFRS 16: Leases</i> (Issued 13 January 2016)	Applicable to annual reporting periods beginning on or after 1 January 2019	IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.
<i>IFRS 17 Insurance Contracts</i> (Issued 18 May 2017)	Applicable to annual reporting periods beginning on or after 1 January 2021	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.
<i>IFRIC 23: Uncertainty over Income Tax Treatments</i> (Issued 7 June 2017)	Applicable to annual reporting periods beginning on or after 1 January 2019	<p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances
<i>Prepayment Features with Negative Compensation</i> (Amendments to IFRS 9) (Issued 12 October 2017)	Annual periods beginning on or after 1 January 2019	Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

<p><i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)</i> (Issued 12 October 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Clarifies that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>
<p><i>Annual Improvements to IFRS Standards 2015–2017 Cycle</i> (Issued 12 December 2017)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>Makes amendments to the following standards:</p> <ul style="list-style-type: none"> • IFRS 3 and IFRS 11 - The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business. • IAS 12 - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits. • IAS 23 - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows <i>generally</i> when calculating the capitalisation rate on general borrowings.
<p><i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> (Issued 7 February 2018)</p>	<p>Annual periods beginning on or after 1 January 2019</p>	<p>The amendments in <i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i> are:</p> <ul style="list-style-type: none"> • If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. • In addition, amendments have been included to clarify the effect of a plan amendment,

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

		curtailment or settlement on the requirements regarding the asset ceiling.
<i>Amendments to References to the Conceptual Framework in IFRS Standards</i> <i>(Issued 29 March 2018)</i>	Annual periods beginning on or after 1 January 2020	Together with the revised <i>Conceptual Framework</i> published in March 2018, the IASB also issued <i>Amendments to References to the Conceptual Framework in IFRS Standards</i> . The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised <i>Conceptual Framework</i> . Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised <i>Conceptual Framework</i> .

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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

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 2018.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

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. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.
- iii) **Finance income** comprises interest receivable from bank deposits and investment in securities, and is recognised in profit or loss on a time proportion basis using the effective interest rate method.
- iv) **Dividend income** is recognised in the income statement in the year in which the right to receive the payment is established.
- v) **Rental income** is recognised in the income statement as it accrues using the effective lease agreements.
- vi) **Other income** is recognised as it accrues.

b) In-kind contributions

In-kind contributions are donations that are made to the *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.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Property, plant and equipment

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

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 & pipings	25 - 30 years
Plant and equipment	10 - 30 years
Office equipment	10 - 30 years
Motor vehicles	5 - 20 years

A full year's depreciation charge is recognised in the year of asset purchase. No depreciation is charged in the year of asset disposal.

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

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

g) Investment property

Buildings, or part of a building (freehold or held under a finance lease) and land (freehold or held under an operating lease) held for long term rental yields and/or capital appreciation, and which are not occupied by the 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.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Fixed interest investments (bonds)

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

j) Quoted investments

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

k) Unquoted investments

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

l) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the weighted average cost 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
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Current income tax (Continued)

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed 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.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Taxation (Continued)

Deferred tax (Continued)

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

o) Cash and cash equivalents

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

p) Borrowings

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

q) Trade and other payables

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

s) Provision for staff leave pay

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

t) Exchange rate differences

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

u) Budget information

The original budget for FY 2017-2018 was approved by the National Treasury in January 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

u) Budget information (Continued)

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

v) Service concession arrangements

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

w) Comparative figures

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

x) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION
UNCERTAINTY**

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

State all judgements, estimates and assumptions made.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY
(Continued)

Estimates and assumptions

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

Useful lives and residual values

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. There were no additional provisions made in the current year.

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 SALES

	2018	2017
	Shs	Shs
Sale of Goods - Murban Crude	12,617,819	0
Gross sales of services	0	1,050,048,429
	12,617,819	1,050,048,429

7 GAINS ON DISPOSAL OF NON-FINANCIAL ASSETS

	2018	2017
	Kshs	Kshs
Disposal of buildings	0	0
Disposal of vehicles and other transport equipment	0	1,169,031
Disposal of plant and machinery	0	0
Disposal of computers and related equipment	0	0
Total	0	1,169,031

8 OTHER INCOME

	2018	2017
	Shs	Shs
Sale of tender documents	0	8,000
KPC lease recoveries	1,132,813,767	0
Third Party Holding Certificate Charges	768,226	14,221,852
House Rent Recoveries	7,018,165	6,354,650
Interest on staff loans	142,202	463,797
Fines and penalties on Petroleum products	9,982,511	38,666,771
*Other miscellaneous receipts	162,924,593	23,757,937
	1,313,649,464	83,473,007

*Other miscellaneous receipts in 2018 include Kshs 162 Million accrued income on KPRL investment in the Defined Contribution Pension fund.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 (a) ADMINISTRATION COSTS

	2018	2017
	Shs	Shs
Staff costs - note 9 (b)	430,514,674	564,878,471
Defined Benefit Pension Service Cost/(Gain)	0	2,345,579,721
Directors' emoluments	196,540	1,006,835
Electricity and water	78,495,228	85,303,596
Communication services and supplies	5,525,825	6,737,449
Transportation, travelling and subsistence	13,162,351	11,490,775
Advertising, printing, stationery and photocopying	2,827,067	3,471,963
Insurance costs	79,110,057	98,067,533
Security	41,419,767	49,845,153
Board expenses	9,162,837	8,049,120
Bank charges and commissions	623,305	1,050,086
Office and general supplies and services	3,379,689	3,452,263
Software Licenses	14,393,988	(42,342,167)
Property/ Land Rates	4,341,478	5,309,865
Auditors' remuneration	5,831,718	8,000,000
Legal fees	3,650,090	8,055,996
Consultancy fees	5,266,403	5,922,276.99
Repairs and maintenance	56,423,825	92,724,852
Materials costs	20,542,471	47,673,242
Occupational Health & Safety	1,878,799	1,784,331
Other operating expenses	(10,815,715)	(74,817,644)
	765,930,397	3,231,243,716

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 (b) STAFF COSTS

	2018	2017
	Shs	Shs
Salaries and allowances of permanent employees	342,895,690	493,054,445
Compulsory national social security schemes	336,138	478,000
DC pension contributions	50,802,436	27,377,509
Leave pay and gratuity provisions	613,479	(1,094,369)
Staff welfare	2,385,240	281,706
Medical expenses	20,768,779	28,304,687
Canteen Expenses	3,537,132	3,026,764
Staff training & Development	8,774,543	9,408,643
Long Service Awards	857,600	979,377
Staff Grants ammortisation	392,905	1,656,571
Recruitment	0	78,523
Pension Admin Expense	(849,269)	1,326,616
	430,514,674	564,878,471

The average number of employees at the end of the year was:	2018	2017
Permanent employees – Management	103	114
Permanent employees – Unionisable	20	25
Temporary and contract employees	9	10
Total	132	149

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 SELLING AND DISTRIBUTION COSTS

	2018	2017
	Shs	Shs
Marketing and promotional expenses	0	0
Sales commissions	0	0
Sales discounts and rebates	0	0
Cost of Sales - Murban Crude	30,278,273	0
Total	30,278,273	0

11 OPERATING PROFIT/(LOSS)

	2018	2017
	Shs	Shs
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 9b)	430,514,674	564,878,471
Defined Benefit Pension service cost	0	2,345,579,721
Depreciation of property, plant and equipment	297,517,400	373,871,330
Amortisation of intangible assets	0	9,096,919
Amortisation of operating lease rentals	168,167	206,264
Directors' emoluments	196,540	1,006,835
Board expenses	9,162,837	8,049,120
Gain/(Loss) on disposal of property, plant and equipment	0	1,169,030
Auditors' remuneration	5,831,718	8,000,000
Net foreign exchange (gain)/loss	(57,616,101)	47,734,246
Interest receivable	(11,056,068)	(24,646,425)
Interest payable	38,773,775	691,231,675
Rent receivable	(7,018,165)	(6,354,650)

12 FINANCE INCOME

	2018	2017
	Shs	Shs
Exchange gains on foreign currency denominated loans	61,034,303	12,097,118
Exchange gains on cash and bank balances	7,865,070	1,399,336
Exchange gains on foreign currency denominated payables & accruals	43,073,835	34,275,930
Exchange gains on foreign currency denominated receivables	1,793,095	3,608,427
Interest income on short-term bank deposits	10,913,866	24,182,628
	124,680,168	75,563,439

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 FINANCE COSTS

	2018	2017
	Shs	Shs
Exchange losses on foreign currency denominated loans	28,242,646	37,460,669
Exchange losses on foreign currency denominated payables and accruals	23,043,810	54,236,233
Exchange losses on foreign currency denominated receivables	850,363	1,789,857
Exchange losses on cash and bank balances	4,013,384	5,628,296
Interest expense on loans	(162,198,013)	346,237,780
Interest expense on bank overdrafts	114,179,074	159,914,825
Provision for interest on dead stock	81,218,386	185,079,069
Finance Charges on Improchem Finance lease	5,574,328	0
	94,923,977	790,346,730

14 INCOME TAX EXPENSE/(CREDIT)

(a) Current taxation

	2018	2017
	Shs	Shs
Current year tax	5,422,270	9,300,322
Current tax: prior year under/(over) provision	0	0
Current year deferred tax charge	82,684,795	(273,272,698)
	88,107,065	(263,972,376)

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

	2018	2017
	Shs	Shs
Profit before taxation	262,129,237	(3,194,511,054)
Tax at the applicable tax rate of 30%	78,638,771	(958,353,321)
Prior year over provision	0	0
Tax effects of expenses not deductible for tax purposes	9,417,844	694,690,730
Tax effects of excess capital allowances over depreciation/amortisation	50,450	(309,785)
Deferred tax prior year over-provision	0	0
	88,107,065	(263,972,376)

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(c) Current tax movement

	2018	2,017
	Shs	Shs
At beginning of the period	12,525,699	6,959,438
Income tax charge for the year	5,422,270	9,300,322
Income tax paid during the year	(2,381,379)	(3,734,061)
	15,566,590	12,525,699

(d) Tax recognised in Other Comprehensive Income

	2018	2,017
	Shs	Shs
Deferred Tax (credit) /charge attributable to re-measurement of defined benefit asset	0	(1,117,870,667)
	0	(1,117,870,667)

15 EARNINGS PER SHARE

The earnings per share is calculated by dividing the profit/(loss) after tax of **Kshs 174,022,172/-** (2017: **Kshs. (2,335,166,654/-)**) by the average number of ordinary shares in issue during the year of 19,800,000 (2017: 19,800,000). There were no dilutive or potentially dilutive ordinary share as at the reporting date.

16 DIVIDEND PER SHARE

There were no dividends proposed for the period ended 30th June 2018.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 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 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
	295,160	384,034,988	761,667,439	7,280,176,950	740,197,270	9,166,371,808
Transfers to assets	0	0	0	8,067,163	(8,067,163)	(0)
Asset retirement	0	0	0	0	(76,453,138)	(76,453,138)
Disposal of assets	0	0	0	(7,948,616)	0	(7,948,616)
At 30 June 2017	295,160	384,034,988	761,667,439	7,280,295,498	655,676,969	9,081,970,053
	295,160	384,034,988	761,667,439	7,280,295,498	682,769,899	9,109,062,984
Transfers to assets	0	0	0	0	0	0
Write off	0	0	0	0	(20,929,068)	(20,929,068)
Disposal of assets	0	0	0	0	0	0
At 30th June 2018	295,160	384,034,988	761,667,439	7,280,295,498	661,840,832	9,088,133,916
Depreciation						
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)
At 30 June 2017	0	260,862,622	761,667,439	3,886,463,322	0	4,908,993,383
At 1 July 2017	0	260,862,622	761,667,439	3,886,463,322	0	4,908,993,383
Charge for the year	0	12,719,997	0	284,797,404	0	297,517,400
Disposal of Assets	0	0	0	0	0	0
At 30th June 2018	0	273,582,619	761,667,439	4,171,260,726	0	5,206,510,784
Net book value	295,160	110,452,369	0	3,109,034,772	661,840,832	3,881,623,132
At 30th June 2018	295,160	110,452,369	0	3,109,034,772	661,840,832	3,881,623,132
At 30th June 2017	295,160	123,172,366	0	3,393,832,176	655,676,969	4,172,976,670

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 INTANGIBLE ASSETS

	2018	2017
	Shs	Shs
COST		
At beginning of year	214,907,528	214,907,528
Additions	0	0
At end of year	214,907,528	214,907,528
Additions-internal development	0	0
At end of year	214,907,528	214,907,528
Amortization and impairment		
At beginning of year	214,907,528	205,810,608
Amortization	0	9,096,919
At end of year	214,907,528	214,907,528
Impairment loss	0	0
At end of year	214,907,528	214,907,528
Net Book Value	0	0

Intangible assets are fully amortised. There were no additions of intangible assets during the year.

19 PREPAID OPERATING LEASE RENTALS

	2018	2017
	Shs	Shs
COST		
At beginning of period	9,796,958	9,796,958
Additions in the period	0	0
Transfer to investment property	0	0
Disposals	0	0
At end of period	9,796,958	9,796,958
AMORTISATION		
At beginning of period	2,574,307	2,368,044
Charge for the period	168,167	206,264
Disposals	0	0
At end of period	2,742,474	2,574,307
NET BOOK VALUE	7,054,484	7,222,651

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
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 UNQUOTED INVESTMENT (KPRL PENSION TRUST LTD)

	2018	2017
	Shs	Shs
COST		
At beginning of the period	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
At end of the period	10,000,000	10,000,000
IMPAIRMENT		
At beginning of the period	0	0
Disposals	0	0
Impairment loss in the year	0	0
At end of the period	0	0
NET BOOK VALUE		
At end of the period	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 Kshs 1,000/- each). The subsidiary functions in a trustee capacity only and as such made neither a profit nor a loss for the financial period ended 30th June 2018. The subsidiary thus did not contribute to the group's revenue and profit before tax for the year ended 30th June 2018.

Name of entity where investment is held	No of shares			Nominal value of shares/ purchase price	Value of shares less impairment	Value of shares less impairment
	Direct shareholding	Indirect shareholding	Effective shareholding			
	%	%	%			
				Kshs	Kshs	Kshs
Kenya Petroleum Refineries Pension Trust Ltd	100%	0%	100%	10,000,000	10,000,000	10,000,000
	100%	0%	100%	10,000,000	10,000,000	10,000,000

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 INVENTORIES

	2018	2017
	Shs	Shs
Engineering stores	798,527,689	798,881,989
Fuel, oil and lubricants	81,421,655	82,516,866
Crude & finished product stocks	322,989,333	353,267,606
Stationery, Safety and general stores	13,003,704	13,256,123
	1,215,942,381	1,247,922,584

22 (a) TRADE AND OTHER RECEIVABLES

	2018	2017
	Shs	Shs
Trade receivables	449,321,352	182,325,374
Deposits and prepayments	43,846,663	54,010,998
VAT recoverable	185,591,138	254,893,878
Staff receivables	4,321,581	6,634,415
Other receivables	17,480,987	94,775,512
Provision for bad and doubtful receivables	(146,822,486)	(146,822,486)
Net trade and other receivables	553,739,236	445,817,691

22 (b) TRADE RECEIVABLES

	2018	2017
	Shs	Shs
Gross trade receivables	449,321,352	182,325,374
Provision for doubtful receivables	(146,822,486)	(146,822,486)
	302,498,866	35,502,888
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	245,268,524	3,584,934
Between 30 and 60 days	5,203,159	4,317,999
Between 61 and 90 days	16,692,595	10,166,487
Between 91 and 120 days	4,626,568	(6,535,136)
Over 120 days	30,708,019	23,968,603
Total	302,498,866	35,502,888

22 (c) STAFF RECEIVABLES

	2018	2017
Description	Shs	Shs
Gross staff loans and advances	4,321,581	6,634,415
Provision for impairment loss	0	0
	4,321,581	6,634,415
Less: Amounts due within one year	(1,129,989)	(786,835)
Amounts due after one year	3,191,593	5,847,580

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 SHORT TERM DEPOSITS

	2018	2017
	Shs	Shs
a) GoK funds		
National Bank of Kenya Ltd	31,196,707	74379579
Central Bank- Treasury bills	939,176,101	877,560,507
Accrued interest receivable	2,669,437	2,093,068
	973,042,245	954,033,154
b) KPRL funds		
National Bank of Kenya Ltd	123,041,022	195,847,392
Accrued interest receivable	689,541	5,363,688
	123,730,563	201,211,080
Total	1,096,772,808	1,155,244,233

The short term deposits include Kshs 973,042,245 as at 30th June 2018 (2017: Kshs 954,033,154) in respect of GoK advances for KPRL upgrade and buyout of Essar's shares in KPRL.

The average effective interest rate on the short term deposits as at June 30, 2018 was % (2017: 8.03 %).

24 BANK AND CASH BALANCES

	2018	2017
	Shs	Shs
Cash in hand	303,481	434,658
Cash at bank	87,834,128	17,751,070
	88,137,609	18,185,728

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24(a) BANK AND CASH BALANCES

The make – up of bank balances is as follows:

Detailed analysis of the cash and cash equivalents

		2018	2017
Financial institution	Account number	Shs	Shs
a) Current account			
SCB-KES-CORP.-01040	0104092661400	88,046,640	13,421,938
BBK-KES-5009479	165009479	(1,107,697)	513,311
BBK-SC-KES-5009770	165009770	78,364	45,412
BBK-USD-7252715	227252715	6,148	1,903
SCB-USD-87040	'8704092661400	94,087	3,466,190
CITI EURO-478	100485478	262	265
CITI GBP - 486	100485486	201	205
CITI ZAR - 494	100485494	(101)	(90)
KPRL Upgrade Current A/c	100485505	218,277	223,557
NATIONAL BANK OF KENYA	'1020066603700	498,002	78,434
SCB Collections - KES A/C 1049	'104992661400	(55)	(55)
Sub- total		87,834,128	17,751,070
b) Others(specify)			
cash in hand		303,481	434,658
Sub- total		303,481	434,658
Grand total		88,137,609	18,185,728

25 ORDINARY SHARE CAPITAL

	2018	2017
	Shs	Shs
Authorised:		
19,800,000,000 ordinary shares of Kshs.20 par value each	396,000,000	396,000,000
Issued and fully paid:		
19,800,000,000 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
	736,722,400	736,722,400

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26 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.

27 RETAINED EARNINGS

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

28 BORROWINGS

	2018	2017
	Shs	Shs
Balance at beginning of the period	2,106,988,077	2,081,172,339
Domestic borrowings during the year	0	0
Repayments of domestics borrowings during the period	0	(14,962,324)
Reclass of accrued Interest to CPP Term loan	144,908,124	0
Movement in Bank Overdraft during the year	(26,500,216)	0
Exchange losses/(gains) on foreign denominated loans	(42,753,721)	25,228,125
Exchange losses/(gains) on foreign denominated overdraft facility	(3,851,687)	15,549,937
Balance at end of the period	2,178,790,578	2,106,988,077

The analyses of both external and domestic borrowings are as follows:	2018	2017
	Shs	Shs
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	499,735,599	525,974,186
Kenya Shilling overdraft from Citibank N.A.	277,262,669	277,176,121
Dollar denominated overdraft from Citibank N.A.	161,630,094	165,829,958
Dollar denominated loan from Barclays Bank-CPP	1,240,162,216	1,138,007,813
	2,178,790,578	2,106,988,077
Total balance at end of the period	2,178,790,578	2,106,988,077

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 SHORT TERM LOANS FROM GoK

	2018	2017
	Shs	Shs
Balance at the beginning of the Year	1,589,226,461	1,557,617,304
Additions during the year	45,718,983	31,609,157
Balance at end of Year	1,634,945,444	1,589,226,461

30 GoK ADVANCES

	2018	2017
	Shs	Shs
GOK Advance - Upgrade Project	632,298,892	590,626,818
GoK Advance-Put Option	309,251,974	288,874,328
GoK Advance-Early Oil Pilot Scheme Project	31,491,378	74,532,008
Balance at end of Year	973,042,245	954,033,154

31 TRADE AND OTHER PAYABLES

	2018	2017
	Shs	Shs
Trade payables	136,869,536	169,656,723
Accrued expenses	82,672,587	550,901,796
Other payables- Provision for interest on dead stock	725,313,952	663,054,323
	944,856,075	1,383,612,842

32 PROVISION FOR LEAVE PAY

	2018	2017
	Shs	Shs
Balance at beginning of the year	11,476,338	12,570,707
Additional provision at end of year	613,479	0
Leave paid out or utilised during the year	0	(1,094,369)
Balance at the end of the year	12,089,817	11,476,338

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 KPRL PENSION TRUST LTD

	2018	2017
	Kshs	Kshs
As at 1st July	10,000,000	10,000,000
Additions	0	0
Disposals	0	0
At June 30	10,000,000	10,000,000

This represents liability in respect of KPRL shareholding of 100% of the issued ordinary share capital of Kenya Petroleum Refineries Pension Trust Limited (10,000 ordinary shares at Ksh 1000/- each) . KPRL acts in a trustee capacity only and, as such, made neither a profit nor a loss for the financial period ended 30th June 2018.

34 DEFERRED TAX LIABILITY

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

	2018	2017
	Kshs	Kshs
Accelerated capital allowances	710,580,083	766,579,564
Unrealised exchange gains/(losses)	17,253,831	(7,905,737)
Provisions for liabilities and charges	(212,653,231)	(188,103,672)
Tax losses carried forward	(1,064,312,786)	(1,202,387,053)
Net deferred tax liability	(549,132,103)	(631,816,898)

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34 DEFERRED TAX LIABILITY *continued*

	2018	2017
	Kshs	Kshs
The movement on the deferred tax account is as follows:		
Balance at beginning of the year	375,309,496	1,766,452,861
Credit to revaluation reserve	0	0
Under provision in prior year	0	0
Income statement charge/(credit)	82,684,795	(273,272,698)
Deferred Tax charge/(credit) attributable to DB Pension asset (OCI)	0	(1,117,870,667)
Balance at end of the year	457,994,291	375,309,496

35 RETIREMENT BENEFIT OBLIGATIONS

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

	2018	2017
	Kshs	Kshs
Valuation at the beginning of the year	0	3,726,235,557
Net (Expense)/Asset recognized in Income Statement	0	(2,345,579,721)
Net (Expense)/Asset recognized in Comprehensive Income	0	(522,498,642)
Net Asset transferred to DC Fund	0	(858,157,194)
Net Asset at the close of the year	0	0

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.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 KPRL INVESTMENT HELD IN DC PENSION FUND

	2018	2017
	Shs	Shs
Balance as at 1st July	584,675,814	0
Transfer net DB Pension Asset 1st Jan 2017	0	858,157,194
Less: Employers DC contribution (Jan-May 2017)	0	(22,906,031)
Tax payable	(48,641,088)	(250,575,349)
Accrued investment income	162,235,054	0
Balance as at 30th June	698,269,780	584,675,814

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 698M. Once the process of liquidation is complete then the funds in KPRL pension DC fund will be available to KPRL.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 NOTES TO THE STATEMENT OF CASH FLOWS

		2018	2017
(a) Reconciliation of operating profit/(loss) to cash		Kshs	Kshs
generated from/(used in) operations			
Operating profit/(loss)		262,129,237	(3,194,511,054)
Depreciation	17	297,517,401	373,871,330
Amortisation of prepaid operating lease & intangible assets		168,167	9,303,183
(Gain)/loss on disposal of property, plant and equipment	7	0	(1,169,031)
Prior year Capex cost write off		20,929,068	71,981,654
Operating profit/(loss) before working capital changes		580,743,872	(2,740,523,918)
(Increase)/decrease in inventories		31,980,203	23,943,876
(Increase)/decrease in trade and other receivables		(107,921,544)	14,609,305
Increase/(decrease) in trade and other payables		(438,756,767)	230,732,661
Increase/(decrease) in retirement benefit obligations		(162,235,054)	2,372,957,230
Increase/(decrease) in provision for staff leave pay	32	613,479	(1,094,369)
Cash generated from/(used in) operations		(95,575,812)	(99,375,214)
(b) Analysis of changes in loans			
Balance at beginning of the year		2,106,988,077	2,081,172,339
Receipts during the year		0	0
Repayments during the year		0	(14,962,324)
Reclass of accrued Interest to CPP Term loan		144,908,124	0
Movement in Bank Overdraft during the year		(26,500,216)	0
Foreign exchange (gains)/losses		(46,605,407)	40,778,062
Balance at end of the year	28	2,178,790,578	2,106,988,077
(c) Analysis of cash and cash equivalents			
Short term deposits		1,096,772,808	1,155,244,234
Cash at bank		(850,794,235)	(951,229,195)
Cash in hand		303,481	434,658
Balance at end of the year		246,282,054	204,449,698

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

37 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	2018	2017
	Kshs	Kshs
(d) Analysis of interest paid		
Interest on loans	108,725,271	346,237,780
Interest on bank overdraft	114,179,074	159,914,825
	222,904,346	506,152,605
Total interest paid	222,904,346	506,152,605
(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	0	0

38 RELATED PARTY DISCLOSURES

(a) Government of Kenya

The Government of Kenya is the principal shareholder of the Kenya Petroleum Refineries Limited, holding 100% of the company's equity interest.

Other related parties include:

- i) Key management;
- ii) Board of directors;

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38 RELATED PARTY DISCLOSURES (Continued)

Transactions with related parties

	2018	2017
	Kshs	Kshs
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	196,540	1,006,835
Compensation to the CEO	16,368,615	19,415,893
Compensation to key management	38,290,678	52,266,806
Total	<u>54,855,833</u>	<u>72,689,534</u>
	=====	=====

39 CAPITAL COMMITMENTS

	2018	2017
	Kshs	Kshs
Amounts authorised and contracted for	0	10,890,947
Amounts authorizes but not contracted for	0	0
Less: Amounts included in Work in progress	0	0
	0	10,890,947
	=====	=====

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

40 CONTINGENT LIABILITIES

		2018	2017
		Kshs	Kshs
i)	Guarantees	504,766,622	504,797,794
ii)	Legal claims against KPRL by Total Kenya Ltd	181,890,000	186,750,000
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
		2,329,049,230	2,333,940,401
		=====	=====

41 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

	Total amount	Fully performing	Past due	Impaired
	Kshs	Kshs	Kshs	Kshs
At 30 June 2018				
Receivables from exchange transactions	700,561,722	245,268,524	308,470,712	146,822,486
Receivables from non exchange transactions	0	0	0	0
Bank balances and Short Term Deposits	1,184,910,416	1,184,910,416	0	0
Total	1,885,472,138	1,430,178,940	308,470,712	146,822,486
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

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

The entity has significant concentration of credit risk on amounts due from Kenya Pipeline Company Ltd.

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
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 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 2018				
Trade payables	19,017,309	3,750,439	114,101,796	136,869,544
Current portion of borrowings	0	3,813,736,022	0	3,813,736,022
Provisions	52,116,118	25,132,796	754,917,260	832,166,173
Employee benefit obligation	0	0	0	0
Total	71,133,427	3,842,619,257	869,019,055	4,782,771,739
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

(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
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

a) Foreign currency risk

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

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

	Kshs	Other currencies	Total
	Kshs	Kshs	Kshs
At 30 June 2018			
Cash in Hand and at Bank	88,034,945	102,664	88,137,609
Trade & other Receivables	546,146,569	7,592,667	553,739,236
Deposits	1,096,772,807		1,096,772,807
	1,730,954,321	7,695,331	1,738,649,652
Liabilities			
Trade and other payables	190,201,389	766,744,503	956,945,893
Borrowings	2,411,943,712	1,401,792,310	3,813,736,022
	2,602,145,101	2,168,536,814	4,770,681,915
Net foreign currency asset/(liability)	(871,190,780)	(2,160,841,483)	(3,032,032,263)

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 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	1,619,247,652
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
	2,877,624,236	2,213,679,482	5,091,303,718
Net foreign currency asset/(liability)	(1,261,867,693)	(2,210,188,373)	(3,472,056,065)

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risk (Continued)

b) Foreign currency sensitivity analysis

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

	Change in	Effect on Profit	Effect on
	currency rate	before tax	equity
	Kshs	Kshs	Kshs
2018			
Euro	10%	(3,777,859)	0
USD	10%	(212,823,997)	0
GBP	10%	(19,149)	
RAND	10%	(10)	
TOTAL		(216,621,015)	
2017			
Euro	10%	0	0
USD	10%	221,585,333	0

c) Interest rate risk

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

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. A rate increase/decrease of 10% would result in a decrease/increase in profit before tax of KShs 216.6 Million (2017 – KShs 221.6 Million)

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the *entity's* market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The *entity* considers relevant and observable market prices in its valuations where possible.

There were no financial and non- financial instruments recorded at fair value during the year.

b) Financial instruments not measured at fair value

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

41 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:

	2018	2017
	Kshs	Kshs
Retained earnings	269,509,816	2,653,317,559
Share Capital	736,722,400	736,722,400
Share Premium	144,000,000	144,000,000
Total funds	1,150,232,216	3,534,039,959
Total borrowings	3,813,736,022	3,696,214,539
Less: cash and bank balances	(1,184,910,416)	(1,173,429,962)
Net debt/(excess cash and cash equivalents)	2,628,825,606	2,522,784,577
Gearing	229%	71%

42 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

There were no future minimum lease payments due to third parties under non-cancellable operating leases.

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

43 INCORPORATION

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

44 EVENTS AFTER THE REPORTING PERIOD

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

45 CURRENCY

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

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

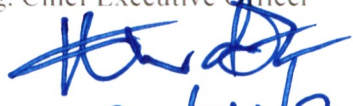
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
FY2013/14	Letter of Assurance on going concern status of KPRL	KPRL & Deloitte resolved the matter of assurance from the National Treasury regarding the going concern status	KPRL CEO &CFO	Resolved	Accounts finalized and approved by KPRL Board on 10 th Dec, 2019 and subsequently approved by Shareholder on 05/02/2020
FY2014/15	Letter of Assurance on going concern status of KPRL	KPRL & Deloitte resolved the matter of assurance from the National Treasury regarding the going concern status	KPRL CEO &CFO	Resolved	Audited Accounts finalized and scheduled for approval by KPRL Board in the 1 st week of October , 2020
FY2015/16	Letter of Assurance on going concern status of KPRL	KPRL forwarded Auditor request to the National Treasury.	KPRL CEO &CFO	Resolved	Audited Accounts finalized and meeting scheduled to approve accounts in 1 st week of October , 2020
FY2016/17		To be audited by OAG	KPRL CEO &CFO	Pending	Immediately after approval of 2014/15 and 2015/16 accounts to Seek guidance from OAG about commencement of pending audits.
FY2017/18		To be audited by OAG	KPRL CEO &CFO	Pending	

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.....


 4th APRIL 2022

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

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

Project title	Number	Donor	Period/ duration	Donor commitment	Separate donor reporting (yes/no)	Consolidated in these financial statements (Yes/ No)
T-610/611 Pressure Control Automation - LPG	16004	Not applicable	less than 12 Months	N/A	No	Yes
Cathodic Protection Upgrade	11014	Not applicable	less than 12 Months	N/A	No	Yes
Tank Maintenance Program - T2751	11011	Not applicable	less than 12 Months	N/A	No	Yes
Early Oil Pilot Scheme Project (EOPS) - Main Scope	16012	Not applicable	less than 12 Months	N/A	No	Yes
Maintenance of Tanks T305	17002	Not applicable	less than 12 Months	N/A	No	Yes
Replacement of 06 Nos, utility vehicles and staff van	17003	Not applicable	less than 15 Months	N/A	No	Yes
Replacement of faulty LPG transfer meter	17014	Not applicable	less than 15 Months	N/A	No	Yes
Replacement of Desktop and Laptop Computers	17006	Not applicable	less than 12 Months	N/A	No	Yes
Replacement of Internet Security Gateway Device	17007	Not applicable	less than 12 Months	N/A	No	Yes
4 No. Disaster Recovery Centre (DRC) servers	17008	Not applicable	less than 12 Months	N/A	No	Yes
Yokogawa DCS System	17009	Not applicable	less than 12 Months	N/A	No	Yes
Purchase of Laboratory Equipment	17011	Not applicable	24 Months	N/A	No	Yes
Replacement of LPG pipe section across Kipevu Bridge	17012	Not applicable	less than 12 Months	N/A	No	Yes
Upgrading of truck loading facility	17013	Not applicable	less than 12 Months	N/A	No	Yes
KPRL to KPC Line 5 interconnectivity	16005	Not applicable	less than 12 Months	N/A	No	Yes
LPG truck loading facility (capacity 5,000MT monthly or 10 trucks daily)	17015	Not applicable	less than 12 Months	N/A	No	Yes

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

STATUS OF PROJECTS COMPLETION

Project	Project no.	Total project Cost (Kshs)	Total expended to date (Kshs)	Completion % to date	Budget FY2017/18 (Kshs)	Sources
T-610/611 Pressure Control Automation - LPG	16004	2,000,000	1,659,334	83%	2,000,000	KPRL/KPC Lease
Cathodic Protection Upgrade	11014	20,000,000	613,717	3%	4,000,000	KPRL/KPC Lease
Tank Maintenance Program - T2751	11011	64,000,000	15,373,488	24%	5,000,000	KPRL/KPC Lease
Early Oil Pilot Scheme Project (EOPS) - Main Scope	16012	1,423,310,000	80,321,840	6%	740,476,706	KPRL/KPC Lease
Maintenance of Tanks T305	17002	16,000,000	0	0%	10,000,000	KPRL/KPC Lease
Replacement of 06 Nos, utility vehicles and staff van	17003	10,000,000	0	0%	10,000,000	KPRL/KPC Lease
Replacement of faulty LPG transfer meter	17014	2,000,000	0	0%	2,000,000	KPRL/KPC Lease
Replacement of Desktop and Laptop Computers	17006	9,200,000	0	0%	9,200,000	KPRL/KPC Lease
Replacement of Internet Security Gateway Device	17207	2,000,000	1,508,000	75%	2,000,000	KPRL/KPC Lease
4 No. Disaster Recovery Centre (DRC) servers	17008	6,000,000	0	0%	6,000,000	KPRL/KPC Lease
Yokogawa DCS System	17009	32,100,000	0	0%	15,000,000	KPRL/KPC Lease
Purchase of Laboratory Equipment	17011	15,000,000	0	0%	0	KPRL/KPC Lease
Replacement of LPG pipe section across Kipevu Bridge	17012	3,000,000	0	0%	3,000,000	KPRL/KPC Lease
Upgrading of truck loading facility	17013	110,000,000	0	0%	110,000,000	KPRL/KPC Lease
KPRL to KPC Line 5 interconnectivity	16005	492,900,000	0	0%	0	KPRL/KPC Lease
LPG truck loading facility (capacity 5,000MT monthly or 10 trucks daily)	17015	170,000,000	0	0%	0	KPRL/KPC Lease
Total		2,377,510,000	99,476,379	4.18%	918,676,706	

Kenya Petroleum Refineries Limited
Annual Reports and Financial Statements for the year ended June 30, 2018

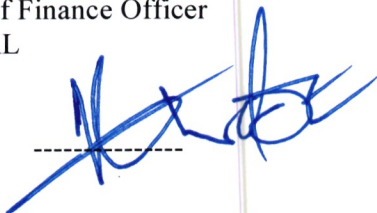
APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:		Kenya Petroleum Refineries Limited		
Break down of Transfers from the State Departments				
FY 2017/2018				
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

Sign



Head of Accounting Unit
 Ministry of Petroleum & Mining

Sign-----

Kenya Petroleum Refineries Limited
Annual Report and Financial Statements
For the year ended June 30, 2018

APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/ Development/ Others	Total Amount 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	N/A	N/A	0	0	0	0	0	0	0
Ministry of Planning and Devolution	N/A	N/A	0	0	0	0	0	0	0
USAID	N/A	N/A	0	0	0	0	0	0	0
Ministry of Planning and Devolution	N/A	N/A	0	0	0	0	0	0	0
Total			0	0	0	0	0	0	0