



**LEGAL NOTICE NO.....**

**THE PETROLEUM ACT, 2019  
(No.2 of 2019)**

**IN EXERCISE** of the power conferred by Sections 126 and 127 of the Petroleum Act, 2019,  
the Cabinet Secretary makes the following Regulations–

**PETROLEUM (UPSTREAM PETROLEUM COSTS MANAGEMENT)  
REGULATIONS, 2025**

	<b>PART I- PRELIMINARIES</b>
<b>Citation</b>	1. These regulations may be cited as Petroleum (Upstream Petroleum Costs Management) Regulations, 2024
<b>Interpretation</b>	<p>2. (1) The terms that are used in these Regulations and not explicitly defined in these Regulations shall have the same meaning as ascribed to them under the Act.</p> <p>(2) In these Regulations, unless the context otherwise requires,</p> <p>“Act” means the Petroleum Act, No. 2 of 2019;</p> <p>“affiliate” means a person directly or indirectly controlling or controlled by or under direct or indirect common control with another person;</p> <p>"arm's length" means all transactions, between parties each having independent interests whether affiliated or not, shall be conducted as if they were unrelated, ensuring transparency and fairness in cost allocations and pricing;</p> <p>“cost petroleum” means the portion of the total value of petroleum produced and saved from the Contract Area which the Contractor is entitled to take in a particular period, for the recovery of Petroleum Costs as provided in the Act and the Petroleum Agreement;</p> <p>“development costs” in respect to a development area, means costs incurred in carrying out development activities in accordance with an approved development plan and the relevant annual development work programmes and budgets;</p>

	<p>“exploration costs” in respect to a contract area, means, costs incurred in carrying out exploration activities in accordance with an approved annual exploration and appraisal work programmes and budget;</p> <p>“joint property” means all property acquired and held jointly by parties to a Petroleum Agreement for use upstream petroleum operations;</p> <p>“petroleum costs” means all expenditure duly incurred and paid by the contractor in carrying out upstream petroleum operations under a Petroleum Agreement;</p> <p>“petroleum produced and saved” means gross petroleum produced minus impurities such as water or solids produced along with petroleum, petroleum recycled to the reservoir, petroleum used in petroleum operations or flared or otherwise unavoidably lost under the provisions of the petroleum agreement;</p> <p>“production costs” in respect to a development area, means costs incurred in relation to production activities, which are of an operating nature only, but excludes development and decommissioning costs, in accordance with approved annual production work programmes and budgets;</p> <p>“shared costs” means common upstream petroleum costs incurred and allocated to more than one contract area with prior approval of the Authority;</p> <p>“time-writing costs” means costs incurred as a consequence of professional work provided by other departments or affiliates of the contractor and such costs are allocable to various project authorizations for expenditure or cost centres based on the man-hours spent on an activity and the recorded time translates to an associated cost;</p> <p>“uplift” means a percentage of the debt portion of development costs incurred and paid during a given fiscal for a development area.</p>
<b>Application</b>	<p><b>3.</b> (1) These Regulations shall apply to the management of costs in the conduct of upstream petroleum operations.</p> <p>(2) These Regulations shall not apply to a non-exclusive exploration permit under which the authorized operations are exclusively for non-commercial purposes.</p>
<b>Objective and purpose of these Regulations</b>	<p><b>4.</b> The objective and purpose of these Regulations shall be to:</p> <p>(a.) harmonize and standardize cost management in the conduct of upstream petroleum operations;</p> <p>(b.) ensure accountability and transparency; and,</p>

	(c.) ensure the effective, economic and efficient utilization of petroleum resources.
<b>Overriding objective</b>	<b>5.</b> Notwithstanding any other provision in a petroleum agreement, non-exclusive exploration permit or these Regulations, no petroleum costs shall be recovered unless such costs have been allowed and approved by the Authority in accordance with these Regulations.
	<b>PART 2 - COST RECOVERY</b>
<b>Cost recovery Principles</b>	<p><b>6.</b> (1) The contractor shall keep detailed accounts of petroleum cost in accordance with Regulation 16.</p> <p>(2) All recoverable petroleum costs incurred and paid for by the contractor and duly entered in the contractor's books of accounts, shall be recovered by taking and separately disposing from a total volume of crude oil or natural gas produced and saved from the contract area.</p> <p>(3) Recoverable petroleum costs shall be limited, in any contract year, to an amount not exceeding a percentage determined in respective Petroleum agreements, of the total petroleum produced and saved from the contract area in any contract year.</p> <p>(4) Recoverable petroleum costs shall be recovered from the date they have been prudently incurred and paid, when commercial production begins, without any adjustment or indexation, until the termination of a petroleum agreement.</p> <p>(5) To the extent that, in any contract year, the recoverable petroleum costs exceed the cost petroleum set recovery limit available in each contract year, the unrecovered excess shall be carried forward for recovery in the subsequent contract year(s) until the termination of the petroleum agreement.</p> <p>(6) Where the balance of recoverable petroleum costs is less than the set cost recovery limit for the cost petroleum during the year, the excess shall become part of and be included in profit petroleum during that year.</p>
<b>Ring fencing on the recoverable cost</b>	<p><b>7.</b> (1) Petroleum costs duly incurred and paid while undertaking upstream petroleum operations shall only be recovered from revenues generated from the Contract Area in which they were incurred.</p> <p>(2) Where a Contractor undertakes exploration, development or production simultaneously, or in any combination thereof in a Contract area, such costs shall nevertheless be classified in accordance with Regulation 16 and recovered in accordance with Regulation 8.</p> <p>(3) Where a Contractor undertakes upstream, midstream or downstream operations simultaneously, or in any combination thereof, such midstream or downstream costs shall not be recovered under the Petroleum Agreement.</p>

<b>Cost Recovery Priority</b>	<p><b>8.</b> The order of recovery of recoverable petroleum costs in any petroleum agreement shall be:</p> <ul style="list-style-type: none"> <li>(a.) Production costs</li> <li>(b.) Development Costs</li> <li>(c.) Uplift</li> <li>(d.) Exploration Costs</li> <li>(e.) Decommissioning Costs</li> </ul>
<b>Credits Under the Contract</b>	<p><b>9.</b> (1) The net proceeds of the following transactions shall be credited to the joint account for cost recovery purposes under the contract;</p> <ul style="list-style-type: none"> <li>i the net proceeds of any insurance or claim in connection with the upstream petroleum operations or any assets charged to the accounts under the contract;</li> <li>ii revenue received from other parties for the use of property or assets charged to the accounts under the contract;</li> <li>iii any adjustment received by the contractor from the suppliers or manufacturers or their agents in connection with defective equipment or material the cost of which was previously charged by the contractor under the contract;</li> <li>iv rentals, refunds or other credits received by the contractor which apply to any charge which has been made to the accounts under the contract;</li> <li>v proceeds from all sales of surplus material or assets charged to the account under the contract; and</li> <li>vi the prices originally charged to the accounts under the contract for inventory materials subsequently exported from Kenya.</li> <li>vii Any other credits to the joint account for cost recovery purposes under the petroleum agreement.</li> </ul>
<b>No Duplication of Charges and Credits</b>	<b>10.</b> There shall be no duplication of charges or credits in the accounts under a petroleum agreement.
<b>Recoverable costs</b>	<b>11.</b> Subject to other written laws, petroleum costs duly incurred, charged and paid shall be recovered as prescribed in Regulation 8 and the First Schedule of these Regulations.
<b>Non-recoverable costs</b>	<b>12.</b> Costs and expenses specifically described as non-recoverable costs in the Second Schedule shall not be recovered.
<b>Cost overruns and underruns</b>	<p><b>13.</b> (1) Where expenditure approved in the work programme and budget exceeds the budget by more than 10%, the Contractor shall seek approval from the Authority before incurring the extra expenditure.</p> <p>(2) Where the contractor utilizes less than 80% of the approved work programme and budget, the contractor shall as soon as practicable and in any case not later than at the time of the submission of the annual expenditure</p>

	<p>report, notify the Authority in writing with appropriate justifications.</p> <p>(3) Where the Authority is not satisfied with the justifications provided under sub-regulation (2), the Authority shall inform the Contractor and may recommend to the Cabinet Secretary the recall of a performance security in accordance with the petroleum agreement and the Act.</p>
<b>PROJECT FINANCING</b>	
<b>Determination of Debt-Equity Ratio for Development Costs</b>	<p><b>14.</b> (1) All petroleum projects shall maintain a maximum debt-equity ratio of 70:30 for the financing of Development Costs.</p> <p>(2) Such debt-equity ratio for a contractor shall be prescribed in the respective Petroleum Agreement.</p> <p>(3) Deviation from the debt-equity ratio stipulated in the Petroleum Agreement must be justified with detailed financial analysis and shall be approved by the Cabinet Secretary with the recommendation of the Authority.</p> <p>(4) Notwithstanding sub-regulation (3) above, the debt portion of the project's total Development Costs shall not exceed 75%.</p>
<b>Uplift</b>	<p><b>15.</b> (1) The interest on any debt undertaken to finance development operations shall not be recoverable.</p> <p>(2) Notwithstanding sub-regulation 1, Uplift shall be recovered to cover the cost of financing.</p> <p>(3) The percentage applicable to such Uplift shall be expressly stipulated in a petroleum agreement and adhered to by the Contractor.</p> <p>(4) Such percentage, as stipulated in the Petroleum Agreement, shall not exceed 15% of the debt portion of the total Development Costs.</p> <p>(5) The applicable Uplift for any Petroleum Agreement shall be recovered in accordance with Regulation 8.</p>
<b>PART 3- COST CLASSIFICATION</b>	
<b>Cost classification</b>	<p><b>16.</b> (1) The contractor shall classify all costs under cost centres and sub-divisions of these cost centres for the efficient control of all costs under the petroleum agreement,</p> <p>(2) As a minimum the a contractor shall classify costs in the following divisionsns</p> <ol style="list-style-type: none"> <li>a. Exploration Costs,</li> <li>b. Developments costs,</li> <li>c. Production costs, and</li> <li>d. Decomissioning costs.</li> </ol> <p>(3) Exploration costs shall be classified into, but not limited to:</p> <ol style="list-style-type: none"> <li>i. Geological, geochemical, paleontological, topographical and other surveys;</li> <li>ii. Each individual geophysical survey;</li> <li>iii. Each individual Exploration or Appraisal well;</li> </ol>

	<ul style="list-style-type: none"> <li>iv. Infrastructure (roads, airstrips);</li> <li>v. Support facilities (warehouses), including an allocation of common service costs (costs related to various Petroleum Operations);</li> <li>vi. An allocation of general and administrative costs.</li> </ul> <p>(4) Development cost shall be classified into, but not limited to:</p> <ul style="list-style-type: none"> <li>I. Capital or operating costs incurred before the commencement of commercial production in a development area; and</li> <li>II. Capital costs incurred after the commencement of commercial production in a development area, which relate to development activities.</li> <li>III. The aforementioned costs may be classified as but not limited to: <ul style="list-style-type: none"> <li>vii. Geological, geochemical, geophysical, and other surveys;</li> <li>viii. Each individual Development Well;</li> <li>ix. Gathering facilities;</li> <li>x. Field facilities;</li> <li>xi. Pipelines and trunk lines, flow lines;</li> <li>xii. Tank farms and other storage facilities for Petroleum;</li> <li>xiii. Infrastructure within the development Area and Outside the Development Area;</li> <li>xiv. Support facilities, including an allocation of common service costs (cost related to various Petroleum Operations);</li> <li>xv. An allocation of general and administrative costs;</li> <li>xvi. Engineering and design studies.</li> </ul> </li> </ul> <p>(5) Production costs shall be classified into, but not limited to:</p> <ul style="list-style-type: none"> <li>i. Geological, geochemical, geophysical, and other surveys;</li> <li>ii. Each individual production well;</li> <li>iii. Gathering facilities;</li> <li>iv. Field facilities;</li> <li>v. Pipelines and trunk lines, flow lines;</li> <li>vi. Tank farms and other storage facilities for Petroleum;</li> <li>vii. Infrastructure within the development area and outside the development area;</li> <li>viii. Support facilities, including an allocation of common service costs (cost related to various Petroleum Operations);</li> </ul>
--	--

	<ul style="list-style-type: none"> <li>ix. An allocation of general and administrative costs;</li> <li>x. Engineering and design studies.</li> </ul> <p>(6) Decommissioning costs shall be classified into, but not limited to:</p> <ul style="list-style-type: none"> <li>i. Geological, geochemical, geophysical, and other surveys;</li> <li>ii. Each individual Development Well;</li> <li>iii. Gathering facilities;</li> <li>iv. Field facilities;</li> <li>v. Pipelines and trunk lines, flow lines;</li> <li>vi. Tank farms and other storage facilities for Petroleum;</li> <li>vii. Infrastructure within the development Area and Outside the Development Area;</li> <li>viii. Support facilities, including an allocation of common service costs (cost related to various Petroleum Operations);</li> <li>ix. An allocation of general and administrative costs;</li> <li>x. Engineering and design studies</li> </ul>
<b>PART 4- SPECIFIC PROVISIONS</b>	
<b>Taxes and duties</b>	<b>17.</b> The contractor or permit holder shall pay to the all taxes, duties, fees and levies in accordance with applicable laws.
<b>Exchange rate Treatment</b>	<p><b>18.</b> (1) Any payment made or amount received in Kenyan shillings or in United States Dollars shall be converted from Kenyan shillings into United States Dollars, or from United States dollars into Kenyan shillings on the basis of the monthly average of the mean of the daily official buying and selling exchange rates between the currencies in question as published by the Central Bank of Kenya for the month and year in which the relevant transaction was made.</p> <p>(2) Any payment made or amount received in currencies other than United States Dollars or Kenyan Shillings shall be converted into United States dollars or Kenyan shillings on the basis of the monthly average of the mean of the daily buying and selling exchange rates between the currencies in question as published by the Central Bank of Kenya for the month and year in which the relevant transaction was made.</p> <p>(3) The average monthly exchange rate calculated in accordance with sub-regulation (1) and, where relevant, the exchange rates employed pursuant to sub- regulation (2), shall be identified in the relevant statements required under the Act, these Regulations and Petroleum Agreement.</p> <p>(4) Any gain or loss from an exchange of currency arising in the course of transactions while undertaking petroleum</p>

	<p>operations shall be credited or charged to the joint accounts of a respective Petroleum Agreement or non-exclusive permit.</p> <p>(5) The Contractor or non-exclusive permit holder shall endeavour at all times to maintain an accurate record of the exchange rate list used in converting Kenya Shilling, United States Dollars or any other currency as provided for in these Regulations and such records shall be availed to the Authority for Audit purposes.</p>
<b>Parent Company Overhead</b>	<p><b>19.</b> (1) The provisional rate for the parent company overhead shall be in accordance with a petroleum agreement and shall be adjusted to the actual expenditure within sixty (60) days of the end of the quarter. Such adjustments shall be booked in the next quarter's financial statements.</p> <p>(2) The actual expenditure shall not exceed the provisional rate provided under a petroleum agreement.</p> <p>(3) A contractor shall submit to the Cabinet Secretary for approval, sixty (60) days after the execution date for the first contract year the proposed basis of allocating parent company overheads charge to the Contractor.</p> <p>(4) Where a contractor proposes to change the approved basis of allocation in sub-regulation (3) above, the contractor shall submit the proposed basis of allocation to the Cabinet Secretary for approval ninety (90) days before beginning of a contract year.</p> <p>(5) The contractor shall provide to the Cabinet Secretary:</p> <ol style="list-style-type: none"> <li>A detailed breakdown of all parent company overheads outlining the contribution of the headquarter support to the petroleum operations, during the submission of the Work Program and Budget.</li> <li>Evidence of cost incurred and paid to support Parent company.</li> <li>Certification of parent company overheads by an independent auditor of good international standing which shall state in their opinion whether such overheads were duly incurred, paid and appropriately charged.</li> <li>Notwithstanding sub-regulation 5(c), submission of audit certification shall not absolve the Contractor from any obligations under these Regulations.</li> </ol>
<b>Time-writing costs</b>	<p><b>20.</b> (1) The contractor shall submit to the Cabinet Secretary for review sixty (60) days after the execution date for the first contract year, policies, internal controls and procedures for recording and reporting of time-writing for approval.</p> <p>(2) The policies, internal controls and procedures shall be in accordance with best petroleum industry practice.</p>



	<p>(3) Any amendments to these policies, internal controls and procedures shall be submitted to the Cabinet Secretary ninety (90) days before the beginning of subsequent contract years for approval.</p> <p>(4) At the time of submission of the annual work program and budget, the contractor shall provide manpower plan which shall include but not be limited to:</p> <ol style="list-style-type: none"> <li>Applicable rates chargeable for skilled and non-skilled labour</li> <li>Justification of the rates</li> <li>Hours to be worked</li> <li>Allocation to each Contract area</li> <li>Designation, experience and number of personnel</li> <li>Expected deliverables</li> </ol> <p>(5) Upon implementation of the work programme and budget, the contractor shall provide the following information in the quarterly and annual expenditure reports submitted under Regulation 34</p> <ol style="list-style-type: none"> <li>Approved time logs indicating actual hours worked</li> <li>Actual rates charged and justification for the same</li> <li>Allocation to Contract area</li> <li>Deliverable outcomes of time-writing activities carried out including but not limited to; technical reports, samples, processed and/or unprocessed and/or interpreted data, maps, and studies reports.</li> <li>Cost certifications of rates and hours charged from a competent independent auditor of good international standing.</li> <li>Any other information as may be directed by the Cabinet Secretary</li> </ol>
<b>Allocation of shared costs</b>	<p><b>21.</b> (1) Where a contractor holds more than one block and allocates a portion of the shared costs to each block, the criteria used for such allocation shall be clearly outlined and presented to the Cabinet Secretary for approval during the submission of the work programme and budget.</p> <p>(2) Where a contractor fails to provide a suitable allocation criterion the Cabinet Secretary shall prescribe an appropriate allocation criteria.</p> <p>(3) Where such criteria are applied, the contractor shall ensure that it is applied accurately and consistently.</p> <p>(4) Failure to adhere to sub-regulation (3) shall render any additional costs ineligible for cost recovery and shall be borne wholly by the contractor.</p> <p>(5) Where a contractor proposes to change the approved allocation criteria, the contractor shall submit the proposed criteria to the Cabinet Secretary for approval</p>

<b>Accounting method</b>	<p><b>22.</b> (1) The Contractor shall prepare books of accounts and records on accrual basis.</p> <p>(2) Notwithstanding sub-regulation (1) for the purposes of determining recoverable costs, upstream petroleum costs shall be recognized on a cash basis.</p> <p>(3) All accruals in an accounting period shall be reversed at the beginning of the subsequent month or quarter.</p> <p>(4) The contractor shall fully and comprehensively disclose accrued petroleum costs and subsequent adjustments in its annual expenditure reports.</p>
<b><i>SERVICE AND SUPPLY CONTRACTS</i></b>	
<b>Procurement, policies, procedures, and internal controls</b>	<p><b>23.</b> (1) The Contractor shall submit to the Cabinet Secretary, sixty (60) days after the execution date for the first contract year, its procurement policies, procedures, and internal controls for approval</p> <p>(2) Any amendments to these policies, procedures and internal controls shall be submitted to the Cabinet Secretary, ninety (90) days before the beginning of subsequent contract year for approval.</p> <p>(3) The contractor's procurement policies, procedures and internal controls, shall be in accordance with the Act and best petroleum industry practice.</p>
<b>Annual schedule of the service and supply contracts</b>	<p><b>24.</b> (1) The contractor shall submit to the Authority for approval sixty (60) days after the execution date for the first contract year, an anticipated annual schedule of the service and supply contracts along with the annual work programme and budget, or ninety (90) days before the beginning of subsequent contract years.</p> <p>(2) The schedule of service and supply contracts shall comply with the petroleum agreement and applicable local content requirements.</p> <p>(3) The schedule of service and supply contracts shall include but shall not be limited to:</p> <ol style="list-style-type: none"> <li>a description of the goods, services and works to be procured;</li> <li>procurement method to be used and justification thereof;</li> <li>the estimated contract sum;</li> <li>the estimated duration of the contract.</li> </ol>
<b>Executed service and supply contracts</b>	<p><b>25.</b> (1) Subject to prescribed thresholds in a Petroleum Agreements, a contractor shall submit executed service and supply contracts to the Cabinet Secretary for review, not later than thirty (30) days after the end each quarter, with a contract summary stating:</p> <ol style="list-style-type: none"> <li>description of the goods, services and works provided;</li> <li>procurement method used;</li> </ol>

	<ul style="list-style-type: none"> <li>c. the consideration for the contract;</li> <li>d. The duration of the contract;</li> <li>e. the names of sub-contractors or suppliers;</li> <li>f. classification of contracts as either local or international;</li> <li>g. a brief description of the efforts made to find a Kenyan supplier or contractor including the names of businesses considered and the reasons for rejecting them; and,</li> <li>h. Any other information the Cabinet Secretary may require.</li> </ul>
	<b><i>INVENTORY MANAGEMENT</i></b>
<b>Inventory management</b>	<p><b>26.</b> (1) As far as practicable, and consistent with efficient and economical operation, only material required for upstream petroleum operations shall be procured by the contractor for use in the upstream petroleum operations.</p> <p>(2) The contractor shall:</p> <ul style="list-style-type: none"> <li>(a.) control the acquisition, location, storage and disposition of materials which are subject to accounting record control, physical inventory and adjustment for overages and shortages;</li> <li>(b.) provide codes for every category of inventory items and label inventory in a manner that allows ease of identification for inspection;</li> <li>(c.) keep track of all controllable material and assets used in petroleum upstream operation by maintaining an inventory movement register;</li> <li>(d.) implement contingency planning for inventory to mitigate the effects of supply chain disruptions; and,</li> <li>(e.) utilize inventory management systems or software tailor made for the petroleum industry to improve efficiency and accuracy in inventory management.</li> </ul> <p>(3) Within thirty (30) days after the end of each quarter, the contractor shall notify the Cabinet Secretary, in writing, of all controllable material and assets acquired during the preceding quarter indicating the quantities, costs and location of each controllable material and assets.</p> <p>(4) At reasonable intervals, but at least once a year, with respect to all controllable material and assets, and once every three (3) years with respect to immovable property and assets, inventories of the controllable materials, property and assets under respective petroleum agreement for each block, shall be taken by the contractor.</p> <p>(5) Any repair or replacement costs incurred by the contractor resulting from the contractor's failure to adhere to the maintenance schedule as prescribed in the Petroleum (Upstream Operations) Regulations 2024, shall not be recoverable.</p>

	<p>(6) The contractor shall give the Authority at ninety (90) days written notice of its intention to take such inventory so that the Cabinet Secretary may be represented when such inventory is taken. Such notice period shall commence on the date of receipt of the notice by the Cabinet Secretary.</p> <p>(7) The notice referred to in sub-regulation (6) shall be accompanied by a current list of annual inventory count and list of valued inventories.</p> <p>(8) The contractor shall clearly state the principles upon which valuation of the inventory has been based and shall provide the Cabinet Secretary with a full report of this inventory within thirty (30) days from the conclusion thereof.</p> <p>(9) In the event of defective material, property and assets, any adjustment received by the contractor from the suppliers or manufacturers of such material, property and assets or their agents will be credited to the joint account under the petroleum agreement for each block.</p>
<b>Valuation of Inventory</b>	<p>27. (1) The valuation criteria for material, property and assets purchased from, or sold to affiliates, or transferred to or from activities of the contractor, other than petroleum operations under the petroleum agreement for each block, shall be:</p> <ol style="list-style-type: none"> <li>New material, property and asset (hereinafter referred to as condition A) shall be valued at the prevailing market price which shall not exceed the price prevailing in an arm's length transaction on the open market;</li> <li>Used material, property and assets which are in sound and serviceable condition and are suitable for reuse without reconditioning (hereinafter referred to as condition B) shall be priced at not more than seventy-five percent (75%) of the prevailing market price of the Condition A</li> <li>Used material, property and asset which cannot be classified as condition B, but which, after reconditioning, will be further serviceable for original function as good second-hand condition B or is serviceable for original function, but substantially not suitable for reconditioning (hereinafter referred to as condition C) shall be priced at not more than fifty percent (50%) of the prevailing market price of the material, property and assets in condition A</li> <li>Material, Property and assets which cannot be classified as condition B or condition C shall be priced at a value commensurate with their use.</li> <li>The cost of reconditioning shall be charged to the reconditioned material, property and assets, provided that the condition C material, property</li> </ol>

	and assets value plus the cost of reconditioning does not exceed the value of condition B material, property and assets.
<b>Special Inventories</b>	<p><b>28.</b> (1) Before an assignment of rights under the petroleum agreement takes place, a special inventory may be taken by the contractor at the request of the assignee provided that the costs of such inventory are borne by the assignee.</p> <p>(2) The contractor shall give the Cabinet Secretary at least thirty (30) days written notice of its intention to take special inventory so that the Cabinet Secretary may be represented when such inventory is taken. Such notice period shall commence on the date of receipt of the notice by the Cabinet Secretary.</p>
<b>Reconciliation and Adjustment of Inventories</b>	<p><b>29.</b> (1) Reconciliation of inventory shall be made by the contractor, with a list of shortages and overages being determined; and the inventory statement shall be adjusted accordingly by the contractor.</p> <p>(2) The shortages and overages resulting from the physical inventory shall be reflected in the inventory records of controllable material and assets and the contractor shall provide reasonable explanation for such shortages and overages.</p>
<b>Inventory Charge</b>	<b>30.</b> Inventory shall be charged to the joint account upon utilization in activities that are directly related to activities of a block.
<b>PART 5- ACCOUNTING AND FINANCIAL REPORTING</b>	
<b>Record Keeping</b>	<p><b>31.</b> The contractor or a non-exclusive permit holder shall;</p> <ol style="list-style-type: none"> <li>1) Maintain and regularly update detailed and accurate accounting and financial records, in accordance with relevant laws, best petroleum industry practice and reporting standards approved by the Authority.</li> <li>2) Unless otherwise provided, all records required under the Act and these Regulations shall be submitted in hard copies, and electronic format where applicable.</li> <li>3) Make original records available for the inspection and use by the Cabinet Secretary and the Authority, as the case may be, in carrying out their functions under the Act and these Regulations.</li> </ol>
<b><i>DIVISION 1-Reports and Financial records for Non-Exclusive Exploration Permit</i></b>	
<b>Reports and Financial records for Non-Exclusive Exploration Permit</b>	<p><b>32.</b> (1)A holder of a non-exclusive exploration permit, shall prepare and submit to the Authority for approval, reports and financial records which shall include :</p> <ol style="list-style-type: none"> <li>a. A detailed work programme and budget for the proposed non-exclusive exploration operations.</li> <li>b. Licensing and marketing strategy which shall include the pricing for the data to be marketed and the basis for this price.</li> </ol>

	<ul style="list-style-type: none"> <li>c. All copies of invoices and receipts pertaining to fees paid by third parties for purchase of data on a quarterly basis.</li> <li>d. Quarterly reports of data sales within thirty (30) days of completion of the preceding fiscal quarter</li> <li>e. Quarterly Cost statement within thirty (30) days of completion of the preceding fiscal quarter, related to data acquisition, processing, reprocessing, interpretation, packaging and marketing of the data.</li> <li>f. an annual statement of data sales within sixty (60) days after the lapse of the preceding contract year, clearly indicating for each license the client name, the amount of data in kilometres or square kilometres sold, the rate at which the data was sold in US dollars, the total revenue and the revenue share to be paid to the Cabinet Secretary</li> <li>g. Any other statement, record, or report that the Authority may prescribe.</li> </ul>
<b><i>DIVISION 2- Details of Reports and Financial records to be provided under a Petroleum Agreement</i></b>	
<b>Outline of Charts of Accounts</b>	<p><b>33.</b> (1) A Contractor shall submit a proposed outline of a chart of accounts to the Cabinet Secretary alongside submissions of annual work programme and budget sixty (60) days after the execution date for the first contract year for approval.</p> <p>(2) The chart of accounts shall include sub-accounts or additional levels of detail within each main account category and such accounts, sub-accounts and additional details shall have codes or numbering systems used to organize and categorize systematically.</p> <p>(3) The Cabinet Secretary shall review and approve the proposed outline of chart of accounts alongside the annual work programme and budget, and shall follow the stipulated review and approval process for an annual work programme and budget as provided for in Petroleum (Upstream Petroleum Operations Regulations) 2024, including the review and approval process for proposed amendments to the outline of chart of accounts.</p> <p>(4) In undertaking reviews under Regulation 33 the Authority shall incorporate other relevant state agencies.</p> <p>(5) The Cabinet Secretary shall approve the final version of the chart of accounts as agreed upon by the Contractor and Cabinet Secretary.</p> <p>(6) Any proposed revisions to the final chart of accounts shall be submitted to the Cabinet Secretary for approval before adoption by the Contractor.</p>
<b><i>Monthly and Quarterly Reports</i></b>	

<p><b>Expenditure and receipts report</b></p>	<p><b>34.</b> (1) No later than fourteen (14) days after the end of each month, the Contractor shall submit to the Authority a report on its expenditure and receipts relating to the upstream petroleum operations.</p> <p>(2) The monthly expenditure and receipts report shall include:</p> <ul style="list-style-type: none"> <li>a. the actual expenditure and receipts for the month pursuant;</li> <li>b. cumulative expenditure and receipts for the previous months of that budget year;</li> <li>c. the actual cumulative Petroleum costs to date;</li> <li>d. the latest forecast cumulative cost at the year-end;</li> <li>e. evidentiary support of expenditure including but not limited to technical reports, studies carried out;</li> <li>f. any variations between budgeted costs and actual costs and the Contractor's explanation for each variation on a line-by-line basis; and,</li> <li>g. the total payroll costs segregated between Kenyan and non-Kenyan personnel and the total expenditure segregated between Kenyan and non-Kenyan goods and services.</li> </ul> <p>(3) The expenditure and receipts report shall be prepared on an accrual basis so that expenditure is recorded as incurred when title to goods passes, or when work is executed.</p> <p>(4) Where the contractor is constituted by more than one entity, each such entity shall provide details of its financial accounts related to the upstream petroleum operations such financial accounts shall be deemed to have been jointly agreed and approved among all contractor parties.</p> <p>(5) No later than thirty (30) days after the end of each quarter, the contractor shall submit an aggregated expenditure and receipts report in respect of the three months comprising a quarter.</p>
<p><b>Monthly sales statement</b></p>	<p><b>35.</b> (1) No later than seven (7) days after the end of each month, the Contractor shall provide to the Cabinet Secretary a monthly sales statement.</p> <p>(2) The monthly sales statement shall show calculations of the value of Petroleum produced and sold from the Contract area. The statements shall include the following information: -</p> <ul style="list-style-type: none"> <li>a. inventory of petroleum in storage at the beginning and at the end of the month.</li> <li>b. the value of stocks of petroleum held at the beginning of the reporting month;</li> <li>c. quantities of petroleum produced and saved;</li> <li>d. quantities of petroleum sold by the Contractor during the preceding month constituting arm's length sales together with corresponding sale prices;</li> </ul>

	<ul style="list-style-type: none"> <li>e. quantities of petroleum sold by the Contractor during the preceding month that did not constitute arm's length sales together with corresponding sale prices;</li> <li>f. The quantities Petroleum recycled to the reservoir, Petroleum used in Petroleum Operations or otherwise unavoidably lost;</li> <li>g. the value of stocks of petroleum held at the end of the reporting month; and,</li> <li>h. inventory of petroleum in storage at the end of the reporting month.</li> </ul>
<b>Value of production and pricing quarterly statement</b>	<p><b>36.</b> (1) The Contractor shall prepare and submit to the Cabinet Secretary, quarterly, statement providing calculations of the value petroleum produced and saved and in stock each quarter from the Contract area in accordance with the Act and a petroleum agreement.</p> <p>(2) Produced Volume, gross and net production by Block or field, as applicable.</p> <p>(3) Pricing Information with details on the average prices received for each product.</p> <p>(4) Revenue Calculation based on the production volume and pricing for sales during the quarter.</p> <p>(5) Production efficiency, average realized prices compared to benchmark prices, and profit margins.</p>
<b>Quarterly Cost recovery statement</b>	<p><b>37.</b> (1) No later than thirty (30) days after the end of each quarter, the Contractor shall submit a quarterly cost recovery statement to the Cabinet Secretary.</p> <p>(2) The quarterly cost recovery statement under this section shall contain, but not limited to, the following information—</p> <ul style="list-style-type: none"> <li>a. Recoverable petroleum costs carried forward from the previous quarter, if any;</li> <li>b. recoverable petroleum costs during the quarter;</li> <li>c. cumulative recoverable petroleum costs at the end of the quarter;</li> <li>d. quantity and value of Cost Petroleum taken disposed of by the Contractor for the quarter;</li> <li>e. amount of recoverable petroleum costs to be carried forward into the next quarter if any;</li> <li>f. the total cumulative amount of petroleum costs recovered up to the end of that Quarter; and</li> <li>g. value of the Government's share of production under a Petroleum Agreement.</li> </ul> <p>(3) The items in the cost recovery statement shall be presented following the provisions of Regulation 16</p> <p>(4) The cost recovery information required pursuant to the sub-regulation (3) shall be presented in detail so as to</p>



	enable Cabinet Secretary to identify how the costs are being recovered.
<b>Quarterly Profit-sharing statement</b>	<p><b>38.</b> (1) The Contractor shall prepare and submit, with respect to each quarter, a profit-sharing statement to the Cabinet Secretary not later than thirty (30) days after the end of such quarter, containing the following information:</p> <ol style="list-style-type: none"> <li>The total amount of profit petroleum for the quarter in question.</li> <li>The share of profit petroleum according to the value of the R-Factor at the end of the quarter.</li> <li>The amount of Profit Petroleum due to each party where Government chooses to exercise its participation rights.</li> </ol>
<b>Inventory Statement</b>	<p><b>39.</b> The contractor shall provide to the Cabinet Secretary on a quarterly basis, an inventory statement containing but not limited to:</p> <ol style="list-style-type: none"> <li>description and codes of all controllable material and assets specified in the manuals prepared by Contractor;</li> <li>the amount charged to the joint account for each controllable material and asset;</li> <li>controllable material and assets purchased in the quarter</li> <li>controllable material and assets sold in the quarter</li> <li>the date on which each all controllable material and assets was charged to the joint account; and</li> <li>the status of recovery of costs for such controllable material and assets pursuant to auditing and adjustments</li> </ol>
<b><i>Annual statements and reports</i></b>	
<b>Annual work programme and budget</b>	<p><b>40.</b> The contractor shall submit the annual work program and budget in accordance with Regulations 16 and 33, the Act, Petroleum (Upstream petroleum operations) Regulations 2024, and a petroleum agreement.</p>
<b>Annual Profit sharing statement</b>	<p><b>41.</b> (1) Not later than sixty (60) days after the end of each contract year the contractor under a petroleum agreement shall submit to the cabinet secretary and the authority an annual profit sharing statement.</p> <p>(2) The contractor shall prepare an annual profit-sharing statement containing the following information: -</p> <ol style="list-style-type: none"> <li>The calculation of the applicable profit petroleum as provided for in respective petroleum agreement for the contract year.</li> <li>The total amount of profit petroleum shared between the government and the contractor for the contract year.</li> <li>The respective amount of profit petroleum for government and the contractor for the contract year.</li> </ol>

	d. The amount of profit petroleum paid to each joint venture party where government chooses to exercise its participation rights for the contract Year.
<b>Annual audit report</b>	<p><b>42.</b> (1) A contractor shall within thirty (30) days after the end of each contract year, appoint an independent auditor of international standing approved by the Authority to audit the accounts and records of upstream petroleum operations.</p> <p>(2) The cost of the audit under sub regulation 1 shall be chargeable to the joint account.</p> <p>(3) The contractor shall, not later than one hundred and twenty (120) days submit the audit report under sub-regulation 1 which shall state in the opinion of the independent auditors whether the audited accounts and records:</p> <ol style="list-style-type: none"> <li>reflect a true and fair view of the actual expenditure of the contractor in accordance with the provisions of the petroleum agreement.</li> <li>Reflect the value of petroleum revenue as fairly determined by the arm's length disposals of petroleum during the year.</li> </ol>
<b><i>DECOMMISSIONING</i></b>	
<b>Decommissioning fund</b>	<p><b>43.</b> (1) A contractor shall comply with the provisions of the Petroleum (Upstream Petroleum Operations) Regulations 2024 in conducting petroleum operations</p> <p>(2) The amount to be deposited to the fund for each quarter shall be determined in accordance with the following formula:</p> $\text{FTA} = (\text{ECA} - \text{AFB}) \times \text{CPP/PRR}$ <p>Where:</p> <ol style="list-style-type: none"> <li><b>FTA</b> is the amount to be accrued for future plugging and abandonment and decommissioning costs in respect of the relevant calendar quarter.</li> <li><b>ECA</b> is the total estimated cost of plugging and abandonment and decommissioning operations established pursuant to these regulations, Operations regulations, Petroleum Agreement, and the Act</li> <li><b>CPP</b> is the volume of petroleum produced during the calendar quarter in which the plugging and abandonment and decommissioning accrual was booked.</li> <li><b>PRR</b> is the contractor's estimated remaining recoverable reserves at the end of the calendar quarter in which the plugging and abandonment and decommissioning accrual was booked; as such estimate may be revised by the contractor from time to time.</li> </ol>

	<p>v. <b>AFB</b> is the accrued decommissioning fund at the end of the previous calendar quarter including accrued interest on the escrow account.</p>
<b>Decommissioning fund statement</b>	<p><b>44.</b> (1) The contractor shall provide a decommissioning fund statement no later than thirty (30) days after the end of each quarter in a contract year, following the first payment into the relevant fund.</p> <p>(2) The decommissioning fund statement shall detail—</p> <ol style="list-style-type: none"> <li>total estimated decommissioning costs;</li> <li>the amount deposited into the fund for the previous quarter;</li> <li>the total amount in the fund;</li> <li>details of all previous payments into the fund including any accrued interest; and</li> <li>any further information as the Cabinet Secretary may direct.</li> </ol>
<b>Decommissioning costs statement</b>	<p><b>45.</b> (1) During the decommissioning period, the Contractor shall submit:</p> <ol style="list-style-type: none"> <li>A decommissioning cost statement which shall provide details as outlined in the approved budgets in the decommissioning plan thirty (30) days after the end of the quarter to the Cabinet Secretary.</li> <li>A decommissioning report as prescribed in the Petroleum (Upstream Petroleum Operations) Regulations 2024.</li> <li>Any other information the Cabinet Secretary may require.</li> </ol>
<b>PART 6 - AUDITS</b>	
<b>Audit and Inspection Rights of Government under a petroleum agreement</b>	<p><b>46.</b> (1) An audit shall be conducted in accordance with the Act, these Regulations and a Petroleum Agreement.</p> <p>(2) The audit and inspection right shall extend to the operations beyond the Delivery Point, as prescribed in a petroleum agreement, which affect the measurement and valuation of Petroleum.</p> <p>(3) The contractor shall cooperate with the Authority, or persons authorized by the Authority, as the case may be.</p> <p>(4) The Authority retains the right to review and audit the contractor's books and records, with respect to petroleum operations.</p> <p>(5) The contractor shall, in relation to an audit:</p> <ol style="list-style-type: none"> <li>Provide prompt access to complete and verifiable documents and records in original format, as required for the audit;</li> <li>Provide prompt and accurate answers to all queries relating to the audit</li> <li>Bear the burden of proof that petroleum costs are duly incurred, paid and charged.</li> </ol>

	<p>(6) Where the Authority intends to conduct an audit under sub-regulation (1), the Authority shall give the contractor thirty (30) days written notice.</p> <p>(7) The Authority shall have the right to access and inspect all sites, plants, facilities, warehouses and offices of the contractor directly or indirectly serving its activities under the Petroleum Agreement and to visit and make direct inquiries to the contractor's personnel associated with those activities.</p> <p>(8) Where the Authority requires further supporting documents to verify charges made, the contractor shall promptly provide such information.</p> <p>(9) Nothing in these Regulations shall be construed as limiting any other the right of the Authority or any government officer or a government entity pursuant to any power granted by law, to audit or cause to be audited the books and accounts of a contractor.</p>
<b>Audit of Non-Exclusive Exploration Permits</b>	<b>47.</b> A non-exclusive permit holder shall put in place an accounting system to track revenues and costs associated with operations related to the permit and shall allow auditing as maybe required by the Authority
<b>Record Retention</b>	<p><b>48.</b> All books of accounts, records and documents shall be preserved by the contractor in original format and be made available to the Authority on request until the later of the following dates, whichever is later:</p> <ol style="list-style-type: none"> <li>Ten (10) years after the termination of a petroleum agreement ;</li> <li>if any cost, amount or issue is under dispute, the date by which that dispute is resolved.</li> </ol>
<b>Notice of discrepancy</b>	<p><b>49.</b> (1) Where an audit by the Authority has established a discrepancy, the Authority shall notify the contractor or permit holder within ninety (90) days of the issuance of the final audit report.</p> <p>(2) The contractor shall respond to the Authority within sixty (60) days upon receipt of the notice of discrepancy, either by accepting each audit findings or raising an objection to the findings and shall provide a comprehensive response to each discrepancy.</p> <p>(3) The authority shall deem the audit findings accepted where:</p> <ol style="list-style-type: none"> <li>The contractor accepts the findings of the audit, or;</li> <li>The time period for raising an objection under sub-regulation (2) has lapsed.</li> </ol> <p>(4) Any dispute that may arise as the result of an audit under this section shall be resolved in accordance with the dispute resolution mechanisms in the relevant petroleum agreement.</p>

<b>Audit settlement after a notice of discrepancy</b>	<p><b>50.</b> (1) On the acceptance of the audit findings, or the subsequent resolution of any discrepancy or dispute, the contractor and the Authority, as the case may be, shall make adjustments as may be necessary.</p> <p>(2) Subject to any adjustments under sub regulation (1) reports and statements shall be considered final.</p> <p>(3) Notwithstanding any contrary provisions herein or in the Petroleum Agreement, if in a subsequent period an issue or error is identified, or in circumstances where fraud or willful misconduct is alleged to have occurred at any period, the Authority shall have the right to re-examine reports and statements otherwise considered final or not previously audited.</p>
<b>Notice of Exception</b>	<p><b>51.</b> (1) Where the Authority, at any time during the implementation of a petroleum agreement, observes an exception, anomaly or any other discrepancy with respect to any matter provided for under these Regulations, it shall communicate such exceptions, anomaly or discrepancy to the contractor through a notice of exception.</p> <p>(2) Upon receipt of a notice of exception, the contractor or a permit holder shall, within the period prescribed by the Authority therein, provide adequate response to the Authority.</p> <p>(3) Subject to sub regulation (1), the Authority may, upon satisfaction that any exception, anomaly or discrepancy has been adequately addressed by the Contractor or permit holder, issue a notice of clearance in accordance with confirming that the matter has been closed.</p>
<b>Dispute Resolution</b>	<p><b>52.</b> Any question or dispute arising from anything done under these Regulations, shall be resolved in accordance with the Act and Petroleum Agreement.</p>
<b>Guidelines</b>	<p><b>53.</b> The Cabinet Secretary in consultation with the Authority may issue any further guidelines, processes, instructions, forms, or templates to contractors or permit holders, as may be considered necessary, practical or prudent for the effective operationalization of these Regulations, which may be amended from time to time.</p>
<b>Offences and penalties</b>	<p><b>54.</b> (1) A person who:</p> <ol style="list-style-type: none"> <li>provides false or misleading information or fails to furnish information required to the Government or its appointed representative, in any matter in these Regulations commits an offence, and shall on conviction be liable to penalties as prescribed under section 48 of the Act.</li> <li>fails to give access or allow any inspection authorised under these regulations commits an offence and is liable on conviction to a fine not less than twenty million Kenya shillings.</li> </ol>

	<p>iii. contravenes provisions of these Regulations for which no specific penalty is provided for, shall on conviction be liable to penalties as prescribed under section 124 of the Act.</p>
--	---

**FIRST SCHEDULE**  
**Recoverable Costs**  
**Regulation 11**

1. Labour and related costs	<ul style="list-style-type: none"> <li>i. Salaries and wages of employees of the operator and its affiliate(s) for portion of their time spent performing management, administrative, legal, accounting, treasury, tax, employee relations, computer services, engineering, geological, geophysical, and all other functions for the benefit of petroleum operation, whether temporarily or permanently assigned to the contract area, as well as the cost of employee benefits, customary allowances and personal expenses incurred under the usual practice of the operator and its affiliate(s) and amounts imposed by governmental authorities, which are applicable to such employees.</li> <li>ii. For purposes of costs recovery, gross salaries and wages for the contractor's employees shall not exceed commercial obtainable salaries and wages in best petroleum industry practice and shall be reviewed and approved by the Authority on annual basis.</li> </ul>
2. Transportation and Employee Relocation	<ul style="list-style-type: none"> <li>i. Transportation of material and other related costs such as origin services, expediting, crating, dock charges, forwarder's charges, surface and air freight, and customs clearance and other destination services.</li> <li>ii. Transportation of employees as required in the conduct of upstream petroleum operations, including employees of the operator's affiliate(s) whose salaries and wages are chargeable under sub-clause (i) and 3(ii).</li> <li>iii. Relocation costs of the contract area vicinity of employees permanently or temporarily assigned to upstream petroleum operations. Relocation costs from the contract area vicinity, except when an employee is re-assigned to another location classified as a foreign location by the operator. Such costs include transportation of employees' families and their personal and household effects and all other relocation costs in accordance with the usual practice of the operator and its affiliate(s)</li> </ul>
3. Charges for services	<ul style="list-style-type: none"> <li>i. The actual costs of contract services, professional consultants, and other services performed by third parties other than services provided by the contractor or its affiliate(s), but the prices paid by</li> </ul>

	<p>the contractor shall not be higher than those generally charged for comparable services.</p> <p>ii. Costs of technical services, such as but not limited to, engineering, and related data processing, performed by the contractor and its affiliate(s) for the direct benefit of upstream petroleum operations, engineering and related data processing, performed by the contractor provided such costs shall not exceed those currently prevailing if performed by third parties in normal arm's length transaction for like services.</p> <p>iii. Costs of use of equipment and facilities for the direct benefit of the upstream petroleum operations, furnished by contractor or its affiliate(s) at rates commensurate with the cost of ownership, or rental, and the cost of operation thereof, but such rates shall not exceed those currently prevailing in the general vicinity of the contract area in normal arm's length transactions on the open market for like services and equipment.</p>
4. Material and equipment	<p>i. The cost of material, equipment and supplies purchased or furnished by the operator for use in upstream petroleum operations shall be charged to the joint account on the basis set forth below. So far as it is reasonably practical and consistent with efficient and economical operations, only such material shall be purchased for or transferred to the joint property as may be required for immediate use and/or for approved work programmes and the accumulation of surplus stock shall be avoided.</p> <p>ii. Except as otherwise provided in sub-clause (iii) below, material purchased, leased or rented shall be charged at the actual net cost incurred by the operator. "Net cost" shall include, but shall not be limited to, such items as vendor's invoice price, transportation, duties, fees and applicable taxes less all discounts actually received.</p> <p>iii. Material purchased or transferred from the contractor or its affiliate(s) shall be charged at the prices specified here below—</p> <p>a) New material (condition "A") shall be valued at the current international net cost which shall not exceed the price prevailing in normal arm's length transactions on the open market;</p> <p>b) Used material (conditions "B", "C" and "D")—</p>



	<ul style="list-style-type: none"> <li>i. material which is in sound and serviceable condition and is suitable for re-use without reconditioning shall be classified as condition “B” and priced at seventy-five per cent (75%) of the current price of new material defined in clause (iii)(a) above;</li> <li>ii. material which cannot be classified as condition “B” but which after reconditioning will be further serviceable for its original function shall be classified as condition “C” and priced at fifty percent (50%) of the current price of new material as defined in clause (iii)(a) above. The cost of reconditioning shall be charged to the reconditioned material provided that the value of condition “C” material plus the cost of reconditioning do not exceed the value of condition “B” material;</li> <li>iii. material which cannot be classified as condition “B” or condition “C” shall be classified as condition “D” and priced at a value commensurate with its use</li> </ul>
5. Inventories	All Inventories charged to the joint account for activities that are directly related to upstream petroleum operations for a contract area.
6. Uninsured damages and Losses to Joint Property	All costs or expenses necessary for the repair or replacement of joint property resulting from damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, except insofar as those costs and expenses are caused by the willful misconduct of the operator and not insured. The operator shall furnish the Government and non- operator(s) written notice of damages or losses for each damage or loss in excess of fifty thousand U.S. dollars (U.S.\$50,000) as soon as the loss has come to the notice of the contractor.
7. Insurance	Premiums for insurance required under the contract, provided that a party not participating in such insurance shall not share in the costs unless such insurance is compulsory under the laws of Kenya and provided further, that if such insurance is wholly or partly placed with an affiliate of the contractor such premiums shall be recoverable only to the extent generally charged by competitive insurance companies other than an affiliate of the contractor.
8. Legal expenses	All costs or expenses of litigation or legal services otherwise necessary or expedient for the protection of the joint property or other interest in the contract area,

	including but not limited to legal counsel's salaries and fees, court costs and cost of investigation or procuring evidence. These services may be performed by the operator's legal staff or an outside firm as necessary.
9. Duties and Taxes	All duties, taxes (except taxes based on income, profit or gains), fees, and governmental assessments of every kind and nature which have been paid by the contractor with respect to the contract unless specifically excluded under this contract.
10. Offices, Camps and Miscellaneous Facilities	Cost of establishing, maintaining and operating the offices, sub-offices, camps, warehouses, housing and other facilities directly serving upstream petroleum operations. The costs shall be allocated to the operations served on an equitable basis.
11. General and Administrative Expenses	<ul style="list-style-type: none"> <li>i This charge shall be made monthly for services of all personnel and officers of the operator and its affiliate(s) outside Kenya and those not otherwise provided herein. It shall include services and related office costs of personnel performing management, administrative, legal, accounting, treasury, tax, employee relations, computer services, purchasing, engineering, geological, geophysical, and all other functions for the direct benefit of upstream petroleum operations. General and administrative expenses incurred wholly and exclusively for the Kenyan operations are wholly deductible. General and administrative expenses which have not been incurred wholly and exclusively incurred for Kenyan operations will be charged on an allocation criterion provided by the contractor subject to approval of the Cabinet Secretary and Kenyan Tax Authorities.</li> <li>ii Within ninety (90) days following the end of each quarter, the operator shall determine the actual costs incurred in performing such services, and shall charge or credit the joint account for the difference between the actual cost incurred for the quarter and the provisional rate charged during the quarter.</li> <li>iii On request of the Government or a non-operator, the operator shall make available at its Kenyan office all supporting documents used for the determination of the charges. Such documents shall include but shall not be limited to time allocation reports prepared by employees providing services described in part, cash vouchers supporting cash expenses</li> </ul>

	included in the overhead pool, inter- company billings supporting charges for services provided by operator's affiliates (e.g. building rentals, telecommunications paid by the operator's parent company), summary or impersonalized computer run supporting salaries, wages and employee benefits and other such documents as may be mutually agreed.
12. Any other petroleum costs incurred and paid in the conduct of upstream petroleum operations and approved as recoverable by the Authority.	

**SECOND SCHEDULE**  
**Non-Recoverable Costs**  
**Regulation 12**

<b>Non-Recoverable Costs</b>	<p>Costs and expenses not specifically identified as recoverable in this clause shall not be recoverable by the contractor. Such non-recoverable costs and expenses include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>a) taxes on income or profit paid to any government authority;</li> <li>b) any payment made to the government by reason of the failure of the contractor to fulfil its minimum work and expenditure obligations in respect of the initial exploration period, the first additional exploration period, or the second additional exploration period;</li> <li>c) cost of any letter of guarantee, if any;</li> <li>d) signature bonus;</li> <li>e) surface fees;</li> <li>f) training fees and other related costs.</li> <li>g) costs of marketing or transportation of petroleum beyond the delivery point;</li> <li>h) interest, arrangement costs and any foreign exchange costs relating to loans or other financing arrangements raised by the contractor for capital expenditure in upstream petroleum operations;</li> <li>i) any accounting provision for depreciation and/or amortization, excluding any depreciation and/or amortization expressly permitted;</li> <li>j) costs incurred before the Effective Date; Any foreign exchange and currency hedging costs;</li> <li>k) Donations or charitable contributions and/or services relating to public relations;</li> <li>l) Costs that were not incurred within an approved Annual Work Program and Budget;</li> <li>m) Decommissioning Costs actually incurred which have been effectively funded from the decommissioning fund through contributions made to such fund which are already recovered;</li> <li>n) Costs in excess of those in line with the international market price for goods or services of similar quality supplied on similar terms prevailing at the time such goods or services were obtained or ordered by the contractor;</li> <li>o) Expenditures on research and development of new equipment, materials and techniques;</li> <li>p) Costs for which the records do not exist or which are not adequately documented;</li> </ul>
------------------------------	---

	<ul style="list-style-type: none"> <li>q) Costs of litigation, arbitration, mediation, expert determination or settlement, in respect of any dispute whether or not such costs are awarded to a contractor by a court, tribunal or an expert;</li> <li>r) Fines and penalties imposed under the laws of Kenya;</li> <li>s) Costs due to a violation to this contract or the laws and regulations applicable to the upstream petroleum operations, including any amount spent on indemnities or penalties arising from the non-fulfilment of contractual obligations, such as any payment made to the government by reason of the failing of the contractor to fulfil its minimum exploration work and expenditure obligations;</li> <li>t) Costs incurred as a result of wilful misconduct or negligence of the contractor, its agents or subcontractors, including any payments for any kind of damages;</li> <li>u) The acquisition costs or any other payments or charges in relation with the transfer of an interest in accordance with the petroleum agreement, including but not limited to any payments of considerations, private overriding royalties net profits and interests;</li> <li>v) Interest and financing charges incurred on loans or other forms of financial accommodation raised by the contractor for expenditure in upstream petroleum operations;</li> <li>w) Corporate social responsibility costs or social investment project costs, community development project costs; and</li> <li>x) Any costs not reasonably required for the upstream petroleum operations;</li> <li>y) any recoverable costs recovered elsewhere under the Kenyan laws.</li> </ul>
--	--