OANDO PLC

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2009, which disclose the state of affairs of the group.

PRINCIPAL ACTIVITIES

The principal activity of Oando Plc 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 and other petroleum product marketing companies.
b) Distribution of natural gas for industrial customers - Gaslink Nigeria Limited, East Horizon Gas Company, Oando Gas and Power Limited, Akute Power 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, and other offshore companies
e) Exploration and Production (E & P) - Oando Exploration and Production Limited engaged in production operations and other E & P companies operating within the gulf of Guinea.

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$76.223million has been added to retained earnings. The directors recommend the approval of a final dividend of US$18.369 million (refer to note 11), 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) PSC, OFR Galadiman Zuru	(Chairman)
Mr. Jubril Adewale Tinubu	(Group Chief Executive GCE)
Mr. Omamofe Boyo	(Deputy Group Chief Executive DGCE)
Mr. Mobolaji Osunsanya	(Group Executive Director)
Mr. Olufemi Adeyemo	(Group Executive Director, Finance - Appointed 24 March 2009)
Mr. Ademola Akinrele, SAN	(Non-executive Director)
Mr. Navaid Burney (American)	(Non-executive Director)
HRM. Michael .A. Gbadebo CFR, The Alake of Egbaland	(Non-executive Director)
Mr. Valentine Oboden Ibru	(Non-executive Director)
Alhaji Hamidu Mahmud, Walin Mubi	(Non-executive Director)
Mr. O. P Okoloko	(Non-executive Director)
Mr .Ike Osakwe	(Non-executive Director - Retired 30 July 2009)
Chief Felix Atako J. P	(Non-executive Director - Retired 30 July 2009)
Chief Sena Anthony	(Non-executive Director - Appointed 31 January 2010)
Ms. Amal Inyingiala Pepple, CFR	(Non-executive Director - Appointed 31 January 2010)
Ms. Genevieve Sangudi	(Non-executive Director - Appointed 31 January 2010)

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

.. April 2010

The directors accept responsibility for the annual consolidated 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 issued by the International Accounting Standards Board.

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

6 April 2010

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 consolidated financial statements of Oando Plc for the year ended 31 December 2009. These consolidated financial statements comprise the consolidated statement of financial position at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 consolidated 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 these consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2009 and of its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Chartered Accountants … April 2010
Lagos, Nigeria

Consolidated income statements

	Notes	Year ended 31 December 2009 US$'000	2008 US$'000
Revenue	5	2,283,557	2,686,544
Cost of sales		(2,041,943)	(2,360,439)
Gross profit		241,614	326,105
Other operating income	6	82,281	15,347
Selling and marketing costs		(50,649)	(61,108)
Administrative expenses		(120,636)	(142,287)
Operating profit	6	152,610	138,057
Finance income	8	27,983	38,908
Finance costs	8	(85,762)	(86,040)
Finance costs – net	8	(57,779)	(47,132)
Profit before income tax		94,831	90,925
Income tax expense	9	(19,597)	(16,346)
Profit for the year		75,234	74,579
Attributable to:			
Equity holders of the company – transferred to retained earnings		76,223	74,544
Minority interests		(989)	35
		75,234	74,579
Earnings per share attributable to the equity holders - basic and diluted (US$ per share)	10	8.42	8.24

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

Consolidated statements of comprehensive income

	Notes	31 December 2009 US$'000	31 December 2008 US$'000
Profit for the year		75,234	74,579
Other comprehensive income:			
Reversal of revaluation of land and building		-	(5,213)
Deferred tax on revaluation surplus reversed		-	1,564
Movement in fair value reserves on available-for- sale financial assets		-	(4)
Currency translation differences		(39,112)	(41,708)
Other comprehensive income for the year, net of tax		(39,112)	(45,361)
Total comprehensive income for the year		**36,122**	**29,218**
Attributable to:			
Owners of the parent		37,111	29,183
Minority interest		(989)	35
Total comprehensive income for the year		**36,122**	**29,218**

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

Consolidated statements of financial position

	Notes	At 31 December 2009 US$'000	2008 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	900,126	693,489
Intangible assets	18	166,489	175,036
Deferred income tax assets	15	60,071	17,008
Available-for-sale financial assets	19	7	20
Non-current receivables and prepayments	20	130,195	114,176
		1,256,888	999,729
Current assets			
Inventories	21	65,657	122,927
Trade and other receivables	22	665,106	716,015
Cash and cash equivalents	23	174,487	374,635
		905,250	1,213,577
Total assets		**2,162,138**	**2,213,306**
EQUITY			
Equity attributable to owners of parent			
Share capital	12	3,542	3,541
Share premium	12	231,657	231,533
Other reserves	13	728	39,840
Retained earnings		124,559	66,430
		360,486	341,344
Minority interest		6,217	1,647
Total equity		366,703	342,991
LIABILITIES			
Non-current liabilities			
Borrowings	14	141,735	318,864
Deferred income tax liabilities	15	97,095	74,276
Provisions for other liabilities and charges	16	10,804	9,460
		249,634	402,600
Current liabilities			
Trade and other payables	24	572,562	353,350
Current income tax		22,558	25,667
Borrowings	14	950,681	1,088,698
		1,545,801	1,467,715
Total liabilities		1,795,435	1,870,315
Total equity and liabilities		**2,162,138**	**2,213,306**

The notes on pages 9 to 51 form an integral part of these financial statements.
The financial statements on pages 5 to 58 were approved for issue by the board of directors on … 2010 and signed on its behalf by:

Director **Director**

Consolidated statements of changes in equity

	Notes	Attributable to owners of the parent			Minority Interest	Total equity
		Share capital	Other reserves*	Retained earnings		
Year ended 31 December 2008		US$'000	US$'000	US$'000	US$'000	US$'000
At start of year		235,805	85,201	53,736	1,612	376,354
Value of employee services- share option scheme and award		-	-	570	-	570
Tax credit relating to share option and award		-	-	171	-	171
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)
Profit for the year		-	-	74,544	35	74,579
Other comprehensive income for the year		-	(45,361)	-	-	(45,361)
At end of year		235,074	39,840	66,430	1,647	342,991
Year ended 31 December 2009						
At start of year		235,074	39,840	66,430	1,647	342,991
Value of employee services- share option scheme and award		-	-	305	-	305
Tax credit relating to share option and award		-	-	92	-	92
Minority interest on business combination		-	-	-	5,559	5,559
Issue of shares	12	125	-	-	-	125
Dividend:						
- Final for 2008		-	-	(18,491)	-	(18,491)
Profit for the year		-	-	76,223	(989)	75,234
Other comprehensive income for the year		-	(39,112)	-	-	(39,112)
At end of year		235,199	728	124,559	6,217	366,703

*Other reserves include revaluation surplus, currency translation reserves and fair value reserves. See note 13.
The share options and award reserves of US$0.397 million, net of tax credit of US$0.92 million (2008: US$0.741 million, net of tax credit of US$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 statements of cash flows

	Notes	Year ended 31 December 2009 US$'000	2008 US$'000
Cash flows from operating activities			
Cash generated/ (used in) from operations	25	486,525	(28,083)
Interest received		27,983	38,908
Interest paid		(85,597)	(85,804)
Income tax paid		(38,250)	(7,537)
Net cash generated from/(used in) operating activities		390,661	(82,516)
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(222,732)	(424,885)
Purchase of intangible assets	18	-	(581)
Acquisition of subsidiary	33	(47,132)	-
Signature bonus refunded		161,700	-
Proceeds from disposal of property, plant and equipment		3,063	2,145
Increase in non-current receivable (gas pipeline construction)	20	(14,425)	(15,624)
Net cash used in investing activities		(119,526)	(438,945)
Cash flows from financing activities			
Proceeds from borrowings		574,462	785,558
Repayments of borrowings		(1,045,730)	(88,159)
Finance lease principal payments		(2,449)	(1,550)
Dividends paid to company's shareholders		(18,491)	(61,946)
Net cash (used in)/generated from financing activities		(492,208)	633,903
Net (decrease)/increase in cash and cash equivalents		(221,073)	112,442
Movement in cash and cash equivalents			
At start of year		186,228	66,249
Net (decrease)/increase		(221,073)	112,442
Effects of exchange rate changes		(26,557)	7,537
At end of year	23	(61,402)	186,228

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. In 2009, 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. During the year, the group acquired a controlling interest in a new subsidiary engaged in E&P activities, Equator Exploration Limited. See details in note 33.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) issued by the International Accounting Standards Board. 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, available for sale financial assets, and derivative financial instruments.

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.

i) New and amended standards adopted by the group

The Group has adopted the following new and amended IFRSs as of 1 January 2009:

IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009.
The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits 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 in a statement of comprehensive income. As a result the group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only Impacts presentation aspects, there is no impact on earnings per share.

IFRS 2 (amendment), ‘Share-based payment’ (effective 1 January 2009) 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 there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The group and company have adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the group or company’s financial statements.

IAS 23 (amendment), ‘Borrowing costs’ (effective 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 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.) from 1 January 2009. The amendment does not have any impact on the group’s financial statements.

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’s financial statements reflect the new disclosures.

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 amendment does not have a material impact on the group’s financial statements.

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 disclosures in group's financial statements comply with IFRS 8.

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. Pre-acquisition dividend received from Equator Exploration Limited was recognised in the income statement of Oando Plc's stand alone financial statements. This has no impact on the group 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. The amendment does not have a material impact on the group's financial statements.

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 amendment does not have any impact on the group's financial statements.

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 does not have any impact on the group's financial statements.

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 does not have any impact on the group's financial statements.

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 does not have any impact on the group's financial statements.

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 does not have any impact on the group's financial statements.

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 does not have any impact on the group's financial statements.

IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). This interpretation addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. This interpretation does not have any impact on the group's financial statements.

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. The interpretation does not have any impact on the group's financial statements.

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). This interpretation provides guidance on identifying the foreign currency risks that qualify as a hedged risk (in the hedge of a net investment in a foreign operation). It secondly provides guidance on where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting. Thirdly, it provides guidance on how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The interpretation does not have any impact on the group's financial statements.

Amendment to IFRIC 9 and IAS 39, reassessment of embedded derivatives and IAS 39 - Financial instruments: recognition and measurement (effective from 1 October 2008). The amendments clarify that if a financial asset is reclassified out the fair value through profit or loss category it must be assessed for embedded derivatives at the date of reclassification. In addition, a contract that includes an embedded derivative that cannot be separately measured, is prohibited from being reclassified out of the 'at fair value through profit or loss' category. The interpretation does not have any impact on the group's financial statements.

The following annual improvements were also effective during the year:

I**FRS 5 Non-current assets held for sale and discontinued operations (effective 1 July 2009) - Plan to sell the controlling interest in a subsidiary**. This does not have any impact on the group's financial statements.

IFRS 7 Financial instruments: disclosures - presentation of finance costs. The group has appropriately presented finance costs in accordance with the standard.

IAS 1 Presentation of financial statements - Current/non-current classification of derivatives. This does not have any impact on the group's financial statements.

IAS 8 Accounting policies, changes in accounting estimates and errors. This does not have any impact on the group's financial statements.

IAS 10 Events after the reporting period - dividends declared after the end of the reporting period. Dividends declared after the reporting period are not recognised in the financial statements

IAS 18 Revenue - costs of originating a loan. This does not have any impact on the group's financial statements.

IAS 20 Accounting for government grants and disclosure of government assistance - government loans

with a below-market rate of interest; consistency of terminology with other IFRSs. This does not have any impact on the group's financial statements.

IAS 23 Borrowing Costs - components of borrowing costs. Components of capitalized borrowing costs in the group's financial statements are in line with the standard

IAS 27 Consolidated and Separate Financial Statements - measurement of subsidiary held for sale in separate financial statements. This does not have any impact on the group's financial statements.

IAS 34 Interim Financial Reporting - Earnings per share disclosures in interim financial reports. This will be applied in the group's next interim financial statements.

IAS 38 Intangible assets - advertising and promotional activities; units of production method of amortisation. This does not have any impact on the group's financial statements.

(ii) 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 2010 or later periods, but the group has not early adopted them:

IFRIC 17, 'Distribution of non-cash assets to owners' (effective from 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The group and company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the group or company'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 remeasured 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.

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 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.

IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the group and company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the group or company's financial statements.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The group and company will apply IFRS 5 (amendment) from 1

January 2010. It is not expected to have a material impact on the group or company's financial statements.

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group and company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the group or company's financial statements.

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guiance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the group's financial statements.

IFRIC 18 'Transfers of assets from customers' (effective from 1 July 2009). IFRIC 18 clarifies the accounting treatment for transfers of property, plant and equipment received from customers. This Interpretation applies to agreements with customers in which the entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both. This is not expected to have any impact on the group's financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items (effective from 1 July 2009). The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This is not expected to have any impact on the group.

IFRS 1 First time Adoption of International Financial Reporting Standards – Revised (effective from 1 July 2009). The revised standard has an improved structure but does not contain any technical changes. This is not expected to have any impact on the group.

Amendments to IAS 32 Classification of rights issues (effective from 1 February 2010). The amendment clarifies the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. The amendment states that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. This is not expected to have any impact on the group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective from 1 July 2010). This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This is not expected to have any impact on the group.

The following annual improvements were also issued but not yet effective at year end:

IFRS 8 Operating Segments - Disclosure of information about segment assets. This is not expected to have any impact on the group's financial statements.

IAS 7 Statement of Cash Flows - Classification of expenditures on unrecognised assets. This is not expected to have any impact on the group's financial statements.

IAS 17 Leases - Classification of leases of land and buildings. This is not expected to have any impact on the group's financial statements.

IAS 18 Revenue - Determining whether an entity is acting as a principal or as an agent. This is not expected to have any impact on the group's financial statements.

IAS 36 Impairment of Assets - Unit of accounting for goodwill impairment test. This is not expected to have any impact on the group's financial statements.

IAS 39 Financial Instruments:Recognition and Measurement - Treating loan prepayment penalties as closely related embedded derivatives; Scope exemption for business combination contracts; and Cash flow hedge accounting. This is not expected to have any impact on the group's financial statements.

IFRIC 9 Reassessment of Embedded Derivatives - Scope of IFRIC 9 and revised IFRS 3. This is not expected to have any impact on the group's financial statements.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation - Amendment to the restriction on the entity that can hold hedging instruments. This is not expected to have any impact on the group's financial statements.

(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 – 'parent company model'

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Gains or losses on disposal to minority interest are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary. This policy will be replaced with the 'economic entity' model with effect from January 2010, in line with the amendment to IAS 27 (revised).

(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 functiona currency of the company (for the purposes of the separate financial statements) 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 income statement.

(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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- 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 income statement 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

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Leadership Council (GLC).

(e) Revenue recognition

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 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 the product is physically transferred into a vessel, pipe or other delivery mechanism. For sales by refining companies, it is either when the 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 terms.

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 the stage of 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. When a loan or receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

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 income statement 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 income statement.

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	20 – 50 years	(2 – 5%)
Plant and machinery	8 – 20 years	(5 – $12^1/2$ %)
Equipment and motor vehicle	3 – 5 years	(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 income statement. 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). The amortisation period is reviewed at each balance sheet date.

(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.

- 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. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

- 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 statement of financial position 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 statement of financial position (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. 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 (refer to note 19).

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. The Group assesses the significance of a decline in the fair value below cost relative to the specific security's volatility, and regards a decline below cost of longer than 12 months to be prolonged. 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 income statement on equity instruments are not reversed through the income statement.

(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 commencement 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 income statement over the lease period so as to produce a constant rate over the lease term. 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 income statement 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 net of tax 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 statement of financial position.

(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 income statement 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.

(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-market 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 options 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 and the specific risk. 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 obligation is reflected under provisions in the statement of financial position.

(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 and laws 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, using the effective interest method.

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. These are included as part of additions to property, plant and equipment. A qualifying asset is an asset that takes a substantial period of time to get ready for its intended use or sale.

(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 income statement of the period in which they are incurred.

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

The 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 is not exposed to fair value interest rate 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. The group uses derivative financial instruments to manage certain risk exposures.

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 and 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 2009, 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 US3.47 million lower mainly as a result of US Dollar denominated bank balances (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.)

As at December 2009, 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$24.22 million higher mainly as a result of US Dollar denominated trade payables and loan balances. (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$5.32million higher 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 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 Group 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 shares of Transcorp held by the Group are traded on the Nigerian Stock Exchange (NSE). Fluctuations in the international prices of crude oil would have corresponding effects on the results of operations of the Group. In order to mitigate against the risk of fluctuation in international crude oil prices, the Group hedges its exposure to fluctuations in the price of the commodity by entering into hedges for minimum volumes and prices in US$ per barrel of oil.

The Group, through Oando Exploration and Production Limited (OEPL), has hedged its exposure to fluctuations in the price of oil by entering into hedging arrangements with respect to specified yearly production volumes that set minimum floor prices. Such arrangements, which currently extend through 2013, provide that, if the price of oil falls below the floor price at the end of any given month, OEPL will be compensated for the difference, less a US$8.10/bbl premium. In 2009, OEPL hedged 0.36 mmbbls of its crude oil production, using commodity derivatives. The fair value of the derivative asset and the deferred premium payable are shown in notes 22 and 24 respectively. Gains arising from the derivative are included in other operating income in note 6.

The following table sets forth details of OEPL's hedging arrangements.

Hedge Revenue	Unit	2009	2010	2011	2012	2013
Volumes Hedged............	mmbbls	0.360	0.375	0.372	0.230	0.133
Floor Price	US$/bbl	85.00	85.00	80.00	75.00	75.00
Hedge Cost	US$/bbl	8.10	8.10	8.10	8.10	8.10

Effective 1 January 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1	Level 2	Level 3	Total balance
Assets				
Available-for-sale financial assets				
– Equity securities	7	-	-	7
– Debt investments	-	-	-	-
Derivative financial instruments				
– Commodity contract	-	8,993	-	8,993
Total assets	7	8,993	-	8,900
Liabilities				
Derivative financial instruments				
– Interest rate swap	-	2,224	-	2,224
Total liabilities	-	2,224	-	2,224

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE listed instruments classified as available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The Group did not have any level 2 or level 3 equity securities and there were no debt investments as of the balance sheet date.

(iii) Cash flow and fair value interest rate risk

The Group holds short term, highly liquid bank deposits at fixed interest rates. 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 2009, an increase of 100 basis points on LIBOR would have resulted in a decrease in consolidated pre tax profit of US$0.496million (2008: US$**[x]**million), mainly as a result of higher interest charges on variable rate borrowings.

As at the balance sheet date, the Group had a floating-to-fixed interest rate swap on a notional amount of US$200 million, based on a floating rate of three month LIBOR and a fixed rate of 2.81%. The fair value of the derivative liability is included in note 24 and the related losses included in interest expense in note 8.

Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, 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 by the GLC.

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2009 is made up as follows:

	2009 $'000	2008 $'000
Cash and cash equivalents	174,487	374,635
Non-current receivables	122,326	107,971
Trade receivables	326,176	175,759
Derivative financial instruments – commodity contracts	11,655	-
Other receivables	303,651	530,895

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):

	2009 $'000	2008 $'000
Past due but not impaired:		
- by up to 30 days	30,672	140,533
- by 31 to 60 days	4,807	20,289
- later than 60 days	128,985	5,794
Total past due but not impaired	164,465	166,616
Current	161,711	9,143
	326,176	175,759
Impaired	11,059	10,454

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:

	2009 $'000	2008 $'000
Group 2	122,326	107,971

Trade receivables

Counter parties without external credit rating:

	2009 $'000	2008 $'000
Group 1	194,153	97,153
Group 2	130,097	76,059
Group 3	1,926	2,547
	326,176	175,759

Derivative financial instruments

Counter parties without external credit rating:

Group 2	11,655	-

Cash at bank and short term bank deposits

AAA	95	78
AA	-	24,191
AA-	125,775	154,865
A+	24,792	51,705
A-	70	2,068
BBB+	6,437	41,561
BBB-	1,307	60,076
Not rated	16,011	39,091
	174,487	374,635

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 2009:				
Borrowings (excluding finance lease liabilities)	950,596	77,923	42,800	21,903
Finance lease liabilities	100	-	-	-
Trade and other payables (excluding derivative instruments and deferred premiums payable)	510,876	-	-	-
Derivative financial instruments – interest rate swap	(4,182)	(1,117)	4,681	
Deferred premiums payable	3,026	3,014	3,188	
At 31 December 2008:				
Borrowings (excluding finance lease liabilities)	1,087,421	163,088	155,043	-
Finance lease liabilities	1.497	1,424	-	-
Trade and other payables	353,350	-	-	-

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 and in order to prevent breaching of debt covenants, 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 equivalents. Total capital is calculated as equity plus net debt. During 2009 the Group's strategy was to maintain a gearing ratio between 50% and 75% (2008: 50% and 75%). The gearing ratios as at the end of December 2009 and 2008 were as follow:

	2009 US$'000	2008 US$'000
Total borrowings	1,092,416	1,407,562
Less: cash and cash equivalents	174,487	374,635
Net debt	917,929	1,032,927
Total equity	366,703	342,991
Total capital	1,284,632	1,375,918
Gearing ratio	71.5%	75.0%

A number of the Group's borrowings are denominated in US dollar.

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 2009 and 31 December 2008.

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 17% for Marketing (i.e. 39% instead of 22%); Supply and Trading by 59% (i.e. 81% instead of 22%); Energy Services by 10% (i.e. 32% instead of 22%) and Gas and Power by 16% (i.e. 38% instead of 22%) the Group would have recognised an impairment against goodwill by US$0.59 million (2008: US$0.33 million). For other segments (Exploration and Production), 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 the income statement.

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 statement of financial position 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 2009 was 22% (2008: 22%)
Asset impairments or their reversal will impact income.

5 Segment information

Management has determined the operating segments based on the performance reports reviewed monthly by Group Leadership Council (GLC) and these reports are used to make strategic decisions. GLC considers the businesses from a Divisional perspective.
Each of the Division's operations may transcend different geographical locations.

The GLC assesses the performance of the operating segments by reviewing actual results against set targets on revenue, operating profit and profit after tax for each of the Divisions.

Expenditures incurred on joint services and infrastructure like information technology, audit, etc are shared amongst the Division using pre-agreed rates. Also, interest expenses suffered by the Corporate Division on loans raised on behalf of the other Divisions are transferred to the relevant Division.

At 31 December 2009 the Group was organised six operating segments:

(i) **Exploration and production (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) **Marketing** – involved in the marketing and sale of petroleum products. Over the years, the Group had focused primarily on the marketing of petroleum products.

(iii) **Supply and Trading –** involved in trading of refined and unrefined petroleum products.

(iv) **Refinery and Terminals –** operations yet to commence. The group has three principal projects currently planned – the construction of 210,000 MT import terminal in Lekki, the construction of LPG storage facility at Apapa Terminal, and the construction of a marina jetty and subsea pipeline at Lagos Port.

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

(vi) **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.

In the tables below, Corporate and Other include company activities that cannot be directly allocated to any of the above segments.

The segment results for the year ended 31 December 2009 are as follows:

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Gross segment revenue	82,801	1,108,521	1,304,123	-	71,218	41,350	-	2,608,013
Inter-segment revenue	-	-	(324,456)	-	-	-	-	(324,456)
Revenue	82,801	1,108,521	979,667	-	71,218	41,350	-	2,283,557
Operating profit/(loss)	58,428	42,108	37,714	-	4,456	8,030	1,874	152,610
Finance income	-	933	459	-	2,325	3	24,263	27,983
Finance cost	(22,195)	(6,911)	(17,498)	-	(755)	(7,251)	(31,152)	(85,762)
Finance costs – net	(22,195)	(5,978)	(17,039)	-	1,570	(7,248)	(6,889)	(57,779)
Profit before income tax	36,233	36,130	20,675	-	6,026	782	(5,015)	94,831
Income tax expense	(5,400)	(11,738)	1,943	-	(2,382)	(930)	(1,090)	(19,597)
Profit for the year	30,833	24,392	22,618	-	3,644	(148)	(6,105)	**75,234**

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

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Gross segment	106,240	1,550,275	1,398,874	-	55,524	35,018	-	3,145,931
Inter-segment revenue	-	-	(459,387)	-	-	-	-	(459,387)
Revenue	106,240	1,550,275	939,487	-	55,524	35,018	-	2,686,544
Operating profit/(loss)	36,942	57,036	55,115	(339)	4,316	(8,692)	(6,321)	138,057
Finance income	-	5,155	806	-	-	8	32,939	38,908
Finance cost	(5,884)	(16,212)	(26,061)	-	(2,185)	(2,379)	(33,319)	(86,040)
Finance costs – net	(5,884)	(11,057)	(25,255)	-	(2,185)	(2,371)	(380)	(47,132)
Profit before income tax	31,058	45,979	29,860	(339)	2,131	(11,063)	(6,701)	90,925
Income tax expense	(2,846)	(9,814)	(3,747)	-	(1,693)	(3,192)	(1,438)	(16,346)
Profit for the year	28,212	36,165	26,113	(339)	438	(14,255)	(8,139)	**74,579**

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

Year ended 31 December 2009

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Depreciation	23,591	7,825	138	-	202	3,273	1,872	36,901
Amortisation of intangible assets	-	-	-	-	-	-	1,011	1,011
Impairment loss on available-for- sale financial assets	-	-	-	-	-	-	7	7

Year ended 31 December 2008

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Depreciation	35,039	11,272	193	-	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

The segment assets and liabilities at 31 December 2009 and capital expenditure for the year then ended are as follows:

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Assets	659,361	419,551	302,462	18,817	226,202	300,246	170,458	2,097,097
Liabilities	141,457	322,367	354,769	-	195,694	88,102	573,393	1,675,7826
Capital expenditure	88,426	8,168	133	12,505	10,300	83,712	16,179	219,423

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

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Other US$'000	Group US$'000
Assets	412,575	354,385	594,770	7,304	164,055	189,632	473,577	2,196,298
Liabilities	59,927	235,819	636,366	-	134,507	112,556	571,197	1,750,372
Capital expenditure	317,644	4,131	34	5,542	16,127	77,612	4,376	425,466

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 statement of financial position as follows:

	2009 US$'000	2008 US$'000
Total segment assets	2,102,067	2,196,298
Deferred income tax assets	60,071	17,008
Total assets	2,162,138	2,213,306

	2009 US$'000	2008 US$'000
Total segment liabilities	1,675,782	1,770,372
Current income tax	22,558	25,667
Deferred income tax liabilities	97,095	74,276
Total liabilities	1,795,435	1,870,315

Geographical information

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	1,658,983	2,228,374
Rest of West Africa region	55,581	73,651
Other countries	568,993	384,519
	2,283,557	2,686,544

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

Nigeria	1,729,602	1,793,655
Rest of West Africa region	13,022	18,124
Other countries	359,443	384,519
	2,102,067	2,196,298

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

	2009 US$'000	2008 US$'000
Nigeria	222,068	423,650
Rest of West Africa/Others	664	1,816
	222,732	425,466

Breakdown of revenue from all services is as follows:

Sale of goods	2,259,640	2,686,008
Revenue from services	23,909	536
	2,283,557	2,686,544

6 Other operating income

	2009 US$'000	2008 US$'000
Exchange gain	9,412	3,122
Net gain from debt purchase	52,316	-
Hedge income	9,947	-
Fair value gains on derivative financial instruments	2,827	-
Other income	7,779	12,225
	82,281	15,347

Operating profit

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

Included in cost of sales		
Depreciation on property, plant and equipment – Upstream assets (Note 17)	23,592	35,039
Included in selling and marketing costs		
Product transportation costs	38,325	46,295
Dealers commission	12,324	14,813
Included in other operating income		
Foreign exchange gain	(9,412)	(3,122)
Included in administrative expenses:		
Depreciation on property, plant and equipment – others (Note 17)	13,309	14,511
Amortisation of intangible assets (Note 18)	1,011	1,277
Foreign exchange loss	-	22,733
Provision for impairment losses of trade receivables	745	7,079
Impairment charge on available for sale financial assets (Note 19)	7	60
Employee benefits expense (Note 7)	27,818	27,019
Auditors’ remuneration	1,000	742
Consultancy services	4,677	7,332
Repairs and maintenance	1,187	6,914
Technical and management services (Note 26)	5,858	8,502
Rent and other hiring costs	10,070	2,720

7 Employee benefits expense

The following items are included within employee benefits expense:	**2009** **US$’000**	**2008** **US$’000**
Wages and salaries	20,203	19,035
Welfare and training	695	4,328
Share options granted to directors and employees	305	258
Management stock award	-	312
Pension costs- Defined contribution scheme	6,615	3,086
	27,818	27,019

8 Finance (costs)/income

Interest expense:		
Bank borrowings	(115,168)	(113,824)
Capitalised to qualifying property plant and equipment	32,735	28,373
	(82,433)	(85,451)
Interest on finance leases	(399)	(353)
Fair value loss on interest-rate swaps	(2,224)	-
Unwinding of discount on provisions (Note 16)	(541)	(236)
Unwinding of discount on deferred premiums	(165)	-
Finance costs	(85,762)	(86,040)
Interest income:		
Bank deposits	27,983	38,908
Net finance costs	(57,779)	(47,132)

Borrowing costs were capitalised based on the respective actual borrowing rates.

9 Income tax expense

	2009 US$'000	2008 US$'000
Current income tax	35,410	31,609
Education tax	2,443	2,408
Deferred income tax (Note 15)	(18,256)	(17,671)
Income tax expense	19,597	16,346

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:

	2009 US$'000	2008 US$'000
Profit before income tax	94,831	90,925
Tax calculated at average domestic rates applicable to profits in the respective countries – average 35% (2008:35%)	33,190	32,116
Minimum tax	-	1,500
Education tax	2,443	2,408
Tax effect of:		
Income not subject to tax	(56,804)	(20,946)
Expenses not deductible for tax purposes	29,699	1,949
Over- provision/(Under) of deferred income tax in prior years	795	(1,379)
Tax losses for which no deferred tax was recognised	10,274	698
Income tax expense	19,597	16,346

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.

	2009	2008
Profit attributable to equity holders of the Company (US$ thousands)	76,223	74,544
Weighted average number of ordinary shares in issue (thousands)	904,984	904,884
Basic earnings per share (US Cents)	8.42	8.24

Weighted average number of shares in 2009 includes shares issued during the year (see note 12).

There were no potentially dilutive shares outstanding at 31 December 2009 or 2008.
As the exercise price of employee stock options outstanding at the balance sheet date was higher than the average share price during the year (note 12), this was not taken into account in computing earnings per share. 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:

	2009 US$'000	2008 US$'000
Profit attributable to equity holders of the company	76,223	74,544
Less: (Profit)/loss on sale of property, plant and equipment	(526)	45
Tax thereon	156	47
Impairment loss on available for sale financial asset	7	56
Net gain from debt purchase	(52,316)	-
	23,544	74,692
Weighted average number of ordinary shares in issue (thousands)	904,984	904,884
Headline earnings per share attributable to earnings/diluted bases(US Cents)	2.60	8.25

11 Dividends per share

At the annual general meeting proposed to be held on 30 April, 2010, a dividend in respect of the year ended 31 December 2009 of US 2.03 cents per share amounting to a total of US$18.369 million is to be proposed. These financial statements do not reflect this dividend as a payable (2008: US$4.59cents, amounting to a total of US4 US$41.53million; 2007: 2007: US$3.4cents, amounting to a total of 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 2008	754,070	2,896	232,909	235,805
Additional issues during the year	150,814	645	-	645
Share issue costs	-	-	(1,376)	(1,376)
At 31 December 2008	904,884	3,541	231,533	235,074
Additional issues during the year	200	1	124	125
At 31 December 2009	905,084	3,542	231,657	235,199

In June 2009, a total 200,000 shares of 50Kobo each were issued in respect of an award to certain employees of the company based on the market price of N92.06 (US 62.7cents) per share at the date of the issue.

The total authorised number of ordinary shares is 2,000,000,000 (2008: 1,000,000,000) with a par value of 50Kobo (US 0.38cents) per share. All issued shares are fully paid.

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.

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

	2009		2008	
	Average exercise price in USD per share	Options (thousands)	Average exercise price in USD per share	Options (thousands)
At 1 January	1.48	1,626	-	-
Granted	-	-	1.88	1,626
At 31 December	1.48	1,626	1.88	1,626

No option was granted or exercisable during the year. However, the option, which were granted in 2008 become exercisable from 2 May 2011 at ₦ 218 (US$1.48) per share.

The weighted average fair value of options granted in 2008 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.

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 2008	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
At 31 December 2009	53,301	(13,461)	-	39,840
Currency translation differences	-	(39,112)	-	(39,112)
At 31 December 2009	53,301	(52,573)	-	728

*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

	2009 US$'000	2008 US$'000
The borrowings are made up as follows:		
Non-current		
Bank loans	141,735	317,607
Finance lease liabilities	-	1,257
	141,735	318,864
Current		
Bank overdraft	235,889	188,407
Bank loans	714,707	899,014
Finance lease liabilities	85	1,277
	950,681	1,088,698
Total borrowings	1,092,416	1,407,562

The borrowings include secured liabilities (bank borrowings and finance leases) in a total amount of US$ 396.8 million (2008: US$375million). The Group has a Trust Deed arrangement, executable by a Trustee company, by which bank borrowings are secured. The security trust deed (STD) between Oando Plc and First Trustees was executed in October 2009 to fulfill the security obligations of Oando Plc with respect to its various Lenders under an Inter-creditor deed. The STD is a security pool which places a floating charge over the assets of Oando Plc which principally comprise its stock and shares in the subsidiaries, book debts, office equipment, plant and machinery, intellectual property etc.

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	Tenure/ Interest rate	Security	Facility Amount US$'000	Draw down/ Balance 2009 US$'000	Draw down/ Balance 2008 US$'000
Syndicated loan – Greater Lagos III gas pipeline project for Gaslink	3yrs; 20%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	7,453	5,589	14,277
Term loans – Equity Finance	12mths with roll over option.	Corporate guarantee by Oando Plc and fixed deposit of same amount.	16,938	16,938	-
Syndicated loans (2) – Customers' connect for Gaslink.	3yrs; 20%	Pledge of assets being financed; Corporate guarantee by oando Plc.	18,970	6,323	24,478
Syndicated gas project facility – UNICEMENT Gas pipeline project by East Horizon Company	3yrs; 18.7%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	25,745	23,022	-

Syndicated gas project facility – UNICEMENT Gas pipeline project by East Horizon Company	7yrs; 18.7%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	87,189	51,491	63,192
Project finance facility – Akute IPP	7yrs; LIBOR plus 3%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	25,500	24,208	16,348
Term loan – acquisition of Upstream assets (payable in January 2010)	2yrs; 13.9%	Trust deed arrangement	200,000	200,000	179,193
Term loan – working capital finance	3yrs; LIBOR plus 2.75%	Trust deed arrangement	95,000	28,500	66,309
Term loan – working capital finance	5yrs; LIBOR plus 4%	Guarantee by Oando Plc	95,000	40,715	-
Total non-current loans				396,786	363,797
Less current portion of non-current loans				(255,045)	(46,190)
				141,735	317,607

Current

Loan type/ Purpose	**Tenure/ Interest rate**	**Security**	**Facility Amount US$'000**	**Draw down/ Balance 2009 US$'000**	**Draw down/ Balance 2008 US$'000**
Import finance facility to finance the purchase of petroleum products for resale.	3 - 90 days	Sales proceeds of products financed under the facility	170,916	170,916	490,300
Commercial papers to finance the acquisition of upstream assets and rigs	365 days 15-20%	Corporate guarantee	9,415	9,415	351,177
Commercial papers to finance product allocation from PPMC and importation of petroleum products	3-90 days 21%	Stock Hypothecation, cash and cheque collection from product sales	11,347	-	11,347
Other commercial papers				279,131	-
Total current loans				459,462	852,824
Current portion of non-current loans				255,245	46,190
				714,707	899,014

Weighted average effective interest rates at the year end were:

	2009	2008
– bank overdrafts	19%	16.5%
– bank loans	16%	16%
– Import finance facility	21%	13.5%
– finance leases	21%	15%

The carrying amounts of short-term borrowings and lease obligations for 2009 and 2008 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 statement of financial position date.

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

	2009 US$'000	2008 US$'000
6 months or less	371,351	193,578
6-12 months	721,065	1,213,984
	1,092,416	1,407,562

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

	Carrying amount		Fair value	
	2009 US$'000	2008 US$'000	2009 US$'000	2008 US$'000
Bank loans	141,735	317,607	143,925	318,131
Finance lease liabilities	-	1,257	-	1,257
	141,735	318,864	143,925	319,388

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

	2009 US$'000	2008 US$'000
Nigerian Naira	864,046	721,166
US Dollar	228,370	686,396
	1,092,416	1,407,562

Finance lease liabilities – future minimum lease payments:

Not later than 1 year	100	1,497
Later than 1 year and not later than 5 years	-	1,424
Later than 5 years		
	100	2,921
Future finance charges on finance leases	(15)	(387)
Present value of finance lease liabilities	85	2,534

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

Not later than 1 year	85	1,277
Later than 1 year and not later than 5 years	-	1,257
Later than 5 years	-	-
	85	2,534

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	(13,170)	(7,986)
Deferred tax asset to be recovered within 12 months	(46,901)	(9,022)
	(60,071)	(17,008)
Deferred tax liabilities		
Deferred tax liability to be recovered after more than 12 months	6,258	70,932
Deferred tax liability to be recovered within 12 months	90,837	3,344
	97,095	74,276
Deferred tax liabilities (net)	37,024	57,268

The gross movement in deferred income tax account is as follows:

	2009 US$'000	**2008 US$'000**
At start of year	57,268	42,599
(Credited)/Charge to profit and loss account (Note 9)	(18,256)	(17,671)
(Credited)/Charged to equity	-	(1,735)
Included in mineral rights acquisition cost of OML 125 &134	-	28,930
Exchange differences	(1,988)	5,145
At end of year	37,024	57,268

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

2009	**1.1.2009 US $'000**	**Charged/ (credited) to P/L US $'000**	**Charged/ (credited) to equity/other US $'000**	**Exchange differences US $'000**	**31.12.2009 US $'000**
Deferred income tax liabilities					
Property, plant and equipment:					
- on historical cost basis	11,321	24,660	-	(218)	35,763
- on revaluation surpluses	26,751	-	-	(3,054)	23,697
- on acquisition of mineral interest	28,930	-	-	(3,307)	25,623
Borrowings/other payables	7,274	-	-	(791)	6,483
Exchange gain	-	5,529	-	-	5,529
	74,276	30,189	-	(7,370)	97,095

Deferred income tax assets					
Provisions	(1,644)	(99)	-	188	(1,555)
Exchange losses	(9,022)	(187)	-	1,030	(8,179)
Share options and awards	(171)	-	(92)	-	(263)
Tax losses	(6,171)	(15,413)	-	4,256	(17,328)
Crude oil underlift	-	(32,746)	-	-	(32,746)
	(17,008)	(48,445)	(92)	5,474	(60,071)
Net deferred income tax liability	57,268	(18,256)	(92)	(1,896)	37,024

2008	**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

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:

	2009 US$'000	**2008 US$'000**
Underground tanks	3,288	3,464
Oil and gas fields	7,516	5,996
	10,804	9,460

Movement during the year is as follows:

At start of year	9,460	3,657
Additional provisions in the year	1,178	5,996
Unwinding of discount	541	236
Exchange differences	(375)	(429)
At end of year	10,804	9,460

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 2008						
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						
Opening net book amount	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)
Closing net book amount	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

Year ended 31 December 2009	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	347,750	109,977	21,109	8,563	206,090	693,489
Decommissioning costs	1,184	-	20	-	-	1,204
Additions	91,735	11,577	49,990	1,536	67,894	222,732
Transfers	-	4,245	55,952	3,123	(63,320)	-
Assets acquired on business combination	194,168	-	-	-	-	194,168
Disposal	(1,996)	(125)	(409)	(2)	(5)	(2,537)
Derecognition of asset	(161,700)	-	-	-	-	(161,700)
Depreciation charge	(23,592)	(2,554)	(8,676)	(2,079)	-	(36,901)
Exchange difference	(12,877)	(9,309)	99	(1,525)	13,283	(10,329)
	434,672	113,811	118,085	9,616	223,942	900,126
At 31 December 2009						
Cost or valuation	489,578	122,563	136,785	22,245	223,942	95,113
Accumulated depreciation	(54,906)	(8,752)	(18,700)	(12,629)	-	(94,987)
Net book amount	434,672	113,811	118,085	9,616	223,942	900,126

[2]As disclosed in note 1, the group transferred its petroleum marketing business to a fully owned subsidiary, Oando Marketing Limited in 2008. 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 has been 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:

	2009 US$'000	2008 US$'000
Cost – capitalised finance leases	9,990	11,635
Accumulated depreciation	(6,105)	(5,209)
Net book amount	3,885	6,426

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	36,787	41,528
Accumulated depreciation	(3,546)	(3,916)
Net book amount	33,242	37,612

18 Intangible assets

	Goodwill US$'000	Software costs US$'000	Total US$'000
At 1 January 2008			
Cost	191,014	6,438	197,452
Accumulated amortisation and impairment	-	(197)	(197)
Net book value	191,014	6,241	197,255
Year ended 31 December 2008			
Opening net book amount	191,014	6,241	197,255
Additions	-	581	581
Amortisation charge	-	(1,277)	(1,277)
Exchange differences	(20,907)	(616)	(21,523)
Closing net book amount	170,107	4,929	175,036
At 31 December 2008			
Cost	170,107	6,403	176,510
Accumulated amortisation	-	(1,474)	(1,474)
Net book amount	170,107	4,929	175,036

Year ended 31 December 2009	Goodwill US $'000	Software Costs US $'000	Total US $'000
Opening net book amount	170,107	4,929	175,036
Additions	11,870	-	11,870
Amortisation charge	-	(1,101)	(1,101)
Exchange difference	(18,780)	(536)	(19,316)
	163,197	3,292	166,489
At 31 December 2009			
Cost	163,197	5,785	168,982
Accumulated amortisation and impairment	-	(2,493)	(2,493)
Net book value	163,197	3,292	166,489

Impairment tests for goodwill

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

At 31 December 2009

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refining & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Total US$'000
Nigeria	36,178	64,381	4,938	-	27,214	3,342	136,053
West Africa region	-	390	-	-	-	-	390
Other countries	11,870	-	14,884	-	-	-	26,754
	48,048	64,771	19,822	-	27,214	3,342	163,197

At 31 December 2008

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refining & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Total US$'000
Nigeria	40,841	71,956	5,574	-	30,721	3,773	152,865
West Africa region	-	440	-	-	-	-	440
Other countries	-		16,802	-	-	-	16,802
	40,841	72,396	22,376	-	30,721	3,773	170,107

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 2009

	Exploration & production	Marketing	Supply and Trading	Refinery and Terminals	Gas & power	Energy Services
Gross Margin	92%	11%	1%	-	18%	87%
Growth rate	-3%	-10%	-10%	-	-5%	-4%
Discount rate	13.5%	22%	22%	-	22%	22%

At 31 December 2008

	Exploration & production	Marketing	Supply and Trading	Refinery and Terminals	Gas & power	Energy Services
Gross Margin	86%	10%	4%	-	21%	47%
Growth rate	-10%	-10%	-10%	-	-10%	-10%
Discount rate	13.5%	17%	17%	-	17%	17%

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:

	2009 US$'000	**2008 US$'000**
At start of year	20	90
Exchange difference	(6)	(10)
Fair value (losses)/gains transferred to equity	-	-
Impairment loss	(7)	(60)
At end of year	7	20

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 of the balance sheet date was N0.50 (US cents 0.03).

There were no disposals of AFS financial assets during the current or prior year.

20 Non-current receivables and prepayments

	2009	**2008**
Prepaid operating lease	7,799	6,205
Other non-current receivables	122,396	107,971
	130,195	114,176

Pre-paid operating lease

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

	2009 US$'000	2008 US$'000
At start of year	6,205	5,408
Exchange differences	(267)	(33)
Additions in the year	2,807	1,964
Amortisation	(180)	(76)
Reclassification to current prepayments	(766)	(1,058)
	7,799	6,205

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 by Gaslink Nigeria Limited ("Gaslink") and in Calabar/ Akwa Ibom, by East Horizon Gas Company Limited ("East Horizon"). Under the terms of the Natural Gas Sale and Purchase Agreement between the above companies and NGC respectively, Gaslink and East Horizon construct and operate the respective pipelines 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:

	2009 US$'000	2008 US$'000
At start of year	107,971	92,347
Exchange differences	(10,923)	(9,617)
Capital additions in the year	44,295	38,527
Recoveries in the year	(18,947)	(13,286)
	122,396	107,971

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 Gaslink's borrowing rate.

21 Inventories

Finished goods	53,596	103,030
Goods in transit	8,762	16,988
Consumable materials and engineering stocks	3,299	2,909
	65,657	122,927

The cost of inventories recognised as expense and included in 'cost of sales' amounted to US$0.733 billion (2008 US$1.9 billion). Inventory carried at Net Realisable Value as at balance sheet date amounted was nil. 2008:US$ 22.6 million)

22 Trade and other receivables

	2009 US $'000	2008 US $'000
Trade receivables	337,235	186,213
Less: Provision for impairment of trade receivables	(11,059)	(10,454)
	326,176	175,759
Other receivables	303,651	530,895
Prepayments	23,624	9,361
Derivative financial instruments – commodity contracts	11,655	-
	665,106	716,015

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

	2009 US $'000	2008 US$'000
At start of the year	10,454	11,347
Provision for receivables impairment	651	369
	11,105	11,716
Receivables written off during the year as uncollectible	-	(8)
Exchange difference	(46)	(1,254)
At end of the year	11,059	10,454

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

	2009 US $'000	2008 US $'000
Cash at bank and in hand	167,328	129,632
Short term bank deposits	7,159	245,003
	174,487	374,635

The weighted average effective interest rate on short-term bank deposits at the year-end was 13.5% (2008:14.4%). 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 statement of financial position, bank overdrafts are included in borrowings in current liabilities.

The year-end cash and cash equivalents comprise the following:

	2009 US $'000	2008 US $'000
Cash and bank balances as above	174,487	374,635
Bank overdrafts	(235,889)	(188,407)
	(61,402)	186,228

24 Trade and other payables

	2009 US $'000	2008 US $'000
Trade payables	199,765	259,155
Other payables and accrued expenses	353,322	87,038
Unpaid dividend	339	10
Customers' security deposits	7,919	7,147
Derivative financial instruments – interest-rate swap	2,224	-
Deferred premiums payable on commodity contracts	8,993	-
	572,562	353,350

The carrying amounts of trade and other payables for 2009 and 2008 respectively approximate to their fair values.

25 Cash generated from operations

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

	2009 US $'000	2008 US $'000
Profit before income tax	94,831	90,925
Adjustments for:		
Interest income (Note 8)	(27,983)	(38,908)
Interest expense (Note 8)	85,597	85,804
Depreciation (Note 17)	36,901	49,550
Amortisation of intangible assets (Note 18)	1,101	1,277
(Profit)/loss on sale of property, plant and equipment	(526)	45
Unwinding of discount on provisions (Note 16)	541	236
Unwinding of discount on deferred premiums payable	165	-
Share-based payment expense (options and awards)	430	570
Impairment of available for sale assets (Note 19)	7	60
Net foreign exchange (gain)/loss	(9,412)	19,611
Fair value gains on commodity contracts	(2,827)	-
Fair value loss on interest-rate swap	2,224	-
Changes in working capital		
– receivables and prepayments (current)	62,564	(314,917)
– non-current prepayments	(1,594)	(797)
– inventories	57,270	89,709
– payables and accrued expenses	187,236	(8,553)
Payment of retirement benefits obligations	-	(2,695)
Cash generated from operations	486,525	(28,083)

26 Related party transactions

Ocean and Oil Investments (Nigeria) Limited, a special purpose entity set up for the purpose of acquiring significant interest in the then Unipetrol owned 24.67% of Oando Plc's shares directly at the balance sheet date and 7.4% indirectly (2008: 34%). The remaining 67.93% shares are widely held. Ocean and Oil Investments is owned by Ocean and Oil Mauritius. Ocean and Oil Mauritius is owned by Ocean and Oil Holdings (BVI) Limited.

The Group enters into transactions with related parties in the course of its business. These transactions include, but are not limited to, the receipt of management and technical services, investment advisory services, logistics support, personnel support and the purchase of certain products. For the years ended 31 December 2009 and 2008, the aggregate expenditures of the Group with respect to such related party transactions were US$32.4 million and US$24.5 million respectively.

(i) Technical and management service agreement

Oando Plc (“the company”) has a technical and management service agreement with Ocean and Oil Holdings Limited (OOH) 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$15million. The charge for the year for technical and management fees (included in administrative expenses) was US$ 5.85 million (2008: US$8.50 million).

In addition, four of the Company’s Directors are also directors of OOH; namely Mr. Tinubu, Mr. Okoloko, Mr. Boyo and Mr. Ibru. Mr. Tinubu, Mr. Okoloko and Mr. Boyo are also shareholders of OOH.

(ii) Key management compensation	**2009**	**2008**
	US$’000	**US$’000**
Salaries and other short-term employment benefits	7,041	7,034
Share options and management stock awards	158	570
	7,199	7,604

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

iii) Year-end payables arising from services received from related parties

Ocean and Oil Holdings Limited	4,378	2,506
Avante Property Limited	97	13
	4,475	2,519

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

Other transactions

Some of the Company's Directors hold directorships in other companies or are partners in firms with which the Company had material transactions during the previous three years, as summarised below:

Avante Property Asset Management

Avante Property Asset Management ("**Avante Property**") is a property and asset management advisory firm based in Lagos, Nigeria. The Company's Directors who are also directors of Avante Property are Mr. Jubril Adewale Tinubu, Mr. Jite Okoloko and Mr. Omamofe Boyo.

Notore Chemical Industries

Notore Chemical Industries ("**Notore**") is an agro-allied and chemicals company. The Group's Marketing business supplies petroleum products to Notore. Mr. Onajite Okoloko is the Managing Director and CEO of Notore and a Director of the Company.

F. O. Akinrele & Co.

F. O. Akinrele & Co. is a law firm based in Lagos, Nigeria, whose services are employed by the Company. Mr. Ademola Akinrele (SAN) is a partner at F. O. Akinrele & Co and a Director of the Company.

Oceanic Bank International Plc

Oceanic Bank International Plc ("**Oceanic Bank**") is one of Nigeria's financial institutions, whose financial services are employed by the Company. Mr. Oboden Ibru is a director of Oceanic Bank as well as a Director of the Company.

TSL Limited

TSL Limited provides logistics and transportation services to the Company. Mr. Babajide Tinubu, a director of TSL Limited, is the brother of the Company's Director Mr. Jubril Adewale Tinubu.

Olajide Oyewole & Co.

Olajide Oyewole & Co provides legal advisory services to the Company. One of the partners at the law firm, Mrs. Omobola Tinubu is married to the Company's Director Mr. Jubril Adewale Tinubu.

Mr. Sule Momoh and Mr. Okanlawon

The Company's Director Mr. Omamofe Boyo declared his relationship with the above individuals, his uncle and in-law respectively, who are dealers to two of the Company's service stations.

Akindelano Legal Practitioners

The Company's Chief Compliance Officer and Secretary, Mrs. Delano Oredeji, disclosed that her husband is a partner at Akindelano Legal Practitioners, which provides legal services to the Company.

Adedeji Sjuade & Co.

The Company's Chief Compliance Officer and Secretary, Mrs. Delano Oredeji, disclosed that her cousin-in-law is a member of the law firm Adedeji Sjuade & Co., which provides legal services to the Company.

Offshore Personnel Services Limited (OPSL)

Mrs. Olawunmi Asekun, an Executive Director of Oando Energy Services, is a director in Offshore Personnel Services Limited ("**OPSL**"). OPSL is a subsidiary of Avaizon consulting, which in turn is a subsidiary of OOH. OPSL provides support personnel to the Group's Energy Services division, through contract hire arrangements.

Ibushe Limited

The Company's Head of Special Projects, Mr. Giwa Shamsideen, disclosed that his family relative, Taofik Giwa, is a shareholder in Ibushe Limited, an engineering contractor that provides services to the Company.

Checklist Limited

The Deputy Chief Operating Officer of Oando Marketing, Mr. Awobokun Abayomi, disclosed that Checklist Ltd, which provides events management services to the Company, is managed by his brother, Mr. Bimbo Awobokun.

Madan Facilities Management

The Head of Corporate Services, Oando Marketing, Mrs. Nike Diyaolu, disclosed that Madan Facilities Management, which provides facilities management services to the Company, is managed by her husband, Mr. A. Diyaolu.

Rana Oil & Gas Limited

The former Head of Marketing in Oando Marketing, Mr. Mike Oshai, disclosed that Rana Oil & Gas Ltd., a distributor of LPG and insecticide to the Group, is managed by his wife, Mrs. G. Oshai. Mr. Oshai left Oando Marketing in July 2009.

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$630.25 million. Oando Plc also guaranteed various loans in respect of the following subsidiaries: Gaslink Nigeria Limited (US$ 42.2 million); East Horizon Limited (US$ 87.2 million); and Akute Power Limited (US$ 25.5 million). No guarantees were given in respect of third parties. The amount represents full exposure.

Pending litigation

There are a number of legal suits outstanding against the Company for stated amounts of US$6.45 million (2008: US$5.45 million). 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$ 1.47million) less 5% of the amount as additional income tax liability including Education tax of N23.28million (US$0.242million). The additional assessments relate to the financial year 2003. The company instituted an appeal at the Federal Court of Appeal. The Company has instituted an appeal at the Federal Court of Appeal. In addition, the Company applied for the February 2008 judgment to be stayed. The Federal High Court granted a conditional stay of execution of judgment on the following terms:

- that the judgment sum should be paid to the Chief Registrar of the Federal High Court who shall in turn put same in an interest yielding account; and
- that said sum and any accrued interest will be paid to either of the parties who succeeds on the determination of the appeal.

On 8 May 2009, the Company paid an amount of N187.07 million or US$1.60 million to the Chief Registrar of the Federal High Court. On the basis of legal advice received, the Company believes that it will be successful in its appeal and therefore has not made a provision for this payment in these financial statements.

28 Capital Commitments

	2009 US$'000	2008 US$'000
Outstanding capital expenditure contracted but not provided for in the accounts:		
Property plant and equipment	105,380	14,760
Capital expenditure approved by the Board but not yet committed:		
Property plant and equipment	13,008	179,482
Intangible assets	-	-

118,388	179,482

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
Akute Power Limited	Nigeria	Power generation	₦2,500,000	100%	(539)
Apapa SPM Limited	Nigeria	Offshore submarine pipeline	₦19,125,000	100%	-
East Horizon Gas Company Limited	Nigeria	Gas distribution	₦10,000,000	100%	141
Gaslink Benin	Benin	Gas distribution	₦23,000	100%	-
Gaslink Nigeria Limited	Nigeria	Gas distribution	₦1,717,697,000	97%	5,221
Oando Benin Limited	Benin	Marketing and sale of petroleum products	₦14,832,000	100%	-
Oando Energy Services Limited	Nigeria	Provision of drilling and other services to upstream companies	₦5,000,000	100%	1,934
Oando Exploration & Production Limited.	Nigeria	Oil & gas exploration and production	₦5,000,000	100%	(6,538)
Oando Gas & Power Limited	Nigeria	Gas and power generation and distribution.	₦1,000,000	100%	-
Oando Ghana Limited	Ghana	Marketing & sale of petroleum products	₦89,883,000	80.5%	178
Oando Lekki Refinery Limited	Nigeria	Petroleum refining	₦2,500,000	100%	-
Oando Marketing Limited	Nigeria	Marketing & sale of petroleum products	₦175,000,000	100%	17,985
Oando Terminal and Logistics	Nigeria	Storage and haulage of petroleum products	₦2,500,000	100%	-
Oando Port Harcourt Refinery Limited	Nigeria	Petroleum refining	₦2,500,000	95%	-
Oando Production and Development Company Limited	Nigeria	Oil and gas Exploration and production	₦10,000,000	95%	(523)
Oando Property Limited	Nigeria	Property management services	₦250,000	100%	-
Oando Respect Limited	British Virgin Islands	Provision of drilling and other services to upstream companies	$1	100%	(405)
Oando Teamwork Limited	British Virgin Islands	Provision of drilling and other services to upstream companies	$1	100%	(544)
Oando Sierra Leone Limited	Sierra Leone	Marketing and sale of petroleum products	₦13,479,000	80%	-
Oando Supply and Trading	Nigeria	Supply of crude oil & refined petroleum products	₦5,000,000	100%	(6,991)
Oando Togo SA	Togo	Marketing and sale of petroleum products	₦220,360,000	75%	164,761

Oando Trading Limited	Bermuda	Supply of crude oil & refined petroleum products	₦1,771,000	100%	48,388
Oando Liberia	Liberia	Marketing and sale of petroleum products	₦7,380,000	100%	10
Oando OML 125 & 134 Limited	Nigeria	Oil and gas exploration and production	₦2,500,000	100%	9,042
Oando OML 125 & 134 BVI	British Virgin Islands	Unrestricted	$100,987	100%	8,485
Oando Integrity Limited	British Virgin Islands	Provision of drilling and other services to upstream companies	$1	100%	(6,377)
Oando Akepo Limited	Nigeria	Oil and gas exploration and production	₦2,500,000	100%	(245)
TRANSGAS	Nigeria	Gas distribution (100% owned by Gaslink)	₦61,000	52%	-
UNITAB Nigeria Limited	Nigeria	Marketing of automobile parts	₦40,000,000	51%	-
Equator Exploration Limited (EEL)	British Virgin Islands	Oil and gas exploration and production	$458,721	78.1%	(2,302)
Aqua Exploration Limited	Bahamas	Oil and gas exploration and production (100% subsidiary of EEL)	$100,000	78.1%	-
Equator Exploration (OML 122) Limited	British Virgin Islands	Oil and gas exploration and production (100% subsidiary of EEL)	$1,000	78.1%	-
Equator Exploration 321 Limited	Nigeria	Oil and gas exploration and production (100% subsidiary of EEL)	₦10,000,000	78.1%	-
Equator Exploration 323 Limited	Nigeria	Oil and gas exploration and production (100% subsidiary of EEL)	₦10,000,000	78.1%	-
Equator Exploration JDZ Block 2 Limited	Nigeria	Oil and gas exploration and production (100% subsidiary of EEL)	₦10,000,000	78.1%	-
Equator Exploration Congo Limited	British Virgin Islands	Oil and gas exploration and production (100% subsidiary of EEL)	$1,000	78.1%	-
Equator Exploration 122 Limited	Nigeria	Oil and gas exploration and production (100% subsidiary of EEL)	₦10,000,000	78.1%	-

30 Post balance sheet events

On 25 January 2010, the Company issued 301,694,876 ordinary shares of 50 Kobo each at a subscription price of ₦70 per share by way of rights issue, on the basis of one new ordinary share of the Company of 50 Kobo each for each three ordinary shares of the Company of 50 Kobo each held (i) by shareholders in Nigeria whose names appeared on the Register of Members and transfer books of the Company as at the close of business on 18 December 2009; and (ii) by shareholders in South Africa whose names appeared on the Register of Members and transfer books of the Company as at the close of business on 29 January 2010. The net proceeds of ₦20.437 billion (US$ 138.464 million), after deducting the total cost of the offer, were used by the Group for the repayment of debt (73%), operational capital development and upstream business (19%) and as working capital (8%).

The group is in the process of obtaining a ₦60 billion syndicated medium-term loan facility for the purpose of refinancing its existing short-term liabilities into medium-term liabilities.

31 Financial Instruments by category

	Financial instruments at fair value through profit and loss	**Loans and receivables**	**Available for sale**	**Total**
31 December 2009		**US $'000**	**US $'000**	**US $'000**
Assets per statement of financial position:				
Available for sale financial assets			7	7
Non-current receivable (excluding operating lease)	-	122,396	-	122,396
Trade and other receivables (excluding prepayments)	-	629,827	-	629,827
Derivative financial instruments	11,655	-	-	11,655
Cash and cash equivalents	-	174,487	-	174,487
	11,655	926,710	7	938,372

	Financial instruments at fair value through profit and loss	**Other financial liabilities at amortised cost**	**Total**
31 December 2009			
Liabilities per statement of financial position:			
Borrowings (excluding finance lease liabilities)	-	1,092,331	1,092,331
Finance lease liabilities	-	85	85
Trade and other payables (excluding derivative financial instruments and	-	561,346	561,346
Derivative financial instruments	2,224	-	2,224
Deferred premiums payable	-	8,993	8,993
	2,224	1,662,755	1,164,979

	Loans and receivables	**Available for sale**	**Total**
31 December 2008			
Assets per statement of financial position			
Available for sale financial assets		20	20
Non-current receivables (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 US $'000	Total US $'000
Liabilities per statement of financial position		
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

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 2009								
Opening net book amount	216,839	182	33,480	57,631	32,834	788	5,996	347,750
Decommissioning	-	-	-	-	-	-	1,184	1,184
Additions	46,247	-	29,483	277	14,777	951	-	91,735
Transfers	-	-	-	-	-	-	-	-
Assets acquired under business combination	163,700	-	30,468	-	-	-	-	194,168
Disposal	(381)	-	-	(1,615)	-	-	-	(1,996)
Derecognition of asset	(161,700)	-	-	-	-	-	-	(161,700)
Depreciation charge	(6,763)	-	-	(8,881)	(6,808)	(243)	(897)	(23,592)
Exchange differences	(12,620)	(21)	13,236	(12,835)	(154)	(477)	(6)	(12,877)
Closing net book amount	245,322	161	106,667	34,576	40,650	1,019	6,277	434,672

	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
Decommissioning	-	-		-	-	-	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

The Group's share of total proved developed and undeveloped reserves in its various concessions (excluding additions arising from Equator acquisition during the year) were 13.98 million and 12.27 million (2008: 12.3 million and 7.8 million) barrels of oil equivalent respectively. Based on impairment tests performed in respect of the various concessions as of the balance sheet date no impairment loss was recognised.

(32.2) Details of concessions

Subsidiary	License	Operator	Nature	Location	License type	Expiration Date	Status
Oando OML 125 & 134 Ltd	OML 125	NAE	15% working interest in OML 125 & 134	Offshore	PSC	04/07/ 2023	Producing
Oando OML 125 & 134 Ltd	OML 134	NAE	15% working interest in OML 125 & 134	Offshore	PSC	04/07/ 2023	Appraisal
Oando Petroleum Development Company Ltd	OML 56	ENERGIA / Pillar Oil	45% Participatory interest	Onshore	JV	Jan 2009	Producing
Oando Exploration And Production Ltd	OPL 236	OEPL	95% working interest	Onshore	PSC	31/03/ 2012	Development/ Appraisal
Oando Exploration And Production Ltd	OPL 278	OEPL	60% working interest	Onshore	PSC	31/01/ 2011	Exploration
Oando Akepo Limited	OML 90	Sogenal	30% Participatory interest	Offshore	JV	March 2009	Development
Oando Exploration And Production Ltd	OPL 282	NAOC	4% Working Interest	Onshore	PSC	August 2011	Exploration
Equator Exploration JDZ Block 2 Limited	JDZ Block 2	Sinopec	9% non operator participating interest	Offshore	PSC	13/03/ 2034	Appraisal/ Exploration
Equator Exploration (OML 122) Limited	OML 122	Peak	5% Oil and 12% Gas	Offshore	PSC	13/09/ 2021	Development/ Appraisal
Equator Exploration Nigeria 323 Limited	OPL 323	Korean National Oil Company	30% non operator partcipating interest	Offshore-	PSC	10/03/2015	Exploration
Equator Exploration Nigeria 321 Limited	OPL 321	Korean National Oil Company	30% non operator partcipating interest	Offshore-	PSC	10/03/2015	Exploration
Aqua Exploration Limited	Allocation letter for Block 5		Allocation letter with rights to enter into a PSC	Offshore-	PSC	-	Exploration
Aqua Exploration Limited	Allocation letter for Block 12		Allocation letter with rights to enter into a PSC	Offshore-	PSC	-	Exploration

33 Business Combinations

In July 2009, the group acquired 53.45% of the share capital of Equator Exploration Limited (EEL), a company engaged in the exploration and development of oil and gas projects in the Gulf of Guinea and West Africa. The purchase consideration relating to the acquisition of the initial controlling interest was US$35.570 million. At that date the fair value of the net assets and liabilities of EEL was US$25.535 million and consequently goodwill of US$10.035 million was recognised. In September 2009, the group acquired a further 24.65% of the share capital of EEL for US$14.215 million. The carrying amount of the net assets at the acquisition date was US$12.380 million which resulted in goodwill of US$1.835 million. The considerations for these acquisitions were in cash.

The acquisition is in line with the Oando's drive towards creating long term shareholder value through the profitable operation and expansion of its integrated oil and gas business.

The acquired business contributed a net loss of USD 2.947 million to the group for the period from 30 June 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, consolidated loss for the 6 months ended June 30 2009 would have been USD 9.689 million. These amounts have been calculated using the group's accounting policies.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:	**US$'000**
- Cash paid	43,465
- Direct costs relating to the acquisition	6,320
Total purchase consideration	49,785
Net assets acquired (see below)	(37,915)
Goodwill	11,870

The goodwill is attributable to the acquired rights in the prospective oil and gas reserves of the respective assets.

The assets and liabilities as of 30 June 2009 arising from the acquisition of controlling 53.45% interest are as follows:

	Book value	**Fair value adjustment**	**Fair value**
	US$'000	**US$'000**	**US$'000**
Oil and gas assets	226,896	(32,728)	194,168
Intangible asset	175	-	175
Trade and other receivables	620	-	620
Borrowings	(111,089)	(2,861)	(108,228)
Cash and cash equivalents	2,650	-	2,650
Trade and other payables	(39,385)	-	(39,385)
Contingent liability	-	(2,225)	(2,225)
Net assets	**79,867**	**(32,092)**	**47,775**
Fair value of net assets acquired at 53.45%			25,535
Total consideration			35,570
Goodwill			10,035

The fair values of the oil and gas assets as at the acquisition dates were determined based on the enterprise value of proved and probable reserves (EV/2P) of oil and gas assets.

The contingent liabilities assumed relate to several liabilities totalling US$21.7 million incurred by the joint operating partner on one of Equators' assets. Management has considered the probabilities underlying the contingent liabilities in determining the fair values of the contingent liabilities at acquisition date.

Deferred tax assets of US$10.3 million arising from the fair value adjustment to the carrying amount of net assets acquired have not been recognised due to historical losses incurred by EEL, as a result of which it is not probable that taxable profits will be generated in the foreseeable future against which the temporary differences can be utilised.

The assets and liabilities as of 30 September 2009 arising from the acquisition of a further 24.65% interest are as follows:

	Carrying amount US$'000
Oil and gas assets	32,501[1]
Intangible asset	175
Trade and other receivables	620
Cash and cash equivalents	37,778
Borrowings	-
Trade and other payables	(18,626)
Contingent liability	(2,225)
Net assets	**50,223**
Carrying amount of net assets acquired at 24.65%	12,380
Total consideration	14,215
Goodwill	1,834

[1]Reduction in the carrying amounts of oil and gas assets from acquisition date is as a result of the refund of signature bonus by the Government of Nigeria in relation to the Nigeria licences known as OPL 321 and 323.

The outflow of cash and cash equivalent on the acquisition is calculated as follows:

	US$'000
Cash consideration	49,785
Cash acquired	(2,650)
	47,135