Oando

2010 IFRS Annual Report

The Energy to Inspire

OANDO PLC

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Table of contents

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2010, 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, and 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 service 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$75.9 million has been added to retained earnings. The directors recommend the approval of a final dividend of US$36.53 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:

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)
Mr. Ademola Akinrele, SAN	(Non-executive Director- Retired 7, May 2010)
Mr. Oghogho Akpata	(Non-executive Director- Appointed 11, November 2010)
Chief Sena Anthony	(Non-executive Director - Appointed 31, January 2010)
Ms. Nana Afoah Appiah-Korang	(Non-executive Director- Appointed 11, November 2010)
Mr. Navaid Burney (American)	(Non-executive Director- Resigned 14, September 2010)
HRM. Michael .A. Gbadebo CFR, The Alake of Egbaland	(Non-executive Director)
Mr. Valentine Oboden Ibru	(Non-executive Director, Resigned 30, April 2010)
Alhaji Hamidu Mahmud, Walin Mubi	(Non-executive Director- Retired 7 May, 2010)
Mr. O. P Okoloko	(Non-executive Director- Resigned 11, November 2010)
Ms. Amal Inyingiala Pepple, CFR	(Non-executive Director - Appointed 31, January 2010)
Ms. Genevieve Sangudi	(Non-executive Director – Resigned 11, November 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
30 March 2011

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
30 March 2011

Director
30 March 2011

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF OANDO PLC

Report on the financial statements

We have audited the accompanying financial statements of Oando Plc , which comprise the consolidated statement of financial position as of 31 December 2010 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 and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 opinion.

Opinion

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

PricewaterhouseCoopers

Chartered Accountants
Lagos, Nigeria

25th July 2011

Consolidated income statement

	Notes	Year ended 31 December 2010 US$'000	2009 Restated US$'000
Revenue	5	2,547,965	2,283,557
Cost of sales		(2,183,401)	(2,041,943)
Gross profit		364,564	241,614
Other operating income	6	28,134	82,281
Selling and marketing costs		(48,682)	(50,649)
Administrative expenses		(159,556)	(122,465)
Operating profit	6	184,460	150,781
Finance costs	8	(74,231)	(109,037)
Finance income	8	32,081	51,258
Finance costs – net	8	(42,150)	(57,779)
Profit before income tax		142,310	93,002
Income tax expense	9	(66,437)	(19,048)
Profit for the year from continuing operations		75,873	73,954
Attributable to:			
Owners of the parent		75,903	74,943
Non controlling interests		(30)	(989)
		75,873	73,954
Earnings per share from continuing operations attributable to the equity holders - basic and diluted (US cents per share)	10	4.30	5.17

The statement of significant accounting policies and notes on pages 12 to 69 form an integral part of these financial statements.

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2010 US$'000	2009 Restated US$'000
Profit for the year		75,873	73,954
Other comprehensive income:			
Revaluation surplus on Property, Plant and equipment	13	70,621	-
Deferred tax on revaluation surplus	13	(7,062)	-
Impact of change in deferred tax rate on revaluation surplus	13	11,251	-
Actuarial gains and losses	17	103	158
Deferred tax on Actuarial gains or losses	15	(31)	(48)
Currency translation differences		3,614	(39,112)
Other comprehensive income for the year, net of tax		78,496	(39,002)
Total comprehensive income for the year		154,369	34,952
Attributable to:			
Owners of the parent		153,779	35,941
Non controlling interests		590	(989)
Total comprehensive income for the year		154,369	34,952

The notes on pages 12 to 69 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

	Notes	2010 US$'000	At 31 December 2009 Restated US$'000	2008 Restated US$'000
ASSETS				
Non-current assets				
Property, plant and equipment	18	1,043,918	900,126	693,489
Intangible assets	19	164,220	166,489	175,036
Deferred income tax assets	15	75,875	62,233	18,668
Available-for-sale financial assets	20	7	7	20
Non-current receivables and prepayments	21	160,438	130,195	114,176
		1,444,458	1,259,050	1,001,389
Current assets				
Inventories	22	150,544	65,657	122,927
Trade and other receivables	23	523,632	665,106	716,015
Cash and cash equivalents	24	81,908	174,487	374,635
		756,084	905,250	1,213,577
Total assets		2,200,542	2,164,300	2,214,966
EQUITY				
Equity attributable to owners of parent				
Share capital	12	6,586	3,542	3,541
Share premium	12	361,521	231,657	231,533
Other reserves	13	77,070	728	39,840
Retained earnings		180,500	119,515	62,555
		625,677	355,442	337,469
Non controlling interest		6,807	6,217	1,647
Total equity		632,484	361,659	339,116
LIABILITIES				
Non-current liabilities				
Borrowings	14	503,113	141,735	318,864
Deferred income tax liabilities	15	104,597	97,095	74,276
Provisions for other liabilities and charges	16	12,386	10,804	9,460
Retirement benefit obligation	17	9,468	7,206	5,535
		629,564	256,840	408,135
Current liabilities				
Trade and other payables	25	423,737	572,562	353,350
Current income tax	9	37,156	22,558	25,667
Borrowings	14	477,601	950,681	1,088,698
		938,494	1,545,801	1,467,715
Total liabilities		1,568,058	1,802,641	1,875,850
Total equity and liabilities		2,200,542	2,164,300	2,214,966

The notes on pages 12 to 69 form an integral part of these financial statements. The financial statements on pages 6 to 69 were approved for issue by the board of directors on 19 July 2011 and signed on its behalf by:

Director

Director

Consolidated statement of changes in equity

	Notes	Attributable to owners of the parent				
		Share capital [1]	Other reserves*	Retained earnings	Non controlling Interest	Total equity
Year ended 31 December 2008		US$'000	US$'000	US$'000	US$'000	US$'000
As previously stated		235,074	39,840	66,430	1,647	342,991
Employee gratuity obligation		-	-	(5,535)	-	(5,535)
Tax on employee gratuity		-	-	1,660	-	1,660
As restated		235,074	39,840	62,555	1,647	339,116
Year ended 31 December 2009						
As restated	17					
At start of year		235,074	39,840	62,555	1,647	339,116
Comprehensive income:						
Profit for the year		-	-	74,943	(989)	73,954
Other comprehensive income for the year		-	(39,112)	111	-	(39,001)
Total comprehensive income		**-**	**(39,112)**	**75,054**	**(989)**	**34,953**
Transaction with owners						
Value of employee services- share option scheme and award		-	-	305	-	305
Tax credit relating to share option and award		-	-	92	-	92
Non controlling Interest on business combination		-	-	-	5,559	5,559
Issue of shares	12	125	-	-	-	125
Dividends:		-	-	-		
- Final for 2008		-	-	(18,491)	-	(18,491)
Total transactions with owners		125	-	(18,094)	5,559	(12,410)
At end of year		235,199	728	119,515	6,217	361,659
Year ended 31 December 2009						
As previously reported	17					
At end of year		235,199	728	124,559	6,217	366,703
Employee gratuity obligation (2008)		-	-	(5,535)	-	(5,535)
Tax on employee gratuity obligation (2008)		-	-	1,660	-	1,660
Employee gratuity obligation (2009)		-	-	(1,829)	-	(1,829)
Tax on employee gratuity obligation (2009)		-	-	549	-	549
Actuarial gains		-	-	111	-	111
As restated		235,199	728	119,515	6,217	361,659

Consolidated statement of changes in equity (continued)

	Notes	Attributable to owners of the parent				
		Share capital [1]	Other reserves*	Retained earnings	Non controlling Interest	Total equity
		US$'000	US$'000	US$'000	US$'000	US$'000
At start of year		235,199	728	119,515	6,217	361,659
Comprehensive income:						
Profit for the year		-	-	75,904	(30)	75,874
Other comprehensive income for the year		-	77,804	72	620	78,496
Total comprehensive income		-	77,804	75,976	590	154,370
Transaction with owners						
Value of employee share option scheme		-	-	2,955	-	2,955
Tax credit relating to share option scheme		-	-	886	-	886
Issue of shares	12	142,050	-	-	-	142,050
Share issue cost	12	(11,171)	-	-	-	(11,171)
Bonus issue	12	2,029	-	(2,029)	-	-
Dividend:						
- Final for 2009		-	-	(18,263)	-	(18,263)
Revaluation surplus recycled to retained earnings		-	(1,461)	1,461	-	-
Total transaction with owners		132,908	(1,461)	(14,990)	-	116,457
At end of year		368,107	77,071	180,501	6,807	632,486

*Other reserves include revaluation surplus, currency translation reserves and fair value reserves. See note 13. The share options and award reserves of US$2.096 million, net of tax credit of US$0.629 million (2009: US$0.397 million, net of tax credit of US$0.092 million), included in retained earnings is not distributable.

[1] Share capital includes ordinary shares and share premium.

The notes on pages 12 to 69 form an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	Year ended 31 December 2010 US$'000	2009 US$'000
Cash flows from operating activities			
Cash generated from operations	26	160,532	483,760
Interest received		32,081	51,258
Interest paid		(134,152)	(138,842)
Income tax paid		(52,632)	(38,250)
Net cash generated from operating activities		5,829	357,926
Cash flows from investing activities			
Purchase of property, plant and equipment (excluding interest)	18	(60,824)	(189,997)
Acquisition of subsidiary	34	-	(47,135)
Signature bonus refunded	18	-	161,700
Proceeds from disposal of property, plant and equipment		689	3,063
Increase in non-current receivable (gas pipeline construction)	21	(32,779)	(14,425)
Net cash used in investing activities		(92,914)	(86,794)
Cash flows from financing activities			
Proceeds from borrowings		676,794	574,462
Repayments of borrowings		(728,777)	(1,045,730)
Finance lease principal payments		271	(2,449)
Proceeds from issue of shares		130,879	-
Dividends paid to company's shareholders		(18,263)	(18,491)
Net cash generated from /(used in) financing activities		60,904	(492,208)
Net (decrease) in cash and cash equivalents		(26,181)	(221,076)
Movement in cash and cash equivalents			
At start of year		(61,402)	186,228
Net (decrease)/increase		(26,181)	(221,076)
Effects of exchange rate changes		10,683	(26,554)
At end of year	24	(76,900)	(61,402)

The notes on pages 12 to 69 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. 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%) OML 125 & 134 Limited (100%), Oando Akepo Limited (100%) and Equator Exploration Limited (78.1%).Other subsidiaries within the Group and their respective lines of business, including Gas and Power, are shown in note 30.

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 standards and amendments to the IFRSs beginning 1 January 2010

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009)

'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 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 value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

Change of accounting policy

Effective 1 July 2009, the group changed its accounting policy to comply with IFRS 3 revised 'Business Combinations'.

Previously costs directly attributable to the acquisition were included as part of acquisition costs of the business combination. The 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 non controlling interest.

Previously, 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.

The group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any amounts previously recognised in the financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009)

The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has been applied to the treatment of the non-controlling interests with a deficit balance. There have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

Change of accounting policy

The group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

IFRIC 9, Reassessment of Embedded derivatives and IAS 39, Financial Instruments: Recognition and Measurement (effective 1 July 2009)

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety. The group has adopted IFRIC 9 amendment in the recognition and measurement of embedded derivatives in a loan contract. See note 14.

IFRS 8 'Operating Segments',(effective from January 2010)
The requirement for disclosing a measure of segment assets is only required when the CODM reviews that information. The group discloses segment assets as part of its segment information.

IAS 7,'Statement of cash flows',(effective from January 2010)
The guidance has been amended to clarify that only expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

ii) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

IFRIC 17, 'Distribution of non-cash assets to owners' (effective 1st 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.

IFRIC 18,Transfer of Assets from Customers (effective for transfer of assets received on or after 1 July 2009)

This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

IFRIC 16, 'Hedges of a net investment in a foreign operation (effective 1 July 2009)

This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group.

IFRS 2 (amendment), 'Group cash-settled share-based payment transactions', (effective from 1 January 2010)

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 guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. This is currently not relevant to the group as the group operates an equity settled scheme.

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations', (effective from 1 January 2010)

The amendment clarifies 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 requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

IAS 38 (amendment), 'Intangible assets', (effective 1 January 2010)

The amendment removes the exceptions from recognizing intangible assets on the basis that their fair values cannot be reliably measured, which has the following impact:

- Intangible assets acquired in a business combination that are separable or arise from contractual or other legal rights should be recognised.
- Complementary assets may only be recognised as a single asset if they have similar useful lives.
- The amendment specifies different valuation techniques that may be used to value intangible assets where there is no active market.

IAS 1 (amendment). 'Presentation of financial statements' (effective from 1 January 2010)

The amendment clarifies 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.

Other amendments

There are a number of amendments issued in April 2009 under the IFRS annual improvements project. The amendments are effective for annual periods beginning on or after 1 July 2009. These amendments do not have a significant impact on the group. The standards are as follows:

- IAS 17 Leases, Classification of leases of land and buildings
- IAS 18 Revenue, Determining whether an entity is acting as a principal or as an agent
- IAS 36 Impairment of Assets, Unit of accounting for goodwill impairment test

For the purpose of impairment testing, the cash-generating unit or groups of cash-generating units to which goodwill is allocated should not be larger than an operating segment (as defined by IFRS 8, 'Operating segments') before aggregation.

- IAS 39 Financial Instruments: Recognition and Measurement, Treating loan prepayment penalties as closely related embedded derivatives; Scope exemption for business combination contracts; Cash flow hedge accounting

(iii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted

IFRS 9, 'Financial instruments', issued in November 2009 (effective 1 January 2013)

This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU. The group is yet to assess IFRS 9's full impact. However, initial indications are that the group would have to consider its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes in order to determine the classification and measurement of its financial assets.

In October 2010 the Board added to IFRS 9 the requirements for classification and measurement of financial liabilities:

(a) Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9.

(b) The exception from fair value measurement was eliminated for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument. Under IAS 39, if those derivatives were not reliably measurable, they were required to be measured at cost. IFRS 9 requires them to be measured at fair value.

The group will apply IFRS 9 for the financial reporting period commencing on 1 January 2013.

IFRS 10 'Consolidated Financial Statements', issued in May 2011 (effective 1 January 2013)

The standard defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. The IFRS also sets out the accounting requirements for the preparation of consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The group will apply IFRS 10 for the financial reporting period commencing on 1 January 2013.

IFRS 11 'Joint Arrangements', issued in May 2011 (effective 1 January 2013)

The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The group will apply IFRS 11 for the financial reporting period commencing on 1 January 2013.

IFRS 12, 'Disclosure of Interests in Other Entities', issued in May 2011 (effective I January 2013)

The standard requires an entity to disclose information that enables users of financial statements to evaluate:
- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows. The group will apply IFRS 12 for the financial reporting period commencing on 1 January 2013.

IFRS 13 'Fair Value Measurement' issued in May 2011 (effective 1 January 2013)

The standard defines fair value; sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements. The IFRS explains how to measure fair value for financial reporting. It does not require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. The group will apply IFRS 13 for the financial reporting period commencing on 1 January 2013.

IAS 32 (amendment) 'Classification of rights issues', issued in October 2009. (Effective 1st January 2011)

The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. This is not expected to have a material impact on the group.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', issued in November 2009 (effective 1 July 2010)

The interpretation clarifies 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 (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The group will apply the interpretation from 1 January 2011, subject to endorsement by the EU. It is not expected to have a significant impact on the group or the parent entity's financial statements.

IFRIC 14 , (amendments) 'Prepayments of a minimum funding requirement' issued in November 2009 (effective 1 January 2011)

The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. The group will apply these amendments for the financial reporting period commencing on 1 January 2011.

Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009 (effective 1 January 2011)

It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The group will apply the revised standard from 1 January 2011. When the revised standard is applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. The group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

(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.
Acquisition 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. Consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.
Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, 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 and non- controlling interests

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

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to income statement where appropriate.

(C) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the company (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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income. 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.
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 to 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. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a. the amount of revenue can be measured reliably;
b. it is probable that the economic benefits associated with the transaction will flow to the entity;
c. the stage of completion of the transaction at the balance sheet date can be measured reliably; and
d. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

In Energy services, revenue on rig and drilling services rendered to customers is recognised in the accounting period in which the services is rendered based on the number of hours worked at agreed contractual day rates. The recognition of revenue on this basis provides useful information on the extent of service activity and performance during a period.

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 ıbsequently shown at fair value, based on periodic, but at least triennial, valuations by external independent ıluers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is minated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of e asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost cludes 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, ıly when it is probable that future economic benefits associated with the item will flow to the Group and the cost of e item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and aintenance 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 other comprehensive income and shown as her reserve in equity. Decreases that offset previous increases of the same asset are charged against the valuation 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 vehicles	3 – 5 years	(20 – 33^{1}/3 %)

Where the cost of a part of an item of property, plant and equipment is significant when compared to the total cost, that part is depreciated separately based on the pattern which reflects the how economic benefits are consumed.

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 instruments

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. The Group does not apply hedge accounting.

- 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 21; 23 and 24)

- 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.

- Available-for-sale financial assets

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

Recognition and measurement

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

Realised and unrealised gains and losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of equity instruments classified as available-for-sale are recognised in other comprehensive income. 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.

Financial Liabilities

Derivative financial instruments

A derivative is a financial instrument or contract whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying'); requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and is settled at a future date.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The resulting gains or losses are recognised as financial income or expense in the income statement.

Embedded derivatives

Certain contracts contain both a derivative and non-derivative host component. In such cases the derivative component is termed an embedded derivative. An embedded derivative is only separated and reported at fair value with gains and losses being recognised in the profit and loss component of the statement of comprehensive income when the following requirements are met:

- Where the economic characteristics and risks of the embedded derivative are not clearly and closely related to those of the host contract.
- The terms of the embedded derivative are the same as those of a stand-alone derivative.
- The combined contract is not held for trading or designated at fair value through profit or loss.

Deferred premium

Deferred premium represents premium payable on commodity derivatives. The settlement for the obligation is distinct from the underlying derivative. Deferred premiums are recognised at amortised cost using the effective interest method. The increase during the period arising from the unwinding of discount is included in finance costs.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(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.

Concession contracts

The company has an agreement with the Nigerian Gac 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.

In line with IFRIC 12, the Group recognises a financial asset, attracting interest, in its balance sheet, in consideration for the services it provides. This financial asset is recognised in the balance sheet as non current receivable, for the amount of the fair value of the infrastructure on first recognition and subsequently at amortised cost. The receivable is settled by means of the grantor’s payments received. The financial income calculated on the basis of the effective interest rate, equivalent to the project’s internal rate of return, is recognised as finance income in the income statement.

(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

Defined contribution scheme

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.

Defined benefit scheme

The Group operates a defined benefit gratuity policy in Nigeria, where members of staff who have spent 3 years or more in employment are entitled to benefit payments upon retirement. The benefit payments are based on final emolument of staff and length of service. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the market rates on government bonds that have terms to maturity approximating to the terms of the related pension obligation

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Current service and interest cost are included as part of employee benefit expense in the income statement.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Prior period error

As at 31 December 2004, the Group operated a pension and gratuity scheme which was generally funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The plan (defined benefit plan) specified an amount of pension benefit that an employee would receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

In 2005, the group discontinued this scheme and disclosed in its annual report that the defined benefit plan mentioned above has been discontinued. Subsequently the group ceased recognising the defined benefit plan and made contributions in line with the Pension Reform Act 2004. In addition, the group introduced a gratuity policy where members of staff who have spent 3 years or more in employment are entitled to benefit payments based on final emolument of staff and length of service upon retirement. The accounting for the constructive obligation arising from the new gratuity was not accounted for in line with IAS 19. A restatement has been made in the financial statements to correct the omission. The restatement required adjustments in the statement of financial position as at 31 December 2008 and 31 December 2009, and adjustments of certain items in the statement of comprehensive income for 2009.

The impact of this error on the Statement of Financial Position was an understatement of the retirement benefit plan obligation by US$5.535 million at 31 December 2008 and US$7.206 million at 31 December 2009. There was also a corresponding understatement of deferred tax assets of US$1.662million and US$ 2.162million at those respective period ends.

The impact on retained earnings was an understatement of US$3,875 million in December 2008.

The impact on the Income Statement was an understatement of administrative expenses by US$1,829 million in December 2009 and an overstatement of tax expense by US$0.549million.

The impact on the Statement of Other Comprehensive Income was to increase actuarial gains on defined benefit plan by US$0.158 million and to tax thereon on by US$0.048 million in December 2009.

All affected balances and amounts have been restated in these financial statements. To this effect, the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity and affected notes present restated comparative information for the year ended 31 December 2009. In addition, as required by IAS1, the Consolidated Balance Sheet and affected notes also present restated comparative information for the year ended 31 December 2008. See details of restatement in note 17.

(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.

(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.

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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(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 and forward contracts transacted with commercial banks.

The group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

As at December 2010, 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$1.1 million lower mainly as a result of US Dollar denominated bank balances (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$3.47million lower mainly as a result of US Dollar denominated bank balances.)

As at December 2010, 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$34.2million higher mainly as a result of US Dollar denominated loan balances. (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.)

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.

As at December 2010, if the price of crude oil had increased by $1 with all other variables held constant, consolidated pre tax profit for the year would have been US$1.5 million higher (2009: if the price of crude oil had increased by $1 with all other variables held constant, consolidated pre tax profit for the year would have been US$1.41 million higher).

The Group, through Oando OML 125 and 134 Limited (OML), has hedged its exposure to fluctuations in the price of oil by entering into commodity option 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, OML will be compensated for the difference, less a US$8.10/bbl premium. In 2010, OML hedged 0.375 mmbbls (2009: 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 23 and 25 respectively. Gains or losses arising from the derivative are included in other operating income or administrative expenses.

The following table sets forth details of OML's commodity option arrangements.

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

Fair Value estimation (in US$'000)

The table below analyses financial instruments carried at fair value, by valuation method.
The different levels have been defined as follows:

- 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 2010.

	Level 1	Level 2	Level 3	Total balance
Assets				
Available-for-sale financial assets				
– Equity securities	7	-	-	7
Derivative financial instruments				
– Commodity contracts	-	3,001	-	3,001
Total assets	7	3,001	-	3,008
Liabilities				
Derivative financial instruments				
– Interest rate swap	-	9,750	-	9,750
Financial liabilities at fair value through profit and loss				
– Borrowing	-	23,149	-	23,149
Total liabilities	-	32,899	-	32,899

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
Derivative financial instruments				
– Commodity contracts	-	8,993	-	8,993
Total assets	7	8,993	-	9,000
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 of Nigerian Stock Exchange (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. Instruments included in level 2 comprise primarily of interest swaps and derivatives. Their fair values are determined based on marked to market values provided by the counterparty financial institutions.

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 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 2010, an increase of 100 basis points on LIBOR/MPR would have resulted in a decrease in consolidated pre tax profit of US$0.066million (2009:US$0. 496million), 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 25 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 Group Leadership Council (GLC).

The amount that best represents the Group's maximum exposure to credit risk at 31 December 2010 is made up as follows:

	2010 US$'000	2009 US$'000
Cash and cash equivalents	81,908	174,487
Non-current receivables	154,215	122,326
Trade receivables	272,363	326,176
Derivative financial instruments – commodity contracts	3,001	11,655
Other receivables	220,504	303,651

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):

	2010 US$'000	2009 U$'000
Current	237,558	161,711
Past due but not impaired:		
- by up to 30 days	9,509	30,673
- by 31 to 60 days	3,075	4,807
- later than 60 days	22,221	128,985
Total past due but not impaired	34,305	164,465
Impaired	14,849	11,059
	287,212	337,235

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

Non current receivables and other receivables of US$ 219.293 million (excluding impairment of $1.2 million) are neither past due nor impaired.

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:

	2010 US$'000	2009 US$'000
Group 2	154,215	122,326

Trade receivables

Counter parties without external credit rating:

	2010 US$'000	2009 US$'000
Group 1	3,387	194,153
Group 2	268,976	130,097
Group 3	-	1,926
	272,363	326,176

Other receivables

Counter parties without external credit rating:

Group 2	220,504	326,651

Derivative financial instruments

Counter parties without external credit rating:

Group 2	3,001	11,655

Cash at bank and short term bank deposits

	2010 US$'000	2009 US$'000
AAA	2,645	18,938
AA	-	-
AA-	25,228	118,272
A+	8,185	24,700
A-	298	70
BBB+	6,772	6,103
BBB-	1,017	1,091
Not rated	37,763	5,313
	81,908	174,487

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 24 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 US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
At 31 December 2010:				
Borrowings (excluding finance lease liabilities)	477,245	48,537	468,917	62,555
Finance lease liabilities	387	-	-	-
Trade and other payables (excluding derivative instruments and deferred premiums payable)	408,153	-	-	-
Derivative financial instruments – interest rate swap	4,911	3,615	1,293	
Deferred premiums payable	3,014	1,956	1,232	-
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	-

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.

Various financial ratios and internal targets are assessed and reported to the Board on a quarterly basis to monitor and support the key objectives set out above. These ratios and targets include:
– Gearing Ratio;
– Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) Interest Cover;
– Fixed/Floating Debt Ratio;
– Current Asset Ratio;

The Group's objective is to maintain these financial ratios in excess of any debt covenant restrictions and use them as a performance measurement and hurdle rate. The failure of a covenant test could render the facilities in default and repayable on demand at the option of the lender.

Accordingly, in situations where these ratios are not met, the Group takes immediate steps to redress the potential negative impact on its financial performance. For example, in the past, the Group funded the majority of the acquisition of its upstream assets via debt, which materially increased its debt burden. However, in order to improve its financial ratios, the Group took steps to raise additional equity capital via a rights issue and to restructure its short-term debt during the year, in order to adhere to its financial management policy.

Total capital is calculated as equity plus net debt. During 2010 the Group's strategy was to maintain a gearing ratio between 50% and 75% (2009: 50% and 75%). The gearing ratios as at the end of December 2010 and 2009 were as follows:

	2010 US$'000	2009 US$'000
Total borrowings	980,714	1,092,416
Less: cash and cash equivalents	81,908	174,487
Net debt	898,805	917,929
Total equity	632,484	361,659
Total capital	1,531,290	1,279,588
Gearing ratio	58.7%	71.7%

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

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.

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 19 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 16% for Marketing (i.e. 31% instead of 15%); Supply and Trading by 27.75% (i.e. 42% instead of 14.25%);the Group would have recognised an impairment against goodwill by US$ 1.43million (2009: US$0.59 million). For other segments (Exploration and Production, Energy Services, Gas and Power), 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 date, no liability in respect of pending tax issues has been recognised in the financial statements.

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 2010 was 16% (2009: 22%)
Asset impairments or their reversal will impact income.

Useful lives and residual value of property

The residual values, depreciation methods and useful lives of property, plant and equipment are reviewed at least on an annual. The review is based on the current market situation. The effects of the changes in residual values and measurement parameters are recognised in the current year's financial statements. The review of useful lives did not significantly impact depreciation.

The residual value of the various classes of assets were estimated as follows:

Land and building - 50%
Plant and machinery - 10%
Motor vehicles – US$3,363
Furniture and fittings - 10%
Computer and IT equipment - 10%

These estimates have been consistent with the amounts realised from previous disposals for the various asset categories.

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 2010 the Group was organised into 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 Others include company activities that cannot be directly allocated to any of the above segments.

The segment results for the year ended 31 December 2010 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 & Others US$'000	Group US$'000
Gross segment revenue	131,156	1,149,893	1,239,587	-	112,828	95,678	-	2,729,142
Inter-segment revenue	-	-	(181,177)	-	-	-	-	(181,177)
Revenue	131,156	1,149,893	1,058,410	-	112,828	95,678	-	2,547,965
Operating profit/(loss)	65,651	44,209	34,743	(18)	25,635	33,186	(10,831)	192,575
Finance income	-	840	191	-	6,827	41	2,003	9,902
Finance cost	(576)	(6,894)	(1,268)	-	(4,089)	(21,326)	(4,522)	(38,675)
Finance costs – net	(576)	(6,054)	(1,077)	-	2,738	(21,285)	(2,519)	(28,773)
Profit before income tax	65,075	38,155	33,666	(18)	28,373	11,901	(13,350)	163,802
Income tax expense	(30,628)	(12,617)	(6,872)	-	(9,069)	(5,901)	(1,860)	(66,947)
Profit/(loss) for the year	**34,447**	**25,538**	**26,794**	**(18)**	**19,304**	**6,000**	**(15,210)**	**96,855**

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	82,801	1,108,521	1,304,123	-	71,218	41,350	-	2,608,013
Inter-segment	-	-	(324,456)	-	-	-	-	(324,456)

revenue								
Revenue	82,801	1,108,521	979,667	-	71,218	41,350	-	2,283,557
Operating profit/(loss)	58,428	40,069	37,714	-	4,456	7,666	(2,409)	145,924
Finance income	-	933	459	-	2,325	3	24,263	27,983
Finance cost	(22,649)	(6,911)	(17,498)	-	(755)	(7,251)	(28,763)	(83,827)
Finance costs – net	(22,649)	(5,978)	(17,039)	-	1,570	(7,248)	(4,500)	(55,844)
Profit before income tax	35,779	34,091	20,675	-	6,026	418	(6,909)	90.080
Income tax expense	(5,400)	(11,738)	1,943	-	(2,382)	(930)	3,048	(15,459)
Profit/(loss) for the year	**30,379**	**22,353**	**22,618**	-	**3,644**	**(512)**	**(3,861)**	**74,621**

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

<u>Year ended 31 December 2010</u>

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Others US$'000	Group US$'000
Depreciation	17,214	10,175	162	-	2,129	13,214	2,206	45,100
Amortisation of intangible assets	-	-	90	-	-	-	1,006	1,096

<u>Year ended 31 December 2009</u>

	Exploration & production US$'000	Marketing US$'000	Supply & Trading US$'000	Refinery & Terminals US$'000	Gas & power US$'000	Energy Services US$'000	Corporate & Others US$'000	Group US$'000
Depreciation	23,591	5,786	138	-	202	2,909	1,872	34,498
Amortisation of intangible assets	-	-	-	-	-	-	1,011	1,011
Impairment loss on available-for- sale financial assets	-	-	-	-	-	-	7	7

The segment assets and liabilities at 31 December 2010 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 & Others US$'000	Group US$'000
Assets	701,852	424,484	290,716	20,559	254,937	307,326	125,645	2,125,519
Liabilities	126,261	294,534	330,090	-	218,345	47,543	410,619	1,427,392
Capital expenditure	81,779	5,935	346	1,899	4,587	24,273	13,362	132,181

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 & Others US$'000	Group US$'000
Assets	693,483	408,571	302,462	18,800	226,272	301,049	125,685	2,076,322
Liabilities	141,457	322,367	354,769	-	195,694	88,102	571,571	1,673,960
Capital expenditure	91,735	8,168	133	12,505	10,300	83,712	16,179	222,732

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).

The segment information is prepared under Nigerian GAAP. Reconciliation between Nigerian GAAP and IFRS have been performed for both 2009 and 2010.

Reconciliation of the total segment amounts to respective items included in financial statements is as follows:

	2010 US$'000	2009 US$'000
Total segment profit	96,855	74,621
GAAP adjustments:		
Depreciation	(4,428)	2,403
Finance costs	(35,554)	(25,210)
Finance income	22,178	23,275
Other administrative expenses	(3,687)	2,454
Income tax expenses	510	(3,589)
	75,874	73,954

	2010 US$'000	2009 US$'000
Total segment assets	2,125,519	2,076,322
Deferred income tax assets	75,875	62,233
GAAP adjustments		
Property, plant and equipment	18,182	7,837
Intangible assets	4,093	4,093
Non-current receivables	(11,034)	(2,935)
Debtors and prepayments	(12,093)	10,880
Total assets	2,200,542	2,158,430

Total segment liabilities	1,427,392	1,673,960
Current income tax	37,156	22,558
Deferred income tax liabilities	104,597	97,095
GAAP adjustments:		
Borrowings	(10,415)	(2,190)
Retirement benefit obligations	681	-
Creditors and accruals	8,647	11,218
Total liabilities	1,568,058	1,802,641

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, such as Bermuda and the British Virgin Island.

Revenue (allocated based on the country in which the customer is located)		
Nigeria	1,913,055	1,658,983
Rest of West Africa region	58,157	55,581
Other countries	576,753	568,993
	2,547,965	2,283,557

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

	2010 US$'000	2009 US$'000
Nigeria	1,994,151	1,703,857
Rest of West Africa region	40,126	13,022
Other countries	91,243	359,443
	2,125,520	2,076,322

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

Nigeria	131,746	222,068
Rest of West Africa/Others	435	664
	132,181	222,732

	2010 US$'000	2009 US$'000
Breakdown of revenue from all services is as follows:		
Sale of goods	2,482,664	2,259,648
Revenue from services	65,301	23,909
	2,547,965	2,283,557

6 Other operating income

Exchange gain	9,355	9,412
Net gain from debt purchase	-	52,316
Realised fair value gains on derivative financial instruments	-	9,947
Unrealised fair value gains on derivative financial instruments	-	2,827
Gas project income	11,349	-
Other income	7,430	7,779
	28,134	82,281

Gas project income relates to gain arising from the agreed settlement amount for the completed Greater Lagos Phase III project.

Operating profit

The following items have been charged/(credited) in arriving at operating profit:	2010 US$'000	2009 US$'000
Included in cost of sales		
Depreciation on property, plant and equipment – Upstream assets (Note 18)	16,989	23,592
Included in selling and marketing costs		
Product transportation costs	38,798	38,325
Dealers commission	9,884	12,324
Included in other operating income		
Foreign exchange gain	(9,355)	(9,412)
Included in administrative expenses:		
Depreciation on property, plant and equipment – others (Note 18)	23,684	13,309
Amortisation of intangible assets (Note 19)	1,096	1,101
Foreign exchange loss	7,640	-
Provision for impairment losses of trade receivables	3,722	651
Impairment charge on available for sale financial assets (Note 20)	-	7
Employee benefits expense (Note 7)	45,976	29,647
Auditors' remuneration	990	1,000
Consultancy services	10,016	4,677
Repairs and maintenance	4,970	1,187
Technical and management services (Note 27)	180	8,347
Write off of property, plant and equipment (Note 18)	11,522	-
Fair value loss on commodity options	8,654	-
Loss on disposal of property, plant and equipment	1,183	-
Rent and other hiring costs	4,683	10,070

7 Employee benefits expense

The following items are included within employee benefits expense:

Wages and salaries	35,560	25,056
Welfare and training	3,600	695
Share options granted to directors and employees	2,955	305
Pension costs- Defined contribution scheme	880	592
Pension costs- Defined benefit scheme (Note 17)	2,981	2,999
	45,976	29,647

8 Finance (costs)/income

	2010 US$'000	2009 US$'000
Interest expense:		
Bank borrowings	(134,056)	(138,443)
Capitalised to qualifying property plant and equipment	71,357	32,735
	(62,699)	(105,708)
Interest on finance leases	(96)	(399)
Fair value loss on interest-rate swaps and derivatives	(10,675)	(2,224)
Unwinding of discount on provisions (Note 16)	(641)	(541)
Unwinding of discount on deferred premiums	(120)	(165)
Finance costs	(74,231)	(109,037)
Interest income:		
Bank deposits	32,081	51,258
Net finance costs	(42,150)	(57,779)

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

9 Income tax expense

Current income tax	62,140	35,410
Education tax	5,283	2,443
Deferred income tax (Note 15)	(986)	(18,805)
Income tax expense	66,437	19,048

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

Profit before income tax	144,630	93,002
Tax calculated at weighted average domestic rates applicable to profits in the respective countries – average 49% (2009:35%)	69,942	32,551
Minimum tax	443	-
Education tax	5,284	2,443
Tax effect of:		
Income not subject to tax	(16,951)	(56,804)
Expenses not deductible for tax purposes	1,915	29,699
Over- provision/(Under) of deferred income tax in prior years	(1,297)	795
Tax losses for which no deferred tax was recognised	7,101	10,364
Income tax expense	66,437	19,048

Movement in current income tax for the year:

At 1 January	22,558	25,667
Payments during the year	(52,632)	(38,250)
Charge for the year:		
Income tax	62,140	35,410
Education tax	5,284	2,443
Exchange difference	(194)	(2,712)
At 31 December	**37,156**	**22,558**

10 Earnings per share

Basic earnings per share is 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.

Profit attributable to equity holders of the Company (US$ thousands)

	2010 US$'000	2009 US$'000
As previously reported	75,904	76,223
Gratuity expense	-	(1,829)
Tax thereon		549
As restated	75,904	74,943

Weighted average number of ordinary shares in issue (thousands):

As previously reported	1,765,168	904,984

Bonus element of rights issue	-	61,690
Bonus issue	-	483,387
As restated	1,765,168	1,450,061
Basic and diluted earnings per share as restated after bonus issue (US Cents)		
As previously reported	4.30	8.42
As restated	4.30	5.17

Weighted average number of shares in 2010 includes shares issued during the year (see note 12). The number of shares in issue prior to the rights and bonus issue is adjusted in accordance with the proportional change in the number of outstanding shares as if the event (the bonus) had occurred at the beginning of the period under review.

The weighted average number of shares in 2009 has been restated for the effects of prior year adjustment on gratuity, the bonus element of the rights issue and the bonus issue.

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 diluted earnings per share.

There were no potentially dilutive shares outstanding at 31 December 2010 or 2009. 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 remeasurements of assets and liabilities that are not part of the group's operating and trading activities and are computed as follows:

	2010 US$'000	2009 US$'000
Profit attributable to equity holders of the company	75,904	74,943
Less: Loss/(Profit) on sale of property, plant and equipment	1,183	(526)
Tax thereon	(355)	156
Impairment loss on available for sale financial asset	-	7
Net gain from debt purchase	-	(52,316)
Write off of property, plant and equipment	11,522	-
Gas project income	(11,349)	-
As restated	76,905	22,264

	2010 US$'000	2009 US$'000
Weighted average number of ordinary shares in issue (thousands)	1,765,168	1,450,161
Headline earnings per share attributable to earnings/diluted bases(US Cents) as restated	4.36	1.54
Headline earnings per share attributable to earnings/diluted bases(US Cents) as previously reported	4.36	2.60

11 Dividends per share

At the last annual general meeting held in June, 2010, a dividend in respect of the year ended 31 December 2010 of US2.01 cents amounting to US$36.53 million was proposed. The total dividend paid in 2009 was US 2.03 per share, amounting to a total of US4 US$18.263million.

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 2009	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**
Additional issues during the	301,695	1,015	141,035	142,050
Additional issues during the	603,390	2,029	-	2,029
Share issue costs	-	-	(11,171)	(11,171)
At 31 December 2010	**1,810,169**	**6,586**	**361,521**	**368,107**

Rights issue of 301,694,876 ordinary shares of 50k each
In February 2010, the company issued additional shares to existing shareholders by way of a rights issue of 1 ordinary share for every existing 3 shares.

Bonus issue of 603,389,752 ordinary shares of 50k each

At the 33rd Annual General Meeting, held on 7 May 2010, the shareholders approved a bonus issue of 1 ordinary share of 50k each for every 2 ordinary shares held by shareholders as at the close of business on 20 May 2010.

The total authorised number of ordinary shares is 6 billion (2009: 2 billion) 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:

	2010		2009	
	Average exercise price in US$ per share	Options (thousands)	Average exercise price in US$ per share	Options (thousands)
At 1 January	1.48	1,626	1.48	1,626
Granted	0.71	38,570	-	-
At 31 December	0.739	40,196	1.48	1,626

No option was exercisable during the year (2009: Nil). Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date 2 May	Exercise price per share	Shares (in thousands) 2010	2009
2011	1.48	1,626	1,626
2012	0.45	5,491	-
2013	0.71	33,079	-
		40,196	1,626

The weighted average fair value of options granted in 2010, determined using the Binomial lattice valuation model was N34.36 (0.23 cents) (2009: N83.14 (0.72 US cents) per option. The significant inputs into the model were market price of 0.81 US cents (2009: US$1.97) at the grant date, exercise price shown above, volatility of 57.79% (2009 42.9%), dividend yield of 3.87% (2009 2.7%), an expected option life of four years, and an annual risk-free interest rate of 5.5% (2009:10.32%). The volatility measured at the standard deviation of the daily changes in the company's share price over four 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* US$'000	Currency translation reserve US$'000	Total US$'000
At 1 January 2009	53,301	(13,461)	39,840
Currency translation differences	-	(39,112)	(39,112)
At 31 December 2009	53,301	(52,573)	728
At 1 January 2010	53,301	(52,573)	728
Revaluation surplus (gross)	70,621	-	70,621
Tax on revaluation surplus	(7,062)	-	(7,062)
Revaluation surplus recycled to retained earnings	(1,461)	-	(1,461)
Impact of change in deferred tax rate on revaluation surplus[1]	11,251	-	11,251
Currency translation differences	-	2,994	2,994
At 31 December 2010	126,650	(49,579)	77,071

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

[1] The impact of change in deferred tax rate is attributed to management's assessment that certain assets would be recovered through sale rather than through use. The tax rate applicable is the capital gain tax rate of 10%.

14 Borrowings

	2010 US$'000	2009 US$'000
The borrowings are made up as follows:		
Non-current		
Bank loans	503,113	141,735
Current		
Bank overdraft	158,808	235,889

Bank loans	318,437	714,707
Finance lease liabilities	356	85
	477,601	950,681
Total borrowings	980,714	1,092,416

The borrowings include secured liabilities (bank borrowings and finance leases) in a total amount of US$378 million (2009: US$396.8 million). 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 fulfil 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$'000	Draw down/ Balance 2010 US$'000	Draw down/ Balance 2009 US$'000
Syndicated loan – Greater Lagos III gas pipeline project for Gaslink	3yrs; 15%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	7,453	1,850	5,589
Term loans – Equity Finance	12mths with roll over option/18.25 %	Corporate guarantee by Oando Plc and fixed deposit of same amount.	16,938	16,816	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
Syndicated gas project facility – UNICEMENT Gas pipeline project by East Horizon Company	3yrs; 16.2%	Corporate Guarantee of Oando Plc and domiciliation of current account of gas sales proceeds.	25,745	23,430	23,022
Term loan- East Horizon Gas pipeline project	3 years;15%	Pledge of assets being financed; Corporate Guarantee of Oando Plc		5,842	
Syndicated gas project facility – UNICEMENT Gas pipeline project by East Horizon Company	7yrs; 16.2%	Corporate Guarantee of Oando Plc and domiciliation of current account of gas sales proceeds.	87,189	62,555	51,491

Loan type/ Purpose	Tenure/ Interest rate	Security	Facility Amount	Draw down/ Balance 2010	Draw down/ Balance 2009

Project finance facility – Akute IPP	7yrs; 14.5%	Pledge of assets being financed; Corporate guarantee by Oando Plc.	25,500	24,311	24,208
Term loan – acquisition of Upstream assets (payable in January 2010)	2yrs; 13.9%	Trust deed arrangement	200,000	-	200,000
Term loan – working capital finance	3yrs; LIBOR plus 2.75%	Trust deed arrangement	95,000	-	28,500
Term loan – working capital finance	5yrs; LIBOR plus 4%	Guarantee by Oando Plc	95,000	-	40,715
Term loan- to finance OML 125 & 134 activities	4 years; LIBOR plus 6%	Domiciliation of revenue Account with SCB		41,104	-
Term loan- to finance OML 90 activities (measured at Fair value through profit and loss)	6.533%	Derivative barrels of oil		23,149	
Medium term loan	5 years/Higher of MPR+8% or Nibor+5%	Assets of Oando Plc and some subsidiaries		369,938	
Term loan-Oando Togo	9%	Corporate Guarantee of Oando Plc		580	
Total non-current loans				569,575	396,786
Less current portion of non-current loans				(66,462)	(255,051)
				503,113	141,735

Current

Loan type/ Purpose	Tenure/ Interest rate	Security	Facility Amount	Draw down/ Balance 2010	Draw down/ Balance 2009
			US$'000	US$'000	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	195,984	195,984	170,916
Commercial papers to finance the acquisition of upstream assets and rigs	365 days 15-20%	Corporate guarantee	9,415	-	9,415
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	56,019	56,019	-
Other commercial papers/Overdraft	3 – 365 days; 12.5% -15.5%		279,325	-	279,325
Total current loans				252,003	459,656
Current portion of non-current loans				66,462	255,051
				318,465	714,707

Weighted average effective interest rates at the year-end were:	2010	2009

– bank overdrafts	14%	19%
– bank loans	14%	16%
– Import finance facility	2.88%	21%
– finance leases	13%	21%

The carrying amounts of short-term borrowings and lease obligations for 2010 and 2009 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:

	2010 US$'000	2009 US$'000
6 months or less	326,186	371,351
6-12 months	654,527	721,065
	980,713	1,092,416

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

	Carrying amount		Fair value	
	2010 US$'000	2009 US$'000	2010 US$'000	2009 US$'000
Bank loans	513,546	141,735	503,113	143,925

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

	2010 US$'000	2009 US$'000
Nigerian Naira	663,904	864,046
US Dollar	316,227	228,370
West African CFA	583	-
	980,714	1,092,416

Finance lease liabilities – future minimum lease payments:

Not later than 1 year	387	100
Future finance charges on finance leases	(31)	(15
Present value of finance lease liabilities	356	85

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

Not later than 1 year	356	85

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.

	2010 US$'000	2009 US$'000	2008
Deferred tax liabilities			
Deferred tax liability to be recovered after more than 12 months	87,062	6,258	70,932
Deferred tax liability to be recovered within 12 months	17,535	90,837	3,344
Total deferred tax liabilities	**104,597**	**97,095**	**74,276**
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)
Total deferred tax assets-As previously reported		**(60,071)**	**(17,008)**
Adjustment for gratuity		(2,162)	(1,660)
Total deferred tax assets-As restated		**(62,233)**	**(18,668)**
Deferred tax assets: As restated			
Deferred tax asset to be recovered after more than 12 months	(3,641)	(15,332)	(9,646)
Deferred tax asset to be recovered within 12 months	(72,234)	(46,901)	(9,022)
Total deferred tax assets	**(75,875)**	**(62,233)**	**(18,668)**
Deferred tax liabilities (net)	**28,723**	**34,862**	**55,608**

Prior year adjustment

Prior year adjustment relates to the deferred tax on employee gratuity plan not recognised in accordance with IAS 19 Employee Benefits. See details in note 17.

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

	2010 US$'000	2009 US$'000	2008 US$'000
At start of year	34,862	55,608	42,599
(Credited)/Charge to profit and loss account (Note 9)	(986)	(18,805)	(17,671)
(Credited)/Charged to equity	(886)	(92)	(3,395)
(Credited)/Charged to other comprehensive income	(4,597)	48	
Included in mineral rights acquisition cost of OML 125 &134	-	-	28,930
Exchange differences	329	(1,897)	5,145
At end of year	28,722	34,862	55,608

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

2010	1.1.2010 US$'000	Charged/ (credited) to P/L US$'000	Charged/ (credited) to equity US$'000	Charged/ (credited) to other comprehensive income	Exchange differences US$'000	31.12.2010 US$'000
Deferred income tax liabilities						
Property, plant and equipment:						
- on historical cost basis	35,763	5,750	-	-	1,416	42,929
- on revaluation surpluses	23,697	-	-	(4,628)	(559)	18,510
- on acquisition of mineral	25,623	-	-	-	-	25,623
Borrowings/other payables	6,483	200	-	-	2,101	8,784
Exchange gain	5,529	(1,379)	-	-	4,601	8,751

	97,095	4,571	-	(4,628)	7,559	104,597
Deferred income tax assets						
Provisions	(1,555)	(3,682)	-	-	(2,318)	(7,555)
Exchange losses	(8,179)	(1,870)	-		1,745	(8,304)
Share options and awards	(263)	-	(886)	-	1	(1,148)
Tax losses	(17,328)	1,830	-	-	(3,348)	(18,846)
Crude oil underlift	(32,746)	(1,473)	-		(3,310)	(37,529)
Retirement benefit obligation	(2,162)	(362)	-	31	1	(2,492)
	(62,233)	(5,557)	(886)	31	(7,229)	(75,874)
Net deferred income tax liability	34,862	(986)	(886)	(4,597)	329	28,723

2009	1.1.2009 US $'000	Charged/ (credited) to P/L US $'000	Charged/ (credited) to equity/other US $'000	Charged/ (credited) to other comprehensive income	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
Exchange Gains	-	5,529	-	-	-	5,529
Borrowings/other payables	7,274	-	-	-	(791)	6,483
	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)
Retirement benefit obligation	(1,660)	(549)	-	48	(1)	(2,162)
	(18,668)	(48,994)	(92)	48	5,474	(62,233)
Net deferred income tax liability	55,608	(18,805)	(92)	48	(1,897)	34,862

Deferred income tax liabilities of US$13.4 million (2009: US$7.522 million) have not been recognised for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries. The Group is able to control the timing of the reversal of temporary difference associated with the dividend policy of the subsidiaries and has determined that these profits will not be distributed in the foreseeable future. Unremitted earnings of those subsidiaries totalled US$97.7million at 31 December 2010 (2009: US$75.898 million).

16 Provisions for liabilities and charges

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

	2010 US$'000	2009 US$'000
Underground tanks	4,450	3,288
Oil and gas fields	7,936	7,516

	12,386	10,804

Movement during the year is as follows:

At start of year	10,804	9,460
Additional provisions in the year	974	1,178
Unwinding of discount	641	541
Exchange differences	(33)	(375)
At end of year	12,386	10,804

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

17 Retirement benefit obligations

Prior year adjustment on Staff Gratuity Plan

The Group has a gratuity policy in Nigeria, where members of staff who have spent 3 years or more in employment are entitled to benefit payments upon retirement. The benefit payments are based on final emolument of staff and length of service. In the prior years the group did not account for the obligation in line with IAS 19 (see note 2p). See further analysis of the effect of the prior period error below:

Retirement Benefit	2009 US$'000	2008 US$'000
As previously stated	-	-
Prior year cumulative effect	5,535	3,839
Current service cost	2,380	4,497
Interest charge	1,393	3,355
Actuarial gains	(158)	(167)
Exchange difference	223	183
Amount after adjustment	7,206	5,535

Deferred tax asset		
As previously stated	(60,071)	(17,008)
Prior year cumulative effect	(1,660)	(1,660)
Tax on current service cost (income statement)	(549)	-
Tax on actuarial gain (other comprehensive income)	47	-
Amount after adjustment	**(62,233)**	**(18,668)**

Retained earnings	2009 US$'000	2008 US$'000
As previously reported	124,599	66,430
Prior year cumulative effect	(3,875)	(5,535)
Actuarial gains	158	-
Current year income statement	(1,829)	
Deferred tax	549	1,660
Deferred tax (other comprehensive income)	(47)	-
As restated	119,555	62,555

Income statement	
Employee benefit expense- As previously stated	(27,818)
Adjustment	(1,829)
Amount after adjustment	**(29,647)**

Income tax expense	
As previously reported	(19,597)
Deferred tax on gratuity	549
As restated	**(19,048)**

Other comprehensive income	
As previously stated	(39,112)
Actuarial gains on gratuity	158
Tax thereon	(48)
Amount after adjustment	**(39,002)**

	2010 US$'000	2009 US$'000	2008 US$'000
Balance sheet obligations for:			
Gratuity	9,468	7,206	5,535
Income statement charge (note 7):			
Gratuity	2,981	2,999	-
Other comprehensive income			
Actuarial losses recognised in the statement of other comprehensive income in the period	103	158	-
Cumulative actuarial losses recognised in the statement of other comprehensive income	428	326	167

(a) Gratuity benefits

The amounts recognised in the balance sheet are determined as follows:

Present value of unfunded obligations	9,468	7,206	5,535
Liability in balance sheet	**9,468**	**7,206**	**5,535**

The movement in the defined benefit obligation over the year is as follows:

	2010 US$'000	2009 US$'000	2008 US$'000
At 1 January	7,206	5,535	3,839
Current service cost	2,179	2,380	4,497
Interest cost	802	619	538
Actuarial losses/(gains)	(103)	(158)	(167)
Exchange differences	338	223	183
Benefits paid	(954)	(1,393)	(3,355)
At 31 December	9,468	7,206	5,535

The amounts recognised in the income statement are as follows:

Current service cost	2,179	2,380	4,497
Interest cost	802	619	538

Total included in staff costs (Note 7)	2,981	2,999	5,035

The principal actuarial assumptions were a follows:

	2010	2009	2008
Discount rate	14%	14%	14%
Future salary increases	15%	15%	15%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in Nigeria. Mortality assumptions are based on the British A49/52 ultimate table published by the institute of actuaries of England.

These tables translate into withdrawal rates as follows:

Age	2010	2009	2008
18 – 24	0.05	0.05	0.05
25 – 34	0.04	0.04	0.04
45 – 54	0.03	0.03	0.03
55 – 59	0.02	0.02	0.02
	0.01	0.01	0.01

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Impact on overall liability 2010	2009	2008
Salary growth rate	12%	(1,314)	(817)	(546)

	2010 US$'000	2009 US$'000	2008 US$'000	2007 US$'000	2006 US$'000
At 31 December					
Present value of defined benefit obligation	9,468	7,206	5,535	3,839	-
Fair value of plan	-	-	-	-	-
Deficit in the plan	9,468	7,206	5,535	3,839	-

18 Property, plant and equipment

	Upstream[1] 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 2009						
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						
Opening net book amount	347,750	109,977	21,109	8,563	206,090	693,489
Decommissioning costs	1,184	-	20	-	-	1,204
Additions[2]	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)
Closing net book amount	434,672	113,811	118,085	9,616	223,942	900,126
At 31 December 2010						
Cost or valuation	489,578	122,563	136,785	22,245	223,942	995,113
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
Year ended 31 December 2010						
Opening net book amount	434,672	113,811	118,085	9,616	223,942	900,126
Decommissioning costs	-	-	977	-	-	977
Additions	82,384	5,408	16,523	1,517	26,349	132,181
Transfers	2,083	1,838	99,027	(4)	(102,944)	-
Revaluation surplus	-	53,834	16,787	-	-	70,621
Disposal	-	(1,540)	(300)	(20)	(12)	(1,872)
Write off of asset	(9,413)	-	(2,109)	-	-	(11,522)
Depreciation charge	(16,989)	(1,486)	(19,450)	(2,748)	-	(40,673)
Exchange difference	(1,552)	(757)	700	(80)	(4,231)	(5,920)
	491,185	171,108	230,240	8,281	143,104	1,043,918
At 31 December 2010						
Cost or valuation	558,312	173,156	258,317	23,914	143,104	1,156,803
Accumulated depreciation	(67,127)	(2,048)	(28,077)	(15,633)	-	(112,885)
Net book amount	**491,185**	**171,108**	**230,240**	**8,281**	**143,104**	**1,043,918**

[1]See note 33 for details of upstream assets.
[2]Included in additions are interest capitalised of US$71.357 million (2009:32.735) million.

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

	2010 US$'000	2009 US$'000
Cost – capitalised finance leases	8,849	9,990
Accumulated depreciation	(6,224)	(6,105)
Net book amount	2,625	3,885

The lease terms are within 12 months. See note 14 for details of the lease terms.

Buildings and freehold land were revalued during year, 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 other comprehensive income and shown as other reserves in equity.
If the revalued assets were stated on the historical cost basis, the amounts would be as follows:

Cost	124,502	36,787

Accumulated depreciation	(20,878)	(3,546)
Net book amount	103,624	33,241

19 Intangible assets

	Goodwill US$'000	Software costs US$'000	Total US$'000
At 1 January 2009			
Cost	170,107	6,403	176,510
Accumulated amortisation and impairment	-	(1,474)	(1,474)
Net book value	170,107	4,929	175,036
Year ended 31 December 2009			
Opening net book amount	170,107	4,929	175,036
Additions	11,870	-	11,870
Amortisation charge	-	(1,101)	(1,101)
Exchange differences	(18,780)	(536)	(19,316)
Closing net book amount	163,197	3,292	166,489
At 1 January 2010			
Cost	163,197	5,785	168,982
Accumulated amortisation	-	(2,493)	(2,493)
Net book amount	163,197	3,292	166,489
Year ended 31 December 2010			
Opening net book amount	163,197	3,292	166,489
Amortisation charge	-	(1,096)	(1,096)
Exchange difference	(1,140)	(33)	(1,173)
	162,057	2,163	164,220
At 31 December 2010			
Cost	162,057	5,752	167,809
Accumulated amortisation	-	(3,589)	(3,589)
Net book amount	162,057	2,163	164,220

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 2010

	Exploration & production	Marketing	Supply & Trading	Refining & Terminals	Gas & power	Energy Services	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Nigeria	35,836	63,774	4,902	-	27,018	3,317	134,847
West Africa region	-	388	-	-	-	-	388
Other countries	12,045	-	14,777	-	-	-	26,822
	47,881	64,162	19,679	-	27,018	3,317	162,057

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 the estimated growth rates for the CGU in the future as disclosed below. 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 2010

	Exploration & production	Marketing	Supply and Trading	Refinery and Terminals	Gas & power	Energy Services
Gross Margin	79%	10%	2%	-	22%	85%
Growth rate	-3%	-10%	-10%	-	-5%	-4%
Discount rate	14.25%	15%	14.25%	-	14.25%	14.25%

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.

20 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:

	2010	2009
	US$'000	US$'000
At start of year	7	20
Exchange difference	-	(6)
Impairment loss	-	(7)
At end of year	7	7

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.

21 Non-current receivables and prepayments

	2010 US$'000	2009 US$'000
Prepaid operating lease	6,223	7,799
Other non-current receivables	154,215	122,396
	160,438	130,195

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:

	2010 US$'000	2009 US$'000
At start of year	7,799	6,205
Exchange differences	5	(267)
Additions in the year	1,113	2,807
Amortisation	-	(180)
Reclassification to current prepayments	(2,694)	(766)
	6,223	7,799

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:

	2010 US$'000	2009 US$'000
At start of year	122,396	107,971
Exchange differences	(960)	(10,923)
Capital additions in the year	35,911	21,020
Interest	22,178	23,275
Recoveries in the year	(25,310)	(18,947)
	154,215	122,396

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.

22 Inventories

Finished goods	120,297	53,596
Materials	11,360	-
Goods in transit	12,992	8,762
Consumable materials and engineering stocks	5,895	3,299
	150,544	65,657

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to US$3.1 billion (2009 US$0.733 billion). Inventory carried at net realisable value as at balance sheet date amounted to nil. (2009 : nil)

23 Trade and other receivables

Trade receivables	287,212	337,235
Less: Provision for impairment of trade receivables	(14,849)	(11,059)
	272,363	326,176
Other receivables	220,504	303,651
Prepayments	28,975	23,624
Derivative financial instruments – commodity contracts	3,001	11,655
Less provision for impairment of other receivables	(1,211)	-
	523,632	665,106

Included in other receivables are bridging claims and petroleum support fund receivables of US$ 44.5 million and US$ 47.9 million respectively (2009: US$100.5 million and US$139.3 million respectively).

The fair value of trade receivables are based on cash flows discounted using rates based on borrowing rates applicable to the various business segments of between 14.5% and 16%.

Movement in provision for impairment of receivables for the year is as detailed below:

	2010 US $'000	2009 US$'000
At start of the year	11,059	10,454
Provision for receivables impairment	3,722	651
	14,781	11,105
Receivables written off during the year as uncollectible	479	-
Exchange difference	(411)	(46)
At end of the year	14,849	11,059

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

Cash and cash equivalents

	2010 US$'000	2009 US$'000
Cash at bank and in hand	61,882	167,328
Short term bank deposits	20,026	7,159
	81,908	174,487

The weighted average effective interest rate on short-term bank deposits at the year-end was 12% (2009:13.5%). These deposits have an average maturity of 30 days.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, 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:

Cash and bank balances as above	81,908	174,487
Bank overdrafts (Note 14)	(158,808)	(235,889)
	(76,900)	(61,402)

25 Trade and other payables

Trade payables	173,193	272,965
Other payables	99,622	104,610
Accrued expenses	54,633	54,929
Bridging allowance	28,490	92,774
Deferred income	39,841	27,809
Unpaid dividend	4,381	339
Customers' security deposits	7,993	7,919
Derivative financial instruments – interest-rate swap	9,750	2,224
Deferred premiums payable on commodity contracts	5,834	8,993
	423,737	572,562

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

Profit before income tax	142,311	93,002
Adjustments for:		
Interest income (Note 8)	(32,081)	(51,258)
Interest expense (Note 8)	62,795	106,107
Depreciation (Note 18)	40,673	36,901
Amortisation of intangible assets (Note 19)	1,096	1,101
Profit on sale of property, plant and equipment	1,183	(526)
Unwinding of discount on provisions (Note 8)	641	541
Unwinding of discount on deferred premiums payable (note 8)	120	165
Share-based payment expense (options and awards)	2,955	430
Impairment of available for sale assets (Note 20)	-	7
Write off of property, plant and equipment	11,522	-
Net foreign exchange (gain)/loss	(1,715)	(9,412)
Fair value loss/(gains) on commodity contracts	8,654	(2,827)
Fair value loss on interest-rate swap	10,675	2,224
Changes in working capital		
– receivables and prepayments (current)	141,474	62,564
– non-current prepayments	1,576	(1,594)
– inventories	(84,887)	57,270
– payables and accrued expenses	(146,460)	189,065
Cash generated from operations	160,532	483,760

27 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 2010 and 2009, the aggregate expenditures of the Group with respect to such related party transactions were US$10.84 million and US$32.4 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. Ocean and Oil Holdings Limited waived the Technical and Management Service fees for the year, amounting to US$11.3 million.

In addition, two of the Company's directors are also directors of OOH; namely Mr. Tinubu and Mr. Boyo are also shareholders of OOH.

(ii) Key management compensation

	2010 US$'000	2009 US$'000
Salaries and other short-term employment benefits	11,647	7,041
Share options and management stock awards	2,096	158
	13,743	7,199

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	742	6,559
Avante Property Limited	289	97
	1,031	6,656

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.

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 he served as a director of the Company during the year. He retired as a director on May 7, 2010.

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. He resigned as a director of the Company on 30 April, 2010.

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 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.

28 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$15.15 million (2009:US$630.25 million). Oando Plc also guaranteed various loans in respect of the following subsidiaries: Equator Exploration JDZ Nigeria Limited (US$ 5.483 million); Gaslink Nigeria Limited (US$ 32.45 million); Oando Energy Services Limited (US$ 25.5 million); Oando Gas and Power Limited (US$ 30.27 million); Oando Ghana Limited (US$81.34); Oando Marketing Plc (US$ 20.84 million); Oando Production and Development Company Limited (US$ 6 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$ 29.66 million (2009: US$6.45 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.

29 Capital Commitments

	2010 US$'000	2009 US$'000
Outstanding capital expenditure contracted but not provided for in the Property plant and equipment	4,983	105,380
Capital expenditure approved by the Board but not yet committed:		
Property plant and equipment	80,976	13,008
Intangible assets		
	85,959	118,388

30 Subsidiary information

Entity name	Country of incorporation	Nature of business	Investment Currency	Allotted shares	Percentage interest held	Group's share of current year's profit
Direct Shareholding						**US$'000**
Akute Power Limited	Nigeria	Power generation	Naira	2,500,000	100.00%	272
Apapa SPM Limited	Nigeria	Off shore submarine pipeline construction	Naira	19,125,000	100.00%	(11)
East Horizon Gas Co. Ltd	Nigeria	Gas distribution	Naira	10,000,000	100.00%	(141)
Equator Exploration Limited (EEL)	British Virgin Islands	Exploration and production	USD	67,707,210	78.10%	(3,376)
Gaslink Nigeria Limited	Nigeria	Gas distribution	Naira	1,717,698	96.98%	18,745
Oando Akepo Limited	Nigeria	Exploration and production	Naira	2,500,000	100.00%	(219)
Oando Energy Services Limited	Nigeria	Provision of drilling and other services to upstream companies	Naira	5,000,000	100.00%	14,682
Oando Exploration & Production Limited	Nigeria	Exploration and production	Naira	10,000,000	100.00%	(5,669)
Oando Gas and Power Limited	Nigeria	Gas and power generation and distribution	Naira	1,000,000	100.00%	(14)
Oando Lekki Refinery Limited	Nigeria	Petroleum refining	Naira	2,500,000	100.00%	(7)
Oando Marketing PLC	Nigeria	Marketing and sale of petroleum products	Naira	175,000,000	100.00%	26,004
Oando Port Harcourt Refinery Company Limited	Nigeria	Petroleum refining	Naira	2,500,000	100.00%	-
Oando Production and Development Company Limited	Nigeria	Exploration and production	Naira	10,000,000	95.00%	4,338
OES Professionalism Limited	Nigeria	Provision of drilling services	Naira	10,000,000	100.00%	-
OES Passion Limited	Bermuda	Provision of Drilling and other	USD	12,000	100.00%	-

		services to upstream companies				
Oando Properties Limited	Nigeria	Property management services	Naira	250,000	100.00%	(4)
OES Respect Limited	British Virgin Island	Provision of drilling and other services to upstream companies	USD	100	100.00%	-
OES Teamwork Limited	British Virgin Island	Provision of drilling and other services to upstream companies	USD	100	100.00%	-
Oando Supply and Trading Limited	Nigeria	Supply of crude oil and refined petroleum products	Naira	5,000,000	100.00%	14,426
Oando Terminal and Logistics	Nigeria	Storage and haulage of petroleum products	Naira	2,500,000	100.00%	-
Oando Trading Limited (Bermuda)	Bermuda	Supply of crude oil and refined petroleum products	USD	12,000	100.00%	17,861
OES Integrity Limited	British Virgin Island	Provision of drilling and other services to upstream companies	USD	50,000	100.00%	(18,301)
Oando Liberia	Liberia	Marketing and sale of petroleum products (Subsidiary of Oando Marketing PLC)	USD	50,000	100.00%	38
Indirect Shareholding						
Oando Togo SA	Togo	Marketing and sale of petroleum products (Subsidiary of Oando Marketing PLC)	CFA	186,288,000	75.30%	180
Oando Sierra Leone Limited	Sierra Leone	Marketing and sale of petroleum products (Subsidiary of Oando Marketing PLC)	Leones	10,079,000	80.00%	-
Oando Ghana Limited	Ghana	Marketing and sale of petroleum products (Subsidiary of Oando Marketing	Cedi	126,575,000	82.90%	221

		PLC)				
UNITAB Nigeria Limited	Nigeria	Marketing of automobile parts (Subsidiary of Oando Marketing PLC)	Naira	40,000,000	100.00%	-
Oando OML 125 & 134 BVI Limited	British Virgin Island	Exploration and production (100% owned by Oando Exploration and Production) Limited)	USD	100,987,074	100.00%	(1,543)
Oando OML 125 & 134 Limited	Nigeria	Exploration and production (100% owned by OML 125 & 134 BVI)	Naira	2,500,000	100.00%	22,683
Aqua Exploration Limited	Bahamas	Exploration and production (100% subsidiary of EEL)	USD	100,000	78.10%	-
Equator Exploration Nigeria Limited	Nigeria	Exploration and production (100% subsidiary of EEL)	Naira	10,000,000	78.10%	-
Equator Exploration (OML 122) Limited	British Virgin Islands	Exploration and production (100% subsidiary of EEL)	USD	10,000,000	78.10%	-
Equator Exploration 321 Limited	Nigeria	Exploration and production (100% subsidiary of EEL)	Naira	10,000,000	78.10%	-
Equator Exploration 323 Limited	Nigeria	Exploration and production (100% subsidiary of EEL)	Naira	10,000,000	78.10%	-
Equator Exploration JDZ Block 2 Limited	Nigeria	Exploration and production (100% subsidiary of EEL)	Naira	10,000,000	78.10%	-
Equator Exploration Congo Limited	Congo	Exploration and production (100% subsidiary of EEL)	CFA	148	78.10%	-
Equator Exploration Nigeria OML 122 Limited	Nigeria	Exploration and production (100% subsidiary of EEL)	Naira	10,000,000	78.10%	-
Gaslink Ghana Limited	Ghana	Gas distribution (100% owned by Gaslink)	Cedi	1,000,000	100.00%	-
Gas and Allied Services Limited	Nigeria	Technical and support services (100% owned by Gaslink)	Naira	100,000,000	51.00%	-
Gas Network Services Limited	Nigeria	Gas distribution (subsidiary of Gaslink)	Naira	5,000,000	99.90%	-
Gas Energy Co (Edo State)	Nigeria	Development of Gas Pipeline (subsidiary of Gaslink)	Naira	100,000,000	67.20%	-
Gaslink Togo SA	Togo	Gas distribution (100% owned by Gaslink)	CFA	10,000,000	100.00%	-
Transgas Limited	Nigeria	Gas distribution	Naira	155,000,000	100.00%	

		(100% owned by Gaslink)				-
Gaslink Benin Limited	Benin	Gas distribution	CFA	10,000,000	100.00%	-
Oando Benin Limited	Benin	Marketing and sale of petroleum products	CFA	14,832,000	100.00%	-

31 Post balance sheet events

In March 2011, the Federal Government granted Oando (in a consortium with Agip) an award to develop a Natural Gas Central Processing Facility, for the Central Franchise Area within the Nigerian Gas Master Plan.

32 Financial Instruments by category

31 December 2010	Financial instruments at fair value through profit and loss US $'000	Loans and receivables US $'000	Available for sale US $'000	Total US $'000
Assets per statement of financial position:				
Available for sale financial assets	-	-	7	7
Non-current receivable (excluding operating lease)	-	154,215	-	154,215
Trade and other receivables (excluding prepayments)	-	491,656	-	491,656
Derivative financial instruments	3,001	-	-	3,001
Cash and cash equivalents	-	81,908	-	81,908
	3,001	727,779	7	730,787

31 December 2010	Financial instruments at fair value through profit and loss US $'000	Other financial liabilities at amortised cost US $'000	Total US $'000
Liabilities per statement of financial position:			
Borrowings (excluding finance lease liabilities)	23,149	957,208	980,357
Finance lease liabilities	-	356	356
Trade and other payables (excluding derivative financial instruments and	-	408,153	408,153
Derivative financial instruments	9,750	-	9,750
Deferred premiums payable	-	5,834	5,834
	32,899	1,371,551	1,404,450

31 December 2009	Financial instruments at fair value through profit and loss US $'000	Loans and receivables US $'000	Available for sale US $'000	Total 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

31 December 2009	Financial instruments at fair value through profit and loss US $'000	Other financial liabilities at amortised cost US $'000	Total US $'000
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	1,664,979

33 Upstream activities

33.1 Analysis of upstream assets

Year ended 31 December 2009	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
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[1]	(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	34,577	40,649	1,019	6,277	434,672

Year ended 31 December 2010								
Opening net book amount	245,322	161	106,667	34,577	40,649	1,019	6,277	434,672
Additions	35,660	-	38,598	2,527	3,457	2,142	-	82,384
Transfers	-	-	63		2,020	-	-	2,083
Write off[2]	-	-	(9,413)	-	-	-	-	(9,413)
Depreciation charge	(837)	-	(933)	(7,333)	(6,702)	(148)	(1,036)	(16,989)
Exchange differences	196	1	(2,100)	1	587	(245)	8	(1,552)
Closing net book amount	280,341	162	132,882	29,772	40,011	2,768	5,249	491,185

[1] Derecognition of asset relates to signature bonus on OPL 321 and 323 refunded by the Federal Government of Nigeria.
[2]This represents the write off of the drilling and evaluation costs relating to JDZ Block 2 (of Equator Exploration Limited) following the sub-commercial discovery of the Bomu exploratory well.

The Group's share of total proved developed and undeveloped reserves in its various concessions were 13.98 million and 12.27 million (2009: 13.4 million and 12.27 million) barrels of oil equivalent respectively.

(33.2) 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	31/01/2023	Producing
Oando Exploration And Production Ltd	OPL 236	OEPL	95% working interest	Onshore	PSC	31/03/ 2013	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	31/08/ 2011	Exploration
Equator Exploration JDZ Block 2	JDZ Block 2	Sinopec	9% non operator participating	Offshore	PSC	13/03/ 2034	Appraisal/ Exploration

Limited			interest				
Equator Exploration (OML 122) Limited	OML 122	Peak	Finance & service agreement with operator	Offshore	PSC	13/09/ 2021	Development/ Appraisal
Equator Exploration Nigeria 323 Limited	OPL 323	Korean National Oil Company	30% non operator participating interest	Offshore-	PSC	10/03/2006	Exploration
Equator Exploration Nigeria 321 Limited	OPL 321	Korean National Oil Company	30% non operator participating interest	Offshore-	PSC	10/03/2006	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

34 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 acquired 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 acquired 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 US$ 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 US$ 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
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	1,835

[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