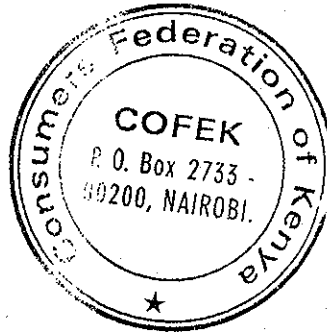


18th April 2013

Mr. Patrick Nyoike, CBS
Permanent Secretary
Minister for Energy
Nairobi



Dear

SUBJECT: MISMANAGEMENT OF THE NATIONAL OIL CORPORATION OF KENYA

We, the undersigned Board of Directors of National Oil Corporation (NOCK), wish to bring to your attention some issues of grave concern regarding the manner in which the Chairman of the Board and the Chief Executive Officer (CEO) have conducted the business of NOCK.

As you are aware, under the State Corporations Act, the Board is responsible for the proper management of the affairs of the State Corporation and shall be accountable for the moneys, the financial business and the management of the State Corporation. The Board is expected to exercise this mandate through meetings convened by the Chairman in consultation with the CEO, setting out clear agenda, that would facilitate effective supervision and direction by the Board in the national interest.

We wish to inform you that in the last two years, the Board has not effectively carried out its functions largely because the Chairman and Chief Executive Officer have failed to convene meetings and to provide requisite information to the board to enable proper decision making. It is for this reason that members of the Board of Directors formally wrote a letter to the Chairman on 11th January, 2013 (copy attached), requesting him to convene a meeting to deliberate on key issues affecting NOCK. The Chairman has ignored this request, and the Board continues to be kept in the dark, ultimately affecting its performance and accountability.

Consequently, there are serious issues of concern to the Board that we believe need to be addressed as a matter of urgency, failure to which, may have serious ramifications to NOCK and individual Board of Directors as well as the Ministry of Energy. We wish to enumerate them here below:

1) Donation of a Petrol Station to Former President

We the Board of Directors, like any other members of the public, read in the print and electronic media that NOCK Chairman and the Chief Executive Officer had donated a petrol station to the former President Hon. Mwai Kibaki. The Board had not discussed this matter and we therefore wish to exonerate ourselves from this donation that is not only illegal but an embarrassment to the former President. There are no laws in this country that allow public assets to be donated to any person and therefore any expenditure relating to this donation is misappropriation of public funds and those responsible (Chairman and CEO) should be surcharged. In addition, it is inappropriate for the Chairman and the CEO to donate a petrol station to the former President, knowing too well that it is not legally acceptable. This is a total embarrassment to NOCK, Ministry of Energy and the former President.

2) Employment of Staff at NOCK

The Board of Directors have learnt that a number of employees have been recruited without its knowledge and specifically a senior officer employed in the Exploration Department at an exorbitant salary of over Ksh700,000 per month. It should be

noted that any employment of staff of this nature, whether paid through NOCK funds, grants, donations, etc, must be sanctioned by the Board. We wish to retaliate that any amounts paid to such persons should be surcharged to those responsible.

3) **Resignation of Senior Managers**

Since the appointment of the current CEO, NOCK has lost experienced senior staff mainly because of the way they have been mishandled by the CEO. Those managers that have resigned or exited the corporation include, Procurement Manager, Internal Audit Manager, Operations Manager, Safety & Quality Manager, Company Secretary, and last week the Human Resource Manager and the ICT Manager resigned as well. In some instances, advertisements for the replacements are done before the Board is informed of such resignations.

4) **Performance Appraisal of CEO**

The Chairman has failed to convene a meeting to evaluate and appraise the performance of the current CEO in accordance with the set guidelines for performance contracting. The CEO has not been appraised by the Board for the last 2 years.

5) **Implementation of Board Decisions**

The CEO has failed to implement board decisions, some of key ones include:

- i) Failure to import 30% oil allocation as per the set Energy Regulations, with an excuse that there is inadequate usage. This has resulted in single sourcing of expensive oil products that have diminished NOCK earnings per litre.
- ii) Failure to recruit staff in senior positions (General Managers) in NOCK to improve its management capabilities.

6) **Acquisition of Land/Leases**

NOCK has been acquiring land and property without involvement of the Board. Some of the plots and leases acquired may not be suitable for petrol station while some may have been purchased beyond the market prices. A recent visit by some Directors on a plot in Mombasa, which had been recommended by management for purchase to build storage tanks, revealed that the prices quoted were exorbitant while the plot was unsuitable and also inhabited by squatters.

7) **Reduction of Prices of Petrol**

NOCK has been offering price reductions on some oil products without consultations with the board and at times resulting in losses. This unilateral decision by the management has serious implications on the profitability of NOCK and its sustainability moving forward.

8) **Foreign Travel**

The Board is not informed of the foreign travels made by management and specifically when such travels are paid by the corporation. Of major concern is the frequency of foreign trips made by the CEO and sometimes the chairman, which jeopardizes the effective management of the corporation.

9) **Obudusman Complains**

The corporation has received several complaints from the Office of the Obudusman, implying that there are serious concerns in the management structure

and the decision making process. These letters and issues have not been brought to the attention of the Board.

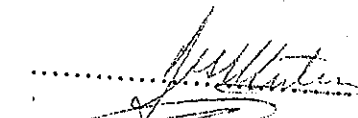
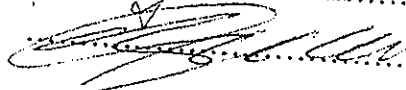
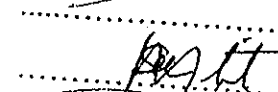
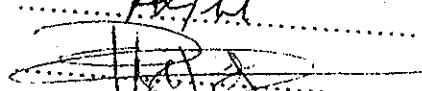
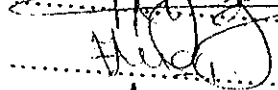
In view of the above issues of concern, the undersigned Directors of the Board, wish to note that they will not be held accountable and responsible for actions of omission or commission by the management where the chairman has failed to convene board meetings to deliberate such issues. The Chairman and the CEO should therefore be held responsible for any issue resulting into mismanagement of the corporation.

Finally, we wish to request your office to urge the chairman and the CEO to convene a Board meeting to discuss the above issues amongst others, and to adhere to the tenet of good corporate governance going forward.

Yours sincerely

Signed by the Directors:

- 1) Dr. Jessie Mutura
- 2) Mr. James Gacheru
- 3) Hon. Jaafar M. Sheikh
- 4) Eng. Stanley K. Kamau
- 5) Prof Bernard Njoroge
- 6) Ms. Fatuma Hassan
- 7) Dr. Ezekiel Koimett
- 8) Mr. Paul Ngatia
- 9) Mr. Peter Gitonga


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Copy to:

Mr. Peter Munga
Chairman
National Oil Corporation of Kenya
Nairobi

Mrs. Sumayya Athmani
Chief Executive Officer
National Oil Corporation of Kenya
Nairobi