

Oando Plc

(Incorporated in Nigeria and registered as an external company in South Africa)

Registration number: RC 6474

(External company registration number: 2005/038824/10)

Share Code on the JSE Limited: OAO

Share Code on the Nigerian Stock Exchange: UNTP

ISIN: NGOANDO00002

("Oando" or "the Company" or "the Group")

Unaudited results for the second quarter ended 30 June 2010

## Highlights

- Turnover of US\$1,167.96 million
- Gross profit of US\$187.20 million
- Operating profit of US\$101.14 million
- Profit after tax of US\$44.41 million
- Attributable profit after tax of US\$44.26 million
- Basic earnings per share of 3.68 cents
- A second drilling rig has been deployed into operation
- Construction of a pipeline required for evacuation of crude oil from the Obodeti/Obodoguwa field has been completed

## Review of results

Oando, which has a primary listing on the Nigerian Stock Exchange ("NSE") and a secondary listing on JSE Limited ("JSE"), reports profit after tax ("PAT") for the period ended 30 June 2010 of US\$44.41 million.

## Income statement analysis

Revenue increased by 4% when compared with the same period in 2009. The Group also recorded a 71% increase in profit after tax in comparison with the same period in 2009. The performance was mainly due to the following:

- The Group commenced revenue generation from Lagos State Water Corporation ("LSWC") Independent Power Producer ("IPP") project in March 2010.
- The Energy Services division hired out its second drilling rig and commenced revenue generation during the first half of 2010.
- There was an improvement in the gross margin percentage from an average of 8% in 2009 to 16% during this year. This is due to higher margins returned by the new businesses (power generation and drilling rigs). In addition, delayed settlement of the Petroleum Support Fund ("PSF") receivables in 2009 increased cost of sales for the Supply and Trading division of the business. There has been an improvement in the payment processes for the PSF receivables during the period as a result of the Sovereign Debt Note issued by the Federal Government of Nigeria (the "Government") as a guarantee to support and ensure payment of the subsidy.

## Expenses review

Marketing and selling expenses increased by 13%. This was driven by increased dealers' commission and transportation costs arising from sale of more products at inland locations in 2010. Administrative expenses increased when compared to previous year due to the operational costs and depreciation of the drilling rigs and IPP project which were charged to the income statement in 2010.

Finance costs increased during the period compared to the corresponding period in 2009 as a result of recognition of finance costs on the drilling rigs and IPP assets in the income statement in 2010. Similar costs were previously capitalised because the assets had not been put into use.

## Balance sheet analysis

Property, plant and equipment increased by 25% while pipeline assets' costs rose by 22% over the corresponding balance in 2009. This increase was as a result of additional capital expenditure on ongoing projects such as the East Horizon Gas Company Limited ("EHGC") pipeline project and upstream assets development.

Inventory reduced by 45% compared to the same period of 2009 as a result of effort at optimising stock holding to reduce working capital requirements.

Trade and other debtors increased by 8%. This was attributable to additional trade debts arising from sales from new businesses (drilling rigs and IPP assets). No revenue and trade debts were booked for drilling rigs and IPP assets during the same period of 2009.

## Future prospects

The investments hitherto made in upstream assets, drilling rigs and IPP assets have started yielding returns.

In order to extract crude oil efficiently and at minimal cost from the Obodetti/Obodogua field of oil mining licence ("OML") 56 a pipeline construction was completed and commissioned at the end of the second quarter of 2010. This will improve the volume and reduce transportation costs for crude oil produced from this oilfield. The Company is finalising necessary processes required to boost oil production with a view to further enhance revenue and profit contribution of the upstream business.

The commissioned LSWC IPP project has been operating steadily with a positive impact on the Group's revenue and profit contribution. The ongoing construction work at the EHGC's 128 kilometre pipeline project has progressed well during the period. Management's full attention will be focussed on completing the project before the end of the calendar year.

Although no definite pronouncements have been made on deregulation of the downstream sector of the oil and gas industry, a number of measures were taken to assure marketers of the prompt reimbursement of costs for imported petroleum products. These measures include Government's guarantee in the form of sovereign notes, which has improved product availability and reduced working capital requirements and related costs. The Company expects that this intervention by Government will continue to positively affect volume and profitability of the Group's downstream businesses.

Oando's Energy Services division has deployed another drilling rig into operation while refurbishment and contracting for the third one is being finalised.

The current performance reflects the solidity of our strategy and it is our opinion that the current trend will continue for the rest of the year.

Consolidated Balance Sheet as at 30 June, 2010

	Unaudited 2010 US\$'million	Audited 2009 US\$'million
<b>ASSETS</b>		
Non-current assets		
Property plant & equipment	913.58	732.27
Intangible assets	161.20	152.83
Long term investments	0.07	0.07
Long term receivables	140.74	115.74
	1,215.59	1,000.91
Current assets		
Inventories	139.25	251.57
Trade & other receivables	522.46	493.02
Cash & cash equivalents	77.80	298.53
	739.51	1,043.12
Total assets	1,955.10	2,044.03
Equity		
Capital & reserves attributable to equity holders		
Share capital	6.12	3.09
Share premium	331.99	203.19
Revaluation reserve	48.98	49.81
Retained earnings	134.93	75.25
	522.02	332.34
Minority interest	6.82	1.04
Total equity	528.84	333.38
Liabilities		
Non-current liabilities		
Borrowing	568.30	330.61
Deferred income tax liabilities	19.78	53.01
Retired benefit obligation	1.47	
	589.55	383.62
Current liabilities		
Trade & other payables	466.97	342.96
Current income tax liabilities	32.08	34.57
Borrowings	337.16	949.50
Dividend payable	0.50	-
Total liabilities	1,426.26	1,710.65
Total equity & liabilities	1,955.10	2,044.03

Consolidated Income Statement for the period ended 30 June, 2010

	Unaudited 2010 US\$'million	Audited 2009 US\$'million
Sales	1,167.96	1,128.45
Cost of sales	(980.70)	(1,032.18)
Gross profit	187.20	96.27
Selling & marketing costs	(23.82)	(21.13)
Administrative expenses	(91.81)	(39.23)
Other operating income	29.57	13.52
Operating profit	101.14	49.43
Shares of profit of associates		-
Net finance costs	(27.92)	(13.38)
Profit before taxation	73.22	36.05
Income tax expense	(28.81)	(10.01)
Profit after expense	44.41	26.04
Attributable to:		
Non-controlling shareholders	0.15	0.04
Equity holders of the Company	44.26	26.00
	44.41	26.04

The Group is organised into six main business divisions:

- Exploration and Production ("E&P"): This division is 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. The E&P segment of the business owns interests in, amongst others, OML 56, OML 90, OML 123 and OML 134 and oil prospecting licence ("OPL") 236 and OPL 278.
- Refining and Terminals: This division is involved in the refining of crude and storage and logistics for distribution of petroleum products. This division was recently carved out of the downstream marketing business. It has initiated steps towards establishing a refinery at the Lekki Free Trade Zone in Lagos.
- Gas and Power: This division is involved in the distribution of natural gas through its subsidiaries, Gaslink Nigeria Limited ("GNL") and East Horizon Gas Company Limited ("EHGC"). GNL operates about 100 kilometres of the Greater Lagos natural gas distribution franchise and has connected over one hundred industrial customers. EHGC is constructing a 128 kilometre natural gas pipeline network to supply natural gas to United Cement Company ("UNICEM") and other customers at Calabar, Eastern Nigeria. The Division also incorporated Akute Power Limited that is building an independent power plant to supply electricity to LSWC.
- Energy services is 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 E&P companies. The division presently has five swamp drilling rigs.
- Marketing: This division is involved in retail and commercial sales of refined petroleum products with over 600 retail outlets in Nigeria and other West African countries.
- Supply and trading: This division imports petroleum products for sale to marketing companies and other corporate bodies within and outside Nigeria.

Consolidated Statement of changes in Shareholder's Equity Attributable to equity holders of the Company for the period ended 30 June, 2010

	Share capital	Share premium	Revaluation reserve	Cumulative translation adjustment
	US\$m	US\$m	US\$m	US\$m
Balance as at 31 December, 2009	3.06	201.46	48.88	
Retained profit for the period				
Bonus issue of shares	2.04			
Dividend paid				
Exchange difference	0		0.1	
Reversal of revaluation surplus				
Deferred tax on revaluation surplus				
Net share issue proceeds/acquisition Cost	1.02	130.53		
Balance as at 30 June 2010	6.12	331.99	48.98	

	Retained earnings	Minority interest	Total equity
	US\$m	US\$m	US\$m
Balance as at 31 December 2009	92.71	6.67	352.78
Retained profit for the period	44.26	0.15	44.41
Bonus issue of shares	(2.04)		
Dividend paid			0
Exchange Difference			8.52
Reversal of revaluation surplus			
Deferred tax on revaluation surplus			
Share Issue/acquisition Cost			
Balance as at 30 June, 2010	134.93	6.82	528.84

Consolidated Statement of changes in Shareholder's Equity Attributable to equity holders of the Company for the period ended 30 June 2009

	Share Capital	Share Premium	Revaluation reserve	Cumulative translation adjustment
	US\$m	US\$m	US\$m	US\$m
Balance as at 31 December 2008	3.45	227.27	55.18	
Retained profit for the period				
Bonus issue of shares				
Dividend paid				
Exchange difference	(0.36)	(24.08)	(6.37)	
Reversal of revaluation surplus				
Deferred tax on revaluation surplus				
Share issue cost				
Balance as at 30 June 2009	3.09	203.19	49.81	(0.19)

	Retained earnings	Minority interest	Total equity
	US\$m	US\$m	US\$m
Balance as at 31 December 2008	56.16	1.15	343.21
Retained profit for the period	26.00	0.04	26.04
Bonus issue of shares			

Dividend paid			
Exchange difference	(5.91)	(0.15)	
Reversal of revaluation surplus			
Deferred tax on revaluation surplus			
Share issue cost			
Balance as at 30 June 2009	76.25	1.04	333.38

## Notes to results

### 1. General information

Oando (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. The Company was partially privatised in 1991. It was however fully privatised in the year 2000 consequent to the sale of the Government's 40% shareholding in the Company. Of the Government's holding, 30% was sold to core investors (Ocean and Oil Investments Limited) and the remaining 10% was sold to 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 in August of the same year. The Company formally changed its name from Unipetrol Nigeria Plc to Oando Plc in December 2003.

The principal activity of the Company both locally and internationally is strategic investment in energy companies across West Africa. The Group is involved in the following business activities via its subsidiary companies:

- Marketing of petroleum products, manufacturing and blending of lubricants - Oando Marketing Limited;
- Distribution of natural gas for industrial customers - Gaslink Nigeria Limited;
- Supply and distribution of petroleum products - Oando Supply and Trading, Nigeria and Oando Trading, Bermuda;
- Energy services to upstream companies - Oando Energy Services;
- Exploration and Production - Oando Exploration and Production.

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The consolidated financial statements of Oando have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies.

## Early adoption of standards

In 2004, the Group early adopted the IFRS below, which are relevant to its operations. These have been consistently applied in this unaudited financial report for the six months period ended 30 June 2010.

IAS 2 (revised 2003) Inventories

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors

IAS 10 (revised 2003) Events after the Balance Sheet Date

IAS 16 (revised 2003) Property, Plant and Equipment

IAS 17 (revised 2003) Leases

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates

IAS 24 (revised 2003) Related Party Disclosures

IAS 27 (revised 2003) Consolidated and Separate Financial Statements

IAS 28 (revised 2003) Investments in Associates

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation

IAS 33 (revised 2003) Earnings per share

IAS 36 (revised 2004) Impairment of Assets

IAS 38 (revised 2004) Intangible Assets

IAS 39 (revised 2003) financial instruments: Recognition and measurement

IFRS 2 (issued 2004) Share-based payments

IFRS 3 (issued 2004) Business Combinations

IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued IFRIC

10 (Issued 2006) Interim Financial Reporting and Impairment.

- The early adoption of IAS 10 has resulted in a change in the accounting policy for dividends. Proposed dividends, which were previously recognised in the year prior to the declaration, have been adjusted in accordance with IAS 10 and 37 respectively.
- The application of IAS 16 has affected the accounting for the fair value reserve relating to revalued land and buildings upon disposal.
- Under previous GAAP, the revaluation surplus included in equity in respect of an item of property, plant and equipment were transferred to the income statement when the asset was disposed of, to determine profit on disposal. Adjustments have been passed to transfer the related amounts directly to retained earnings in accordance with IAS 16. In addition, early adoption of IAS 16 (revised 2004) has necessitated the disclosure of prior year comparatives for all movements in property plant and equipment.
- IAS 21 (revised 2003) has affected the translation of foreign entities' income statements, on which closing rates were previously applied but now amended and translated at average rates. The functional currency of each of the consolidated entities has also been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their presentation currency. These financial statements have been presented in a currency other than the Company's functional currency, being US Dollars, which is the Company's presentation currency for the purpose of filing outside Nigeria
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.
- IAS 27 (revised 2004) has affected the consolidation of subsidiaries. Certain subsidiaries, which were not included in the consolidation under previous GAAP have now been consolidated.
- The early adoption of IAS 33 has resulted in a change in the computation of earnings per share. Earnings per share, which were previously computed on the basis of the number of shares in issue at the end of the reporting period, have been adjusted on the basis of

- the weighted average number of shares in accordance with IAS 33.
- The early adoption of IAS 39 has resulted in a change in accounting for financial assets and liabilities.
- The Group obtained approval for its share option scheme from the Nigerian regulatory authority in February 2009. Accordingly all shared-based payments in operation has been subjected to and accounted for under IFRS 2 for the first time in 2008.
- The early adoption of IFRS 5 has resulted in a change in the accounting of non-current assets held for sale and discontinued operations and qualifying assets have been reclassified accordingly.
- The early adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting -policy for goodwill. Until 31 December 2002, goodwill was:
  - amortised on a straight line basis over a period ranging from 5 to 20 years; and
  - assessed for an indication of impairment at each balance sheet date.
- In accordance with the provisions of IFRS 3:
  - the Group ceased amortisation of goodwill from 1 January 2003; and
  - accumulated amortisation as at 31 December 2002 has been eliminated with a corresponding decrease in the cost of goodwill;
- Goodwill was tested for impairment at 1 January 2003, the transition date. Also, from the year ended 31 December 2003 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. The Group has also reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

The early adoption of IAS 1, 2, 8, 17, 28, and 32 (all revised 2003) did not result in substantial changes to the Group's accounting policies.

In summary:

- IAS 1, 2, 28 and 32 had no material effect on the Group's policies.
- IAS 8 (revised 2004) has resulted in the disclosure of the impact of new standards

## 2.2 Consolidation

### (a) Subsidiaries

Subsidiaries include 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 deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed and the date of plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the

Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. All balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to be consistent with the policies adopted by the Company, Separate disclosure (in equity) is made of minority interests.

#### (b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the associates are consistent with the policies adopted by the Group.

Goodwill included in the carrying amount of an investment is neither amortised nor tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36, Impairment of Assets. Instead, the entire carrying amount of the investment is tested under IAS 36 for impairment.

All subsidiaries and associates have uniform calendar year ends.

#### 2.3 Segment reporting

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

#### 2.4 Foreign currency translation

##### (a) 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 Group is the Naira. The consolidated financial statements are presented in US dollars, which is the Company's presentation currency for the purpose of filing outside Nigeria.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

c) Group companies

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:

- 1 Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- 2 Income and expenses for each income statement are translated at average exchange rates; and all resulting exchange differences are recognised as a separate component of equity.
- 3 On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. Upon disposal of part or all of the investment, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3. Earnings Per Share (EPS)

Basic earnings per share ("EPS") is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares in issue during the period.

	2010	2009
Profit attributable to equity holders of the Company (US\$'m)	44.26	26
Average number of shares in issue (millions)	1,207	905
Basic EPS (cents)	3.68	2.87
Diluted		
Profit attributable to equity holders of the Company	44.26	26.00
Weighted average number of shares in issue (millions)	1,207	905
Adjustment for bonus issues	603	
Weighted average number of shares for diluted EPS (millions)	1,810	905
Diluted EPS (cents)	2.45	2.87
Headline earnings per share (HEPS)	2.45	2.87
Profit attributable to equity holders of the Company	44.26	26.00
Adjusted for:		
Profit on sale of buildings associated with discontinued operations	0	0
Profit/(Loss) on sale of other assets	0	0
Loss on sales of investment in affiliate companies	0	0
Tax thereon	0	0
HEPS attributable to earnings basis (cents)	44.26	26.00
HEPS attributable to diluted earnings basis (cents)	44.26	26.00
Net assets per share (cents)	29.80	36.72
Tangible assets per share (cents)	67.16	110.60

#### 4. Unaudited results

The condensed consolidated results have neither been audited nor reviewed by the Company's auditors.

#### 5. Post balance sheet events

There are no significant post balance sheet events that in the opinion of the directors will have a material impact on the accounts herein presented.

For and on behalf of the Board

Mr J Adewale Tinubu  
Group Chief Executive  
5 August 2010

#### Directorate:

1	Major General M. Magoro (Rtd.) OFR, Galadiman Zuru	Chairman
2	Mr. J. A. Tinubu	Group CEO
3	Mr. O. Boyo	Deputy Group CEO
4	Mr. B. Osunsanya	Group Executive Director
5	Mr. O. Adeyemo	Executive Director
6	Chief S. Anthony	Non-executive Director
7	Mr. Navaid Burney	Non-executive Director
8	HRM. Oba. A. Gbadebo CFR	Non-executive Director
9	Mr. Onajite Okoloko	Non-executive Director
10	Ms. A. Pepple	Non-executive Director
11	Ms. G. Sangudi	Non-executive Director

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Sandton

10 August 2010

JSE Sponsor: Macquarie First South Advisers (Proprietary) Limited