

REPUBLIC OF KENYA



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REPORT

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ON

**NATIONAL OIL CORPORATION
OF KENYA LIMITED**

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

KENYA NATIONAL ASSEMBLY PAPERS LAD	
DATE:	05 MAR 2025 Thursday
TABLED BY:	Aon. Naomi Wazemp Deputy Majority Party Whip
CLERK AT THE TABLE:	A. Shilalo



NATIONAL OIL CORPORATION OF KENYA LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2024

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

National Oil Corporation of Kenya
Annual Reports and Financial Statements
For the Financial year ended June 30, 2024



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1. Acronyms and Glossary of Terms

The following is the list of acronyms and glossary of terms used in annual report and financial statements for financial year ended June 30, 2024

Ag	Acting
CEO	Chief Executive Officer
IFRS	International Financial Reporting Standards
NOC	National Oil Corporation of Kenya
NT	National Treasury
PFMA	Public Finance Management Act
PSASB	Public Sector Accounting Standards Board

2. Key Entity Information

a) Background information

The National Oil Corporation of Kenya was established by the Companies Act 2015 on 3/4/1981. At Cabinet level, the Corporation is represented by the Cabinet Secretary for Ministry of Energy and Petroleum, who is responsible for the general policy and strategic direction of the Corporation. The Corporation is domiciled in Kenya and has branches in Mombasa, Kisumu, Nakuru and Eldoret.

b) Principal Activities

The principal activity of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; oil and gas exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time

Our Vision

To be a fully integrated world class oil and gas company.

Our Mission

Providing security of supply of petroleum product in the country.

Living our values, growing a sustainable, responsible and profitable company that contributes to national development.

Exploring, developing and producing oil and gas resources for the benefit of the Kenyan people.

c) Directors

The directors who served the Corporation during the year were as follows:

- | | |
|--------------------------------|--|
| 1. Hon. Kiraitu Murungi E.G.H | Chairperson Appointed on 20 th April 2023 |
| 2. Prof. Njuguna Ndung'u CBS | CS, National Treasury and Planning |
| 3. Mr. Mohamed Liban | PS, Ministry of Energy and Petroleum |
| 4. Mr. Leparan Gideon Morintat | Chief Executive Officer- Re-appointed on 28.02.2023 |
| 5. Mr. Edward Wamweya | Alternate to CS, National Treasury & Planning |
| 6. Apollo Muchilwa | Alternate to PS, Ministry of Energy & Petroleum |
| 7. Mr. Benjamin Oyile | Left on 27.02.2024 |
| 8. Ms. Lilian Matagaro | Representative, Attorney General |
| 9. Mr. James Sitiency | Representative, Inspectorate of State Corporations |

10. Ms. Dorothy Marami Kiarie	Appointed on 06.10.2021
11. Ms. Victoria Karugu	Appointed on 06.10.2021
12. Mr. Godfrey Waluse	Appointed on 06.10.2021
13. Mr. Mundia Geteria	Appointed on 06.10.2021
14. Ms. Sureya Roble	Appointed on 06.10.2021
15. Magerer Lang'at	Appointed on 15.12.2023
16. Amina Bille	Appointed on 15.12.2023
17. Eng. Elizabeth Rogo	Left on 15.12.2023
18. Eng. Abdulrazaq Ali	Left on 15.12.2023
19. Mr. Peter Kimani	Left on 15.12.2023

d) Corporate Secretary

Leparan Gideon ole Morintat
Chief Executive Officer
P O Box 58567 – 00200
Nairobi

e) Registered Office

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

f) Corporate Headquarters

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

g) Corporate Contacts

Telephone: (254) -20-6952000
E-mail: ceo@nockenya.co.ke
Website: www.nationaloil.co.ke

h) Corporate Bankers

Standard Chartered Bank Kenya Limited
P.O. Box 30003 – 00100
Nairobi

Stanbic Bank Limited
P.O. Box 72833 – 00200
Nairobi

KCB Bank Kenya Limited
P.O. Box 30081 – 00100
Nairobi

Equity Bank Kenya Limited
P.O.Box 78569 – 00507
Nairobi

The Co-operative Bank of Kenya Limited
P.O. Box 67881 – 00200
Nairobi

National Bank of Kenya
P.O. Box 72866-00200
Nairobi.

NCBA Bank
P.O. Box 44599-00100
Nairobi.

i) Independent Auditors

Auditor General



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

j) Principal Legal Advisers




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






3. The Board of Directors



Ref.	Directors	Details
1.	 <p>Hon. Kiraitu Murungi E.G.H Chairman of the Board LLB and LLM, University of Nairobi LLM, Harvard Law School</p>	<p>Born 1952, Kiraitu Murungi is a former Governor of Meru County. He previously served as Senator for Meru and was MP for Imenti South constituency.</p> <p>One of the longest-serving Energy ministers. It was during Mr Murungi's tenure that oil was discovered in Turkana and the ministry attributed the State's 22.5 percent share in carried interest in the production sharing contract to National Oil.</p> <p>An alumnus of Alliance High School. He graduated with a Bachelor of Law from the University of Nairobi in 1977 and attained a Master of Law from the same university in 1982 before proceeding to Harvard Law School, where he attained another Master of Law in 1991</p> <p>Mr. Murungi is a senior in Humphrey & Company Advocates LLP.</p> <p>He is an independent director.</p>
2.	 <p>Prof. Njuguna Ndung'u, CBS CS, National Treasury & Planning PhD in economics from University of Gothenburg, Sweden.</p>	<p>Born 1960 Prof. Njuguna Ndung'u is the Cabinet Secretary, National Treasury & Economic Planning. Prior, Prof. Ndung'u was serving as the Executive Director of the African Economic Research Consortium (AERC). He is an associate professor of economics at the University of Nairobi, Kenya and the immediate former Governor, Central Bank of Kenya.</p> <p>He holds a PhD in economics from University of Gothenburg, Sweden.</p> <p>He is a non-independent director</p>

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<p>3.</p>	 <p>Mr. Mohamed Liban PS, State Department for Petroleum Ministry of Energy & Petroleum Masters of Public Health (KU) Higher National Diploma (KMTC) International Diploma in Community Eye Health (London University)</p>	<p>Born 1961, Mr. Mohamed Liban is the Principal Secretary, State Department for Petroleum, Ministry of Energy and Petroleum. Prior to this appointment, Mr. Liban served as the Chairman of Ewaso Ngi'ro North Development Authority, of the Ministry of East African Community and Regional Development and previously of IEBC as the Regional Elections Co-ordinator in Isiolo and Upper Easter Region.</p> <p>He is a non-independent director</p>
<p>4.</p>	 <p>Leparan Gideon Morintat Chief Executive Officer MBA in Strategic Management</p>	<p>Born 1979, Leparan joined the Corporation in February 2020. Prior, he was d.light SOLAR's Country Manager for Ethiopia & Horn of Africa. He has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group.</p> <p>He is an executive director.</p>
<p>5.</p>	 <p>Mr. Edward Wamweya Alt. CS. The National Treasury and Planning MBA Finance; B.Com (Finance); CPA (K); CIFA (K)</p>	<p>Born 1984, CPA, FA. Edward Wamweya is the Alternate Director to the Cabinet Secretary National Treasury & Planning. He holds a Master of Business Administration (-Finance) degree, Bachelor of Commerce (-Finance) degree, Certified Public Accountant of Kenya (CPA-K) and Certified Investment and Financial Analyst (CIFA-K). He is a professional accountant and financial analyst.</p> <p>Currently, he is a Principal Investment Officer in The National Treasury. He sits in the Audit and Finance Committees of the Board. He is a non-independent director.</p>





<p>6.</p>	 <p>Ms. Lilian Matagaro Alt. Attorney General M.A. in International Studies; LLB; Dip in Law (KSL).</p>	<p>Born 1976, Lilian is the Chief State Counsel and Parliamentary Liaison Officer at the Office of the Attorney General and Department of Justice. She has consistently proffered legal advice for over 16 years to Government Ministries and Agencies on diverse aspects. She sits in the Finance and HR Committees of the Board. She is a non-independent director.</p>
<p>7.</p>	 <p>Mr. Apollo Muchilwa Alt. PS, State Department for Petroleum</p>	<p>Born 1969, Mr. Apollo Muchilwa is an Alternate representative of the Principal Secretary, State Department for Petroleum, Ministry of Energy and Petroleum. He is currently the Director ICT, State Department for Petroleum. Prior to his appointment he served in the State Department for Mining, Ministry of Health, and East African Community in same capacity. He sits in the Audit and Strategy & Business Committees of the Board. He is a non-independent director.</p>
<p>8.</p>	 <p>Ms. Dorothy Marami Kiarie MBA in Marketing and Strategic Management</p>	<p>Born 1963, Ms. Dorothy is a Lead Consultant with Prolific Solutions. Dorothy has extensive expertise in the Oil and Energy sector having worked for over 20years. Dorothy is currently a Director of Zenith Ventures Limited. She sits in the Finance Committee and chairs the Strategy & Business Committee of the Board. She is an independent director.</p>

<p>9.</p>	 <p>Ms. Victoria Karugu LLM, University of Houston. MBA, Alaska Pacific University. Juris Doctor (J.D) Law, University of Kentucky College of Law.</p>	<p>Born 1967, Victoria Karugu is an Attorney at Law with over 25 years' experience She has previously held senior leadership positions in the United States (Denver, Anchorage and Houston) and in Kenya. She is currently the Group CEO, Mathara Holdings Limited.</p> <p>Victoria holds a BA in Political Science and an MA in History from Miami University Oxford Ohio, and she took MBA courses in Telecommunications and International Marketing from Alaska Pacific University, Anchorage. She also holds a Juris Doctorate from University of Kentucky and an LLM in Environmental, Energy and Natural Resource Law from University of Houston Law Centre. She is currently a Doctoral candidate, DBA in Leadership and Management. She sits in the Strategy and Business and Audit Committees of the Board.</p> <p>She is an independent director.</p>
<p>10.</p>	 <p>Mr. Godfrey Waluse MBA, Fletcher School of Law. MBA, Tufts University in Boston MA and an MBA from the Sloan School of Management at Massachusetts Institute of Technology (MIT).</p>	<p>Born 1971, Godfrey Waluse is a global executive with over 25 years' experience. He has worked in various capacities at Japan International Cooperation Agency (JICA); the Secretary-General's office at the United Nations Office in New York, the World Bank in Washington D.C., and at the Standard Bank in Johannesburg, South Africa. Godfrey works for the Energy Business Unit at Mitsui & Co. Ltd,</p> <p>He sits in the HR committee and chairs the Finance Committee of the Board.</p> <p>He is an independent director.</p>



<p>11.</p>	 <p>Mr. Mundia Geteria</p> <p>MBA in Strategic Management (Moi University) B.COM, (UoN) CPA(K), FCS,ICSA,FCIS</p>	<p>Born 1949, Mundia Geteria has over 35years. Mundia is the founder of Dima College Ltd and currently runs Dima Driving School. Mundia has served in several senior leadership positions, which include; CEO and Board Secretary of the Institute of Certified Accountants of Kenya (ICPAK), Board Member of the Institute of Certified Secretaries (ICS), and Company Secretary of the Kenya Extelcoms among others. Mundia is the pioneer Chair of the Embu County Public Service Board and currently serves as the Chair of the Trustees of the Public Service Club Staff Retirement Benefits Scheme.</p> <p>He sits in the Strategy and Business Committee and Chairs the Audit Committee of the Board.</p> <p>He is an independent director.</p>
<p>12.</p>	 <p>Ms. Sureya Roble</p> <p>MBA in Public Policy BA. Public Administration and Political Science</p>	<p>Born 1967, Sureya Roble is a gender and public policy specialist. She is a certified mediator accredited by the judiciary. She is the founder of Advocacy for Women in Peace and Security – Africa (AWAPSA). Sureya has served as the National Vice Chairperson of the <i>Maendeleo ya Wanawake</i> organization, and is also the Vice Chairperson of Sisters without Borders.</p> <p>She sits in the Strategy and Business Committee and Chairs the HR Committee of the Board.</p> <p>She is an independent director.</p>

<p>13</p>	 <p>Hon. Magerer Lang'at JK MBA (Strategic Management) (KeMU) BSC. Horticulture (JKUAT)</p>	<p>Born 1973, Hon. Magerer Langat JK has a Bachelor of Science in Horticulture from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and an MBA in Strategic Management at Kenya Methodist University. Hon. Magerer's professional experience spans roles at the Adventist Development Relief Agency, World Food Programme, Cooper Kenya Ltd, and Osho Chemical Industries, among others. He was elected as the Member of Parliament for Kipkelion Constituency in 2007. He has served as an Assistant Minister for Energy from 2010 to 2013. He sits in the Strategy and Business and the HR Committees of the Board. He is an independent director.</p>
<p>14.</p>	 <p>Ms. Amina Bille</p> <p>Diploma in Professional Computing and Data Processing</p>	<p>Born 1973, Amina Bille is a dedicated and experienced professional with a diverse background in banking and finance. She possesses a Diploma in Professional Computing and Data Processing alongside several certifications in banking and leadership courses. She has over a decade of experience working at Kenya Commercial Bank (KCB). She sits in the Finance and the HR Committees of the Board. She is an independent director.</p>
<p>15.</p>	 <p>Eng. Elizabeth Rogo, BSc. (Mount Saint Vincent University) B.Eng.(Dalhousie University) both in Halifax, Nova Scotia, Canada</p>	<p>Born 1963, Elizabeth is an accomplished energy professional with over twenty (20) years international experience in the Oil & Gas sector and Geothermal. She brings vast international and senior management experience, including onshore and offshore, working with global Oilfield Services companies during her career in the US, Africa and Europe – BJ Services, Baker Hughes and Weatherford International. She was an independent director.</p>

<p>16.</p>	 <p>Eng. Abdulrazaq Ali MSC(Civil Engineering), MBA BSC(Civil Engineering)</p>	<p>Born 1963, Abdulrazaq holds of Masters and Bachelor degree in Civil Engineering. He has over 34 years' experience in public service having served in the Kenya Government as a deputy and chief executive of various state corporations, and later as the Permanent Secretary in the Ministries of Transport and Trade.</p> <p>He was an independent director.</p>
<p>17.</p>	 <p>Mr. Peter Ngugi Kimani Diploma in Strategic Security Studies (SSS) East African Certificate of Education Examination (EACE)</p>	<p>Born in 1959, Ngugi is a Retired Principal Intelligence Officer (PIO) with the National Intelligence Service (NIS). He has over 30 years work experience with NIS where he rose through the ranks up to senior management level and previously worked for seven (7) years with the Kenya Police.</p> <p>He was Awarded- Order of Grand Warrior (OGW) in 2016 and Awarded- Head of State Commendation (HSC) in 1993.</p> <p>He was an independent director.</p>


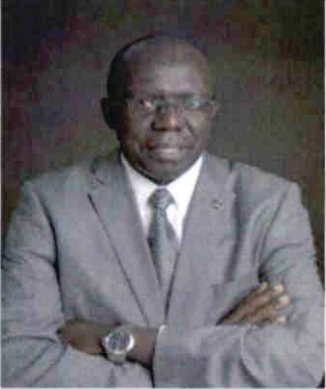
4. Key Management Team

Ref.	Management	Details
1.	 <p>Leparan Gideon Morintat Chief Executive Officer MBA in Strategic Management; B.Com Accounting</p>	<p>Born 1979, Leparan is the CEO of the National Oil Corporation of Kenya. Prior to joining the Corporation, he was d.light SOLAR's Country Manager for Ethiopia & Horn of Africa.</p> <p>Leparan has over 18 years of leadership and management experience gained in the Oil & Gas, Energy, Infrastructure development, and ICT sectors in leading multinational companies among them Multi Choice Africa, Mitsui & Co. Ltd, Royal Dutch Shell Group and Equity Bank Group.</p> <p>He is a member of the Petroleum Institute of East Africa (PIEA), Kenya Institute of Management (KIM), Marketing Society of Kenya (MSK), Kenya Institute of Supplies Management (KISM) and Kenya Oil & Gas Association (KOGA).</p>
2.	 <p>Benson Theuri Manager-Commercial & Industrial MBA, Strategic Management; B.Com.</p>	<p>Benson is a petroleum enthusiast, proven sales leader, with 20+ years of leadership and management acumen in the FMCG and Oil and Gas.</p> <p>Has held senior leadership roles at Unilever and Shell for over 20 years and has extensive experience in leading sales teams, turnaround efforts, product launches, strategy development and implementation, project management among other key skills.</p> <p>During his short spell at National Oil, he has helped craft the retail and commercial strategy and is leading the team in the implementation and the corporation's turnaround effort with outstanding success to date.</p>




<p>3.</p>	 <p>Robai Shiakhutsa Company Secretary & Manager, Legal Affairs Master of Law (LL.M) International Law from the Uni. of Mysore. International Law and Legal studies from the Uni. of Nairobi Bachelor of Law (LL.B.)</p>	<p>Ms. Robai Shiakhutsa joined the Corporation in 2021 as the Company Secretary and Legal Affairs Manager. Ms. Robai is the secretary to the Corporation Board and also responsible for managing the Corporation’s legal functions, overseeing litigation and reviewing of contracts to ensure policy compliance.</p> <p>She is an Advocate of the High Court and a Certified Public Secretary (CPS) K. She is also a member of the Law Society of Kenya (LSK) and Institute of Certified Secretaries (ICPSK).</p> <p>Ms. Robai comes with a wealth of experience gathered from having served in senior positions both in the private sector and Government. She has a proven record in legal expertise.</p>
<p>4.</p>	 <p>Scoline Ojunga Manager, Internal Audit MBA in Finance; B.Com, Finance; CPA (K</p>	<p>Scoline joined the Corporation in 2020 and is responsible for internal audit including developing and implementing an annual risk-based audit plan as well as enterprise risk management planning, execution, monitoring, evaluation and consolidation of the Company’s Risk Management matrices.</p>
<p>5.</p>	 <p>Alex Musungu Manager, Procurement MSc. Procurement and Logistics;</p>	<p>He joined the Corporation in 2017 and is responsible for optimal and cost effective procurement of goods, works and services through the development and implementation of appropriate procurement strategies. Prior to joining the Corporation, Alex held various positions in different companies including Unclaimed Financial Assets Authority, Kenya Forest Service, Nairobi Hospital and Kenya Agricultural Research Organization.</p>

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	BSc.; MCIPS of Chartered Institute of Purchasing and Supply; (CIPS-UK); Membership with (KISM)	
6.	 <p>Duncan Waziri Ag GM-Finance, Treasury and ICT, MSc. Project Management; B.A. Building Economics</p>	<p>Duncan is a seasoned business management professional with significant experience in oil & gas and logistics sectors. His work experience includes Business Analyst and Sales Manager at Kenya Shell, Consumer Manager at TOTAL Kenya and Director of Courier at G4S. He is a past recipient of The British Chevening Scholarship Award for postgraduate study in the UK from where he graduated with a distinction.</p>
7.	 <p>Willis Otieno Anyango Manager, Human Resource & Administration, BSc. Education, Membership with (IHRM)</p>	<p>Willis joined the Corporation as the Manager Human Resources and Administration in November 2021 and is responsible for the Management of the Corporations Human Capital.</p> <p>He has a broad wealth of experience in Human Resource practice specializing in Organization Design, Talent Management, HR strategy development and performance Management spanning over 18 years in Human Resource Management cutting across various sectors. Prior to joining the Corporation, he held various Senior HR Management roles at Safaricom Ltd, Kenya Shell Ltd, Kenya Airways Ltd and the Karen Hospital.</p>



<p>8.</p>	 <p>Michael Rotich, A.g General Manager, Downstream Sales & Operations MSc. Project Management; B.A BBM (Supplies and procurement) Membership with (KISM)</p>	<p>Michael joined the organization in 2021 and has been instrumental in steering distribution & logistics as the Manager until June 2023 when he ascended to his current position in an acting capacity.</p> <p>He is an accomplished leader in the fields of supply chain, distribution, and operations management, with an impressive career spanning over two decades. His extensive experience, primarily in the oil and gas industry, has seen him hold key positions in renowned international corporations such as ExxonMobil, Shell, Mogas, and Panone, in Kenya and elsewhere in the region.</p> <p>He also holds a Diploma in Engineering (Agric) from Egerton University, a Bachelor of Business Management (Supplies and Procurement) from Mount Kenya University as well as a Master’s Degree in Project Management from Roehampton University in the UK. He is a member of Kenya Institute of Supplies Management (KIMS) among other professional bodies</p>
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5. Fiduciary Management

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

No.	Designation	Name
1.	Chief Executive Officer	Leparan Gideon Morintat
2.	Head of Corporate Services	Meshack Sawe
3.	Ag. General Manager, Finance	Duncan Waziri
4.	Head of Procurement	Alex Musungu

6. Fiduciary Oversight Arrangements

Finance Board Committee

A Finance Board Committee holds fiduciary oversight responsibilities that are essential for maintaining the financial integrity and accountability of an organization. Here's a high-level description of key fiduciary oversight arrangements:

- i. **Governance Structure:** The committee operates under a formal governance structure with clear responsibilities and reporting lines to the board of directors. It ensures that the organization complies with all financial regulations, ethical standards, and internal policies.
- ii. **Financial Stewardship:** The committee provides oversight of the organization's financial management, including budgeting, financial planning, and resource allocation. It ensures that funds are managed prudently to safeguard the organization's assets and long-term sustainability.
- iii. **Financial Reporting and Compliance:** It ensures the accuracy, transparency, and timeliness of financial reports, including annual financial statements. The committee ensures compliance with legal, regulatory, and accounting standards, safeguarding the organization's reputation and financial health.

This oversight ensures that the organization remains financially sound, transparent, and accountable to its stakeholders.

Audit and Risk Committee

The Audit and Risk Committee is essential in supervising the accuracy of an organization's financial reporting, risk management, and compliance activities. Below is a concise overview of the primary fiduciary oversight responsibilities of this committee:

- i. **Governance and Independence:** This committee functions autonomously from management and provides direct reports to the board of directors. It guarantees that the audit and risk management operations are conducted impartially and without external pressures. Members are generally equipped with financial acumen and a solid grasp of risk management and compliance.
- ii. **Internal Audit:** The committee is tasked with overseeing the internal audit processes. This encompasses evaluating audit scopes, analysing audit results, and ensuring that recommendations are implemented in a timely manner.



- iii. **Internal Controls and Compliance:** The committee is responsible for ensuring that a comprehensive system of internal controls is established to safeguard the organization's assets, promote operational efficiency, and adhere to applicable laws and regulations. It assesses the effectiveness of the internal control framework and addresses any identified weaknesses.
- iv. **Risk Management Oversight:** The committee oversees the organization's risk management framework, which includes identifying significant financial, operational, and strategic risks, ensuring that suitable risk mitigation strategies are in place, and evaluating the effectiveness of these strategies. Additionally, the committee promotes a strong risk culture and awareness throughout the organization.
- v. **Ethical Conduct and Whistle-blower Programs:** The committee ensures the presence of effective policies regarding ethical behaviour, including a whistle-blower program that facilitates confidential reporting of unethical or illegal activities. It supervises investigations into any allegations of fraud, misconduct, or policy violations.
- vi. **Regulatory and Legal Compliance:** The committee is responsible for ensuring that the organization adheres to all relevant regulatory and legal obligations.

Strategy and Business Committee

The oversight role of strategic and business board committees is a critical governance function, ensuring that organizations operate effectively, align with their goals, and adapt to a dynamic environment. Below are the key aspects of this role:

- i. **Strategic Oversight:** The committee guarantees that the organizational strategies are in alignment with the company's mission, vision, and long-term objectives.
- ii. **Financial Oversight:** The committee evaluates financial plans to guarantee their consistency with strategic goals and oversees the organization's financial performance and sustainability indicators.
- iii. **Governance and Compliance:** The Committee ensures adherence to governance frameworks and ethical standards within the Corporation.
- iv. **Operational Oversight:** The Committee Reviews operational metrics to ensure they support strategic goals and evaluates the integration of technology and innovation into the business model.
- v. **People and Culture:** The Committee is also responsible for establishing a succession plan, developing a leadership pipeline, and overseeing the alignment of its culture with its strategic objectives and values.

Human Resource Committee

The oversight role of a Human Resource Committee is essential in ensuring effective governance of human capital, promoting organizational culture, and aligning HR strategies with business objectives. Below are the key responsibilities

- i. **Strategic Oversight of Human Capital:** The committee ensures the organization has the right talent, skills, and capacity to achieve strategic goals.
- ii. **Compensation and Benefits:** They also reviews and approves compensation packages for senior executives to ensure competitiveness and fairness.
- iii. **Talent Acquisition and Retention:** Ensures recruitment strategies attract top talent while promoting diversity and inclusion.
- iv. **Employee Development and Training.** They Oversees employee training and professional development programs to enhance skills and performance.
- v. **Diversity, Equity, and Inclusion (DEI)** Ensures policies are in place to promote diversity, equity, and inclusion across the organization.

7. Chairman's Statement

I am pleased to present the Annual Report and Financial Statements of National Oil Corporation of Kenya ("National Oil" or the "Corporation") for the Fiscal Year ended 30th June 2024 on behalf of the Board of Directors. During the year under review, National Oil continued with its transformation journey to profitability and fulfilment of its full mandate. This will be achieved through operational excellence, market leadership, cost efficiency and strategic partnerships.

Operating Environment

The continued increase in global oil prices during the period has led to a rise in fuel prices in the market, as well as working capital requirements that have remained a challenge for the Corporation. After Block 14T's Production Sharing Contract (PSC) was extended for a further two years, the upstream company saw increased activity, further solidifying our position in the industry. More significantly, the Corporation is at the final stage of completing the construction of a state-of-the-art geochemical and petro-physical laboratory that will be made available to other international oil companies and interested parties for commercial purposes.

On boarding a Strategic Partner

The strategic decision by the Corporation to on-board a non-equity partner received Cabinet approval within the financial year. This partnership is integral to our efforts to enhance NOC's operational efficiency, competitive position in the petroleum industry and for a financial turnaround. While the Corporation had initially outlined similar proposals in its Transformation Plan, the current initiative represents a refined approach, focusing on the immediate needs and strategic direction of NOC. With Cabinet backing, we are confident that this collaboration will allow us to leverage the expertise and resources of our partner to drive innovation, optimize our supply chain, and secure the petroleum supply for Kenya. The Board, in its oversight role, has ensured that this process adheres to all legal and regulatory frameworks, including the Mwongozo Code of Governance for State Corporations.

Restructuring of the Corporation

The restructuring of NOC, also approved by the cabinet, marks a significant milestone in our journey toward full commercialization and profitability. This strategic restructuring will involve the formation of three specialized subsidiaries: NOC Upstream, NOC Trading, and NOC Downstream. Although the Corporation had initially proposed a broader reorganization as part of its 15-year Transformation Plan, the current restructuring is tailored to meet the immediate operational needs and strategic goals. This approach will enable us to streamline our operations, focus on core areas, and better align with the Bottom-Up Economic



Transformation Agenda (BETA) and the Kenya Kwanza manifesto. The Board is confident that this transformation will not only enhance our operational efficiency but also strengthen our capacity to meet the nation's energy needs, contribute to economic growth, and ensure price stability.

Outlook

The rising oil prices worldwide continue to make the economic environment challenging. Of particular concern is the company's huge debt load brought on by non-performing bank loans, and this is hurting its profitability. We are continuously engaging with our financiers and shareholders to come up with a workable solution for our portfolio of non-performing loans. The Board of Directors and Management have also taken steps to explore viable growth opportunities such as strategic partnerships, and we are confident that this long-term plan will provide favourable outcomes over time.

Appreciation

I wish to thank the various stakeholders including our shareholders: Ministry of Energy and Petroleum and the National Treasury & Economic Planning, the Board of Directors, management, staff, our customers and suppliers for their loyalty and commitment even in the challenging business environment.

Hon. Kiraitu Murungi E.G.H

Chairperson of the Board

Date.....24/09/2024.....

8. Report of the Chief Executive Officer

It is my pleasure to present to you the National Oil Corporation of Kenya's (NOC) Annual Report and Financial Statements for the year ending 30th June 2024. National Oil began the year with high optimism and a determination to reverse the negative performance of our downstream business and aggressively ramp up our exploration activities in our upstream assets. Our primary focus remains doing more for less, profitable downstream and more upstream, driven by operational excellence, enhanced business controls and ensuring safety leading to growth in revenue.

Financial Performance

The Corporation recorded increase in gross profit from Kshs 106 million for the year ended 30th June 2023 to Kshs 164 million for the year ended 30th June 2024, representing an increase of 55%. During the year under review, the Corporation's loss before tax reduced from Kshs 2.335 billion in the financial year ended 30th June 2023 to Kshs 2.236 billion. The reported Corporation's loss is primarily attributable to the high bank interest and penalties as a result of our non-performing loan portfolio.

Revenue

Sales revenue decreased by 59% to Kshs.1.28 billion during the year under review from KShs3.14 billion recorded in FY 2022/23. This was due to continuous stock-out as a result of lack of working capital.

Operating Expenditure

Operating expenses increased to Kshs 992 million in the year ended 30 June 2024 compared to Kshs 953 million in the year ended 30th June 2023. The increase is as result of high provisions for bad and doubtful debts. Net financing costs decreased from Kshs1.611 billion in FY2022/2023 to Kshs 1.568 billion in the year under review. This was as a result of local currency appreciation against the USD during the year, despite the high bank penalties incurred on account of interest capitalization on the non-performing loans

Upstream Operations

During the year under review, National Oil successfully applied for and obtained the extension of Block 14T's Production Sharing Contract (PSC) for a further two-year period. The Corporation subsequently embarked on further geophysical studies and data acquisition, which, when completed, will be packaged to aid in marketing the block to prospective farm-in partners. The Corporation has also been working closely with other licensed exploration and production companies in the other exploration blocks in the pursuit of making Kenya an oil and gas producer.



On-boarding a Strategic Partner:

The Corporation is embarking on a pivotal phase in its transformation journey, with the Cabinet approval for on-boarding a non-equity strategic partner. This partnership is not only a critical component of our transformation strategy but also a significant step toward enhancing our operational efficiency, ensuring capacity building, and facilitating technology transfer. While the proposals in our initial 15-year Transformation Plan laid the groundwork for such collaborations, the current initiative is a more focused approach to addressing our immediate needs and strategic objectives. The partnership will operate on a profit-sharing basis, enabling us to inject the necessary working capital, implement a robust ERP system, and enhance controls across our operations. These steps are essential to fulfilling our legal mandate and securing NOC's position as a key player in Kenya's petroleum industry. The process of on boarding the strategic partner is at the tail end.

Restructuring of the Corporation:

Our ongoing transformation efforts have taken a significant leap forward with the Cabinet's approval of our restructuring strategy. This restructuring involves the formation of three distinct subsidiaries: NOC Upstream, NOC Trading, and NOC Downstream. While these actions align closely with the broader objectives outlined in our Transformation Plan, they represent a more immediate and tailored response to the challenges and opportunities we face. The creation of these subsidiaries will not only improve our operational agility but also enable us to diversify risks, access new capital resources, and enhance our resilience in a dynamic market. By streamlining our operations and focusing on our core strengths, we are positioning NOC to contribute significantly to the country's economic development, in line with the Bottom-Up Economic Transformation Agenda (BETA) and Vision 2030. We remain committed to engaging with our stakeholders, including bankers and shareholders, to ensure that these initiatives bear fruit in the coming financial year.

Appreciation

In conclusion, I take this opportunity to express my sincere appreciation to all our stakeholders led by our shareholders - The National Treasury & Economic Planning and the Ministry of Energy & Petroleum - for their significant contribution through both policy and budgetary support to the Corporation.

On my own behalf and that of the Executive Management team, I also thank the Chairman and the Board of Directors for their continued support, steadfast leadership, and guidance throughout the financial year. I would also like to most sincerely appreciate our customers for believing in us even when we have had challenges. I also thank in a special way our suppliers, service providers, partners and bankers for their patience invaluable support during the financial year.

**National Oil Corporation of Kenya
Annual Reports and Financial Statements
For the Financial year ended June 30, 2024**

Last but not least, on behalf of the Board of Directors and Management, I congratulate our staff for their continued commitment and resilience that have yielded these results and urge them to redouble their efforts as we strive to return the National Oil Corporation of Kenya back to profitability.


Chief Executive Officer

Date... 24/09/2024 ..



9. Statement of Performance against Predetermined Objectives for FY 2023/2024

The Corporation recorded a slight increase in gross profit from Kshs 106 million for the year ended 30th June 2023 to Kshs 164 million for the year ended 30th June 2024, representing an increase of 55%. During the year under review, the Corporation's loss before tax decreased from Kshs 2.334 billion in the financial year, ended 30th June 2023 to Kshs 2.236 billion however, the management is implementing the cabinet directives on revival and commercialisation of the corporation to return it to profitability. The reported loss is primarily attributable to the huge bank penalties as a result of non-performing loan portfolio and court cases awarded against the corporation

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Pillar/ theme/ issue 1: Grow shareholder value	Improve Financial Performance	On-boarded OMC partner(s)	Procuring an OMC Partner to ensure adequate working capital	OMC partner on boarding in the final stages
	Grow core and related business revenues	Sales volumes Sales margins Non fuel revenue	Implementation of Retail Master plan	Retail Master plan not implemented due working capital challenges
			On board credit Commercial Customers	No credit customers on boarded due to lack of product
			Revamp convenience retailing segment	Limited number of convenience retailing segment revamped due to financial constrains
			Refine LPG Distribution model	LPG distribution model refine but was impacted by lack of product availability
	Increase hydrocarbon assets of oil and gas	Project Milestones achieved	Farm out and develop block 14T	Prepared data package for presentation
Develop upstream support services			Completed physical infrastructure of laboratory	
Pillar/ theme/ issue 2: Deliver exceptional customer service	Enhance our customer experience	Social media interaction	Increase online customer interaction	Increased social media feedback
Pillar/ theme/ issue 3:		Revenue leakages	Daily stock reconciliations	Nil Stock Losses

Strategic Pillar/Theme/Issues	Objective	Key Performance Indicators	Activities	Achievements
Increase operational efficiency and effectiveness	Strengthen Internal Controls		and monthly stock takes	
			Continuous revenue assurance audit	Nil Revenue leakages
			Integrate Fuel Facts and Petrol plus to Oracle systems	Project put on hold due to financial constraints
Pillar/ theme/ issue 4: Embed a high-performance culture	Improve performance management	Performance scores	Target setting aligned to corporate objectives and appraisals conducted	All staff set targets and were appraised bi-annually and annually.
Pillar/ theme/ issue 5: Good governance and ethics	Enhance corporate governance and compliance	Compliance	undertake routine Board operations	Compliance to Board Almac

10. Corporate Governance Statement

Good corporate governance is integral in enabling the National Oil Corporation of Kenya Limited (NOC) to interact with both internal and external stakeholders. Corporate governance entails the systems, processes, and structures used to direct and manage the affairs of the corporation, as well as delineate the respective roles of the board and management and the framework of internal controls. The Board and the Management regard good corporate governance as pivotal to the success of the Corporation and is committed to ensuring there is strict adherence to these processes.

The Corporation achieves good corporate governance by using a risk-based approach to establish a system of internal controls and reviewing its effectiveness on a regular basis. The Corporation has formulated and implemented sound internal corporate governance guidelines, which spell out the responsibilities of Management and the Board.

The Board meets regularly and has a formal schedule of its matters. Currently, the Board comprises of 12(Twelve) non-executive directors and the Chief Executive Officer. The Board meets at least four times a year.



The Board has established Committees to assist in the implementation of its policy guidelines and strategy. These Committees meet regularly and are chaired by non-executive Board directors. The Committees submit their report to the Board for adoption and approval. All the non-executive Board directors are independent of management and free from any business or other relationship which may materially interfere with the exercise of their judgment.

(1) Number of Board meetings held

During the period under review, the Board held the following number of meetings. Requisite approvals were sought to have the extra number of meetings per the provisions of sections A (1) to (3) of circular Ref. NO: OP/CAB.9/1A on Management of State Corporations.

NO	NAME OF COMMITTEE/BOARD MEETINGS	NUMBER OF MEETINGS
1.	Board meetings	8
2.	Finance Committee	6
3.	Strategy and Business Committee	5
4.	Human Resource Committee	4
5.	Audit & Risk Committee Meetings	4
	TOTAL	27

The attendance to those meetings by members

Section 3 of the board charter provides that the quorum for the conduct of business at a meeting of the Board shall be two-thirds the number of the board members. The minutes of meetings held during the Years 2023/2024FY capture the details of the members who attended.

Succession Plan

The Corporation has a well-defined Board Succession plan, which is an important way of maintaining a healthy dynamic. The Board Members have different appointment dates and hold various professional competencies.

Section 6(1) and (2) of the State Corporations Act, 1986 provides as follows-

“... A Board shall, subject to subsection (4), consist of—

- (a) a chairman appointed by the President who shall be non-executive unless the President otherwise directs;

- (b) the chief executive;
 - (c) the Permanent Secretary of the Parent Ministry;
 - (d) the Permanent Secretary to the Treasury;
 - (da) the Attorney-General or his representative;
 - (e) not more than eleven other members not being employees of the state corporation, of whom not more than three shall be public officers, appointed by the Minister.
- (2) Every appointment under subsection (1)(a) and (e) shall be by name and by notice in the *Gazette* and shall be for a renewable period of five years or for such shorter period as may be specified in the notice...”

The Cabinet Secretary's appointment of the aforementioned members has been cascaded to ensure continuity and smooth transaction of NOC's Board's roles and responsibilities.

Existence of a Board Charter

The NOC Board approved its Board Charter during its meeting on 14th January 2022, in accordance with the provisions of Mwongozo, Code of Governance for State Corporations.

Process of Appointment and Removal of Directors

Section 3 of the NOC Board Charter provides that the relevant appointing authority shall select and appoint the respective directors. Every appointment shall be by name and by notice in the Kenya Gazette or nomination by a body mandated to do so but shall cease if the Board member:

- (i) Serves the appointing authority with written notice of resignation; or
- (ii) Is absent, without the permission of the Chairperson, from three consecutive meetings; or
- (iii) Is convicted of an offence by a court of competent jurisdiction and sentenced to imprisonment for a period exceeding six months without the option of a fine or
- (iv) Is incapacitated because of infirmity of body or mind; or
- (v) Is otherwise unable or unfit to discharge the functions of the Board; or
- (vi) If the member dies.

Roles and functions of the Board

Section 10.2 of the NOC Board Charter provides that the board's roles and duties are as set out in the Companies Act, the State Corporations Act, and the Mwongozo Code of Governance for State Corporations, National Oil's Memorandum and Articles of Association, and other relevant legislation and policy documents.



Induction and Training

The NOC Board of Directors attended the below trainings in 2023/2024 FY:

1. Mwongozo Induction for Boards of State Corporations and Universities Councils from June 14th to 15th 2024.
2. ICS Workshop on Governance and Leadership from 27th to 31st May 2024
3. SCAC Induction Workshop for Board Members of State Corporations from 29th to 31st January 2024

Board and Member Performance

The Board was evaluated on 12th October 2023 by the State Corporations Advisory Committee (SCAC). The overall performance and respective members were captured in the evaluation performance report submitted by SCAC during the Board meeting held on 24th July 2024.

Conflict of Interest

During 2023/2024FY, the Corporation Secretary kept a no-conflict-of-interest register, and none of the members declared any conflict of interest in any of the agenda items that were presented for deliberations and guidance by the Board. In the event any member was conflicted on a particular matter, they recorded it on the register on conflict of interest.

Board Remuneration

The Board was remunerated as per the prevailing SCAC guidelines on the remuneration of board members.

Ethics and Conduct

The board approved a Board Charter in its meeting held on 14th January 2022 that stipulated the code of conduct to be observed by the Board members.

Governance Audit

According to the Mwongozo Code of Conduct and Ethics for State Corporations, a governance audit is expected to be carried out annually. However, during the period under review, a governance audit was not undertaken, though it was approved by the board in its almanac for 2023/2024 FY. Further, the Board, in its approved work plan for 2024/25 FY, has also approved a governance audit to be undertaken in the current financial year.

11. Management Discussion and Analysis

National Oil Corporation of Kenya Limited is a fully integrated State Corporation involved in all aspects of the petroleum value chain covering the upstream oil and gas exploration, midstream petroleum infrastructure development and downstream marketing of petroleum products.

National Oil has an active downstream business segment with a growing retail network of 72 service stations spread across Kenya. The Corporation also serves a cross-section of resellers, industrial, export and government businesses from its modern Nairobi National Terminal.

The Corporation is also actively involved in the upstream activities key among them being analysis and keeping of exploration data in the petroleum sector on behalf of the Government where there is collaboration with other stakeholders.

During the period, the Corporation has focused more on turn around strategies with a view to competing effectively in the market space to ensure there is a positive trend in the business activities with a view to making a positive return for the shareholders.

Financial Key Performance Indicators

Revenue decreased from Kshs 3.1 billion for the year ended 30th June 2023 to Kshs 1.3 billion for the year ended 30th June 2024. Conversely, gross profit saw a modest increase from Kshs 106 million in the year ending 30th June 2023 to Kshs 164 million in the year under review, representing a growth of 55%.

Operating expenses increased to Kshs 992 million from Kshs 953 million due to increased provision for bad and doubtful debts. Net financing costs decreased from Kshs 1.61 billion in the previous year to Kshs 1.568 billion during the year under review. The net financing costs are as a result of huge bank penalties on non-performing loans during the year under review.

The loss before tax for the year under review is Kshs 2.236 billion compared to a loss of Kshs 2.335 billion in the year ended June 2023. The loss is attributed majorly to financing costs, decline in gross margin due to stock out and fixed costs such as salaries, leases, county rates etc.

Principal risks and uncertainties facing the Corporation

- 1) Increase in global crude oil prices – The increase in the global prices for petroleum products have leads to a negative effect to the profitability of the Corporation due to decline in purchasing power as a result of working capital challenges.
- 2) Financial Constraints: - The Corporation is competing in the market place with multinationals who have very strong parent Companies and are able to fund them in the expansion program with low interest



funds. The Corporation on the other hand has to borrow from the local banks at high interest. This increases the financing costs and minimizes the returns per litre of Petroleum products sold by the Corporation.

12. Environmental and Sustainability Reporting

Access to affordable, reliable energy lies at the heart of almost every business opportunity and challenge our world faces today. Energy helps economies grow, improves health and quality of life and lifts people out of poverty. Oil and gas accounts for approximately 56% of total global fuel consumption.

Although the petroleum sector is one of the most important sectors in the current era, its operations have serious consequences for society and the environment. Despite yielding much-needed resources, exploiting oil and gas is a double-edged sword. On the one hand, oil and gas are the main drivers of global development and progress. On the other hand, each stage of their lifecycles—including exploration, drilling, production, marketing, and end use by consumers—has a significant impact on the environment and society. These resources also play important political and economic roles that affect policymakers' decisions. Thus, National Oil Corporation of Kenya has important environmental and social responsibilities and is obligated to produce high-quality sustainability reports.

Meeting the world's future energy needs by transitioning to low emission energy sources is key to delivering sustainable development. As a major participant in the Kenya economy, the Corporation is keen on clearly communicating on how it is supporting the energy transition.

i) Sustainability strategy and profile

The concept of "sustainability" provides a perspective on the relationship between National Oil and its stakeholders. It allows the company to reflect on how social and environmental issues affect its operations and forms the driving force of NOC's strategy.

National Oil acknowledges the pressing need to take action in safeguarding our planet's well-being, all the while promoting inclusivity in accessing the fruits of development. This commitment remains unwavering, staying true to our dedication to shareholders and the advancement of responsible corporate citizenship. To this end, the Company is dedicated to embedding environmental, social, and governance (ESG) sustainability principles into our organizational and business reporting processes. Among the 17 Sustainable Development Goals (SDGs), the most pertinent objective for National Oil is SDG 7: "Ensure access to affordable, reliable, sustainable, and modern energy for all."

In alignment with SDG 7, our strategic emphasis revolves around promoting clean and affordable energy alternatives for the people of Kenya. Kenya boasts a range of natural gas resources distributed across the

nation. It is imperative to embark on a comprehensive examination of these gas reservoirs, conducting a thorough viability analysis to assess their potential role in various clean energy solutions such as electric power generation, clean hydrogen production, and essential petrochemical applications.

Biofuel stands out as a pristine alternative fuel derived from trees. We amalgamate our Corporate Social Responsibility (CSR) initiatives with the establishment of forestry projects, aimed at constructing facilities to manufacture raw materials for biofuels. These forestry endeavor's take root on community-owned land, fostered through partnerships with landowners, ensuring the perpetuity of these forests. The products harvested from these forests are then procured by National Oil for the production of biofuels, benefiting both the community and the environment.

ii) Environmental performance

National Oil Corporation, in undertaking its mandate, has integrated environmental considerations in their operations to fulfil the requirements of a clean, healthy and sustainable environment for all as per Article 42 of the Constitution of Kenya, 2010 and Environmental Management and Coordination Act (EMCA) Cap. 387. The Corporation undertakes to uphold environmental standards that exceed the minimum legal and regulatory requirements. To this end, the Corporation shall adopt all reasonable and practical measures to endeavour to comply with and exceed the requirements of all applicable environmental laws, regulations, permit and licence conditions and other requirements to which the organization subscribes to. National Oil Corporation recognizes that her operations have impacts on the environmental, social and financial aspects. In view of this, the Corporation has put in place several operational controls geared towards reducing pollution impacts. National Oil retail stations emit waste oils that, if not properly contained, could have adverse impact to underground and riparian water. This calls for implementation of measures such as: engaging a waste oil collection firm to periodically collect waste oil as well as conduct interceptor cleaning at National Oil retail sites and National Nairobi Terminal (NNT); and engaging a NEMA-designated laboratory to undertake effluent sampling and analysis to provide assurance that effluents into municipal waste drainage are within parameters as prescribed by Water Quality Regulations, 2006.

iii) Employee welfare

The Corporation embraces diversity, equity and inclusion (DEI) through policies and programs that promote the representation and participation of different groups of individuals. DEI encompasses people of different ages, races, ethnicities, abilities, disabilities, genders, religions, cultures and sexual orientations. It also covers people with diverse backgrounds, experiences, skills and expertise. The Corporation's Board of



Directors have ratified a Human Resources Policy Manual stipulates that the Corporation is an equal opportunity employer and shall not in its recruitment and selection process, discriminate on the basis of gender, race, religion, ethnicity or any other form of discrimination. The HR Policy Manual is reviewed every three years.

The constitutional requirement on mainstreaming of gender and persons with disabilities as stipulated in Article 232 of Constitution of Kenya, 2010 shall be observed alongside policies issued by any of the relevant Government Institutions. In addition, the Corporation Board of Directors have ratified a Gender Mainstreaming Policy that takes into account gender parity during hiring process.

The Corporation has also instituted an annual appraisal system which governs staff performance and staff development. Further, the Corporation has a clear policy on reward and recognition of outstanding performance.

The Corporation takes cognisance of the need to provide a safe working environment for employees and contractors alike as per the provisions of Occupational Safety & Health Act (OSHA), 2007. To this end, the Corporation continually implements safety & health programs that includes among other things, periodic workplace inspections and audits and risk assessments to evaluate job safety as well as put in place mitigating measures against potential hazards at the workplace. The Corporation further provides personal protective clothing & equipment to its employees at no cost to enhance worker safety. Employee PPE is replaced as per provisions of the Corporation's PPE Policy.

iv) Market place practices-

The organisation should outline its efforts to:

a) Responsible competition practice.

Fair Competitor and respect for completion

- ❖ The Corporation achieves this through conducting price market surveys in pricing products (white fuels, lpg and lubricants) this will ensure NOC doesn't not undercut the market
- ❖ Industry bench marking –the corporation also ensure that it embraces best industry practices as it conduct its business operations. Such practices include charging throughput fees as opposed to rental based fees. The fees charged should also be within average range of the industry.
- ❖ Below the line and above the line market activities e.g. forecourt discounts and other incentives to the final consumer

Anti-corruption

There is policy in NOC in regards corruption activities and how they are reported

b) Responsible Supply chain and supplier relations

The Corporation has employed the following strategies in its supply chain management function;

- Purchase in volume for cost reduction- Common users goods and services are procured on framework contracts basis
- All purchases we use POs or contracts
- Increase penetration of technology in its operations.

Treats its own suppliers responsibility

- We endeavours to pay suppliers the amount agreed upon and on time
- We communicate regularly with our suppliers hence establishing and maintaining a business connection
- We treat our suppliers not just as vendors business partners
- Where payments are overdue/ pending we normally enter into a payment agreement which we adhere to

c) Responsible marketing and advertisement

The Corporation achieves this through:

- ❖ Response to customer complains within the SLA
- ❖ Being transparent ie access to information about safety and its effective use
- ❖ NOC websites is also accessible to the public for any information regarding all the activities in upstream and downstream operations
- ❖ Protecting customers data and privacy-NOC ensures confidentiality as far data and other sensitive information are concerned of its entire customer base
- ❖ Maximize benefits and minimize risks-NOC prioritize on safety first and is being driven by a slogan **“if it is not safe it is not worth it”**

d) Product stewardship

The Corporation achieves this through:

- ❖ Ensuring high quality and standard for her products that meets industry and KEBS standard.
- ❖ Timely response to customers complaints
- ❖ Disposing of used oil as per the approved NEMA procedures



e) Corporate Social Responsibility / Community Engagements

The National Oil Corporation of Kenya gives back to the communities through a hand up approach. This is through key Corporate Sustainability (CS) programs, projects and activities. The Corporation is guided by a robust Corporate Sustainability (CS) strategic plan, focused on community living within its Block 14T in Magadi sub-basin.

The Corporation interacts with communities in Block 14T where it has been conducting upstream exploration activities. These activities are conducted within land and conservancies owned or managed by three communities. In a bid to get the social license from the community to enable the operations run smoothly, the Corporation held extensive community engagements with the communities. The communities are namely Olkiramatian Group Ranch, Shompole Group Ranch and Musenke Community.

The Corporation proposed to give back to the communities through Corporate Sustainability (CS) projects that the community would come up with, within the budget capability of the Corporation.

Community Leaders' Engagement

The community leaders were engaged prior to and during the 2023/2024 data acquisition campaign. Their engagement helped to foster a deeper understanding of the benefits, risks, impacts and opportunities available for NOC as well as the host community during the data acquisition campaigns. All concerns raised were also discussed and ways to manage them agreed on. Through the meetings, updates on ongoing NOC-initiated CSR projects were also provided.

Good Health and Well Being

Olkiramatian Arid Zone School was constructed in the 1970s by the World Bank Group. The roofing material used was asbestos. Owing to dangers posed by asbestos roofing, use of asbestos for construction was banned in 2006. NOC thereby embarked on replacement of the asbestos roofing with Galvanized Iron roofing. The first phase was completed in 2022 and scoping for the second phase was conducted in the financial year 2023/2024 in preparation for their replacement and disposal of the asbestos in accordance with the NEMA regulations.

Provision of Quality Education

Lack of accommodation facilities is a primary limitation of access to education, causing students to travel long distances to attend school. Accommodation is therefore critical in ensuring adequate access to education. NOC therefore took up the responsibility of constructing a boys' dormitory in Oloika Secondary School.

Productive Employment

As part of its commitment in shared prosperity with the host community, the locals under the guidance and coordination of the local community leaders were gainfully employed, albeit on a short term basis, to participate in the acquisition of Magnetotellurics, Gravity and Magnetics data.

13. Report of the Directors

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

i) Principal activities

The core business of the Corporation as stipulated in the Memorandum and Articles of Association is trading in refined petroleum products and participation in related petroleum business such as refining, distribution and marketing; provision of related services such as hospitality, storage, transport, product receipt and loading; petroleum exploration; and promotion activities and participation in energy sector activities as directed by the Government from time to time.

ii) Results

The results of the Corporation for the year ended June 30, 2024 are set out on page below. Below is summary of the profit or loss made during the year.

	2024	2023
	Shs'000	Shs'000
Loss before taxation	(2,236,449)	(2,334,502)
Taxation credit	669,724	677,502
	—————	—————
Loss for the year transferred to retained earnings	(1,566,725)	(1,657,001)
	=====	=====

iii) Dividends

The Directors do not recommend payment of dividend in respect of the current financial year (2024: nil).

iv) Directors

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



v) Auditors

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

By Order of the Board

Name..........Signature :.....Date 24/09/2024

(Secretary to the Board)

14. Statement of Directors' Responsibilities

Section 81 of the Public Finance Management Act, 2012 and Companies Act 2015, require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the period ended on June 30, 2024. This responsibility includes:

- (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
- (iv) Safeguarding the assets of the Corporation;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors responsibility for the Corporation'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 Companies Act 2015.

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



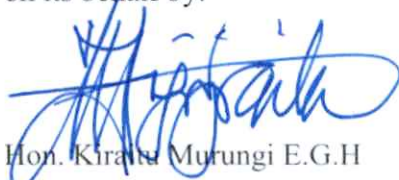
Statement of Directors' Responsibilities (Continued)


for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

The Corporation is currently experiencing financial challenges which has hindered its ability to deliver on its core mandate. The Cabinet has issued directives on revival and commercialization of the National Oil Corporation. The Cabinet has issued two directives on the revival and commercialization of National Oil Corporation, namely; i. On-boarding a non-equity strategic partner(s) to inject funds for working capital and capital expenditure. ii. Restructuring of National Oil Corporation through conversion of the parent company into a holding company and creating of three subsidiaries to derisk the business and increase efficiency and profitability. Based on above, nothing else has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

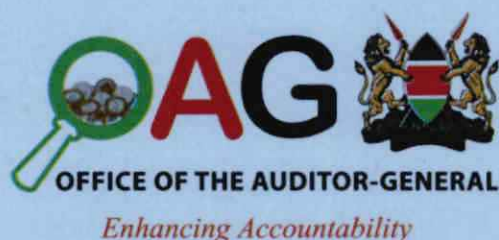
The Corporation's financial statements were approved by the Board on^{24/09}.....2024 and signed on its behalf by:


Hon. Kirati Murungi E.G.H
Chairperson of the Board


Leparan Gideon Morintat
Chief Executive Officer

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON NATIONAL OIL CORPORATION OF KENYA LIMITED FOR THE YEAR ENDED 30 JUNE, 2024

PREAMBLE

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

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Oil Corporation of Kenya Limited set out on pages 1 to 110, which comprise the statement of financial

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

Basis for Qualified Opinion

1. Material Uncertainty Relating to Going Concern

The Corporation recorded a loss before taxation of Kshs.2,236,449,000 during the year under review (2023: Kshs.2,334,502,000) raising its accumulated losses to Kshs.8,333,193,000 from Kshs.6,766,468,000 in 2023. In addition, the Corporation's current liabilities totalling Kshs.12,819,418,000 exceeded the current assets balance of Kshs.1,212,466,000 by an amount of Kshs.11,606,952,000. These events or conditions indicate material uncertainty regarding the Corporation's ability to continue as a going concern. This material uncertainty in relation to going concern and any mitigating measures put in place by the Directors to address the matter were not disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1), presentation of financial statements.

In the circumstances, the Corporation was technically insolvent, and its continued existence is dependent upon the financial support of the Government and its creditors unless Management puts in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the shareholders.

2. Unresolved Hived Off Petroleum Products

The statement of financial position reflects inventories balance of Kshs.245,479,000 which as disclosed in Note 21 (a) to the financial statements comprise of a gross value of Kshs.2,560,554,000 adjusted for provisions of Kshs.2,315,075,000. Included in the inventory gross value is Kshs.1,494,624,828 in respect of petroleum products captured as hived off in the books of the Corporation. According to Management, a resolution of the Board in October, 2016, authorized Management to hive-off all historical non-reconciling items to ensure new variances were not created. However, the historical non-reconciling items continue to be carried in the books of the Corporation. Although the Board of Directors approved the write-off of the amount and made a request to The National Treasury for write off, the matter is still pending.

In the circumstances, the accuracy and completeness of the inventories balance of Kshs.245,479,000 could not be confirmed.

3. Trade and Other Payables

3.1 Unreconciled Trade and Other Payables

The statement of financial position reflects trade and other payables balance of Kshs.6,272,813,000 as similarly disclosed in Note 31 to the financial statements. Included in the balance are Block 14T surface fees accruals payable to the State Department of Petroleum amounting to Kshs.131,982,568. However, review of records at the State Department of Petroleum did not reveal any amount owed by National Oil Corporation of Kenya Limited as at 30 June, 2024.

In the circumstances, the accuracy and completeness of the payables of Kshs.6,272,813,000 could not be confirmed.

3.2 Non-Payment of the Audit Fees

The statement of financial position reflects trade and other payables balance of Kshs.6,272,813,000 as disclosed in Note 31 to the financial statement. Review of the ageing analysis provided reflects audit fees payable of Kshs.30,805,551 and an accrued expense balance of Kshs.11,834,069 totalling Kshs.42,639,620. The fees have been long outstanding. Management stated that the Corporation is at the tail end of on-boarding non-equity strategic partner as per the Cabinet approval and on its revival and commercialization on 8 August, 2023, who is meant to provide funds for working and capital expenditure. Considering the process, the Corporation is expected to resume business operations, generate sufficient cash flows to settle all outstanding financial obligations including audit fees

In the circumstances, existence and occurrence of the outstanding audit fees amounting to Kshs.42,639,620 could not be confirmed.

4. Unsupported Decline in Value of Freehold Land

The statement of financial position reflects property, plant and equipment with a net book value of Kshs.5,694,221,000 and as disclosed in Note 17 to the financial statements. As previously reported, the values are based on a revaluation of assets in 2019/2020 financial year which resulted in a decline in the value of ten (10) parcels of freehold land by Kshs.145,640,000 or 43%, from a previous value of Kshs.336,140,000 to Kshs.190,500,000. The decline was not supported or justified by either change in size of the parcels or any other adverse conditions. Management attributed the decline to premiums paid on the acquisition of the parcels.

In the circumstances, the accuracy and valuation of the property, plant and equipment balance of Kshs.5,694,221,000 could not be confirmed.

The audit was conducted in accordance with International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the National Oil Corporation of Kenya

Management in accordance with ISSAI 130 on the 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 qualified opinion.

Emphasis of Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects a final revenue budget of Kshs.91,769,264,000. However, only Kshs.1,436,166,000 was realized resulting in under collection of Kshs.90,333,098,000. Further, Management spent Kshs.3,672,615,000 from the realized revenue of Kshs.1,436,166,000 resulting in an over expenditure of Kshs.2,236,449,000.

The under collection may have affected the planned activities during the year.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

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

Other Information

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

In connection with my audit on the Corporation's financial statements, my responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this Other Information, I am required to report that fact.

My opinion on the financial statements does not cover the Other Information and accordingly, I do not express an audit opinion or any form of assurance conclusion thereon.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Penalties on Late Payment

The statement of profit and loss and other comprehensive income reflects cost of sales amounting to Kshs.1,112,509,000. Included in the cost of sales is Kshs.1,309,340 in respect of penalties and fines. Review of the ledger provided in support of the balance revealed that the Company was charged the penalties and fines on account of delays in remitting statutory payments to the Kenya Revenue Authority (KRA).

In the circumstances, value for money on Kshs.1,309,340 incurred on fines and penalties on account of delayed statutory remittances could not be confirmed.

2. Unauthorized Over Expenditure

The statement of comparison of budget and actual amounts reflects Kshs.90,178,858,000 and Kshs.3,672,615,000 in respect of operating expenses budget and actual on comparable basis respectively. Review of expenditure items making up the operating expenses revealed that Management overspent on legal fees and finance costs by Kshs.30,464,000 and Kshs.280,952,000 respectively, resulting in a total over expenditure of Kshs.313,324,000. However, neither a supplementary budget nor approval for re-allocation of funds was provided to support the over expenditure contrary to Regulation 54 (1) which provides that an Accounting Officer of an entity may not authorize payment to be made out of funds earmarked for specific activities for purposes other than those activities.

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

3. Failure to Maintain a Minimum Operational Stock

Review of inventory records on petroleum products revealed that during the year under review, the Corporation did not maintain operational stocks replenished to optimal levels as required by Regulation 3 of the Energy (Minimum Operational Stock) Regulations, 2008 which provides that all importers of petroleum products intended for use in Kenya shall maintain at all times physical operational stock in quantities not less than the minimum amounts specified in the Schedule of the Regulations.

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

4. Breach of Borrowing Repayment Terms

The statement of financial position reflects borrowings balance of Kshs.6,546,174,000 and as disclosed in Note 28 to the financial statements. Review of the loan account revealed that the Corporation had not been servicing the loan contrary to the loan agreement. Further, records provided indicated that Management had negotiated with the lender to restructure the outstanding loan and secure an extension to a moratorium on the loan, which had lapsed on 3 May, 2022, for an additional period of seven (7) months. However, the lender declined to grant an extension until Management implements recommendations of a Liquidity and Independent Business Review which was conducted by a consultant on behalf of the lenders.

In addition, default on loan and interest repayment prompted the lenders to charge a default interest rate which was higher than the normal interest and confirmed that the Corporation had accrued a penalty of Kshs.2,434,192,749 thereby increasing the Corporation's loan liability.

In the circumstances, the value for money in respect of default interest and penalties amounting to Kshs.2,434,192,749 could not be ascertained.

5. Employees on Acting Capacity Beyond Stipulated Time

Review of records on appointments to acting positions and allowances paid thereof revealed that eight (8) employees were appointed on acting capacity for long periods and continued to draw acting allowances beyond the stipulated six months' period resulting in irregular payment of Kshs.1,144,314. This is contrary to Section 8.8.3 of the Corporation's Human Resources and Procedures Manual which provides that acting allowance will be payable to an employee for a period of not more than six (6) months within which the position should be advertised and competitively filled.

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

6. Stalled Liquefied Petroleum Gas Project

As reported in prior years, the State Department for Petroleum delegated to the Corporation the responsibility of implementing Mwananchi gas project on behalf of the

National Government through a letter dated 16 September, 2021. The project was intended to promote the use of modern cooking fuels among low-income households and entailed distribution of subsidized Liquefied Petroleum Gas (LPG) cylinders, grills and burners purchased by the Ministry of Petroleum and Mining. According to the Ministry, funds realized from sales were to be used to purchase additional gas.

The pilot programme for the project roll out was expected to kick off during the 2020/2021 financial year but the Corporation lacked sufficient working capital to purchase the gas for filling the cylinders. Review of records at the Corporation at the close of the financial year comprised of 161,448 6kg cylinders, of which 5,444 had been filled with gas, 329,303 burners, 330,115 6kg grills, 60,000 horse pipes and 84,499 double burner stoves. As at 30 June, 2024, only 11,675 6kg cylinders, 12,869 burners and 87,147 grills with an aggregate value of Kshs.20,501,191 had been included in the Corporation's financial statements. Management attributed non-inclusion of other items to lack of formal ownership transfer of the items to the Corporation by the State Department.

In addition, implementation of the project was uncertain due to what management attributed to lack of sufficient working capital.

In the circumstances, the value for money on the expenditure incurred on the project could not be confirmed.

7. Defective Cylinders

The statement of financial position and as disclosed in Note 21(a) to the financial statements reflects inventories with a net book value of Kshs.245,479,000 held by the Corporation. Included in the inventory are 88,248 defective Liquefied Petroleum Gas (LPG) cylinders valued at Kshs.155,845,107 stored at the Corporation's Nairobi National Terminal. However, during the year under review, Management did not provide measures taken regarding the defective cylinders which were not in use and continue to lose value.

In the circumstances, the value incurred on acquisition of the LPG cylinders valued at Kshs.155,845,107 could not be ascertained.

8. Slow Implementation of Oil Exploration Activities

The statement of financial position and as disclosed in Note 36 to the financial statements reflects exploration expenses on block 14T of Kshs.2,291,112,000. As reported in the prior year, the Corporation has in the past thirteen (13) years been undertaking exploration activities in the Block which were expected to take a period of three (3) years as per the Production Sharing Contract (PSC) entered with the Government.

In addition, records provided indicate that the Corporation entered into the first additional exploration period for Block 14T on 27 July, 2023 which entailed acquisition of additional 500 kilometers of 2D seismic survey on the most prospective areas of the block, acquisition of 100 square kilometers 3D seismic survey, and drilling of one (1) exploration

well to a depth of 3000m within two (2) years. However, review Block 14T exploration update report for July 2023 to June 2024 dated August, 2024 revealed that the 3D seismic survey and drilling of an exploration well were yet to be done.

In the circumstances, the value for money on the expenditure of Kshs.2,291,112,000 on exploration activities could not be confirmed.

The audit was conducted in accordance with ISSAI 3000 and ISSAI 4000. The standards require that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements comply in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Long Outstanding Receivables

The statement of financial position reflects trade and other receivables balance of Kshs.398,612,000, as further disclosed in Note 22 (a) to the financial statements. Review of an ageing analysis provided in respect of the receivables revealed that Kshs.533,106,728 had been outstanding for more than one year. The long outstanding balance accounts for 80% of the total trade receivables balance of Kshs.668,075,000. Management attempts to recover the accounts receivables through issuance of demand letters, were yet to yield results.

In addition, Note 22(b) of the financial statement reflects a receivables balance of Kshs.651,411,000 which was outstanding for over 120 days. However, the balance was not supported by an ageing analysis.

In the circumstances, the adequacy and effectiveness of measures implemented by management to recover long outstanding trade and other receivables could not be confirmed.

2. Use of Outdated Information Technology Systems

Review of the Corporation's information technology systems revealed that Information Technology (IT) systems in use at the Corporation were outdated as it had been acquired

in 2016/2017 financial year. The systems had attained their End of Life (EOL) period which meant that updates that enhance the system's security or technical support from the vendor could no longer be received. Further, the Corporation had not paid the software vendor for over three years and had accrued debts amounting to Kshs.57,145,833 as at 30 June 2024 in respect of annual software updates, technical support and additional licenses.

In the circumstances, the existence of controls to safeguard against business data and continued operations using the existing IT system could not be ascertained.

3. Lack of a Strategic Plan

During the year under review, the Corporation did not have an approved strategic plan, with the previous one having expired in the year 2020. This was contrary to Section 68(2)(g) of Public Finance Management Act, 2012 which require the Accounting Officer to prepare a strategic plan for the entity in conformity with the medium-term fiscal framework and fiscal policy objectives of the national government.

In the circumstances, existence of a policy framework and objectives aligned to the Government fiscal policies could not be confirmed.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Conclusion

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. The information given in the Directors' report on pages xxxvii to xxxviii is consistent with the financial statements; and
- iii. The auditable part of the Directors' remuneration report on page 26 has been properly prepared in accordance with the Companies Act, 2015.

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to 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 comply with the authorities which govern them and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

In conducting the audit, Article 229(6) of the Constitution also requires that I express a conclusion on whether or not in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way. In addition, I consider the entity's control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and

systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015.

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

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



FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 December, 2024

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16. Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2024

	Note	2023/2024	2022/2023
		Kshs'000'	Kshs'000'
REVENUES			
Revenue	6	1,276,526	3,141,120
Cost of sales	7	1,112,509	3,035,390
Gross profit		164,016	105,730
Other Income			
Release of Exploration Expenditure	11	212,391	215,395
Interest Income	8	10,052	3,162
Other Income	9	149,588	120,364
TOTAL REVENUES		536,048	444,650
OPERATING EXPENSES			
Exploration Expenditure	11	212,391	215,395
Administration Costs	10(a)	992,263	952,922
Finance Costs	12	1,567,842	1,610,835
TOTAL OPERATING EXPENSES		2,772,497	2,779,152
PROFIT/(LOSS) BEFORE TAXATION		(2,236,449)	(2,334,502)
Income Tax Expense/(Credit)	14(a)	669,724	677,502
PROFIT/(LOSS) AFTER TAXATION		(1,566,725)	(1,657,001)
Earnings Per Share – Basic and Diluted	15	(30)	(32)
OTHER COMPREHENSIVE INCOME			
Profit/ (Loss) after taxation		(1,566,725)	(1,657,001)
Surplus or Deficit on Revaluation of PPE		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,566,725)	(1,657,001)

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17. Statement of Financial Position as at 30 June 2024

	Note	2023/2024	2022/2023
		Kshs'000'	Kshs'000'
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	17	5,694,221	5,405,623
Intangible Assets	18	7,663	7,426
Investment Property	19	9,400	9,635
Right of Use of Leased Assets	20	222,948	247,391
Exploration Expenditure-Block 14T	36	2,291,112	2,209,278
Deferred Tax Asset	29	3,202,408	2,527,555
Total Non-Current Assets		11,427,753	10,406,908
Current Assets			
Inventories	21(a)	245,479	237,251
Trade and Other Receivables	22(a)	398,612	776,995
Tax Recoverable	14(b)	31,501	32,661
Short-term Deposits	24	191,878	795,733
Bank and Cash Balances	25	344,995	509,583
Total Current Assets		1,212,466	2,352,222
TOTAL ASSETS		12,640,218	12,759,130
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	26(a)	1,032,000	1,032,000
Share Premium	26(b)	1,183,000	1,183,000
Revaluation Reserve	27	1,998,088	1,998,088
Retained Earnings	42	(8,333,193)	(6,766,468)
Capital and Reserves		(4,120,105)	(2,553,380)
Non-Current Liabilities			
Deferred Income	23	3,197,040	3,134,782
Lease Liability	30	181,468	167,999
MOE HQ Construction Fund	37	704	704
Gratuity provision	32	12,666	7,481
SBM Fund	38	11,443	11,443
CSR Projects Fund	39	39,148	34,885
Laboratory Equipment Fund	41	425,480	425,480
E&P Capacity Building Fund	40	72,955	72,955


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Total Non-Current Liabilities		3,940,906	3,855,729
Current Liabilities			
Borrowings	28	6,546,174	6,376,024
Trade and Other Payables	31	6,272,813	5,070,372
Gratuity provision	32	431	10,384
Total Current Liabilities		12,819,418	11,456,781
TOTAL EQUITY AND LIABILITIES		12,640,218	12,759,130


The financial statements were approved by the Board on 24/09 2024 and signed on its behalf by:



Chief Executive Officer
Leparan Gideon Ole Morintat



Ag. Head of Finance
Andrew Ringera



Chairman of the Board
Hon. Kiraitu Murungi

ICPAK.M/NO:20208

18. Statement of Changes in Equity for the year ended 30 June 2024

	Ordinary Share Capital	Revaluation Reserve	Share premium	Accumulated Reserve	Total
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
As at the beginning of the prior year (Jul 2022)	1,032,000	1,998,088	1,183,000	(5,109,467)	(896,379)
Issue of new share capital	-	-	-	-	-
Revaluation gain(Loss)	-	-	-	-	-
Profit (loss)for the year	-	-	-	(1,657,001)	(1,657,001)
As at the end of prior year (June 2023)	1,032,000	1,998,088	1,183,000	(6,766,468)	(2,553,380)
As at the beginning of the current year(Jul 2023)	1,032,000	1,998,088	1,183,000	(6,766,468)	(2,553,380)
Issue of new share capital	-	-	-	-	-
Profit (Loss)for the year	-	-	-	(1,566,725)	(1,566,725)
As at the end of current year (June 2024)	1,032,000	1,998,088	1,183,000	(8,333,193)	(4,120,105)

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19. Statement of Cash Flows for the year ended 30 June 2024

	Note	2023/2024	2022/2023
Description		Kshs'000'	Kshs'000'
Cash Flows from Operating Activities	33	941,535	1,072,887
Interest received	8	10,052	3,162
Interest accrued	12	(1,567,842)	(1,610,835)
Tax paid	14(b)	(3,970)	(8,001)
Net Cash Generated from/(used in) Operating Activities		(620,224)	(542,788)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment	17	(488,841)	(31,275)
Proceeds from disposal of property, plant and equipment		-	630
Purchase of Intangible assets	18	(6,485)	(10,799)
Increase(decrease)in Block 14T Exploration Expenditure	36	(81,834)	(59,831)
Payment of Leases	30	(12,860)	(33,587)
Increase(Decrease Right of Use of Asset)	20	(7,260)	-
Net increase(Decrease in CSR)	39	4,263	11,946
Net Cash Generated from/(used in) Investing Activities		(593,017)	(122,917)
Cash Flows from Financing Activities			
GOK Grants	23	430,000	426,500
Proceeds from borrowings/Interest capitalized	28	170,150	175,150
Interest received under deferred income	23	9,726	13,136
Unrealized gains/losses on fixed deposit held on call	23	(93,272)	104,516
Receipts from sales of Multi client data	23	-	24,743
Recurrent GOK grants utilized	23	(71,804)	(7,800)
Net Cash Generated from/(used in) Financing Activities		444,800	736,245
Increase/(Decrease) in Cash and Cash Equivalents		(768,441)	70,540
Cash and Cash Equivalents at Beginning of Year		1,305,315	1,234,776
Cash and Cash Equivalents at end of the Year	33(b)	536,874	1,305,315

20. Statement of Comparison of Budget and Actual Amounts for the year ended 30 June, 2024

Amount in Kshs	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	% of utilization e=d/c
	Kshs000	Kshs000	Kshs000	Kshs000	Kshs000
Revenue					
Sales of Goods	90,214,656	-	90,214,656	1,276,526	1%
Other Income	1,554,608	-	1,554,608	159,640	10%
Total Income	91,769,264	-	91,769,264	1,436,166	2%
Operating Expenses					
Cost of Sales	87,442,056	-	87,442,056	1,112,509	1%
Staff Costs	539,720	-	539,720	360,634	67%
Software Licenses	20,290	-	20,290	6,179	30%
Provision for Bad & Doubtful Debts	-	-	-	74,203	#DIV/0!
Repairs and Maintenance	113,164	-	113,164	24,861	22%
Insurance Costs	32,000	-	32,000	25,263	79%
Security Charges	8,000	-	13,000	9,908	76%
Utility Costs:- Electricity& Water	13,436	-	13,436	8,996	67%
Sanitary and Cleaning Services	11,593	-	11,593	8,567	74%
Office Rents, Rates & Licenses	100,657	-	100,657	13,038	13%
Traveling & Accommodation	77,957	-	77,957	36,675	47%
Telephone and Postages	13,413	-	13,413	11,202	84%
Printing and Stationary	7,296	-	7,296	594	8%
Office Expenses	17,072	-	17,072	7,302	43%
Subscriptions	13,372	-	13,372	1,188	9%
Audit Fees	8,000	-	8,000	7,033	88%
Legal Fees	70,000	-	70,000	100,464	144%
Advertising and Publicity	12,336	-	12,336	3,881	31%
Board Expenses	22,874	-	22,874	13,147	57%
Professional Fees	66,105	-	61,105	28,914	47%
Staff Uniforms	5,479	-	5,479	170	3%

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Depreciation & Amortization	297,148	-	297,148	250,044	84%
Finance Costs	1,286,890	-	1,286,890	1,567,842	122%
Total expenditure	90,178,858	-	90,178,858	3,672,615	4%
Surplus for the year	1,590,406	-	1,590,406	(2,236,449)	-141%

Explanatory notes to Budget

- a) Total income is 2% of the budget income. The low sales is attributed to low sales due to working capital challenges.
- b) Cost of sales is 1% of the budget. This due lack working capital constraints.
- c) Financing Costs is at 122% compared with the Budget. This is due to default penalties on non-performing loans.
- d) Legal fees and related costs stands at 144% of the Budget. Kshs 77.9Million related to provision of contingent liabilities against Corporation.
- e) Total Expenditure is 4% of the total budget. This is attributed to low level business

21. Notes to the Financial Statements

1. General Information

National Oil Corporation of Kenya Limited (“the Corporation”) is incorporated as a limited Corporation in Kenya under the Kenyan Companies Act 2015, and is domiciled in Kenya. The Corporation is involved in both the upstream and downstream activities in the oil industry in Kenya. In the Upstream activities, the Corporation is involved in the exploration of oil in one of the exploration blocks i.e. Block 14T in Magadi. In the downstream activities, the Corporation is involved in the purchase and sale of white products, liquefied petroleum gas, lubricants and other by-products of the refining process. The address of its registered office is as follows:

Kawi Complex, Popo Lane
Off Red Cross Road, South C
P O Box 58567 – 00200
Nairobi

2. Statement of Compliance and Basis of Preparation

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

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

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

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

(i) *New and amended standards and interpretations in issue and effective in the year ended 30 June 2024.*

Title	Description	Effective Date
Amendments to IAS 1 titled Classification of Liabilities as Current or Non-current (issued in January 2020, amended in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period <i>The Corporation has already classify the Liabilities as Current and non-current liabilities respectively as per IAS 1 amendments.</i>	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendment to IFRS 16 titled Lease Liability in a Sale and Leaseback (issued in September 2022)	The amendment, applicable to annual periods beginning on or after 1st January 2024, requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss. <i>The Corporation has not made any amendments in respect to accounting policies, lease liability in a sale and leaseback since there were no such arrangement during the year under review.</i>	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.
Amendments to IAS 12 titled Deferred Tax Related to Assets and Liabilities arising from a	The amendments, applicable to annual periods beginning on or after 1st January 2023, narrowed the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 (recognition exemption) so that it no longer applies to transactions that, on initial	The amendments are effective for annual periods beginning on or after January 1, 2023.

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Title	Description	Effective Date
Single Transaction (issued in May 2021)	recognition, give rise to equal taxable and deductible temporary differences.	

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2023.*

Title	Description	Effective Date
IFRS 18 Presentation and Disclosure in Financial statements	The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income and expenses.	The new standard is effective for annual periods beginning on or after January 1, 2027. Earlier application is permitted.
Amendments to IAS 1 titled Non-current Liabilities with Covenants (issued in October 2022)	The amendments, applicable to annual periods beginning on or after 1st January 2024, improve the information an entity provides about liabilities arising from loan arrangements for which an entity's right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.	The amendments are effective for annual periods beginning on or after January 1, 2024. Earlier application is permitted.

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

(iii) **Early adoption of standards**

The Entity did not early – adopt any new or amended standards in the financial year or *the entity adopted the following standards early (state the standards, reason for early adoption and impact on entity's financial statements.)*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Summary of Accounting Policies

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

a) Revenue recognition

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

- i) **Revenue from the sale of goods and services** is recognized in the period in which the National oil corporation of Kenya delivers products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured.
- ii) **Grants from National Government** are recognized in the period in which the National oil corporation of Kenya 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 period 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 interest implicit in lease agreements.
- vi) **Other income** is recognised as it accrues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
Summary of Accounting Policies

b) In-kind contributions

In-kind contributions are donations that are made to the Corporation 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 Corporation includes such value in the statement of comprehensive income both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

c) Property, plant and equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

d) Depreciation and impairment of property, plant and equipment

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

Depreciation on property, plant and equipment is 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:

Freehold Land	Nil
Buildings and civil works	25 years or the unexpired lease period
Plant and machinery	12.5 years
Motor vehicles, including motor cycles	4 years
Computers and related equipment	3 years
Office equipment, furniture and fittings	12.5 years

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

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

e) Intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) Amortization and impairment of intangible assets

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

g) Investment property

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

h) Right of Use Asset

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

i) Fixed interest investments (bonds)

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

k) Unquoted investments

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

l) Inventories

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

m) Trade and other receivables

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

n) Taxation

i) Current income tax

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

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

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

o) Deferred tax

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

Deferred Tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

p) Borrowing costs

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

q) Cash and cash equivalents

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

r) Borrowings

Interest bearing loans and overdrafts are initially recorded at fair value being received, net of issue costs associated with the borrowing. Subsequently, these are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost and any discount or premium on settlement. Finance charges, including premiums payable of settlement or redemption are accounted for on accrual basis and are added to the

carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Loan interest accruing during the construction of a project is capitalized as part of the cost of the project.

s) Trade and other payables

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

t) Retirement benefit obligations

The entity operates a defined contribution scheme for all full-time employees from July 1, 2012. The scheme is administered by an in-house team and is funded by contributions from both the company and its employees. The company also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act.

u) Provision for staff leave pay

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

v) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the entity operates, Kenya Shillings. Transactions in foreign currencies during the 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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Summary of Accounting Policies

w) Budget information

The original budget for FY 2023-2024 was approved by the National Treasury and Economic Planning in June 2023. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of NIL on the 2023-2024 budget following the governing body's approval.

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

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented on page 6 of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

x) 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.

y) Comparative figures

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

z) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2024.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the 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 judgments, estimates and assumptions made:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Estimates and assumptions

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

b) Useful lives and residual values

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

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

c) Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 22(c).

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.

(include provisions applicable for your organization e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Revenue

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Sales of goods	1,276,526	3,141,120
Total	1,276,526	3,141,120

7. Cost of Sales

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Cost of sales on goods	1,112,509	3,035,390
Total	1,112,509	3,035,390

8. Interest Income

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Interest from commercial banks	10,052	3,162
Total	10,052	3,162

9. Other Income

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Fines and penalties	-	12,732
Rental income	39,450	60,955
Throughput	3,356	6,786
Reversal of bad debt provision	-	31,201
Capital gain	-	489
Decrease in stock provisions	33,731	-
Sundry income	73,052	8,200
Total	149,588	120,364

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10(a) Administrative Costs

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Staff costs - Note 10b	360,634	395,297
Rents and Services	6,179	37,393
Provision for Bad & Doubtful Debts	74,203	-
Repairs and Maintenance	24,861	1,044
Insurance	25,263	21,714
Security charges	9,908	9,567
Utility Costs:- Electricity & Water	8,996	6,401
Sanitary and Cleaning Services	8,567	6,870
Traveling & Accommodation	36,675	14,913
Telephone and Fax	11,202	7,145
Printing and Stationary	472	1,043
Books and Newspaper	122	320
Postage and Courier	266	295
Office Expenses	4,525	752
Subscriptions	1,188	2,999
Audit Fees	7,033	6,752
Legal Fees and Provision for Legal Liabilities	100,464	113,134
Advertising and Publicity	3,881	5,526
Groceries and Drinks	2,511	4,574
Director costs	13,147	11,797
Professional fees	28,914	21,332
Staff uniforms	170	162
Hire and Rentals	13,038	17,033
Depreciation & Amortization	247,788	263,809
Amortization-Intangible Assets	2,255	3,051
Total	989,567	952,922

10(b) Staff Costs

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	2023/2024	2022/2023
Description	Kshs000	Kshs000
Salaries and allowances of permanent employees	318,002	355,668
Employer's contributions to NSSF scheme	2,546	1,025
Employer's contributions to pension scheme- Define contribution plan	20,109	20,584
Leave pay	6,632	4,603
Housing Levy Costs	4,566	-
Gratuity provisions	8,778	13,417
Total	360,634	395,297

The average number of employees at the end of the period was:	2023/2024	2022/2023
Permanent employees – Management	133	150
Permanent employees – Unionisable	15	20
Temporary and contracted employees(included in the management and union sable	26	25
Total	148	170

11. Exploration Expenditure

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Staff Expenses	120,187	118,455
Facilities Expenses	21,031	16,415
Administrative Expenses	56,459	64,886
Depreciation and Amortization	14,714	15,639
Total	212,391	215,395

12. Finance Costs

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Interest expense on loans	1,381,739	1,342,310
Interest expense on overdraft	170,150	128,071
Bank charges & LC commission charges	14,547	18,947
Net foreign exchange loss	1,407	121,508
Total	1,567,842	1,610,835

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Operating Profit/Loss

	2023/2024	2022/2023
Description	Kshs000	Kshs000
The operating profit/(loss) is arrived at after charging/(crediting):		
Staff costs (note 10b)	360,634	395,297
Depreciation of PPE & Amortization of other Intangible Assets	247,553	263,574
Depreciation of Investment Property	235	235
Amortization of Intangible Assets	2,255	3,051
Provision for bad and doubtful debts	74,203	(31,201)
Inventory Provisions	(33,731)	-
Directors' emoluments -fees	-	-
- other	13,147	11,797
Auditors' remuneration - current year fees	7,033	6,752
Totals	671,329	673,719

14. Income Tax Expense/ (Credit)

(a)Current taxation

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Current taxation based on the adjusted profit for the year at 30%	5,130	5,109
Tax effect of expenses not deductible for tax rate	-	-
Effect of change in tax rate	-	-
Prior year under/over provision for deferred tax	-	-
Deferred tax on losses, utilized	(674,854)	(682,610)
Total	(669,724)	(677,502)

(b)Tax Recoverable

	2023/2024	2022-23
Description	Kshs000	Kshs000
At beginning of the year	32,661	29,768
Income tax charge for the year	(5,130)	(5,109)
Under/(over) provision in prior year/s	-	-
Income tax paid during the year	3,970	8,001
At end of the year	31,501	32,661

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Earnings /Loss per share

	2023/2024	2022-2023
Description	Kshs000	Kshs000
Loss attributable to ordinary shareholders	(1,566,725)	(1,657,001)
Weighted average number of ordinary shares used in the calculation of basic loss per share ('000)	51,600	51,600
Basic loss per share (Shs)	(30)	(32)

The earnings per share is calculated by dividing the profit /(loss) after tax of Kshs. **(1,566,725,000)** (2023/2024: by the average number of ordinary shares 51,600,000

There is no dilutive or potentially dilutive ordinary share as at the reporting date.

16. Dividend Per share

No dividends were declared in the year under review.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Property, Plant and Equipment

	Free hold Land	lease hold	Building & Civil Works	Plant & Machinery	Motor Vehicles	Computers	Equipment & Furniture	Capital Work in progress	Total
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost or Valuation									
At 1 July 2022	518,200	2,986,996	1,598,470	1,830,114	14,370	242,560	265,324	5,604	7,461,638
Additions	-	-	-	-	17,991	769	12,020	495	31,275
Disposals	-	-	-	-	(450)	-	-	-	(450)
At June 2023	518,200	2,986,996	1,598,470	1,830,114	31,911	243,329	277,344	6,099	7,492,464
Depreciation and impairment									
At 1 July 2022	-	152,880	122,067	1,159,206	11,928	232,171	192,064	-	1,870,316
Depreciation	-	58,029	73,196	53,449	5,348	7,841	18,745	-	216,608
On Disposals	-	-	-	-	(84)	-	-	-	(84)
At June 2023	-	210,909	195,263	1,212,656	17,192	240,012	210,810	-	2,086,841
At 30 June 2023	518,200	2,776,088	1,403,207	617,459	14,719	3,317	66,534	6,099	5,405,623

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Property , Plant and Equipment Includes the following Assets that are fully depreciated		
Description	Cost (Kshs.000)	Normal Annual Depreciation Charge (Kshs.000)
Plant & Machinery	800,500	100,063
Furniture & Fixtures	67,121	8,390
Equipments	66,832	8,354
Computers	230,047	76,682
Total	1,164,500	193,489

	Free hold Land	lease hold	Building & Civil Works	Plant & Machinery	Motor Vehicles	Computers	Equipment & Furniture	Capital Work in progress	Total
Description	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'	Kshs'000'
Cost or Valuation									
At 1 July 2023	518,200	2,986,997	1,598,470	1,830,114	31,911	243,329	277,344	6,098	7,492,464
Additions	-	-	-	-	-	2,951	78,912	406,978	488,841
Disposals	-	-	-	-	-	-	-	-	-
At June 2024	518,200	2,986,997	1,598,470	1,830,114	31,911	246,280	356,256	413,076	7,981,305
Depreciation and impairment									
At 1 July 2023	-	210,909	195,263	1,212,656	17,192	240,012	210,810	-	2,086,841
Depreciation	-	58,029	73,077	41,970	4,498	2,710	19,958	-	200,243
On Disposals	-	-	-	-	-	-	-	-	-
At June 2024	-	268,938	268,340	1,254,626	21,690	242,722	230,768	-	2,287,084
At 30 June 2024	518,200	2,718,059	1,330,130	575,488	10,222	3,558	125,489	413,076	5,694,221

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

Description	Cost (Kshs.000)	Normal Annual Depreciation charge(Kshs.000)
Plant And Machinery	864,940	108,118
Motor Vehicles, Including Motor Cycles	13,920	3,480
Computers And Related Equipment	240,645	80,215
Office Equipment, Furniture And Fittings	144,135	18,017
Total	1,263,640	209,830

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. Intangible Assets

	2023/2024	2022/2023
Description	Kshs000	Kshs000
COST		
As at the beginning of the year	707,348	696,549
Additions	6,485	10,799
Disposals	-	-
As at the end of the year	713,833	707,348
AMORTISATION		
As at the beginning of the year	699,922	690,820
Charge for the year	6,248	9,102
Disposals	-	-
As at the end of the year	706,169	699,922
NET BOOK VALUE		
As at the end of the year	7,663	7,426

Intangible Assets includes the following assets that are fully depreciated:

Description	Cost (Kshs.000)	Normal Annual Depreciation charge(Kshs.000)
Intangible Assets	696,549	232,183
	-	-
Total	696,549	232,183

19. Investment Property

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Opening Costs	13,531	13,531
Additions	-	-
Closing Costs	13,531	13,531
Depreciation		
As at the beginning of the year	3,896	3,661
Charge for the year	235	235
Disposals	-	-
As at the end of the year	4,131	3,896
Net Book Value at year end	9,400	9,635

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Investment property relate to a building held for rental purposes. The Corporation applies cost model as provided by IAS 40

20. Right of Use of Leased Assets

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Cost		
As at the beginning of the year	366,256	366,256
Additions	7,260	-
As at the end of the year	373,516	366,256
Accumulated Depreciation		
As at the beginning of the year	118,866	88,615
Charge for the year	31,703	30,251
As at the end of the year	150,569	118,866
Carrying Amount	-	-
As at the end of the year	222,948	247,391

21. (a) Inventories

	2023/2024	2022/2023
Description	Kshs000	Kshs000
White Products, Lubricants and LPG Gas	2,560,554	2,586,057
Inventory in Transit and WIP	-	-
Provision of stocks(Note 21b)	(2,315,075)	(2,348,806)
Total	245,479	237,251

(b).Reconciliation of impairment allowance for Inventories

	2023/2024	2021/2022
Description	Kshs000	Kshs000
At the beginning of the year	(2,348,806)	(2,339,236)
Additional provisions during the year	-	(9,571)
Decrease in provisions during the year	33,731	-
Written off during the year	-	-
At the end of the year	(2,315,075)	(2,348,806)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. (a) Trade and Other Receivables

	2023/2024	2022/2023
Description	Kshs000	Kshs000
Trade receivables	668,075	849,150
Deposits and prepayments	283,282	406,387
Gross trade and other receivables	951,357	1,255,537
Provision for bad and doubtful receivable	(552,745)	(478,542)
Net trade and other receivables	398,612	776,995

(b) Trade Receivables

	2023/2024	2022/2023
Description	Kshs000	Kshs 000
Gross trade receivables	668,075	849,150
Provision for doubtful receivables	(552,745)	(478,542)
Net trade receivables	115,330	370,608
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	6,941	75,766
Between 30 and 60 days	2,300	2,132
Between 61 and 90 days	2,784	4,652
Between 91 and 120 days	4,639	119,068
Over 120 days	651,411	647,531
Total	668,075	849,150

(c) Reconciliation of Impairment Allowance for Trade Receivables

	2023/2024	2022/2023
Description	Kshs000	Kshs 000
At the beginning of the year	(478,542)	(509,744)
Additional/reduction of provisions during the year	(74,203)	31,201
At the end of the year	(552,745)	(478,542)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. Deferred Income

Description	Training funds grants Shs(000)	Exploration grants Shs(000)	Government recurrent grants (000)	Total Deferred Income Shs000
At 1 July 2022	10,225	1,641,984	3,104	1,655,312
Receipts during the year	-	350,000	76,500	426,500
Interest Income	-	13,136	-	13,136
Unrealized gain on fixed cash deposit	-	104,516	-	104,516
Income from Data Sales	-	24,743	-	24,743
Charge out to profit & Loss account	-	-	(7,800)	(7,800)
Write on of Jogmec Contribution to Block 14T	-	1,133,769	-	1,133,769
Exploration Expenditure during the year	-	(215,394)	-	(215,394)
At 30 June 2023	10,225	3,052,754	71,804	3,134,782
At 1 July 2023	10,225	3,052,753	71,804	3,134,782
Receipts during the year	30,000	400,000	-	430,000
Interest Income	-	9,726	-	9,726
Unrealized Loss on fixed cash deposit	-	(93,272)	-	(93,272)
Charge out to profit and loss	-	-	(71,804)	(71,804)
Training /Exploration Expenditure during the year	(19,046)	(193,345)	-	(212,391)
At 30 June 2024	21,179	3,175,862	-	3,197,040

The Corporation applies IAS 20 in accounting for government grants. The Capital grants are presented as deferred income with a corresponding Asset, however recurrent grants are charged to income statement.

Training fund grants relates to amounts received from oil exploration companies as part of the contractual commitments between the oil exploration companies and government. Withdrawals from these funds are utilized for training staff involved in exploration activities.

Oil exploration grants funds are received from the government for exploration activities (upstream business).

Government downstream grants relates to funds received from the Government for recurrent expenditure.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. Short Term Deposits

	2023-2024	2022-2023
Description	Kshs000	Kshs 000
Other commercial banks		
KCB Bank Kenya Limited	177,165	779,084
Stanbic Bank Kenya Limited	13,413	12,698
NCBA Bank Kenya Limited	556	556
Equity Bank Limited	745	3,395
Total	191,878	795,733

The weighted average interest rate received on call deposits during the year was 8.5% (2023:5%)

25. Bank and Cash Balances

	2023-2024	2022-2023
Description	Kshs000	Kshs 000
Staff Mortgage and Car Loan Scheme Deposit	267,694	264,632
Cash at Bank	76,511	244,220
Cash in Hand	790	730
Total	344,995	509,583

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

(a) Detailed analysis of the cash and cash equivalents

a) Current Account		2023-2024	2022-2023
Financial institution	Account Numbers	Kshs 000	Kshs 000
KCB Bank Kenya Limited - Kshs.	1107169380	227	4,064
KCB Bank Kenya Limited - USD	1109158068	476	144
Equity Bank of Kenya-Kshs	560292466991	189	6,210
Cooperative Bank of Kenya-Kshs	1120002167901	1,327	4,716
Cooperative Bank of Kenya-Kshs	1120002167902	21,852	145,929
Stanbic Bank of Kenya Limited -Kshs	100001516439	19,934	96
Stanbic Bank of Kenya Limited -USD	100001516447	180	206
Stanbic Bank of Kenya Limited - KES Escrow	1000004398186	-	19,842
Stanbic Bank of Kenya Limited -USD - Escrow	1000004398194	107	116
NCBA Bank Kenya PLC-Kshs	8110800013	889	1,511
NCBA Bank Kenya PLC-Kshs (Mwananchi Gas)	8110800029	-	41,000
National Bank of Kenya-Kshs	1020056960000	-	197
Standard Chartered Bank -Kshs	106004961200	31,332	874
Standard Chartered Bank of Kenya Limited -USD	8706004961200	-	19,316
Grand total		76,511	244,220
b) Staff Car Loan/ Mortgage Scheme			
KCB Staff Mortgage	MM1714569496	131,289	108,848
KCB Staff Mortgage	MM1833959258	12,874	33,955
KCB Staff Mortgage	1119821548	339	339
HF Staff Mortgage	2,000085373	73,608	54,709
HF Staff Mortgage	3000011572	3,283	21,400
CFC staff Car Loan	MM1529518225	46,302	45,381
Sub- Total		267,694	264,632
c) Others (Specify)			
Cash in Hand		790	728
Mpesa		-	2
Sub- Total		790	730
Grand total		344,995	509,583

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Mortgage Scheme Facility-Housing Finance

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Opening Balance	76,109	75,073
Addition	-	-
Interest earned during the year	782	1,036
Closing Balance	76,891	76,109

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Utilised Funds	73,607	54,709
Available for lending	3,284	21,400
Closing Balance	76,891	76,109

c) Mortgage Scheme Facility -KCB Kenya Limited

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Opening Balance	143,143	141,781
Addition	-	-
Interest earned during the year	1,359	1,362
Closing Balance	144,502	143,143

Funds Summary-KCB Kenya Limited

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Utilized Funds	131,289	108,848
Available for lending	13,213	34,295
Closing Balance	144,502	143,143

d)Funds Summary-CFC Car Loan Facility

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Opening Balance	45,381	43,088
Interest earned during the year	921	2,293
Closing Balance	46,302	45,381

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Funds Summary-CFC Car Loan Facility

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Utilized Fund	1,230	3,927
Available for lending	921	41,454
Closing Balance	44,151	45,381

26(a) Ordinary Share Capital

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Authorized:		
51,600,000 ordinary shares of KShs 20 par value each	1,032,000	1,032,000
Issued and fully paid:		
51,600,000 ordinary shares of KShs 20 par value each	1,032,000	1,032,000

(b) Share premium

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
9,100,000 ordinary shares of KShs 150 per value each	1,183,000	1,183,000
Issued and fully paid:		
	1,183,000	1,183,000

On 29 October 2008, the general meeting of shareholders approved the issuance of 9,100,000 ordinary shares at a price of Shs 150 per share resulting in a share premium of Shs 130 per share totalling to a share premium of Shs.1, 183,000,000

SHAREHOLDING STRUCTURE

	2024 No. of shares '000'	2023 No. of shares '000'
The National Treasury and Economic Planning (99%)	51,084	51,084
Ministry of Energy and Petroleum (1%)	516	516
	<u>51,600</u>	<u>51,600</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27. Revaluation Reserve

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
At the beginning of the year	1,998,088	1,998,088
New capital issued	-	-
Revaluation gain/Loss	-	-
Profit(Loss) for the year	-	-
	1,998,088	1,998,088

28. Borrowings

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
a) External Borrowings		
Balance at beginning of the year	-	-
External borrowings during the year	-	-
Repayments of during the year	-	-
Balance at end of the year	-	-
b) Domestic Borrowings		
Balance at beginning of the year	6,376,024	6,200,874
Interest Capitalized during the year	170,150	175,150
Repayments during the year	-	-
Balance at end of the year	6,546,174	6,376,024
Balance at end of the period- Domestic and External borrowings c = a+b	6,546,174	6,376,024

Borrowing interest rate

	2023/2024	2023/2024	2022/2023	2022/2023
Description	Avr int rates %	Kshs'000'	Avr int rates %	Kshs'000'
CFC short Term Loan	22.5	1,848,644	18	1,678,494
KCB Term out 2	23	4,697,530	23	4,697,530
At end of the year		6,546,174		6,376,024

The current loan interest rates are 22.5% and 23% for Stanbic Bank Limited and KCB Bank Limited respectively due to additional default interest rate on non-performing loans.

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Borrowings from KCB Bank Kenya Limited are secured over the following Corporation's land.

Location	Description	Net book Value
Nakuru	L.R. NO: NAKURU MUN/BLOCK 16/263	64,791,762
Nakuru	RAVINE SERVICE STATION- LR NO: NAKURU MUN BLOCK 21/581	39,196,989
Mombasa	L.R NO: KWALE/UKUNDA/3061	9,820,628
Nairobi	NAIROBI NATIONAL TERMINAL-L.R NO: 209/12298	839,239,631
Nakuru	New Gilgil PSS-L.R NO: 1317/19/1/11	17,000,000
Eldoret	Highway PSS-L.R NO: ELD MUN/BLOCK 2/73/1	47,653,959
Eldoret	West Indies PSS-L.R NO: ELD MUN/BLOCK 5/628	44,116,564
Eldoret	Kipkaren PSS-LR NO: ELD MUN/BLOCK 13/417 & 689	49,442,748
Eldoret	L.R NO: ELD MUN BLOCK 21/Kingongo875	56,944,255
Mombasa	Magongon PSS Land-LR NO: MAINLAND NORTH/SECTION VI/2495/2& 29/1	53,500,000
Kisumu	Magharibi PSS –LR NO:KIS MUN/BLOCK 4/73	58,004,158
Kisumu	Kisumu Market PSS-LR NO:KIS MUNBLOCK 9/6	76,743,003
Kisumu	Kisumu Family –LR NO: KIS MUN BLOCK 8/7	57,377,049
Kisumu	Kisumu Lake PSS-LR NO: KISUMU MUN BLOCK 7/7	47,826,087
Thika	Bidco Thika station- LR NO: THIKA MUN/BLOCK 12/176	19,638,418
Mombasa	Gulshan Kenyattah Avenue PSS-LR NO:MOMBASA/BLOCK/XVI/136	34,951,557
Mombasa	Ganjoni PSS Land-LR NO:MOMBASA BLOCK/XX11/127	35,000,000
Mombasa	Mwembe Tayari PSS Land- LR NO:MOMBASA/BLOCK/XVIII/424	70,000,000
Mombasa	Mackinon PSS Land-LR NO:MOMBASA/BLOCK XVII/390,391&629	43,800,000
Nairobi	Ngong Road PSS Land L.R NO: 209/7753	218,949,580
Nairobi	Tassia Nairobi Vacant Plot-LR NO:NRB/BLOCK/97/59.60,61,&62	128,969,871
TOTAL		2,012,966,259

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

29. Deferred Tax Asset

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

Description	2023/2024 Kshs'000'	2022/2023 Kshs'000'
Assets:		
Temporary provisions	893,225	859,011
Tax losses	2,457,730	1,843,798
Deferred tax adjustment on IFRS 16	67,630	50,220
Unrealized exchange loss	27,858	23,536
Deferred tax asset(liability)	<u>3,446,444</u>	<u>2,776,565</u>
Liabilities	-	-
Unrealized exchange gain	-	-
Revaluation surplus	161,081	161,081
Accelerated capital allowances	(405,116)	(410,091)
Deferred tax liability	-	(249,011)
Net deferred tax asset	<u>3,202,409</u>	<u>2,527,554</u>
Reconciliation of deferred asset		
At beginning of the year	2,527,555	1,844,944
Deferred tax credit	674,854	682,610
Prior year under/(over) provision of deferred tax note	-	-
	3,202,409	2,527,554
Deferred tax on tax losses (derecognized)/ not recognized now utilized		
At end of year	3,202,409	2,527,554

30. Lease Liability

Description	2023/2024 Kshs'000'	2022/2023 Kshs'000'
At the start of the year	167,999	175,510
Addition during the year	-	-
Interest on lease liability	26,329	26,077
Paid during the year	(12,860)	(33,587)
At end of the year	181,468	167,999

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. Trade and Other Payables

	2023/2024	2022/2023
Description	Kshs 000	Kshs
Trade payables	794,246	898,494
Accrued expenses	4,268,609	2,890,644
Payables Provisions	92,950	18,156
Other payables	1,117,008	1,263,078
Total	6,272,813	5,070,372

Analysis of Trade payables

Total	0-30 Days	31-60 Days	61-90 Days	91-120 Days	121-180 Days	181 and above
794,245,985	75,144,489	4,390,664	6,568,530	3,402,101	23,736,471	685,394,394

32. Gratuity Provisions & Other provisions

	2023/2024	2022/2023
Description	Kshs'000'	Kshs'000'
Balance at the beginning of the year	17,865	17,844
Additional Provisions	10,215	10,406
Payments during the year	(14,983)	(10,384)
Balance at the end of the year	13,098	17,865
The amounts are due as Bellow		
Within one year	431	10,384
After one year	12,666	7,481
At the end of the year	13,098	17,865

The gratuity represents the value of future obligations in respect to employees work are employed on contract basis by the corporation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. Notes to the Statement of Cash Flows

	2023/24	2022/23
Description	Kshs 000	Kshs000
(a) Reconciliation of operating profit/(loss) to cash generated from/(used in) operations		
Profit or Loss before tax	(2,236,449)	(2,334,502)
Depreciation-PPE	189,521	207,247
Amortization-Intangible	2,255	3,051
Amortization-IP	235	235
Amortization-ROUA	31,703	30,251
Interest on Leased Assets	26,329	26,077
Capital Gain	-	(489)
Release of deferred income	(197,677)	(199,755)
Finance income recognized in the profit & Loss	(10,052)	(3,162)
Finance cost recognized in profit & Loss	1,567,842	1,610,835
(Increase)/decrease in inventories	(8,229)	87,688
(Increase)/decrease in trade and other receivables	378,383	45,525
Increase/(decrease) in trade and other payables	1,202,440	1,599,866
Increase/(decrease) in gratuity provision	(4,767)	21
Cash generated from/(used in) operations	941,535	1,072,887
(b) Analysis of cash and cash equivalents		
Short term deposits	191,878	795,733
Cash at Bank	344,205	508,852
Cash in hand	790	730
Balance at end of the year	536,874	1,305,315

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34. Related Party Disclosures

The Government of Kenya is the sole shareholder of the Corporation.

The Corporation's sales include sales made to Government agencies, departments and companies.

The amounts due from/(to) related parties have been included in the trade and other receivables and the trade and other payables respectively in the statement of financial position.

Other related parties include:

- i) The Parent Ministry
- ii) Key management
- iii) Board of directors
- iv) County Government

Description	2023/2024	2022/2023
	Kshs 000	Kshs000
a) Sales to related parties		
Sales-fuel card lifting's and bulk sales to government agencies	610,925	1,198,659
Rent income from govt. agencies	-	-
Water sales to govt. agencies	-	-
Interest income from government commercial banks	-	-
Interest income from bills and bonds	-	-
Others (<i>specify</i>)	-	-
Total	610,925	1,198,659
b) Purchases from related parties		
Purchases of electricity from KPLC	7,253	6,055
Purchase of water from Government service providers	1,744	1,432
Rates and licenses to County government	6,995	12,101
Training and conference fees paid to govt. Agencies	3,307	-
Bank charges paid to government commercial banks	-	-
Interest expense to investments by other govt. Entities	-	-
Others (<i>specify</i>)	-	-
Total	19,299	19,588
c) Grants from the government		
Grants from National government	430,000	426,500
Grants from County government	-	-

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Donations in kind	-	-
Total	430,000	426,500
d) Expenses incurred on behalf of related party		
Payments of salaries and wages for xxx employees	-	-
Payments for goods and services for xxx	-	-
Total	-	-
e) Key management compensation		
Directors' emoluments	12,735	11,797
Compensation to key management	59,470	49,547
Total	72,205	61,344

35. Contingent Liabilities

	2023/2024	2022/2023
Description	Kshs 000	Kshs 000
Opening Balance	15,000	34,598
Addition	77,950	5,000
Decrease in Contingent liabilities	-	(24,598)
At the end of the year	92,950	15,000

The Corporation is a defendant in several legal suits in which the claimants are claiming total sh. 575 million. Based on the legal advice and information currently available, the Directors do not expect any significant amounts to crystalize from assessments and therefore a provision of Kshs 77.95million has been made on these financial statements. The Directors have not disclosed the nature of the disputes as they do not want to prejudice the position of the Corporation over these matters that are currently in court.

36. Block 14T Exploration Expenditure

(a) Capitalised exploration expenses

In November 2010, the Corporation entered into an agreement with the Government of Kenya (GoK) giving the Corporation the rights of tenure to an exploration block in Magadi i.e. Block 14T. Under this agreement, the Corporation:

- (a) Is responsible to the GoK for execution of petroleum operations;
- (b) Will provide all capital, machinery, equipment, technology and personnel necessary for petroleum operations; and
- (c) Will bear all the risks of the petroleum costs required in carrying out petroleum operations and therefore have an economic interest in the development of petroleum

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deposits in the contract area. Such costs shall be included in petroleum costs recoverable.

The exploration activity began during the year ended 30 June 2012. The exploration and evaluation expenses incurred to date with regards to this block are as follows:

Description	2023/2024 Kshs 000	2022/2023 Kshs 000
COST		
As at the beginning of the year	2,209,278	2,149,447
Additions	81,834	59,831
Adjustment of over accrued expenses	-	-
Disposals	-	-
As at the end of the year	2,291,112	2,209,278

The value of Corporation's interest in exploration expenditure is dependent upon the:

- Continuance of the economic entity rights to tenure of the areas of interest;
- Results of future exploration; and
- Recoupment costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

37. Ministry Of Energy and Petroleum Headquarter Construction Fund

The Corporation receives funds from the Ministry of Energy and Petroleum (Ministry) for the construction of both headquarters offices and a laboratory for the Ministry. The Corporation holds these funds on behalf of the Ministry. The movement in the funds is as follows:

Description	2023-2024 Kshs 000	2022-2023 Kshs 000
At the beginning of the year	704	704
Additional during the year	-	-
Utilized during the year	-	-
At the end of the year	704	704

NOTES TO THE FINANCIAL STATEMENTS (Continued)

38. Single Buoy Mooring Jetty Fund

The Government has undertaken to put up a floating jetty at the port of Mombasa, with the Corporation being the facilitator of the project. National Oil arranges the operational works with the contractor, and pays the contractors using the funds which the Government has advanced to it and which it maintains in a fiduciary capacity.

	2023/2024	2022/2023
Description	Kshs 000	Kshs 000
At the beginning of the year	11,443	11,443
Additional during the year	-	-
Recovered during the year	-	-
At the end of the year	11,443	11,443

39. Corporate Social Responsibility Project Fund

As guided by the Production Sharing Contracts (PSC), Exploration Companies are required to spend a percentage of their funds in CSR projects within the communities where they are carrying out exploration.

ENI is one of the exploration companies in the coast region who's its CSR activities in their block is administered by the Corporation into the current year.

	2023/2024	2022/2023
Description	Kshs 000	Kshs 000
At the beginning of the year	34,885	22,939
Additional during the year	4,263	15,262
Recovered during the year	-	(3,316)
At the end of the year	39,148	34,885

40. Exploration and Production Capacity Building Fund

The Corporation received funds from the Ministry of Energy and Petroleum which are meant to equip the Exploration department staff with the requisite knowledge. In 2013, the Corporation enhanced the capacity of the Exploration department by among other things recruiting 32 management trainees. The Corporation uses this fund for training and salaries to these staff.

	2023/2024	2022/2023
Description	Kshs 000	Kshs 000
At the beginning of the year	72,955	72,955
Additional during the year	-	-
Recovered during the year	-	-
At the end of the year	72,955	72,955

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41. Laboratory Equipment Fund

The funds from the Ministry of Energy and Petroleum which are meant for Laboratory Equipment amounting to Shs 425,480,000

	2023/2024	2022/2023
Description	Kshs 000	Kshs 000
At the beginning of the year	425,480	425,480
Additional during the year	-	-
Recovered during the year	-	-
At the end of the year	425,480	425,480

42. Retained Earning

	2023/2024	2022/2023
Description	Kshs 000	Kshs 000
At the beginning of the year	(6,766,468)	(5,109,467)
New capital issued	-	-
Revaluation gain/Loss	-	-
Profit(Loss) for the year	(1,566,725)	(1,657,001)
At the end of the year	(8,333,193)	(6,766,468)

43. Financial Risk Management

The Corporation's activities expose it to a variety of financial risks, including credit risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Management identifies, evaluates and mitigates the financial risks under general principles for overall risk management.

(a) Fair Values

(i) Comparison by class of the carrying amounts and fair values of the financial instruments is as set out below.

	Carrying amount		Fair value	
	2024	2023	2024	2023
	Shs'000	Shs'000	Shs'000	Shs'000
<i>Financial assets</i>				
Trade receivables	398,612	776,995	398,612	776,995
Call deposits	191,878	795,733	191,878	795,733
Bank and cash balances	344,995	509,583	344,995	509,583
	=====	=====	=====	=====

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Financial liabilities

Borrowings	6,546,174	6,376,024	6,546,174	6,376,024
Trade payables	6,272,813	5,070,372	6,272,813	5,070,372
	=====	=====	=====	=====

The carrying and fair values for trade receivables and trade payables for the year 2023 have been restated from Kshs 760,364,000 and Kshs 5,058,478,000 to Kshs 776,995,000 and Kshs 5,070,372,000, respectively.

Trade and other receivables are evaluated regularly to assess the likelihood of impairment.

Based on this evaluation, allowances are taken to account for the expected losses on these receivables.

As at 30 June 2024, the carrying amounts of such receivables, net of allowances, approximates their fair value.

The fair values of term deposits, bank and cash balances and trade and other payables approximates their carrying amounts largely due to the short term maturities of these instruments.

(ii) Fair value hierarchy

The Corporate uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Disclosures of non-financial assets recorded at fair value by level of the fair value hierarchy have been made under note 17.

b) Capital Risk Management

The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Corporation consists of borrowings (net of cash and cash equivalents) and equity attributable to equity holders comprising issued share capital, share premium, shareholders' funds awaiting allotment of shares and revenue reserve.

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The Corporation monitors capital adequacy on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt. Note 8 summarises the procedures the Directors' are putting in place to address the solvency challenges facing the Corporation. The composition of capital managed by the Corporation is as shown below

	2024 Shs'000	2023 Shs'000
Share capital	1,032,000	1,032,000
Share premium	1,183,000	1,183,000
Revaluation surplus	1,998,088	1,998,088
Accumulated deficit	(8,333,193)	(6,766,468)
	-----	-----
Equity	(4,120,105)	(2,553,380)
	-----	-----
Borrowings	6,546,174	6,376,024
Structured trade finance facility	-	-
Less: Cash and cash equivalents (excluding borrowings)	(536,874)	(1,305,315)
	-----	-----
Net debt	6,009,300	5,070,709
	-----	-----
Gearing ratio	Over 100%	Over 100%
	=====	=====

The carrying and fair values for accumulated deficit and equity for the year 2023 have been restated from Kshs (6,713,304,000) and Kshs (2,500,216,000) to Kshs (6,766,468,000) and Kshs (2,553,380,000), respectively

c) Operational Risk Management

Operational risk is the risk of the direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Corporation's operations.

The Corporation's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the Corporation's reputation with overall costs effectiveness and to avoid control procedures that restrict initiative and creativity.

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The ultimate accountability for operational risk management within the Corporation rests with the Board of Directors. Consequently, the level of risk that the Corporation accepts, together with the basis for managing those risks are assigned to senior management. The responsibility is supported by the development of overall standards for the management of operational risk.

d) Credit Risk

Credit risk refers to the risk that a counter party will default on their contractual obligations resulting in financial loss to the Corporation.

Credit risk arises from cash and cash equivalents, deposits with banks, as well as trade and other receivables. The Corporation's exposure to credit risk is minimal because the Corporation assesses potential customers' creditworthiness prior to granting credit. In addition the Corporation closely monitors customer's accounts to ensure no exposure exists above the approved credit limits established by credit control.

The Corporation's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognizing expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Doubtful	Amount is past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit impaired
In default	Amount is >180 days past due or there is evidence indicating the asset is credit-impaired.	Lifetime ECL – credit impaired
Write off	There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery.	Amount is written off

The tables below detail the credit quality of the Corporation's financial assets as well as the Corporation's maximum exposure to credit risk by credit risk rating grades;

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2024				Sh	Sh	Sh
Trade receivables	N/A	Doubtful	Lifetime ECL	951,357	(552,745)	398,612

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Bank balances	A, BBB, B+, B-	Performing	12 month ECL	344,995	-	344,995
Call deposits	AA	Performing	12 month ECL	191,878	-	191,878
				<u>1,488,230</u>	<u>(552,745)</u>	<u>935,485</u>

	External credit rating	Internal credit rating	12 month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2023				Sh	Sh	Sh
Trade receivables	N/A	Doubtful	Lifetime ECL	1,255,537	(478,542)	776,995
Bank balances	A, BBB, B+, B-	Performing	12 month ECL	509,583	-	509,583
Call deposits	AA	Performing	12 month ECL	795,733	-	795,733
				<u>2,560,853</u>	<u>(478,542)</u>	<u>2,082,311</u>

The carrying and fair values for gross carrying amount, loss allowance and net carrying amount for the year 2023 have been restated from Kshs 1,233,053,000, Kshs (468,427,000) and Kshs 764,626,000 to Kshs 1,255,537,000, Kshs (478,542,000) and Kshs 776,995,000 respectively

e) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Corporation's Board of Directors who have built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity requirements.

The table below analyses the Corporation's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the financial reporting date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

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	1 – 3 Months Shs'000	3-12 Months Shs'000	Over 12 months Shs'000	Total Shs'000
At 30 June 2024:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	704	-	704
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	39,148	-	39,148
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	-	6,272,813	-	6,272,813
Borrowings	-	6,546,174	-	6,546,174
Structured trade financing	-	-	-	-
	-	13,368,717	-	13,368,717
At 30 June 2023:				
Ministry of Energy and Petroleum				
Headquarters construction fund	-	704	-	704
SBM Jetty fund	-	11,443	-	11,443
CSR Funds	-	34,885	-	34,885
Capacity Building fund	-	72,955	-	72,955
Laboratory equipment fund	-	425,480	-	425,480
Trade payables	-	5,070,372	-	5,070,372
Borrowings	-	6,376,024	-	6,376,024
	-	11,991,863	-	11,991,863

The carrying and fair values for trade payables for the year 2023 have been restated from Kshs 5,058,478,000 to Kshs5,070,372,000

f) Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

(i) Currency risk

The Corporation is exposed to currency risk arising from various currency exposures, primarily with respect to the United States Dollar (US Dollar or USD). Currency risk arises from future commercial transactions, recognised assets and liabilities.

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To manage the foreign exchange risk, the Corporation maintains a bank account in US Dollars to facilitate transactions in foreign currency. The Corporation also negotiates with its bankers to get favourable exchange rates when converting foreign currencies to the Kenya shilling.

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market related factors. Market risk includes currency risk, other price risk and interest rate risk.

The Corporation purchases its products in US Dollars and mainly buys US Dollars via spot deals as opposed to forward deals. However, when there is reliable information in the market about the anticipated exchange rate movements in the US Dollar to the Kenya Shilling, the Corporation enters into short term forward deals to mitigate foreign exchange risks.

	2024 Sh'000'	2023 Sh'000'
Assets		
Bank and cash balances	344,995	509,583
Trade and other receivables	398,612	776,995
	<hr/>	
	743,607	1,286,578
	<hr/>	<hr/>
Liabilities		
Trade and other payables	6,272,813	5,070,372
Borrowings	6,546,174	6,376,024
	<hr/>	<hr/>
	12,818,987	11,446,396
	<hr/>	<hr/>

The carrying and fair values for trade and other payables for the year 2023 have been restated from Kshs 5,058,478,000 to Kshs5,070,372,000

10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis covers only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

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(ii) Other price risk

The Corporation does not hold investments that would be subject to market price risk. Therefore, the Corporation is not exposed to this financial risk.

(iii) Interest rate risk

The Corporation holds interest earning assets in form of call deposits. The risk of fluctuation in the interest rates is mitigated by the fact that the interest rates are pre-fixed for the term of the call deposits by the banks prior to the Corporation placing these deposits.

Interest rate risks arise from fluctuations in the bank borrowing rates. The interest rates vary from time to time depending on the prevailing economic circumstances. Since the base rates charged by the banks are determined by the market forces, the Corporation negotiates with its bankers to get favourable interest rates

(iv) Interest rate risk

Exposure to interest rate risk

The weighted average interest rate profile of the Corporation's interest bearing financial instruments as reported to management of the Corporation is as follows:

	Nominal amount			
	30 June 2024		30 June 2023	
	Effective interest rate	Sh'000	Effective interest rate	Sh'000
Call deposits	8.5%	191,878	5%	795,733
Term loans	23%	(6,546,174)	21.%	(6,376,024)
Bank overdrafts	23.%		13.%	
Total exposure		(6,354,296)		(5,580,291)
		=====		=====

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Sensitivity Analysis

A 1% increase/decrease in the interest rates at the reporting date would have increased/ decreased profit or loss and equity by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant and is applied on interest bearing instruments.

	Profit or loss/equity	
	30 June 2024	30 June 2023
	Sh'000	Sh'000
1% increase	(5,410)	(5,410)
1% decrease	5,410	5,410
	=====	=====

The entity manages foreign exchange foreign risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

a) Foreign currency sensitivity analysis

The above table demonstrate the effect of sensitivity of exchange rate on the company's statement of comprehensive income on applying the sensitivity for a reasonable possible change in exchange rate of the three main transaction currencies, with all other variables held constant

b) Interest rate risk

Interest rate is the risk that the entity financial condition may be adversely affected as results of changes interest rate levels. The company 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 deposit

c) Management of interest rate risk

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

44. Incorporation

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

45. Events after the Reporting Period

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

46. Currency

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

22. Appendices

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

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	<p>Uncertainty Relating to Going Concern</p> <p>The Corporation recorded a loss of Kshs.2,334,502,000 during the year under review (2022: Kshs.1,503,058,000) raising its accumulated losses to Kshs.6,766,468,000 from Kshs.5,109,467,000 in 2022. however, the Corporation's current liabilities totalling Kshs.11,456,781,000 exceeded the current assets balance of Kshs.2,352,222,000 by an amount of Kshs.9,104,559,000. These events or conditions indicate material uncertainty regarding the Corporation's ability to continue as a going concern. This material</p>	<p>The Corporation is in the process of engaging non-equity strategic partner following the Cabinet approval on revival and commercialization of the Corporation. The partner is expected to inject working capital to finance Business</p>	Not resolved	30.06.25

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>uncertainty in relation to going concern and any mitigating measures put in place by the directors to address the matter were not disclosed in the notes to the financial statements as required by the International Accounting Standards (IAS 1), presentation of financial statements.</p> <p>In the circumstances, the Corporation was technically insolvent and its continued existence is dependent upon the financial support of the Government and its creditors unless Management puts in place measures to improve the performance of the Corporation and to reduce reliance on financial support from the Shareholders.</p>	<p>operations and Management is certain that the Corporation will turn to profitability and meet its obligations and continue operating for foreseeable future.</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2.	<p>Non-Compliance with Accounting policy on Investment Property</p> <p>The statement of financial position and as disclosed in Note 19 to the financial statements reflects investment property of Kshs.9, 635,000. The property has been accounted for using the cost basis based on the International Accounting Standards (IAS) 16. However, International Accounting Standard (IAS) 40 and the Corporation accounting policy on investment property provides for a fair value model of accounting.</p> <p>In the circumstances, the accuracy and completeness of the investment property of Kshs.9, 635,000 could not be confirmed.</p>	<p>The Corporation applies cost model for subsequent measurement for Investment property as provided by International Accounting standard IAS 40. In addition the Corporation's Fixed Assets policy has been updated to expressly states that the Corporation adopts cost model for accounting for investment property</p>	Resolved	N/A

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
3.	<p>Unsupported Decline in Value of Freehold Land</p> <p>The statement of financial position reflects property, plant and equipment with a net book value of Kshs.5,405,623,000. As previously reported, the values are based on a revaluation of assets which resulted in decline in value of ten (10) parcels of freehold land by an amount of Kshs.145,640,000 or 43%, from a previous value of Kshs.336,140,000 to Kshs.190,500,000. The decline was not supported or justified since it did not result from change in sizes from alienation of the parcels or any other adverse conditions. Management attributed the decline to premiums paid on acquisition of the parcels. However, the</p>	<p>The Corporation's assets revaluation exercise was carried out by Ebony Estates Limited who are registered valuers as stipulated in the Corporation's Fixed Assets Policy for the purpose of obtaining the fair values for reporting purposes. They gave justification for their final values which was adopted by the management.</p>	Not Resolved	30 th June 2025

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>reason could not be justified by the prevailing market conditions and differences in land measurements cited in the valuation reports and those in the title deeds.</p> <p>In the circumstances, the accuracy and valuation of property, plant and equipment balance of Kshs.5,405,623,000 could not be confirmed.</p>	<p>No Land was disposed based on that valuation report.</p> <p>The Corporation intends to carry out another assets valuation to confirm the fair values when it's cash flows improves.</p>		
4.	<p>Inaccuracies in the Tax Recoverable Balance</p> <p>The statement of financial position and as disclosed in Note 14(b) to the financial statements reflects a tax recoverable amount of Kshs.32,661,000. However, based on the corporation's iTax account at the Kenya Revenue</p>	<p>The income tax law does not allow offsetting of current taxes with tax credit brought forward. The Corporation is engaging Kenya Revenue</p>	Not Resolved	31 st Dec 2024

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Authority (KRA), there were no credits to be carried forward as at 30th June, 2023. Management indicated that reconciliation is currently ongoing with KRA to determine the correct position.</p> <p>In the circumstances, the accuracy of the tax recoverable balance of Kshs. 32,661,000 could not be confirmed.</p>	<p>Authority to verify and confirm tax credits brought forward for a refund. The reconciliation are currently ongoing to confirm status.</p>		
5.	<p>Unsupported Hived-Off Petroleum Products</p> <p>The statement of financial position and as disclosed in Note 21(a) to the financial statements reflects inventories valued at Kshs.237, 251,000. Included in the inventory gross value of Kshs.2,586,057,000 is a balance of Kshs.1,494,624,828 being the value of products captured as hived off in the books of the Corporation. In October 2016, the Corporation</p>	<p>The hived off petroleum products have already been fully provided for in the financial statement. In addition, the Corporation have already submitted a request</p>	Not Resolved	31 st Dec 2024

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Management resolved to hive-off all historical non-reconciling items in a separate no-trading stock point to ensure new variances were not created. These historical non-reconciling items continue to be carried in the books of the Corporation and they lack documentation to support their physical existence. Although the Board of Directors approved the write-off through its resolution dated 24 May 2017, which was also forwarded to the Cabinet Secretary for the Ministry of Petroleum and Mining on 23rd September 2022, the matter was still pending.</p> <p>In the circumstances, the accuracy and completeness of the inventory balance of Kshs.237,251,000 could not be confirmed</p>	<p>seeking approval to written off of historical stock losses to the Cabinet Secretary Ministry of Energy and Petroleum in accordance with section 69 of Public Finance Management Act 2012.</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
6.	<p>Inaccuracies in Deferred Income Computations</p> <p>The statement of financial position reflects deferred income balance of Kshs.3,134,782,000. Which includes an amount of Kshs 3,052,754,000 in respect for exploration grants as disclosed in Note 23 to the financial statements. However, over the years, the Corporation utilized an amount of Kshs.2,209,278,000 as capital expenditures which were capitalized as Exploration Expenditure- Block 14T. The capitalized expenditures were not deducted from the deferred income and thus overstates the reported deferred income of Kshs.3,134,782,000 by Kshs.2,209,278,000. Further, Management did not disclose in the notes to the financial statements the accounting policy adopted for</p>	<p>The Corporation has already accounted for the government grants as provided by the International Accounting Standards 20.</p> <p>The disclosure on the treatment of capital grants as per the accounting policy has already been adopted.</p> <p>The exploration expenditure will be deducted from the deferred income in case if there no discoveries and the</p>	Resolved	N/A

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	<p>grants, including method of balance sheet presentation, the nature and extent of grants recognised in the financial statements and unfulfilled conditions and contingencies attaching to recognised grants as required under paragraph 39 of the International Accounting Standards (IAS) 20-Accounting for Government Grants and Disclosure of Government Assistance.</p> <p>In the circumstances, the accuracy of the reported deferred income balance of Kshs.3,134,782,000 could not be confirmed.</p>	<p>block is written off or in case discovery by annual amortization of the resource.</p>		

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7.	<p>Unsupported Fund Balances</p> <p>The statement of financial position reflects non-current liabilities balance of Kshs.3,855,727,000 which, as disclosed in Notes to the financial statements constitutes fund balance amounting to Kshs.3,680,249,000, from activities and projects initiated by the corporation in partnership with Government agencies and other donors as listed below;</p> <table border="1" data-bbox="568 1086 1346 1369"> <thead> <tr> <th>No.</th> <th>Fund Details</th> <th>Note</th> <th>Amount (Kshs)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Deferred Income Fund</td> <td>23</td> <td>3,134,782,000</td> </tr> <tr> <td>2</td> <td>Ministry of Energy Headquarters Construction Fund</td> <td>39</td> <td>704,000</td> </tr> </tbody> </table>	No.	Fund Details	Note	Amount (Kshs)	1	Deferred Income Fund	23	3,134,782,000	2	Ministry of Energy Headquarters Construction Fund	39	704,000	<p>The fund accounts balances does not imply that amount are held in Bank accounts only however they are also held in assets (Block 14 Exploration, software, Field Vehicles and Equipment.)</p> <p>The unspent fund amounts were supported by funds held in a fixed deposit Account in KCB Bank Limited and Exploration Account in Cooperative Bank of Kenya</p>	Resolved	N/A
No.	Fund Details	Note	Amount (Kshs)													
1	Deferred Income Fund	23	3,134,782,000													
2	Ministry of Energy Headquarters Construction Fund	39	704,000													

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	3	Single Buoy Mooring Jetty Fund	40	11,433,000			
	4	Corporate Social Responsibility Fund	41	72,955,000			
	5	Exploration and Capacity Building Fund	42	34,885,000			
	6	Laboratory Equipment Fund	43	425,480,000			
		Total		3,680,249,000			
	<p>However, guidelines on utilization and liquidation of balances upon closure of such projects were not provided for audit. The Corporation continue to hold funds for projects that were yet to be implemented or surplus funds</p>						

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	<p>for completed ones in its books, thereby denying citizens access to services intended or additional services that can be implemented using the idle funds.</p> <p>Although Management explained that the Funds were included in the corporation's funds and some were invested in fixed deposits in various commercial banks, the corresponding cash and bank balances were not provided for audit.</p> <p>In the circumstances, the accuracy, and completeness of the special fund's projects balance of Kshs.3, 855,727,000 could not be confirmed.</p>			
8.	Irregular Utilization of Social Responsibility Funds	The donations was part of the approved Corporation's	Resolved	N/A

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	<p>The statement of financial position reflects a balance of Kshs.72,955,000 in respect of corporate social responsibility funds as disclosed in Note 41 to the financial statements. Review of records indicates that the fund is created through funds paid by International Oil Companies (IOCs) undertaking oil and gas exploration activities in a region to undertake Corporate Social Responsibility activities that would benefit the local communities as provided in the Production Sharing Contract signed between the Government of Kenya and International Oil Companies (IOCs). This is in addition to paying for</p>	<p>corporate social responsibility budget for the year under audit.</p>		

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	<p>service rentals and training levy among other incidental costs and license fees.</p> <p>However, review of records revealed that the corporation paid an amount of Kshs.2,000,000 to a Golfing Society as a donation. The donation was not in the approved work plan for Corporate Social Responsibility activities implemented by the corporation on behalf of the IOCs undertaking oil and gas exploration activities.</p> <p>Further, there was no documentary evidence to confirm that the donations benefited the local communities as required in the Product Sharing Contract signed between the Government of Kenya</p>			

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	<p>and an IOC operating an oil exploration in the Coastal region.</p> <p>In the circumstances, the regularity of the corporate social responsibility project fund utilization amounting to Kshs.2,000,000 could not be confirmed</p>			
9.	<p>Inaccuracies in Legal Expenses</p> <p>The statement of Profit and Loss and Other Comprehensive income reflects administration expenses amounting to Ksh.952,922,000 as disclosed in Note 10(a) to the financial statements. Included in the expenditure is an amount is Kshs.113,134,000 in respect to legal expenses. Review of the expenses revealed that an arbitral award of Kshs.40,934,867 was issued against the Corporation in</p>	<p>1. The variance of Kshs3,494,819 related to accrued interest since the outstanding amount was subject to interest at the prevailing market rate of 14% p.a</p>	Resolved	N/A

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	<p>matter of breach of contract in respect of transportation of petroleum products filed by private company. The award was delivered on October 2018 with subsequent appeal dismissed during the year under review and the award affirmed. The decretal amount, interest arbitration costs, court fees and collection fees totalled Ksh.66,505,181. However, the amount of Kshs.70,000,000 was expensed, resulting in unexplained and unreconciled variance of Kshs.3,494,819. Management was directed by the arbiter to make an upfront payment of Kshs2,000,000 and come up with a payment plan for the settlement of the award. Further, the corporation was sued for unfair termination by a former staff member. The matter went to trial and a ruling</p>	<p>2. The variance of Kshs 3,300,000 relates to provision for legal liability relating the case of unfair termination of a former staff.</p>		

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	<p>was delivered on 29 July, 2021, where the court ordered the corporation to pay the claimant his salary arrears. Review of documents relating to the case revealed that salary arrears due to the claimant amounted to Kshs.1,700,000. However, the legal expense reflected compensation of Kshs.5,000,000 in anticipation of the outcome of the case which was still ongoing showed the claimant win. The resultant variance of Kshs.3,300,000 was not explained or reconciled.</p> <p>In the circumstances, the accuracy and completeness of legal expenses amounting to Kshs.113, 134,000</p>			
10.	Irregular Payment of Other Personnel Allowances			

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	<p>The statement of profit or loss and other comprehensive income and as disclosed in Note 10 (a) to the financial statements reflects staff cost of Kshs.395, 297,000. Review of the ledger and the trial balance for the year under review reflects total payments to employees amounting to Kshs.62, 258,868 described as “other allowances.” However, the basis for the payment of these allowances, and the applicable rates were not provided for audit. Further, approval from State Corporations Advisory Committee (SCAC) was not provided to support the allowances. In the circumstances, the accuracy and regularity of the other allowances payments amounting to Kshs.62, 258,868 could not be confirmed.</p>	<p>The Management sought guidance from Salary Remuneration Commission on how best to address the matter and they advised the management via letter ref SRC/TS/24 VOL II (205) dated 21st November 2023 to retain the current rates payable as other allowances pending the outcome of the review of allowances paid in</p>	<p>Not Resolved</p>	<p>31st Jan 2025</p>

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		the Public Service that is still ongoing		
11.	<p>Misclassification of Exploration Grants</p> <p>The statement of profit or loss and other comprehensive income and as disclosed in Note 11 to the financial statements reflects exploration expenditure of Kshs.215,395,000. Included in the amount is Kshs.118,455,000 that was irregularly spent on payment of salaries and allowances of permanent employees contrary to the approved work plan upon which the disbursement was made. According to the approved work plan, the grants disbursed ought to have been utilized on exploration study for geology, geophysics, geochemistry, petroleum</p>	<p>The upstream staff are directly engaged in collection of field data and their salaries are part of the project costs.</p> <p>The activities undertaken under upstream staff include exploration study for geology, geophysics, geochemistry, petroleum engineering, data packaging and marketing.</p>	Resolved	N/A

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	<p>engineering, data packaging and marketing, software licence annual renewal, community engagement activities and purchase of motor vehicles.</p> <p>In the circumstances, the accuracy and completeness of the expenditure of Kshs.215, 395,000 could not be confirmed.</p>	<p>These activities have been included in the work plan and the budget.</p>		
1.	<p>Emphasis of Matter</p> <p>Long Outstanding Trade Payables</p> <p>The statement of financial position reflects trade and other payables balance of Kshs. 5,070,372,000. As disclosed in Note 31 to the financial statements, the balance includes trade payables of Kshs. 898,494,000 out of which, Kshs. 777,085,321 related to amounts due to vendors that have</p>	<p>The Corporation has been facing liquidity financial constrains hence it has not able to meet most of its financial obligations hence the long outstanding trade payables.</p>	Not Resolved	30 th June 2025

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	been outstanding for more than 60 days. No explanations were provided as to why the creditors were outstanding for more than 60 days without explanations.	Once the financial performance of the Corporation improves the Corporation will pay its short term and long term obligations		
1.	<p>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</p> <p>Basis for Conclusion</p> <p>Unaccounted for Mwananchi Gas Project Equipment</p> <p>The Ministry of Petroleum and Mining delegated to the Corporation the responsibility of implementing Mwananchi gas Project on behalf of the National Government vide</p>	The Corporation is engaging State Department for Petroleum on the formal transfer of ownership from the Ministry of Energy and Petroleum to National Oil Corporation of Kenya.	Not Resolved	31 st Jan 2025

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	<p>letter from the Ministry of Petroleum and Mining dated 16 September, 2021. The project was intended to promote the use of modern cooking fuels among low-income households, and entailed distribution of subsidized LPG cylinders, grills and burners purchased by the Ministry of Petroleum and Mining. According to the Ministry, funds realized from sales were to be used to purchase additional gas.</p> <p>Further, the pilot programme for the project roll out was expected to be during the 2020/2021 financial year but the Corporation lacked sufficient working capital to purchase Liquefied petroleum gas to be used in filling of the cylinders. Review of store records revealed inventories</p>			

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	<p>comprising 161,448 6kg cylinders, out of which 5,444 had been filled with gas, 329,303 burners, 330,115 6kg grills, 60,000 horse pipes and 84 ,499 double burner stoves. As at 30 June, 2023, only 11,675 6kg cylinders, 12,869 burners and 87,147 grills with an aggregate value of Kshs.20, 501,191 had been included in the Corporation's financial statements. The rest of the items were not included in the Corporation's financial statements, a position Management attributed to lack of formal authority from the Ministry of Petroleum and Mining to transfer ownership of the items to the Corporation. Management also indicated that 22 burners were said to have been collected as samples by the Kenya Bureau of Standards and Directorate of Criminal</p>			

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	<p>Investigation in 2018 and 2019 respectively but they were not supported with documentary evidence.</p> <p>In addition, review of records and physical verification revealed that the 6kg cylinders purchased in module I and two-burner low-pressure table top cookers purchased under module II of the project together with its accessories were yet to be distributed and were lying at the warehouses.</p> <p>There is uncertainty in the implementation of the project due to lack of sufficient working capital.</p> <p>In the circumstances, the value for money on the expenditure incurred on the project could not be confirmed.</p>			

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3.	<p>Stalled Liquefied Petroleum Gas (LPG) Project</p> <p>Review of documents revealed that the corporation incurred an expenditure of Kshs.5,604,000 in respect of the construction of LPG Skid at Kipkaren Service Station which comprised of the cost of civil works, two LPG Mini Skids and associated works. However, the only skid foundation had been completed, and the contractor had abandoned the site. Management did not assess the stalled project for impairment. further, no clear road map was provided on how the Management intends to address the matter, and no plausible explanation was provided to</p>	<p>By the time the skid project was resuming, there were residential areas that had come up around the Kipkaren plot and on that basis EPRA, revoked the licences for the construction of the skid. On that basis management is considering putting up a tyre and service centre when the Corporation gets funds from capital expenditure.</p>	Not Resolved	30 th June 2025

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	<p>explain why the project has been abandoned before completion.</p> <p>In the circumstances, value for money was yet to be realized on the expenditure of Kshs.5,604,000 spent on civil works at Kipkaren Service Station.</p>			
4.	<p>Unauthorized Over Expenditures</p> <p>Review of the budget against expenditures incurred during the year under review revealed instances of over expenditure on legal fees and finance costs amounting to Kshs.848,156,000. However, supplementary budget and approval were not provided to support the over expenditure. Further, the Corporation budgeted to collect</p>	<p>Legal fees overruns the budget due to unanticipated awards of court ruling against the Corporation during the year.</p> <p>Finance costs surpassed the budget because of additional</p>	Resolved	N/A

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	<p>sales revenue of Kshs.33,030,070,000. However, only Kshs.3,141,120,000 was realized resulting in under collection of Kshs.29,888,950,000.</p> <p>The under-collection may have affected the planned activities during the year</p>	capitalized loan and penalty interest at rate of 10% on the non-performing loans due to working capital constraints.		
5.	<p>Non-Compliance with the One-Third of Basic Salary Rule</p> <p>During the year under review, at least eleven (11) employees were paid net salaries that were less than a third (1/3) of their basic pay. This contravened Section 19(3) of the Employment Act, 2007. No sufficient explanation was</p>	The Corporation entered in to an agreement with Housing Finance Corporation to provide employees with unsecured loans. A new payroll element called Housing Finance unsecured	Resolved	N/A

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	<p>given for failure to comply with the law on payment of salaries and allowances</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>loans was created in Oracle to facilitate the loan recoveries. There was a delay in adding the new deduction element in the Monthly payroll report which is used to validate the 1/3 rule compliance and thus the Net salary appearing in the summary report was erroneous and some employees who were below the 1/3 rule were not flagged</p>		

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		out. The omission was since been resolved.		
6.	<p>Non-Compliance with the Corporation’s Human Resources and Procedures Manual</p> <p>Review of the payroll data revealed that seven (7) employees had been in acting positions for more than six (6) months and were paid a total of Kshs.2,248,485 acting allowance during the year which contravened Section 8.8.3 of the Corporation’s Human Resources and Procedures Manual which provides that acting allowance will be payable to an employee for a period of not more than six</p>	<p>Due to the Corporations financial constraints, Management have not been able to replace staff who have exited from the Corporation. This has necessitated the appointment of some staff to act in those vacant positions. Once the Financial position improves then the Management shall embark on</p>	Unresolved	30 th June 25

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	<p>(6) months within which the position should be advertised and competitively filled.</p> <p>In the circumstances, Management was in breach of the law</p>	recruitment to fill these critical vacancies.		
7.	<p>Lack of an Approved Career Progression Guidelines</p> <p>During the year under review, the Corporation filled nine (9) open vacancies and promoted three (3) employees to various grades. However, an approved career progression guideline watermarked and sealed by State Corporations Advisory Committee was not provided for audit. Although Management explained that the approved document was misplaced and yet to be replaced, the considerations</p>	Following Cabinet approval of the Revival & Commercialization of NOC, the Corporation will be split into three (3) subsidiaries namely NOC Downstream, NOC Upstream and NOC Trading. The Management is in the process of forming the	Unresolved	30 th June 25

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		subsidiaries and its engaging State Corporation advisory Committee (SCAC) & Public Service Commission (PSC) to develop the new Human Resource Instruments and the new career guidelines for the three subsidiaries.		
8.	<p>Delays in Implementation of Initial Exploration Period</p> <p>The statement of financial position and as disclosed in Note 37 to the financial statements reflects exploration expenditure on block 14T of Kshs.2,209,278,000. Review</p>	The management is intensifying its strategies to market block 14T to attract partners in implementation of	Resolved	N/A

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	<p>of documents relating to the Block revealed that the Corporation signed a Production Sharing Contract (PSC) with The Ministry of Energy and Petroleum on 15 November, 2010. The Corporation was authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The Initial Exploration Period expired on 15 February, 2014 and subsequently, the PSC was extended with the latest one expiring on 14 February, 2023.</p> <p>However, the Corporation has spent over thirteen (13) years in conducting exploration operations within the contract area contrary to clause 2(1) of the Production Sharing Contract (PSC) which provides that the contractor</p>	<p>the Production Sharing Contract however the delays in Implementation of initial exploration period is due to underfunding, the projected cost for the project is Kshs.6Billion and the actual is Kshs.2 Billion inclusive of Jogmec funding.</p> <p>Current the Corporation has received the approval to move to the first additional exploration phase.</p>		

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	<p>is authorized to conduct exploration operations within the contract area during an initial exploration period of three (3) years from the effective date. The several extensions have been caused by the Corporation's failure to fulfil work and expenditure obligations under the contract during the initial exploration period of three (3) years. This is an indication of the Corporation's lack of the capacity to undertake exploration activities in block 14T despite receiving funding from the Government of Kenya and Japan Oil, Gas and Metal National Corporation (JOGMEC).</p> <p>In addition, an international investor, who has been supporting the Corporation through a joint survey</p>			

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	<p>agreement terminated the agreement and decided not to exercise its right to participate in the Production Sharing Agreement (PSC) citing lack of interest from Japanese investors in the data obtained from the joint survey. In the circumstances, the value for money on the expenditure of Kshs.2,209,278,000 spent on the Initial Exploration Period could not be confirmed.</p>			
9.	<p>Failure to Hold Minimum Operational Stock</p> <p>Review of records revealed that Management did not meet the minimum operational stocks of the petroleum. This was contrary to Regulation 3(1) and (2) of the Energy (Minimum Operational Stock) Regulations, 2008 which</p>	<p>Following the Cabinet directive on revival and commercialization of the Corporation. The management is in the process of procuring</p>	<p>Not resolved</p>	<p>31st Jan 2025</p>

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	<p>states that all importers of petroleum products intended for use in Kenya shall maintain, at all times, physical operational stock, to be known as the minimum operational stock, in quantities not less than the minimum amounts specifies in the schedule. The minimum operational stock shall be maintained to ensure short-term supply of petroleum products in the event of disruption of supply of the products.</p> <p>In the circumstances, Management was in breach of the law.</p>	<p>a non-equity strategic partner(s) to inject funding for adequate stocks to meet customer requirements.</p>		
10.	Outdated Database and Application System		Not Resolved	31 Jan 2025

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	<p>Review of the Corporation’s information technology systems revealed that two (2) main systems in use were outdated necessitating an upgrade. Further, a contract signed during 2016/2017 financial year at a cost of Kshs.95,624,321 for a period of fifteen (15) months and post-implementation services was terminated 10 July, 2020 by Management on the basis of non-performance. In addition, there was no evidence of recommendation from contract implementation team to terminate the contract as per Section 151(2)(g) of the Public Procurement and Asset Disposal Act, 2015. The Contractor filed a suit in the High Court against the Corporation for non-payment of</p>	<p>The delayed system upgrade is due cash flow challenges that is facing the Corporation, however the Corporation is procuring non-strategic partner who is expected to provide up to date ERP system</p> <p>The Corporation did not terminate the contract; however, the contract came to an end as per the contractual terms and</p>		

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	<p>outstanding invoices totalling Kshs.102,462,096 inclusive of interest.</p> <p>In addition, the systems had attained their End of Life (EOL) which meant that updates and patches that enhance the system's security or any technical support from Oracle could no longer be received. Further, the Corporation had not paid the software vendor for three financial years and had accrued debts amounting to Kshs.157, 039,695 in respect of annual software updates, technical support and additional license fees risking the data and business interruption in the case of a security attack.</p>	<p>conditions.</p> <p>The non-payment is due to the current financial challenges facing <i>the</i> Corporation; however, there has been continuous engagement with vendor to avert litigation against the Corporation.</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	In the circumstances, the value for money on the amount of Kshs.95, 624,321 incurred on the system could not be confirmed.			
11.	<p>Payment of Avoidable Penalties</p> <p>The statement of profit or loss and other comprehensive income reflects cost of sales totalling to Kshs.3,035,390,000. As disclosed in Note 7 to the financial statements. The costs include Kshs.14,833,000 in respect of penalties and fines incurred by the Corporation paid mainly to the Commissioner of Customs. This expenditure which could have been avoided with proper financial</p>	In the financial year ended 30 th June 2023, the Corporation was facing working capital challenges this was as a result of suspension of funding by the Corporation's financiers (KCB Bank Kenya Limited and Stanbic Bank Limited) due to non-performing loans.	Resolved	N/A

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	<p>management led to increase in the cost of sales and affected cash flows negatively.</p> <p>In the circumstances, the value for money on the expenditure of Kshs.14,833,000 in respect to penalties and fines could not be confirmed.</p>	<p>However, in the absence of the financing from the banks the management sourced for alternative financing arrangements (oil marketers) to sustain the business and avoid further payment of penalties due to late payments for product and duty due to Commissioner of Customs.</p>		
12.	<p>Encroached Corporation Land</p> <p>Review of records relating to a parcel of land valued at Kshs.126,697,274 revealed that the corporation granted a</p>	<p>As per the Court Ruling, the Corporation issued the Tenant with the requisite notice of</p>	Resolved	N/A

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	<p>six (6) . Review of records relating to the land revealed that the Corporation granted a six (6) month lease agreement on 15 September, 2017 to an individual at a monthly rent of Kshs.60,000 exclusive of Value Added Tax (VAT). The lease agreement was extended for a further six (6) months from 1 April, 2018 to 30 September, 2018.</p> <p>However, upon expiry of the agreement, management continued to receive rents without renewing the agreement or giving notice of intention not to renew the lease.</p> <p>Management later issued notice of intention not to renew the license but the tenant took the Corporation to court and obtained a temporary order against the Corporation. The Corporation issued a new termination notice on 22</p>	<p>Termination of Lease in compliance to Section 9(3) of the Landlord and Tenant (Shops, Hotels and Catering Establishments) Cap 301 Laws of Kenya</p> <p>The termination notice was due on 29th February 2024.</p> <p>Thereafter, no further tenancy notice will be given in respect of the premises concerned.</p> <p>The tenant is expected to vacate then failure to which</p>		

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	<p>December, 2023 which at the time of audit, the tenant has not complied with the termination notice. Therefore, the tenant continues to operate business on the Corporation land without paying any rent.</p> <p>In the circumstances, the public may not realize value for money on the rented property.</p>	<p>NOC shall have recourse to have him forcefully removed/ ejected.</p>		
13.	<p>Defective Cylinders</p> <p>The statement of financial position and as disclosed in Note 21(a) to the financial statements reflects inventories gross value of Kshs.2, 586,057,000. Included in this amount are 105,838 defective cylinders valued at Kshs. 190,812,991 stored at the Corporation's Nairobi National Terminal. However, Management did not provide measures put in</p>	<p>The corporation has been going through a phase of much diminished working capital hence has not been able to revalidate the</p>	Not Resolved	31 st Jan 2025

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	<p>place regarding the defective cylinders, considering that their numbers have been increasing over the years. In the circumstances, the value for money spend on the defective cylinders of Kshs.190,812,991 could not be confirmed.</p>	<p>defective cylinders. The corporation is engaging non-equity strategic partner for refurbishment of the business, once the working capital improved, the company will ensure that all defective cylinders are revalidated to derive maximum economic benefit.</p>		
14.	<p>Irregular Meetings Held by the Board of Directors During the year under review, the board held thirty -five (35) board meetings. Out of these meetings, there were four</p>	<p>The Corporation wrote to the Cabinet Secretary and copied the SCAC seeking for</p>	Resolved	N/A

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	<p>extra full board meetings and one extra finance committee meetings which exceeded the maximum number of six (6) recommended by the Office of the President circular referenced OP/CAB.9/1A dated 11 March, 2020. Although the board sought approval for the extra meetings, no approval by the relevant Cabinet Secretary, in consultation with State Corporation Advisory Committee (SCAC) was provided for the audit review.</p> <p>In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed</p>	<p>exoneration and approval of the meetings due to the prevailing business circumstances and the need for the board to provide guidance and play its oversight role effectively. The quarterly board meetings were held to approve the statutory reports in line with the prevailing legislations and Government requirements.</p>		

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1.	<p>Report on Effectiveness of internal controls, Risk Management and governance</p> <p>Lack of a Governance Audit</p> <p>During the year under review, the Board did not carry out any governance audit as is mandated to them as per the Mwongozo guidelines. This audit is expected to address among other areas governance practices including Leadership and strategic management, transparency and disclosure, compliance with laws and regulations, Board independence and governance, consistent shareholder and stakeholders' value enhancement among others.</p>	<p>Section 1.13 of Mwongozo provides that the Board in consultation with the oversight office should ensure that it subjects to an annual governance audit. According to the approved board almanac (Calendar), Management has planned to undertake the Governance audit for the FY 2023/24</p>	Resolved	N/A

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	In the circumstances, the existence of an effective mechanism to monitor governance structures could not be confirmed.			
2.	<p>Lack of Strategic Plan</p> <p>Review of the documents that the Corporation's strategic plan expired in the year 2020 and Management was yet to develop another strategic plan to cover the current period. This is contrary to Section 68(2) of Public Finance Management Act, 2012.</p> <p>In the circumstances, the effectiveness and existence of an alternative strategic roadmap to steer direction of the Corporations' could not be confirmed.</p>	The management is in the process of developing a strategic plan. The draft strategic plan is under review internally.	Unresolved	30 th Dec 24

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3.	<p>Lack of Information Communication Technology Steering Committee</p> <p>During the year under review, Management did not establish Information Communication Technology Steering Committee which is mandated to oversee the development of the Information Communication Technology strategy of the Corporation. This implied that there exist gaps in information technology governance that might have affected the information technology management in achieving the organization’s mandate.</p> <p>In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed</p>	The committee has already been established in June 2023.	Resolved	N/A

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4.	<p>Irregular Composition of Board Committees</p> <p>The Corporation's Board of Directors comprised thirteen (13) members. Review of membership and record of minutes of committee meetings revealed that the membership of board committees is expected to be a maximum of one third (1/3) of Board membership as guided by the Mwongozo code of governance for state corporations. However, the Audit committee has five (5) members, the Human Resource Committee and the Finance Committee have six (6) members each while the Strategy and Business Committee has seven (7) members instead of the Maximum four (4) members. Although the Board sought an exemption from one third (1/3) requirement in</p>	<p>The Board reconstituted its committees in line with the provisions of Section 1.7(1)(a) of Mwongozo and further sought for an exemption from the 1/3 requirement as stipulated under section before the circular on Management of State Corporations.</p>	Resolved	N/A

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	<p>constitution of the board committees, no written approval of the respective Cabinet Secretary in consultation with State Corporation Advisory Committee (SCAC) was provided.</p> <p>In the circumstances, the effectiveness of the overall governance of the Corporation could not be confirmed</p>			
5.	<p>Management of Dealer Operated Petrol Stations</p> <p>The Corporation entered into agreements with several dealers to operate its service stations across the Country. According to the agreements, these dealers were expected to purchase fuel products from the Corporation and compensate the Corporation where they purchase products from other Oil Marketing Companies. According to the</p>	<p>Due to the financial challenges and products unavailability, management resolved to minimize dealers' visits and monitor the stations from the office. This was meant reduce travelling and</p>	Resolved	N/A

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	<p>volume sales for Company Owned Dealer Operated service stations, Corporation did not have product from March 2023 to June 2023.</p> <p>Review of records revealed that the corporation entered into an agreement with several dealers to operate petrol stations. Review of a sample of the agreement revealed that three (3) of the agreements had expired. However, the corporation continued to transact with the three parties without a valid lease contract. However, during the year under review, Management did not carry out monitoring, inspections and meter reading of the Company Owned Service Stations which are operated by the dealers to ensure that instances of product dumping are detected and</p>	<p>overnight allowances for sales personnel due to cash flow</p>		

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	<p>fees charged. Review of records and reports provided for audit revealed that the last inspections and meter reading were conducted in November 2022.</p> <p>In the circumstances, the effectiveness of the overall governance in managing the dealer-operated petrol stations could not be confirmed.</p>			

Name