OANDO PLC

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

Table of contents

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008, which disclose the state of affairs of the group and of the company.

PRINCIPAL ACTIVITIES

The principal activities of the Company locally and internationally is to have strategic investments in energy companies across West Africa. The group is involved in the following business activities via its subsidiary companies:
a) Marketing of petroleum products, manufacturing and blending of lubricants - Oando Marketing Limited
b) Distribution of natural gas for industrial customers - Gaslink Nigeria Limited
c) Supply and distribution of petroleum products - Oando Supply and Trading, Nigeria; and Oando Trading, Bermuda
d) Energy services to upstream companies - Oando Energy Services
e) Exploration and Production - Oando Exploration and Production

The company's registered address is 2 Ajose Adeogun Street Victoria Island, Lagos, Nigeria

RESULTS AND DIVIDEND

The net profit for the year of US$74.544million has been added to retained earnings. An interim dividend of US$23.244million was paid during the year. The directors recommend the approval of a final dividend of US$20.762million (2007: US$38.9million), subject to the approval of the shareholders at the next Annual General Meeting.

DIRECTORS

The directors who held office during the year and to the date of this report were:

Maj. Gen. M. Magoro (Rtd)	(Chairman)
Mr. J.A.Tinubu	(Group Managing Director/CEO)
Mr. G.O. Boyo	(Deputy Group Managing Director)
Mr. B. Osunsanya	(Executive Director)
Mr. A. Akinrele, SAN	(Non-executive Director)
Prince F.N. Atako, JP	(Non-executive Director)
Alhaji H. Mahmud	(Non-executive Director)
Mr. I. Osakwe	(Non-executive Director)
HRM. Oba A. Gbadebo	(Non-executive Director)
Mr. O. Ibru	(Non-executive Director)
Mr. O.P. Okoloko	(Non-executive Director)
Mr. N. Burney	(Non-executive Director – appointed 27 May 2008)

AUDITORS

The company's auditors, PricewaterhouseCoopers, having expressed willingness, will continue in office in accordance with Section 357(2) of the Companies and Allied Matters Act.

By order of the Board

SECRETARY

_________________ 2009

The directors accept responsibility for the annual 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.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its profit or loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director Director

……….2009

PricewaterhouseCoopers
Chartered Accountants
252E Muri Okunola Street
Victoria Island
Lagos, Nigeria

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OANDO PLC

We have audited the accompanying financial statements of Oando Plc for the year ended 31 December 2008. These financial statements comprise the consolidated balance sheet at 31 December 2008, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's responsibility

Our responsibility is to express an independent opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2008 and of its consolidated profit and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants ….2009
Lagos, Nigeria

Consolidated income statement

	Notes	Year ended 31 December 2008 US$'000	2007 US$'000
Revenue	5	2,686,544	1,501,794
Cost of sales		(2,360,439)	(1,328,514)
Gross profit		326,105	173,280
Other operating income		15,347	19,963
Selling and marketing costs		(61,108)	(46,229)
Administrative expenses		(142,287)	(82,885)
Operating profit	6	138,057	64,129
Finance income	8	38,908	7,039
Finance costs	8	(86,040)	(10,476)
Finance costs - net	8	(47,132)	(3,437)
Profit before income tax		90,925	60,692
Income tax expense	9	(16,346)	(10,888)
Profit for the year from continuing operations		74,579	49,804
Attributable to:			
Equity holders of the company – transferred to retained earnings		74,544	43,944
Minority interests (Note 29.1)		35	5,860
		74,579	49,804
Earnings per share for profit attributable to the equity holders - basic and diluted (US$ per share)	10	8.24	6.94

The statement of significant accounting policies and notes on pages 9 to 51 form an integral part of these financial statements.

Consolidated balance sheet

	Notes	At 31 December 2008 US$'000	2007 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	693,489	346,679
Intangible assets	18	175,036	197,255
Deferred income tax asset	15	17,008	2,207
Available-for-sale financial assets	19	20	90
Non-current receivables and prepayments	20	114,176	97,755
		999,729	643,986
Current assets			
Inventories	21	122,927	212,636
Trade and other receivables	22	716,015	401,098
Cash and cash equivalents	23	374,635	147,974
		1,213,577	761,708
Total assets		**2,213,306**	**1,405,694**
EQUITY			
Capital and reserves attributable to equity holders			
Share capital	12	3,541	2,896
Share premium	12	231,533	232,909
Other reserves	13	39,840	85,201
Retained earnings		66,430	53,736
		341,344	374,742
Minority interest		1,647	1,612
Total equity		342,991	376,354
LIABILITIES			
Non-current liabilities			
Borrowings	14	318,864	152,454
Deferred income tax liabilities	15	74,276	44,806
Retirement benefit obligation		-	2,695
Provisions for other liabilities and charges	16	9,460	3,657
		402,600	203,612
Current liabilities			
Trade and other payables	24	353,350	361,903
Current income tax		25,667	11,248
Borrowings	14	1,088,698	452,577
		1,467,715	825,728
Total liabilities		1,870,315	1,029,340
Total equity and liabilities		**2,213,306**	**1,405,694**

The notes on pages 9 to 51 form an integral part of these financial statements.

The financial statements on pages 5 to 51 were approved for issue by the board of directors on …2009 and signed on its behalf by:

Director **Director**

Consolidated statement of changes in equity

	Notes	Attributable to equity holders of the Company			Minority Interest	Total equity
		Share capital	Other reserves*	Retained earnings		
		US$'000	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2007						
At start of year		122,904	18,475	28,025	14,645	184,049
Currency translation differences	13	-	21,141	-	-	21,141
Revaluation surplus on Property Plant and Equipment	13	-	66,311	-	-	66,311
Deferred tax on revaluation surplus	13	-	(20,553)	-	-	(20,553)
Fair value gains on available-for-sale financial assets	13	-	(173)	-	-	(173)
Net gains recognised directly in equity		-	66,726			66,726
Profit for the year		-	-	43,944	5,860	49,804
Total recognised income for 2007		-	66,726	43,944	5,860	116,530
Issue of shares (net of issue costs)	12	112,901	-	-	-	112,901
Disposal of minority interests		-	-	-	(18,893)	(18,893)
Dividends:						
- Final for 2006		-	-	(18,233)	-	(18,233)
At end of year		235,805	85,201	53,736	1,612	376,354
Year ended 31 December 2008						
At start of year		235,805	85,201	53,736	1,612	376,354
Currency translation differences	13		(41,708)			(41,708)
Reversal of revaluation surplus	13	-	(5,213)	-	-	(5,213)
Deferred tax on revaluation surplus	13	-	1,564	-	-	1,564
Fair value loss on available-for-sale financial assets	13	-	(4)	-	-	(4)
Value of employee services – share option scheme and award		-	-	570	-	570
Tax credit relating to share option and award		-	-	171	-	171
Net gains recognised directly in equity		-	(45,361)	741	-	(44,620)
Profit for the year		-	-	74,544	35	74,579
Total recognised income for 2008		-	(45,361)	75,285	35	29,959
Bonus issue	12	645	-	(645)	-	-
Share issue costs	12	(1,376)	-	-	-	(1,376)
Dividends:						
- Final for 2007		-	-	(38,722)	-	(38,722)
- Interim for 2008		-	-	(23,224)	-	(23,224)
At end of year		235,074	39,840	66,430	1,647	342,991

*Other reserves include revaluation surplus, currency translation reserves and fair value reserves. See note 13.
"The share options and award reserves of US$0.74 million (net of tax credit of 0.17 million) included in retained earnings is not distributable.

The notes on pages 9 to 51 form an integral part of these financial statements.

Consolidated cash flow statement

	Notes	Year ended 31 December 2008 US$'000	2007 US$'000
Operating activities			
Cash (used in)/generated from operations	25	(28,083)	19,174
Interest received		30,908	7,039
Interest paid		(85,804)	(10,290)
Income tax paid		(7,537)	(5,483)
Net cash (used in)/generated from operating activities		(90,516)	10,440
Investing activities			
Purchase of property, plant and equipment	17	(424,885)	(111,789)
Purchase of intangible assets	18	(581)	(30,476)
Proceeds from disposal of property, plant and equipment		2,145	13,824
Increase in non-current receivable (gas pipeline construction)	20	(15,624)	(58,470)
Net cash used in investing activities		(438,945)	(186,911)
Financing activities			
Proceeds from borrowings		785,558	511,707
Repayments of borrowings		(88,159)	(200,645)
Finance lease principal payments		(1,550)	(2,598)
Dividends paid to company's shareholders		(61,946)	(18,233)
Net cash from financing activities		633,903	290,231
Net increase in cash and cash equivalents		104,442	113,760
			113,760
Movement in cash and cash equivalents			
At start of year		66,249	(52,440)
Net increase		104,442	113,760
Effects of exchange rate changes		15,537	4,929
At end of year	23	186,228	66,249

The notes on pages 9 to 51 form an integral part of these financial statements.

Notes to the consolidated financial statements

1 General information

Oando Plc (formerly Unipetrol Nigeria Plc) was registered by a special resolution as a result of the acquisition of the shareholding of Esso Africa Incorporated (principal shareholder of Esso Standard Nigeria Limited) by the Federal Government of Nigeria. It was partially privatised in 1991 and fully privatised in the year 2000 following the disposal of the 40% shareholding of Federal Government of Nigeria to Ocean and Oil Investments Limited and the Nigerian public. In December 2002, the company merged with Agip Nigeria Plc following its acquisition of 60% of Agip Petroli's stake in Agip Nigeria Plc. The Company formally changed its name from Unipetrol Nigeria Plc to Oando Plc in December 2003.

Oando Plc ("the Company") and its subsidiaries (together "the Group") have their primary listing on the Lagos Stock Exchange and a secondary listing on the JSE Limited (Johannesburg Stock Exchange). The Group has marketing and distribution outlets in Nigeria, Ghana and Togo and other smaller markets along the West African coast. During the year, Oando Plc transferred its petroleum marketing business and equity interests in other marketing companies to a new fully owned subsidiary, Oando Marketing Limited. The Group has 100% interests respectively in two trading companies, Oando Trading (Bermuda) and Oando Supply and Trading (Nigeria). These entities mainly supply petroleum products to marketing companies and large industrial customers.

The Group provides energy services to Exploration and Production (E&P) companies through its fully owned subsidiary, Oando Energy Services. The Group also operates in the E&P sector through Oando Exploration and Production Limited (100%), Oando Production and Development Company (95%) and, recently, OML 125 & 134 Limited. Other subsidiaries within the Group and their respective lines of business, including Gas and Power, are shown in note 29.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these Consolidated Annual Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The Consolidated Annual Financial Statements are prepared in compliance with International Financial Reporting Standards (IFRS). The Consolidated Annual Financial Statements are presented in the presentation currency, United States Dollars (US$), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the revaluation of land and buildings and available for sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Interpretations effective in 2008

IFRIC 11, 'IFRS 2 – 'Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have a material impact on the group's financial statements.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the group's financial statements, as the group operates a defined contribution scheme.

IFRIC 12, 'Service concession arrangements- This Interpretation gives guidance on the accounting by operators for public-to-private service concession arrangements. This interpretation does not have any impact on the group's financial statements.

Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the group's operations:

IFRIC 13, 'Customer loyalty programmes'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2009 or later periods, but the group has not early adopted them:

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009) The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group's policy on borrowing costs is already in compliance with the amendment.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the group's financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IAS 32 (Amendment), ‘Financial instruments: Presentation’, and IAS 1 (Amendment), ‘Presentation of financial statements’ – ‘Puttable financial instruments and obligations arising on liquidation’ (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The group will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the group’s financial statements.

IFRS 3 (Revised), ‘Business combinations’ (effective from 1 July 2009). IFRS 3 (Revised), ‘Business combinations’ (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IFRS 5 (Amendment), ‘Non-current assets held-for-sale and discontinued operations’ (and consequential amendment to IFRS 1, ‘First-time adoption’) (effective from 1 July2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRS. The group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

IAS 36 (Amendment), ‘Impairment of assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The group will apply the IAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009. This is currently not applicable to the group.

IAS 38 (Amendment), ‘Intangible assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This is currently not applicable to the group.

IAS 39 (Amendment), ‘Financial instruments: Recognition and measurement’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008.

– This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

– The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

– The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, ‘Operating segments’, which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with group treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate.

– When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the group's income statement.

IFRS 8, 'Operating segments' (effective from 1 January 2009). The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The group will apply IFRS 8 prospectively from 1 January 2009.

There are a number of minor amendments to IFRS 7, 'Financial instruments; Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the group's accounts and have therefore not been analysed in detail.

IFRS 1 amendment and IAS 27 amendment (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment will not have any impact on the group's financial statements.

IAS 28 amendment and consequential amendments to IAS 32 and IFRS 7 (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. This is currently not applicable to the group as there are no associated companies.

IAS 19 amendment (effective 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
– IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent. The group will apply the IAS 19 (Amendment) from 1 January 2009

IAS 16 (Amendments) 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the group's operations because none of the group's companies ordinary activities comprise renting and subsequently selling assets.

IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the group's operations, as none of the group's subsidiaries or associates operate in hyperinflationary economies.

IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation', and IFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the group's operations as there are no interests held in joint ventures.

IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date of construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the group's operations, as there are no investment properties are held by the group.

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the group's operations as no agricultural activities are undertaken.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The amendment does not have impact on the group's financial statements as the group does not hold hedged investments.

IFRIC 15, 'Agreements for construction of real estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction contracts', should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

(b) Consolidation

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Transactions with minority shareholders – 'economic entity approach'

Consolidation (continued)

The group applies a policy of treating transactions with minority interests as transactions with equity owners of the group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the company (stand alone) is Naira. These consolidated financial statements are presented in United States of America Dollars (US$), which is the Group's presentation currency for the purposes of filing outside Nigeria.

(ii) Transactions and balances in group entities

Foreign currency transactions are translated into the functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions or the date of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(iii) Consolidation of group entities

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss account are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

(e) Revenue recognition

Generally, revenue represents the fair value of the consideration received or receivable for sales of goods and services, in the ordinary course of the group's activities and is stated net of value-added tax (VAT), rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below:

Revenue recognition (continued)

Revenue from sales of oil, natural gas, chemicals and all other products is recognised at the fair value of consideration received or receivable, after deducting sales taxes, excise duties and similar levies, when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

In Exploration & Production and Gas & Power this generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism. For sales by refining companies, it is either when product is placed onboard a vessel or offloaded from the vessel, depending on the contractually agreed terms. For wholesale sales of oil products and chemicals it is either at the point of delivery or the point of receipt, depending on contractual conditions.

Revenue resulting from the production of oil and natural gas properties in which Oando has an interest with other producers is recognised on the basis of Oando's working interest (entitlement method).

Sales between subsidiaries, as disclosed in the segment information, are based on prices generally equivalent to commercially available prices.

Sales of services are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings and freehold land are subsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the profit and loss account.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	2 – 5%
Plant and machinery	5 – $12^1/2$ %
Equipment and motor vehicle	20 – $33^1/3$ %

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are included in the profit and loss account. On disposal of revalued assets, amounts in the revaluation surplus relating to that asset are transferred to retained earnings.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses in goodwill are not reversed. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (CGU's) for the purpose of impairment testing. The allocation is made to those CGU's expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (three to five years).

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date:

- Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. During the year, the group did not hold any investments in this category

- Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise of Non-current receivables; Trade and other receivables and Cash and cash equivalents on the face of the balance sheet (refer to notes 20; 22 and 23)

- Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Financial assets (continued)

During the year, the Group did not hold any investments in this category.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Purchases and sales of investments are recognised on the trade date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(j) Accounting for leases

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but excludes borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(l) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that debtor will enter bankruptcy and default or delinquency in payment (more than 30 days overdue), are the indicators that trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within administrative costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative costs in the income statement. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(m) Payables

Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(n) Share capital

Ordinary shares are classified as equity. Share issue costs are charged to share premium account.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(p) Employee benefits

(i) Retirement benefit obligations

The Group operates defined contribution retirement benefit schemes for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's contributions to the defined contribution schemes are charged to the profit and loss account in the year to which they relate.

The assets of the scheme are held in separate trustee administered funds, which are funded by contributions from both the Group and employees.

Employee benefits (continued)

(ii) Share-based compensation

The group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options/ awards) of the group. The fair value of the employee services received in exchange for the grant of the option/awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to retained earnings in equity.

When the options are exercised the proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the shares are exercised.

(q) Provisions

Provisions for environmental restoration and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date (see Note 4). The discount rate used to determine the present value is a pre-tax rate which reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

Decommissioning liabilities

A provision is recognised for the decommissioning liabilities for underground tanks described in Note 4. Based on management estimation of the future cash flows required for the decommissioning of those assets, a provision is recognised and the corresponding amount added to the cost of the asset under property plant and equipment. The present values are determined using a pre-tax rate which reflects current market assessments of the time value of money and the risks specific to the obligation. Subsequent depreciation charges of the asset are accounted for in accordance with the Company's depreciation policy and the accretion of discount (i.e. the increase during the period in the discounted amount of provision arising from the passage of time) included in finance costs.

Estimated site restoration and abandonment costs are based on current requirements, technology and price levels and are stated at fair value, and the associated asset retirement costs are capitalized as part of the carrying amount of the related tangible fixed assets. The fair value calculation of the liability is based on the economic life of the production assets and discounted using the pre-tax rate which reflects current market assessments of the time value of money and the risks specific to the obligation in accordance with IAS 37. The obligation is reflected under provisions in the balance sheet.

(r) Current and deferred income tax

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income

tax and deferred income tax.
Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.
Education tax is provided at 2% of assessable profits of companies operating within Nigeria.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Current and deferred income tax is determined using tax rates enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

(s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset.

(t) Dividends

Dividends payable to the Company's shareholders are recognised as a liability in the period in which they are declared (i.e. approved by the shareholders).

(u) Upstream activities

Exploratory drilling costs are included in property, plant and equipment, pending determination of proved reserves.

Following such a determination, the capitalised costs are then amortised against the results of successful finds on a 'unit of production' basis. Capitalised costs are written off when it is determined that the well is dry.

Costs incurred in the production of crude oil from the Company's properties are charged to the profit and loss account of the period in which they are incurred.

Upstream activities (continued)

Tangible fixed assets related to oil and gas producing activities are depleted on a unit of production basis over the proved developed reserves of the field concerned except in the case of assets whose useful lives are shorter than the lifetime of the field, in which case the straight-line method is applied. Producible wells are not depleted until they form part of a producing field. Unit of production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods.

Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area.

Refer to note 2(q) for information on the provision for estimated site restoration, abandonment costs and decommissioning costs.

Impairment

All assets are reviewed whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. If assets are determined to be impaired, the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use, the latter being determined as the amount of estimated risk-adjusted discounted future cash flows. For this purpose, assets are grouped into cash-generating units based on separately identifiable and largely independent cash inflows.

Estimates of future cash flows used in the evaluation for impairment of assets related to hydrocarbon production are made using risk assessments on field and reservoir performance and include expectations about proved reserves and unproved volumes, which are then risk-weighted utilising the results from projections of geological, production, recovery and economic factors.

Impairments, except those related to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed.

Impairment charges and reversals are reported within depreciation, depletion and amortisation. As of the balance sheet date no impairment charges or reversals were recognized.

3 Financial risk management

Oando Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on its financial and operational performance.

The Group has a risk management function that manages the financial risks relating to the Group's operations under the policies approved by the Board of Directors. The Group's liquidity, credit, foreign currency, interest rate and price risks are continuously monitored. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, and investing excess liquidity.

Market risk

(i) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising primarily from various product sourcing activities as well as other currency exposures, mainly US Dollars. Foreign exchange risk arises when future commercial transactions, recorded assets and liabilities are denominated in a currency that is not the entity's functional currency e.g. foreign denominated loans, purchases and sales transactions etc. The Group manages their foreign exchange risk by revising cost estimates of orders based on exchange rate fluctuations.

As at December 2008, if the Naira had strengthened by 12% against the US Dollar with all other variables held constant, consolidated pre tax profit for the year would have been US$0.05million lower mainly as a result of US Dollar denominated bank balances (2007: if the Naira had weakened by 8% against the US Dollar with all other variables held constant, consolidated pre tax profit for the year would have been US$0.46million higher mainly as a result of US Dollar denominated bank balances.)

As at December 2008, if the Naira had strengthened by 12% against the US Dollar with all other variables held constant, consolidated post tax profit for the year would have been US$5.32million higher mainly as a result of US Dollar denominated trade payables and loan balances. (2007: if the Naira had weakened by 8% against the US Dollar with all other variables held constant, consolidated pre tax profit for the year would have been US$7.04million lower mainly as a result of US Dollar denominated trade payables and loan balances.)

The Group has adopted a sensitivity analysis which shows the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity. Oando is exposed to interest rate risk and price risk on its dollar denominated borrowings and asset balances. The periodic effect is determined by relating the hypothetical change in the risk variables to the balances at the reporting dates. It is assumed that the balance at the reporting date is representative for the year as a whole. There were no changes to the method and assumption in use by the company in carrying out this analysis.

(ii) Price risk
The Group is exposed to equity security price risk because of its sole investment in the securities of Transcorp Plc (a quoted company) classified as available for sale. The Group is not exposed to any commodity price risk. The shares of Transcorp held by the Group are traded on the Nigerian Stock Exchange (NSE).

(iii) Cash flow and fair value interest rate risk
The Group maintains no interest bearing asset. Borrowings are predominantly at fixed rates. No limits are placed on the ratio of variable rate borrowing to fixed rate borrowing.

The Group does not have any investments in quoted Corporate Bonds that are of fixed rate and carried at fair value through profit or loss. Therefore the group is not exposed to fair value interest rate risk. The Group has borrowings at variable rates, which expose the Group to cash flow interest rate risk. The Group regularly monitors financing options available to ensure optimum interest rates are obtained. At 31 December 2008, an increase of 100 basis points on LIBOR would have resulted in a decrease in consolidated pre tax profit of US$7.5million (2007: US$1.8million), mainly as a result of higher interest charges on variable rate borrowings.

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalent, non-current receivables and deposits with banks as well as trade and other receivables. The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of industrial products are made to customers with an appropriate credit history taking into consideration the customers' financial position, past trading relationship and other factors. Sales to retail customers are made in cash. The Group has policies that limit the amount of credit exposure to any financial institution. This policy is regularly monitored

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2008 is made up as follows:

	2008 $'000	**2007 $'000**
Cash and cash equivalents	374,635	147,974
Non-current receivables	107,971	92,347
Trade receivables	175,759	246,039
Receivable from related companies	-	428
Loans to directors	-	-
Derivative financial instruments	-	-
Other receivables	530,895	127,976

No collateral is held for any of the above assets. All receivables that are either past due or impaired are within their approved credit limits, and no receivables have had their terms renegotiated.

None of the above assets are past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced):

Past due but not impaired:		
- by up to 30 days	140,533	180,833
- by 31 to 60 days	20,289	21,360
- later than 60 days	5,794	13,131
Total past due but not impaired	166,616	215,324
Current	9,143	30,715
	175,759	246,039
Impaired	10,454	11,347

All receivables past due by more than 365 days are considered to be impaired, and are carried at their estimated recoverable value.

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Non-current receivables

Counter parties without external credit rating:

Group 2	107,971	92,347

Trade receivables

Counter parties without external credit rating:

	2008 $'000	2007 $'000
Group 1		
Group 2	76,059	147,900
Group 3	2,547	7,006
	175,759	**246,039**

Cash at bank and short term bank deposits

AAA	78	64
AA	24,191	11,345
AA-	154,865	18,787
A+	51,705	47,200
A-	2,068	892
BBB+	41,561	32,644
BBB-	60,076	9,149
Not rated	39,091	27,893
	374,635	147,974

*

Group 1 –new customers (less than 6 months)
Group 2 – existing counter parties/ customers (more than 6 months) with no defaults in the past
Group 3 – existing customers (more than 6 months) with some defaults in the past

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury maintains flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve comprising cash and cash equivalents and borrowings (notes 23 and 14 respectively) on the basis of expected cash flow.
The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet 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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	US$'000	US$'000	US$'000	US$'000
At 31 December 2008:				
Borrowings (excluding finance lease liabilities)	1,087,421	163,088	154,519	-
Finance lease liabilities	1.497	1,424	-	-
Trade and other payables	353,350	-	-	-
At 31 December 2007:				
Borrowings (excluding finance lease liabilities)	450,141	71,722	83,168	-
Finance lease liabilities	2,828	1,895	-	-
Trade and other payables	361,903	-	-	-

There are no significant concentrations of liquidity risk.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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. In order to maintain or adjust the capital structure; the Group may issue new capital or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is computed as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalent. Total capital is calculated as equity plus net debt. During 2008 the Group's strategy was to maintain a gearing ratio between 50% and 75% (2008: 40% and 65%). The Gearing ratios as at the end of December 2008 and 2007 were as follow:

	2008 US$'000	**2007 US$'000**
Total borrowings	1,407,562	605,030
Less: cash and cash equivalents	374,635	147,974
Net debt	1,032,927	457,056
Total equity	342,991	376,354
Total capital	1,375,918	833,410
Gearing ratio	75%	55%

The devaluation of the naira against the company major currency of exchange (US dollar) contributed significantly to the increase in gearing ratio.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. No financial instruments were valued using valuation techniques for the periods presented, 31 December 2008 and 31 December 2007.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. See note 18 for detailed assumptions and methods used for impairment calculation.

If the estimated pre-tax discount rate applied to the discounted cash flows for the CGUs had been higher by 9% for Gas and Power (i.e. 26% instead of 17%) and Refining and Marketing by 45% (i.e. 62% instead of 17%) the group would have recognised an impairment against goodwill by US$0.33 million. For other segments (Exploration and Production, and Energy Services), no impairment would have resulted from application of discount rates higher by 100% respectively.

Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As of the balance sheet no liability in respect of pending tax issues has been recognised in the financial statements. See note 27.

Provision for environmental restoration

The group uses underground tanks for storage of petroleum products in its outlets. Environmental damage caused by such substances may require the Group to incur restoration costs to comply with the regulations in the various jurisdictions in which the Group operates, and to settle any legal or constructive obligation.

Analysis and estimates are performed by the Group, together with its legal advisers, in order to determine the probability, timing and amount involved with probable required outflow of resources. Estimated restoration costs, for which disbursements are determined to be probable, are recognised as a provision in the Group's financial statements. The assumptions used for the estimates are reviewed every 3 years. When the final determination of such obligation amounts differs from the recognised provisions, the Group's income statement is impacted.

Estimation of oil and gas reserves

Oil and gas reserves are key elements in Oando's investment decision-making process that is focused on generating value. They are also an important factor in testing for impairment. Changes in proved oil and gas reserves will also affect the standardised measure of discounted cash flows and changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges to income. Proved oil and gas reserves are the estimated quantities of crude oil that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as the standardised measure of discounted cash flows, depreciation, depletion and amortisation charges, and decommissioning and restoration provisions) that are based on proved reserves are also subject to change. Proved reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Proved reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured.

Furthermore, estimates of proved reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. Changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Changes to Oando's estimates of proved reserves, particularly proved developed reserves, also affect the amount of depreciation, depletion and amortisation recorded in the Consolidated Financial Statements for property, plant and equipment related to hydrocarbon production activities. These changes can for example be the result of production and revisions of reserves. A reduction in proved developed reserves will increase the rate of depreciation, depletion and amortisation charges (assuming constant production) and reduce income. Although the possibility exists for changes in reserves to have a critical effect on depreciation, depletion and amortisation charges and, therefore, income, it is expected that in the normal course of business the diversity of the Oando portfolio will constrain the likelihood of this occurring.

Exploration costs

Exploration costs are capitalised pending the results of evaluation and appraisal to determine the presence of commercially producible quantities of reserves. Following a positive determination, continued capitalisation is subject to further exploration or appraisal activity in that either drilling of additional exploratory wells is under way or firmly planned for the near future or other activities are being undertaken to sufficiently progress the assessing of reserves and the economic and operating viability of the project.

In making decisions about whether to continue to capitalise exploration costs, it is necessary to make judgments about the satisfaction of each of these conditions. If there is a change in one of these judgments in any period, then the related capitalised exploration costs would be expensed in that period, resulting in a charge to income.

Impairment of assets

For oil and gas properties with no proved reserves, the capitalisation of exploration costs and the basis for carrying those costs on the balance sheet are explained above. For other properties, the carrying amounts of major property, plant and equipment are reviewed for possible impairment annually, while all assets are reviewed whenever events or changes in circumstances indicate that the carrying amounts for those assets may not be recoverable. If assets are determined to be impaired the carrying amounts of those assets are written down to their recoverable amount, which is the higher of fair value less costs to sell and value in use determined as the amount of estimated discounted future cash flows. For this purpose, assets are grouped into cash-generating units based on separately identifiable and largely independent cash inflows. Impairments can also occur when decisions are taken to dispose of assets.

Impairments, except those relating to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Estimates of future cash flows are based on current year end prices, management estimates of future production volumes, market supply and demand and product margins. Expected future production volumes, which include both proved reserves as well as volumes that are expected to constitute proved reserves in the future, are used for impairment testing because Oando believes this to be the most appropriate indicator of expected future cash flows, used as a measure of value in use.

Estimates of future cash flows are risk-weighted to reflect expected cash flows and are consistent with those used in the group's business plans. A discount rate based on Oando's marginal cost of debt is used in impairment testing. Expected cash flows are then risk-adjusted to reflect specific local circumstances or risks surrounding the cash flows. Oando reviews the discount rate to be applied on an annual basis although it has been stable in recent years. The discount rate applied in 2008 was 10.0%.
Asset impairments or their reversal will impact income.

5 Segment information

Primary reporting format – business segments

At 31 December 2008 the Group was organised into five main business segments:

(i) **Exploration and production of oil and gas (E&P)** – involved in the exploration for and production of oil and gas through the acquisition of rights in oil blocks on the Nigerian continental shelf and deep offshore.

(ii) **Refining and marketing of petroleum products** – involved in the refining of crude and the marketing and sale of petroleum products. Over the years, the Group had focused primarily on the marketing of petroleum products. Efforts to develop a refinery business are ongoing. The activities of the trading companies are reported under this segment.

(iii) **Gas and power** – involved in the distribution of natural gas through its subsidiaries Gaslink and Eastern Horizon. The Group also incorporated a Power company to serve a niche in Nigeria's power sector, by providing reliable power to industrial customers.

(iv) **Energy services** – involved in the provision of services such as drilling and completion fluids and solid control waste management; oil-well cementing and other services to upstream companies.

(v) **Corporate & Other** – include company activities that cannot be directly allocated to any of the above segments.

The segment results for the year ended 31 December 2008 are as follows:

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Gross segment revenue	106,240	2,489,762	55,524	35,018	-	2,686,544
Inter-segment revenue	-		-	-	-	-
Revenue	106,240	2,489,762	55,524	35,018	-	2,686,544
Operating profit/(loss)	36, 942	78,935	4,316	(8,692)	26,556	138,057
Finance costs – net	(5,884)	(36,312)	(2,185)	(2,371)	(380)	(47,132)
Profit before income tax						90,925
Income tax expense						(16,346)
Profit for the year						74,579

The segment results for the year ended 31 December 2007 are as follows:

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Gross segment revenue	-	1,384,624	35,456	84,332	-	1,504,412
Inter-segment revenue	-	(2,618)	-	-	-	(2,618)
Revenue	-	1,382,006	35,456	84,332	-	1,501,794
Operating (loss)/profit	(1,345)	58,925	5,340	1,209		64,129
Finance costs – net	-	(3,084)	1,917	(2,270)		(3,437)
Profit before income tax						60,692
Income tax expenses						(10,888)
Profit for the year						49,804

Inter-segment revenue under refining & marketing in 2007 represents sales to the energy services segment. Inter-segment transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties. There were no inter-segment sales in current year.

Other segment items included in the profit and loss account are:

Year ended 31 December 2008

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Depreciation	35,039	11,465	172	1,007	1,867	49,550
Amortisation of intangible assets	-	-	-	-	1,277	1,277
Impairment loss on available-for- sale financial assets					(60)	(60)

Year ended 31 December 2007

	Exploration & production	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Depreciation	-	11,449	172	156	-	11,777
Amortisation of intangible assets	-	90	-	-	-	90

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Assets	412,575	956,459	164,055	189,632	473,577	2,196,298
Liabilities	59,927	872,185	134,507	112,556	571,197	1,750,372
Capital expenditure	317,644	9,707	16,127	77,612	4,376	425,466

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Assets	14,280	1,091,006	143,689	154,512	-	1,403,487
Liabilities	2,542	770,755	111,529	88,460	-	973,286
Capital expenditure	12,728	35,333	120	94,084	-	142,265

Segment assets comprise primarily property, plant and equipment, intangible assets, Available for sale financial assets, inventories, receivables and operating cash. They exclude deferred income tax.

Segment liabilities comprise operating liabilities. They exclude current and deferred taxes. Capital expenditure comprises additions to property, plant and equipment and intangible assets (excluding revaluation surplus, decommissioning costs and goodwill).

Segment assets and liabilities are reconciled to the balance sheet as follows:

	2008	2007
	US$'000	US$'000
Total segment assets	2,196,298	1,403,487
Deferred income tax assets	17,008	2,207
Total assets	2,213,306	1,405,694

Total segment liabilities	1,770,372	973,286
Current income tax	25,667	11,248
Deferred income tax liabilities	74,276	44,806
Total liabilities	1,870,315	1,029,340

Secondary reporting format – geographical segments

The Group's business segments operate in three main geographical areas – Nigeria, where the main operating company is located, rest of west Africa region and other countries, in Bermuda and the British Virgin Island.

Revenue (allocated based on the country in which the customer is located)

Nigeria	2,228,374	1,222,657
Rest of West Africa region	73,651	64,939
Other countries	384,519	214,198
	2,686,544	1,501,794

Total assets (allocated based on the country in which the assets are located)

Nigeria	1,793,655	1,228,239
Rest of West Africa region	18,124	24,705
Other countries	384,519	150,543
	2,196,298	1,403,487

Capital expenditure (allocated based on the country in which the assets are located)

Nigeria	423,650	141,478
Rest of West Africa/Others	1,816	787
	425,466	142,265

Breakdown of revenue from all services is as follows:

	2008 US$'000	2007 US$'000
Sale of goods	2,686,008	1,501,286
Revenue from services	536	508
	2,686,544	1,501,794

6 Operating profit

The following items have been charged/(credited) in arriving at operating profit:

Depreciation on property, plant and equipment (Note 17)	49,550	11,777
Amortisation of intangible assets (Note 18)	1,277	90
Provision for impairment of inventories	-	300
Provision for impairment losses of trade receivables	7,079	3,643
Impairment charge on available for sale financial assets (Note 19)	60	-
Employee benefits expense (Note 7)	27,019	18,362
Auditors' remuneration	742	446
Consultancy services	7,332	2,978
Repairs and maintenance	6,914	3,687
Technical and management services (Note 26)	8,502	3,334
Net foreign exchange loss/(gain)	19,611	(11,186)

7 Employee benefits expense

The following items are included within employee benefits expense:

Wages and salaries	19,035	14,324
Welfare and training	4,328	2,780
Share options granted to directors and employees	258	-
Management stock award	312	
Pension costs- Defined contribution scheme	3,086	1,258
	27,019	18,362

8 Finance (costs)/income

Interest expense:		
Bank borrowings	(113,824)	(13,776)
- capitalised to qualifying property plant and equipment	28,373	4,183
	(85,451)	(9,593)
Interest on finance leases	(353)	(697)
Unwinding of discount on provisions (Note 16)	(236)	(186)
Finance costs	(86,040)	(10,476)
Interest income:		
Bank deposits	38,908	7,039
Net finance costs	(47,132)	(3,437)

	2008 US$'000	2007 US$'000

9 Income tax expense

Current income tax	31,609	8,507
Education tax	2,408	694
Deferred income tax (Note 15)	(17,671)	1,687
Income tax expense	16,346	10,888

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Profit before income tax	90,925	60,692
Tax calculated at average domestic rates applicable to profits in the respective countries – 35% (2007:30%)	32,116	18,208
Minimum tax	1,500	-
Education tax	2,408	694
Tax effect of:		
Income not subject to tax	(20,946)	(9,726)
Expenses not deductible for tax purposes	1,949	-
Over-provision of current tax in prior years	-	(655)
(Under)/Under-provision of deferred income tax in prior years	(1,379)	2,367
Tax losses for which no deferred tax was recognised	698	-
Income tax expense	16,346	10,888

10 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2008	**2007**
Profit attributable to equity holders of the Company (US$ thousands)	74,544	43,944
Weighted average number of ordinary shares in issue (thousands)	904,884	632,891
Basic earnings per share (US Cents)	8.24	6.94

There were no potentially dilutive shares outstanding at 31 December 2008 or 2007. Diluted earnings per share are therefore the same as basic earnings per share.

Headline earnings per share

Headline earnings are based on operational profits attributable to shareholders excluding profits accruing from capital items such as profit and loss on disposal of property, plant and equipment or subsidiaries and are computed as follows:

	2008	**2007**
	US$'000	**US$'000**

Profit attributable to equity holders of the company	74,544	43,944
Less: Loss/(profit) on sale of property, plant and equipment	45	(5,136)
Impairment loss on available for sale financial asset	56	-
Tax thereon	47	1,077
	74,692	39,885
Weighted average number of ordinary shares in issue (thousands)	904,884	632,891
Headline earnings per share attributable to earnings/diluted bases(US Cents)	8.25	6.30

11 Dividends per share

At the annual general meeting to be held on 30 July, 2009, a dividend in respect of the year ended 31 December 2008 of US 2.29cents per share amounting to a total of US$20.76million is to be proposed. These financial statements do not reflect this dividend as a payable. Interim dividends amounting to US23.224million were paid in the year. The total dividend for the year is, therefore, US4.79cent per share (2007: US$3.4cents), amounting to a total of US43.38million (2007: US$38.9million).

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence of the respective shareholders.

12 Share capital

	Number of shares (thousands)	Ordinary shares US$'000	Share premium US$'000	Total US$'000
At 1 January 2007	572,301	2,162	120,742	122,904
Additional issues during the year	181,769	734	114,102	114,836
Share issue costs	-	-	(1,935)	(1,935)
At 31 December 2007	754,070	2,896	232,909	235,805
Bonus issue	150,814	645	-	645
Share issue costs	-	-	(1,376)	(1,376)
At 31 December 2008	904,884	3,541	231,533	235,074

The total authorised number of ordinary shares is 1,000,000 (2007: 1,000,000) with a par value of N0.50 (US cents 0.38) per share. All issued shares are fully paid.

Share issues in 2007 relates to the share swap transaction in which the group acquired Ocean and Oil Investment's (OOI) interests in certain subsidiaries. In consideration for the shares acquired, Oando Plc issued new shares to OOI.

Share options

Share options are granted to executive directors and confirmed employees. The exercise price of the granted options is equal to the weighted average market price of the shares in the 30 days preceding the date of the grant. Options are conditional on the employee completing three year's service (the vesting period). The options are exercisable starting three years from the grant date, subject to the group achieving its target growth in after tax profit; the options have a contractual option term of three years. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Share capital (continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price in USD per share	Options (thousands)	Average exercise price in USD per share	Options (thousands)
At 1 January	-	-	-	-
Granted	1.88	1,626	-	-
At 31 December	1.88	1,626	-	-

No option was exercisable during the year. However, the option, which were granted during the year become exercisable from 2 May 2011 at US$1.88 per share.

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was N83.14 (0.72 US cents) per option. The significant inputs into the model were market price of US$1.97 at the grant date, exercise price shown above, volatility of 42.9%, dividend yield of 2.7%, an expected option life of three years, and an annual risk-free interest rate of 10.32%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last three years. See note 7 for the total expense recognised in the income statement for share options granted to directors and employees.

On 1 May 2008, a total of 177,750 shares were awarded to certain senior management staff as executive management stock award. The total expense of US$312,000 has been recognized in the income statement (see note 7). As at the balance sheet date none of the shares awarded had been issued.

13 Other reserves

	Revaluation reserve*	Currency translation reserve	Available for sale Fair value reserve	Total
	US$'000	US$'000	US$'000	US$'000
At 1 January 2007	11,192	7,106	177	18,475
Currency translation differences	-	21,141	-	21,141
Revaluation surplus on property, plant and equipment	66,311	-	-	66,311
Deferred tax on revaluation surplus	(20,553)	-		(20,553)
Fair value loss on available-for-sale financial assets	-	-	(173)	(173)
At 31 December 2007	56,950	28,247	4	85,201
At 31 December 2007	56,950	28,247	4	85,201
Currency translation differences	-	(41,708)	-	(41,708)
Adjustment to revaluation surplus[2]	(5,213)	-	-	(5,213)
Deferred tax thereon[2]	1,564	-	-	1,564
Transfer to income statement	-	-	(4)	(4)
At 31 December 2008	53,301	(13,461)	-	39,840

*The revaluation reserve is not available for redistribution to shareholders until realised through disposal of related assets.

[2] See comments in note 17.

14 Borrowings

	2008 US$'000	2007 US$'000
The borrowings are made up as follows:		
Non-current		
Bank loans	317,607	150,806
Finance lease liabilities	1,257	1,648
	318,864	152,454
Current		
Bank overdraft	188,407	81,725
Bank loans	899,014	368,416
Finance lease liabilities	1,277	2,436
	1,088,698	452,577
Total borrowings	1,407,562	605,031

The borrowings include secured liabilities (bank borrowings and finance leases) in a total amount of US$ 375 million (2007: US$295million). The Group has a Trust Deed arrangement, executable by a Trustee company, by which bank borrowings are secured. Finance leases are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Bank loans are analysed as follows:

Non-current

Loan type/ Purpose	Tenor/ Interest rate	Security	Facility Amount US$'000	Draw down/ Balance US$'000
Syndicated loan – Greater Lagos III gas pipeline project for Gaslink	5yrs; 16%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	21,415	14,277
Syndicated loans (2) – Customers' connect for Gaslink.	3yrs; 16%	Pledge of assets being financed; Corporate guarantee by oando Plc.	27,533	24,478
Syndicated gas project facility – UNICEMENT Gas pipeline project by East Horizon Company	7yrs; LIBOR plus 3%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	87,189	63,192
Project finance facility – Akute IPP	7yrs; LIBOR plus 3%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	25,500	16,348
Term loan – acquisition of Upstream assets (payable in January 2010)	2yrs; 13.9%	Trust deed arrangement	200,000	179,193
Term loan – working capital finance	3yrs; LIBOR plus 2.75%	Trust deed arrangement	95,000	66,309
Total non-current loans				363,797
Less current portion				(46,190)
				317,607

Current

Loan type/ Purpose	**Tenor/ Interest rate**	**Security**	**Facility Amount US$'000**	**Draw down/ Balance US$'000**
Import finance facility to finance the purchase of petroleum products for resale.	90-180 days; 9-16%	Sales proceeds of products financed under the facility	490,300	490,300
Commercial papers to finance the acquisition of upstream assets and rigs	365 days 15-20%	Corporate guarantee	351,177	351,177
Commercial papers to finance product allocation from PPMC and importation of petroleum products	3-90 days 9-20%	Stock Hypothecation, cash and cheque collection from product sales	11,347	11,347
Total current loans				852,824
Current portion of non-current loans				46,190
				899,014

Weighted average effective interest rates at the year end were:

	2008	**2007**
– bank overdrafts	16.5%	14%
– bank loans	16%	13%
– Import finance facility	13.5%	10.3%
– finance leases	15%	15%

In the opinion of the directors, the carrying amounts of short-term borrowings and lease obligations for 2008 and 2007 respectively approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the balance sheet date.

The exposure of the Group's borrowings to interest rate changes and the contractual re-pricing dates at the balance sheet dates are as follows:

	2008 US$'000	**2007 US$'000**
6 months or less	193,578	81,963
6-12 months	1,213,984	523,067
	1,407,562	605,030

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amount		**Fair value**	
	2008 US$'000	**2007 US$'000**	**2008 US$'000**	**2007 US$'000**
Bank loans	317,607	150,806	318,131	150,806
Finance lease liabilities	1,257	1,648	1,257	1,648
	318,864	152,454	319,388	152,454

The carrying amount of the Group's borrowings are denominated in the following currencies:

	2008 US$'000	2007 US$'000
Nigerian Naira	721,166	510,030
US Dollar	686,396	95,000
	1,407,562	605,030

Finance lease liabilities – minimum lease payments:

Not later than 1 year	1,497	2,828
Later than 1 year and not later than 5 years	1,424	1,895
Later than 5 years		-
	2,921	4,723
Future finance charges on finance leases	(387)	(639)
Present value of finance lease liabilities	2,534	4,084

The present value of finance lease liabilities may be analysed as:

Not later than 1 year	1,277	2,436
Later than 1 year and not later than 5 years	1,257	1,648
Later than 5 years	-	-
	2,534	4,084

15 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. The offset amounts are as follows:

Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	(7,986)	(2,207)
Deferred tax asset to be recovered within 12 months	(9,022)	-
	(17,008)	(2,207)
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	70,932	43,664
Deferred tax liability to be recovered within 12 months	3,344	1,142
	74,276	44,806
Deferred tax liabilities (net)	57,268	42,599

Deferred income tax (Continued)
The gross movement in deferred income tax account is as follows:

	2008 US$'000	2007 US$'000
At start of year	42,599	18,557
(Credited)/Charge to profit and loss account (Note 9)	(17,671)	1,687
(Credited)/Charged to equity	(1,735)	20,553
Included in mineral rights acquisition cost of OML 125 &134	28,930	-
Exchange differences	5,145	1,802
At end of year	57,268	42,599

Consolidated deferred income tax assets and liabilities, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	1.1.2008 US'000	Charged/ (credited) to P/L US$'000	Charged/ (credited) to equity/other US$'000	Exchange differences US'000	31.12.2008 US'000
Deferred income tax liabilities					
Property, plant and equipment:					
- on historical cost basis	15,934	(6,474)	-	1,861	11,321
- on revaluation surpluses	25,354	-	(1,564)	2,961	26,751
- on acquisition of mineral interest	-	-	28,930	-	28,930
Borrowings/other payables	3,518	3,345	-	411	7,274
	44,806	(3,129)	27,366	5,233	74,276
Deferred income tax assets					
Provisions	(2,207)	651	-	(88)	(1,644)
Exchange losses	-	(9,022)	-	-	(9,022)
Share options and awards	-	-	(171)	-	(171)
Tax losses	-	(6,171)	-	-	(6,171)
	(2,207)	(14,542)	(171)	(88)	(17,008)
Net deferred income tax liability	42,599	(17,671)	27,195	5,145	57,268

	1.1.2007 US'000	Charged/ (credited) to P/L US'000	Charged/ (credited) to equity/other US$'000	Exchange differences US'000	31.12.2007 US'000
Deferred income tax liabilities					
Property, plant and equipment:					
- on historical cost basis	15,430	(700)	-	1,204	15,934
- on revaluation surpluses	5,021	-	18,865	1,468	25,354
Borrowings/other payables	-	3,518	-	-	3,518
	20,451	2,818	18,865	2,672	44,806
Deferred income tax assets					
Provisions	(1,894)	(147)	-	(166)	(2,207)
	(1,894)	(147)	-	(166)	(2,207)
Net deferred income tax liability	18,557	2,671	18,865	2,506	42,599

16 Provisions for liabilities and charges

Provisions for liabilities and charges relates to underground tanks decommissioning and oil and gas assets abandonment restoration obligation as follows:

	2008 US$'000	2007 US$'000
Underground tanks	3,464	3,657
Oil and gas fields	5,996	-
	9,460	3,657

Movement during the year is as follows:

	2008	2007
At start of year	3,657	2,940
Additional provisions in the year	5,996	259
Unwinding of discount	236	186
Exchange differences	(429)	272
At end of year	9,460	3,657

No amount of the provision is expected to be utilised in the next 5 years.

17 Property, plant and equipment

	Upstream assets* US$'000	Land & buildings US$'000	Plant, machinery & vehicles US$'000	Fixtures, fittings & equipment US$'000	Capital work in progress US$'000	Total US$'000
At 1 January 2007						
Cost or valuation	-	74,273	52,779	13,136	18,573	158,761
Accumulated depreciation	-	(13,300)	(22,547)	(5,143)	-	(40,990)
Net book amount	-	60,973	30,232	7,993	18,573	117,771
Year ended 31 December 2007						
Opening net book amount						
-as previously reported	-	60,973	30,232	7,993	18,573	117,771
-transfer from intangible assets[1]	35,005	-	-	-	-	35,005
-as restated	35,005	60,973	30,232	7,993	18,573	152,776
Decommissioning costs	-	-	259	-	-	259
Additions		628	4,476	2,718	103,967	111,789
Transfer from intangible assets[1]	27,323					27,323
Disposals	-	(5,184)	(3,286)	(218)	-	(8,688)
Transfers	-	652	(1,948)	2,749	(1,453)	-
Depreciation charge	-	(4,389)	(3,591)	(3,797)	-	(11,777)
Revaluation reserve	-	66,311	-	-	-	66,311
Exchange differences	-	5,304	453	803	2,126	8,686
Closing net book amount	62,328	124,295	26,595	10,248	123,213	346,679
At 31 December 2007						
Cost or valuation	62,328	124,295	27,616	21,775	123,213	359,227
Accumulated depreciation	-	-	(1,021)	(11,527)	-	(12,548)
Net book amount	62,328	124,295	26,595	10,248	123,213	346,679

Year ended 31 December 2008	**Upstream assets US $'000**	**Land & buildings US $'000**	**Plant, Machinery & vehicles US $'000**	**Fixtures, Fittings & Equipment US $'000**	**Capital Work in Progress US $'000**	**Total US $'000**
Opening net book amount						
-as previously reported	-	124,295	26,595	10,248	123,213	284,351
-transfer from intangible assets[1]	62,328	-	-	-	-	62,328
- as restated	62,328	124,295	26,595	10,248	123,213	346,679
Decommissioning costs	5,996	-	-	-	-	5,996
Additions	317,644	421	6,134	1,508	99,178	424,885
Transfers	-	643	(3)	776	(1,416)	-
Adjustment to revaluation surplus[2]	-	(5,213)	-	-	-	(5,213)
Disposal	-	(199)	(226)	(878)	(887)	(2,190)
Depreciation charge	(35,039)	(5,350)	(7,340)	(1,821)	-	(49,550)
Exchange difference	(3,179)	(4,620)	(4,051)	(1,270)	(13,998)	(27,118)
	347,750	109,977	21,109	8,563	206,090	693,489
At 31 December 2008						
Cost or valuation	382,789	115,313	29,249	21,805	206,090	755,246
Accumulated depreciation	(35,039)	(5,336)	(8,140)	(13,242)	-	(61,757)
Net book amount	347,750	109,977	21,109	8,563	206,090	693,489

Change of accounting policy

[1]The Group had previously capitalised exploration costs within Intangible assets. However, following the acquisition of tangible oil and gas producing assets during the year and the transfer of concession rights and related exploration costs to Oando Exploration and Production Limited these costs have been reclassified as Property, Plant and Equipment in order to achieve fairer presentation. This reclassification has been applied retrospectively.

The reclassification does not result in any impact on profit or loss/equity as these costs have not been amortised or depreciated to date, because they are pending evaluation of whether or not the activities shall result in the discovery of producible reserves.

The effect on previously reported Property, Plant and Equipment and Intangible assets is as follows:

	Effect on 2007 US$'000
Increase in property, plant and equipment	62,328
Decrease in intangible assets	(62,328)

Further disclosures in respect of upstream activities are shown in note 32.

[2]As disclosed in note 1, the group transferred its petroleum marketing business to a fully owned subsidiary, Oando Marketing Limited. A review of the detailed listing of property, plant and equipment upon transferring the related assets showed certain revaluation surplus which could not be matched with existing assets.
The difference is being adjusted for against revaluation reserve, net of associated deferred tax. See note 13.

Leased assets included in the above comprise plant and machinery and motor vehicles as follows:

	2008 US$'000	2007 US$'000
Cost – capitalised finance leases	11,635	12,348
Accumulated depreciation	(5,209)	(3,662)
Net book amount	6,426	8,686

The lease terms are between three to four years. See note 14 for details of the lease terms.

Buildings and freehold land were last revalued during 2007, by **Ubosi and Eleh**, independent valuers. Valuations were made on the basis of the open market value in an arms length transaction. The book values of the properties were adjusted to the revalued amounts and the resultant surplus net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

If the buildings and freehold land were stated on the historical cost basis, the amounts would be as follows:

Cost	41,528	32,696
Accumulated depreciation	(3,916)	-
Net book amount	37,612	32,696

18 Intangible assets

	Goodwill US$'000	Software costs US$'000	Exploration & evaluation costs US$'000	Total US$'000
At 1 January 2007				
Cost	77,981	215	35,005	113,201
Accumulated amortisation and impairment	-	(107)	-	(107)
Net book value	77,981	108	35,005	113,094
Year ended 31 December 2007				
Opening net book amount				
-as previously reported	77,981	108	35,005	113,094
-transfer to property, plant and equipment[1]	-	-	(35,005)	(35,005)
-as restated	77,981	108	-	78,089
Additions	106,193	6,223	24,253	136,669
Amortisation charge	-	(90)	-	(90)
Exchange differences	6,840	-	3,070	9,910
-transfer to property, plant and equipment[1]	-	-	(27,323)	(27,323)
Closing net book amount	191,014	6,241	-	197,255
At 31 December 2007				
Cost	191,014	6,438	-	197,452
Accumulated amortisation	-	(197)	-	(197)
Net book amount	191,014	6,241	-	197,255

Year ended 31 December 2008	Goodwill US $'000	Software Costs US $'000	Exploration & evaluation costs US $'000	Total US $'000
Opening net book amount				
-as previously reported	191,014	6,241	62,328	259,583
-transfer to property, plant and equipment[1]	-	-	(62,328)	(62,328)
-as restated	191,014	6,241	-	197,255
Additions	-	581	-	581
Amortisation charge	-	(1,277)	-	(1,277)
Exchange difference	(20,907)	(616)	-	(21,523)
	170,107	4,929	-	175,036
At 31 December 2008				
Cost	170,107	6,403	-	176,510
Accumulated amortisation and impairment	-	(1,474)	-	(1,474)
Net book value	170,107	4,929	-	175,036

[1]See comments on note 17.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the business segments. A segment-level summary of the goodwill allocation is presented below:

At 31 December 2008

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Total US$'000
Nigeria	40,841	77,530	30,721	3,773	152,885
West Africa region		440	-	-	440
Other countries	-	16,802	-	-	16,802
	40,841	94,772	30,721	3,773	170,107

At 31 December 2007

	Exploration & production US$'000	Refining & marketing US$'000	Gas & power US$'000	Energy Services US$'000	Total US$'000
Nigeria	45,915	86,967	34,538	4,242	171,662
West Africa region		495	-		495
Other countries	-	18,857	-		18,857
	45,915	106,319	34,538	4,242	191,014

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 5 year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates for the CGU in the future. The growth rate does not exceed the long-term average growth rate for the respective industry in which the CGU operates.

The key assumptions used for value-in-use calculations were as follows:

At 31 December 2008

	Exploration & production	**Refining & marketing**	**Gas & power**	**Energy Services**
Gross Margin	87.4%	5.4%	18%	54.9%
Growth rate	-3%	-3%	-5%	-4%
Discount rate	17%	17%	17%	17%

At 31 December 2007

	Exploration & production	**Refining & marketing**	**Gas & power**	**Energy Services**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Gross Margin	87.4%	5.4%	18%	54.9%
Growth rate	-3%	-3%	-5%	-4%
Discount rate	15%	15%	15%	15%

Management determined budgeted gross margins based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecast performance of the energy industry in which the CGUs operates. The discount rates used are pre-tax and reflect specific risks relating to the relevant segment and CGU.

19 Available-for-sale financial assets

Available for sale investments represents the company's investments in listed securities on the Nigerian stock exchange. The investment is carried at fair value based on current bid price at the Nigerian stock exchange.

The movement in the available for sale investment is as follows:

	2008 US$'000	**2007 US$'000**
At start of year	90	256
Exchange difference	(10)	7
Fair value (losses)/gains transferred to equity	-	(173)
Impairment loss	(60)	-
At end of year	20	90

Impairment loss recognised in the year arose from a diminution in the value of the Transcorp Plc shares which is considered of a permanent nature due to the operational problems currently faced by the company. The market price as at balance sheet date was N0.79 (US cents 0.06).
There were no disposals of AFS financial assets during the current or prior year.

20 Non-current receivables and prepayments

	2008	**2007**
Prepaid operating lease	6,205	5,408
Other non-current receivables	107,971	92,347
	114,176	97,755

<u>Pre-paid operating lease</u>

The balance relates to prepayments for leases of land and buildings for retail stations and offices. The prepayments are amortised to the profit and loss account over the period of the lease. The movement in the balance during the year is as follows:

	2008 US$'000	2007 US$'000
At start of year	5,408	4,404
Exchange differences	(33)	402
Additions in the year	1,964	1,637
Amortisation	(76)	(53)
Reclassification to current prepayments	(1,058)	(982)
	6,205	5,408

Other non-current receivables

The balance relates to amounts recoverable from Nigerian Gas Company (NGC) for the construction of gas pipeline distribution infrastructure within the Greater Lagos Industrial Area. Under the terms of the Natural Gas Sale and Purchase Agreement between Gaslink ("the company) and Nigerian Gas Company Limited, the company constructs and operates the pipeline until the capital invested plus interest is fully recovered on the basis of the agreed recovery formulae.

The movement in the balance during the year is as follows:

At start of year	92,347	33,877
Exchange differences	(9,617)	2,310
Capital additions in the year	38,527	65,841
Recoveries in the year	(13,286)	(9,681)
	107,971	92,347

In the opinion of the directors, the carrying amount of the receivable from Nigerian Gas Company approximates their fair value based on the recovery terms in the agreement. The interest rate implicit in the receivables approximates the company's borrowing rate.

21 Inventories

Finished goods	103,030	167,462
Goods in transit	16,988	24,836
Consumable materials and engineering stocks	2,909	20,338
	122,927	212,636

The cost of inventories recognised as expense and included in 'cost of sales' amounted to US$1.9 billion (2007 US$1.1 billion). Inventory carried at Net Realisable Value as at balance sheet date amounted to US$22.6 million (2007: nil)

	2008 US $'000	2007 US $'000

22 Trade and other receivables

	2008 US $'000	2007 US $'000
Trade receivables	186,213	257,386
Less: Provision for impairment of trade receivables	(10,454)	(11,347)
	175,759	246,039
Other receivables	530,895	127,976
Prepayments	9,361	26,655
Due from other related companies	-	428
	716,015	401,098

Due to their short term nature, the carrying amount of the trade and other receivable approximates their fair value.Movement in provision for impairment of trade receivables for the year is as detailed below:

	2008 US $'000	2007 US $'000
At start of the year	11,347	7,129
Provision for receivables impairment	369	3,643
	11,716	10,772
Receivables written off during the year as uncollectible	(8)	-
Exchange difference	(1,254)	575
At end of the year	10,454	11,347

Other classes within trade and other receivables do not contain any impaired assets. No receivable is pledged as security for borrowings.

23 Cash and cash equivalents

	2008 US $'000	2007 US $'000
Cash at bank and in hand	129,632	59,756
Short term bank deposits	245,003	88,218
	374,635	147,974

The weighted average effective interest rate on short-term bank deposits at the year-end was 14.4% (2007:13.5%). These deposits have an average maturity of 30 days.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities. The year-end cash and cash equivalents comprise the following:

	2008 US $'000	2007 US $'000
Cash and bank balances as above	374,635	147,974
Bank overdrafts	(188,407)	(81,725)
	186,228	66,249

24 Trade and other payables

	2008 US $'000	2007 US $'000
Trade payables	259,155	231,233
Other payables and accrued expenses	87,038	123,522
Unpaid dividend	10	898
Customers' security deposits	7,147	6,250
	353,350	361,903

In the opinion of the directors, the carrying amounts of trade and other payables for 2008 and 2007 respectively approximate to their fair values.

25 Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

	2008 US $'000	2007 US $'000
Profit before income tax	90,925	60,692
Adjustments for:		
Interest income (Note 8)	(38,908)	(7,039)
Interest expense (Note 8)	85,804	10,290
Depreciation (Note 17)	49,550	11,777
Amortisation of intangible assets (Note 18)	1,277	90
Loss/(profit) on sale of property, plant and equipment	45	(5,136)
Unwinding of discount on provisions (Note 16)	236	186
Share-based payment expense (options and awards)	570	-
Impairment of available for sale assets (Note 19)	60	-
Foreign exchange loss/(gain)	19,611	(11,186)
Changes in working capital		
– receivables and prepayments (current)	(314,917)	(115,409)
– non-current prepayments	(797)	(1,004)
– inventories	89,709	(92,801)
– payables and accrued expenses	(8,553)	169,690
Payment of retirement benefits obligations	(2,695)	(976)
Cash generated from operations	(28,083)	19,174

26 Related party transactions

The group is controlled by Ocean and Oil Holdings Limited (incorporated in Nigeria) which owns 34% of the company's shares. The remaining 66% shares are widely held. The ultimate parent of the group is Ocean and Oil Holdings (BVI) Limited. There are other companies that are related to Oando Plc through common shareholdings or common directorships.

(i) Technical and management service agreement

Oando Plc ("the company") has a technical and management service agreement with Ocean and Oil Holdings Limited for provision of technical know-how, marketing, management expertise, strategic planning and consultancy services.

Under the terms of the agreement, the company pays technical fees and management fees to Ocean and Oil Holdings Limited at a rate of 4% and 3%, respectively, of the company's profit before tax where the profit before tax is below US$15 million, or 5% and 4%, respectively, where the profit before tax is above US$15million. The charge for the year for technical and management fees (included in administrative expenses) was US$8.50million (2007: US$3.34 million).

(ii) Key management compensation	**2008 US$'000**	**2007 US$'000**
Salaries and other short-term employment benefits	7,034	4,839
Share options and management stock awards	570	-
	7,604	4,839

Key management includes non-executive directors, the company secretary and heads of business units.

Related party transactions (continued)

iii) Year-end payables arising from sale and purchase of goods/services		
Oando Supply and Trading Limited	-	46,167
Oando Trading Limited	-	9,796
	-	55,963

No transaction in respect of sale of goods or services was entered into with any key management personnel or shareholder.

iv) Receivable from other affiliates		
Ocean and Oil	**-**	428

27 Contingent liabilities

Guarantees to third parties

Guarantees, performance bonds, and advance payment guarantees issued in favour of Oando Plc by commercial banks amounted to US$13.87million. The Oando Plc also guaranteed various loans in respect of the following subsidiaries: Gaslink Nigeria Limited (US$ 42.2 million); East Horizon Limited (US$ 87.2 million); and Akute Power Limited (US$ 25.5 million). No guarantees were given to third parties.

Pending litigation

There are a number of legal suits outstanding against the Company for stated amounts of US$5.45million (2007: US$3.05million). On the advice of Counsel, the Board of Directors are of the opinion that no material losses are expected to arise. Therefore, no provision has been made in the financial statements.

Unresolved disputes with the Federal Revenue Services

In February 2008, the Federal High Court ruled that Oando Plc should pay NGN172.42million (US$ 1.48million) less 5% of the amount as additional income tax liability including Education tax of N23.28million (US$0.2million). The additional assessments relate to the financial year 2003. The company instituted an appeal at the Federal Court of Appeal. In the opinion of the directors, the claim by the Federal Inland Revenue Services is unlikely to succeed at the higher courts and therefore no provision has been made in the financial statements.

28 Capital Commitments	**2008 US$'000**	**2007 US$'000**
Outstanding capital expenditure contracted but not provided for in the accounts:		
Property plant and equipment	14,760	917
Capital expenditure approved by the Board but not yet committed:		
Property plant and equipment	179,482	101,469
Intangible assets	-	8,620
	179,482	110,089

	194,242	111,006

29 Subsidiary information

Entity name	***Country of incorporation***	***Nature of business***	***Issued share capital***	***Percentage interest held***	***Group's share of current year's profit/(loss)***
			US$'000		**US$'000**
Akute Power Limited	Nigeria	Power generation	19	100%	(991)
Apapa SPM Limited	Nigeria	Offshore submarine pipeline	146	100%	(24)
East Horizon Gas Company Limited	Nigeria	Gas distribution	86	100%	(1,172)
Gaslink Benin	Benin	Gas distribution	23	100%	-
Gaslink Nigeria Limited	Nigeria	Gas distribution	13,579	97%	3,941
Oando Benin Limited	Benin	Marketing and sale of petroleum products	15	100%	-
Oando Energy Services Limited	Nigeria	Provision of drilling and other services to upstream companies	38	100%	(7,177)
Oando Exploration & Production Limited.	Nigeria	Oil & gas exploration and production	43	100%	(3,780)
Oando Gas & Power Limited	Nigeria	Gas and power generation and distribution.	8	100%	-
Oando Ghana Limited	Ghana	Marketing & sale of petroleum products	956	80.5%	(973)
Oando Lekki Refinery Limited	Nigeria	Petroleum refining	19	100%	(315)
Oando marketing Limited	Nigeria	Marketing & sale of petroleum products	1,505	100%	27,896
Oando Port Harcourt Refinery Limited	Nigeria	Petroleum refining	19	95%	-
Oando Production and Development Company Limited	Nigeria	Oil and gas Exploration and production	76	95%	(1,191)
Oando Property Limited	Nigeria	Property management services	2	100%	-
Oando Searex IV Limited	British Virgin Island	Provision of drilling and other services to upstream companies	$1	100%	(128)
Oando Searex XII Limited	British Virgin Island	Provision of drilling and other services to upstream companies	$1	100%	(382)

Subsidiaries information(Continued)

Entity name	***Country of incorporation***	***Nature of business***	***Issued share capital***	***Percentage interest held***	***Group's share of current year's profit/(loss)***
Oando Sierra Leone Limited	Sierra Leone	Marketing and sale of petroleum products	11	80%	-
Oando Supply and Trading	Nigeria	Supply of crude oil & refined petroleum products	38	100%	7,664
Oando Togo SA	Togo	Marketing and sale of petroleum products	1,264	75%	367
Oando Trading Limited	Bermuda	Supply of crude oil & refined petroleum products	12	100%	20,912
Oando Liberia	Liberia	Marketing and sale of petroleum products	50	100%	(491)
Oando OML 125 & 134 Limited	Nigeria	Oil and gas exploration and production	19	100%	29,305
OML 112 &117	British Virgin Island	Provision of drilling and other services to upstream companies	$1	100%	(266)
TRANSGAS	Nigeria	Gas distribution (100% owned by Gaslink)	61	52%	-
UNITAB Nigeria Limited	Nigeria	Marketing of automobile parts	40	51%	-

30 Post balance sheet events

No Events or transactions have occurred since the balance sheet date which would have a material effect upon the financial statement at that date or which need to be mentioned in the financial statements in order to make them not misleading as to the financial position or result of operations at the balance sheet date. See note 12 for proposed dividend.

31 Financial Instruments by category

31 December 2008	**Loans and receivables US $'000**	**Available for sale US $'000**	**Total US $'000**
Assets per balance sheet			
Available for sale financial assets		20	20
Non-current receivable (excluding operating lease)	107,971		107,971
Trade and other receivables (excluding prepayments)	706,654	-	706,654
Cash and cash equivalents	374,635	-	374,635
	1,189,260	20	1,189,280

31 December 2008	**Other financial liabilities at amortised cost**	**Total**
Liabilities per balance sheet		
Borrowings (excluding finance lease liabilities)	1,405,028	1,405,028
Finance lease liabilities	2,534	2,534
Trade and other payables	353,350	353,350
	1,760,912	1,760,912

31 December 2007	Loans and receivables	Available for sale	Total
Assets per balance sheet			
Available for sale financial assets		90	90
Non-current receivables (excluding operating lease)	92,347		92,347
Trade and other receivables (excluding prepayments)	374,443	-	374,443
Cash and cash equivalents	147,974	-	147,974
	614,764	90	614,854

31 December 2007	Other financial liabilities at amortised cost US $'000	Total US $'000
Liabilities per balance sheet		
Borrowings (excluding finance lease liabilities)	600,947	600,947
Finance lease liabilities	4,084	4,084
Trade and other payables	361,903	361,903
	966,934	966,934

32 Upstream activities

32.1 Analysis of upstream assets

	Mineral rights acquisition US$'000	Land & buildings US$'000	Exploration costs US$'000	Producing wells US$'000	Capital construction US$'000	Move-able assets US$'000	Abandonment asset US$'000	Total US$'000
Year ended 31 December 2008								
Opening net book amount	-	-		-	-	-	-	-
Transfer from intangible assets	46,617	-	15,711		-	-	-	62,328
Decommissionin	-	-		-	-	-	5,996	5,996
Additions	187,083	182	19,386	69,653	40,069	1,271	-	317,644
Transfers	137	-	119		56	(312)	-	-
Depreciation charge	(13,248)	-		(13,444)	(8,155)	(192)	-	(35,039)
Exchange differences	(3,750)	-	(1,736)	1,424	864	21	-	(3,179)
Closing net book amount	216,839	182	33,480	57,631	32,834	788	5,996	347,750

On 30 December 2008, the Group acquired an undivided 15% interest in Oil Mining Leases (OMLs) 125 and 134. The OML 125 is currently in production, while further appraisal and development activities are ongoing in respect of OML 134. The Group's share of the acquired assets and mineral rights acquisition costs are included as additions to upstream assets.

The Group's share of total proved developed and undeveloped reserves in its various concessions were 12.3 and 7.8 million barrels of oil equivalent respectively.

The Group performed an impairment test on the capitalised costs as at 31 December 2008 using a price of approximately US$46 per barrel. No amounts were written off as a result of this exercise.

Total recorded liability for restoration and abandonment included in note 16 was US$6million.

32.2 Details of oil field concessions

Subsidiary	License	Operator	Nature	Date	Expiration
Oando OML 125 & 134 Ltd	OML 125	NAE	Offshore	04/07/2023	Producing
Oando OML 125 & 134 Ltd	OML 134	NAE	Offshore	04/07/2023	Producing
Oando Petroleum Development Company Ltd	OML 56	ENERGIA	Onshore	31/01/2023	Development
Oando Exploration And Production Ltd	OPL 236	OEPL	Onshore	31/03/2013	Exploration
Oando Exploration And Production Ltd	OPL 278	OEPL	Onshore	31/01/2011	Exploration

---------- 000 ----------