KENYA OIL COMPANY LIMITED

KSHS 1,500,000,000

COMMERCIAL PAPER PROGRAMME

CREDIT RATING: A1+

INFORMATION MEMORANDUM

1 May 2008

Placing Agents

Kestrel Capital (E.A.) Ltd

CONTENTS

DEFINITIONS AND ABBREVIATIONS

CMA	Capital Markets Authority established by the Capital Markets Act (Cap 485A)
Kshs	Kenya Shillings
CP	Commercial Paper
Commercial Paper	Commercial Paper is an unsecured, short-term loan issued by a corporation, typically for financing working capital. It is usually issued at a discount, reflecting current market interest rates.
Directors or Board	The persons named herein as Directors of the Company
Employee	Employees of Kenol
ESOP	Employee Share Ownership Plan
GCR	Global Credit Rating Company
NSE	Nairobi Stock Exchange
Kenol	Kenya Oil Company Limited
KPC	Kenya Pipeline Company
KPRL	Kenya Petroleum Refinery Limited
LIBOR	London Interbank Offered Rate
LPG	Liquefied Petroleum Gas
OTS	Open Tender System
SEP	Single Entry Point

IMPORTANT NOTICE

Kenya Oil Company Limited ("Kenol" or "the Company|") wishes to raise funds from time to time by the issue and sale of its Commercial Paper ("Notes" or "CP"). The Notes will have tenors of one year or less from the date of issuance, as elected by Kenol. The Notes will be offered for sale through Kestrel Capital (East Africa) Limited ("Kestrel" or "Placing Agents") as may be appointed by Kenol to selected financial institutions, corporate investors and high net worth individuals as may be approved by Kenol.

This Information Memorandum does not constitute an offer or invitation to any person to subscribe for or acquire any such Notes.

This Information Memorandum has been prepared solely for the information of the persons to whom it is transmitted by Kestrel and Barclays Bank of Kenya Limited. This Information Memorandum shall not be reproduced in any form, nor shall it be transmitted to or discussed with any other person.

No representation or warranty, express or implied, is made by Kestrel Capital or Barclays Bank of Kenya Limited with respect to the completeness or accuracy of the information in this Information Memorandum relating to Kenol.

The Directors of Kenol, whose names appear on page 20 of the Information Memorandum, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the directors who have taken all reasonable care to ensure that this is the case, the information contained in this document is in accordance with facts and does not omit anything likely to affect the significance of such information.

The Capital Markets Authority ("CMA") has approved the issue of the Notes by Kenol pursuant to the Capital Markets (Securities), (Public Offers, Listing and Disclosure) Regulations, 2002. A copy of this Information Memorandum has been delivered to the Registrar of Companies.

As a matter of policy, the CMA assumes no responsibility for the correctness of any statements or opinions made or reports contained in this Information Memorandum. Approval of the issue is not to be taken as an indication of the merits of the issuer or of the securities.

The Date of this Information Memorandum is 1 May 2008.

DESCRIPTION OF THE COMMERCIAL PAPER PROGRAMME

Issuer

Kenya Oil Company Limited ("Kenol")
10th Floor, ICEA Building
Kenyatta Avenue
P O Box 44202 - 00100
Nairobi

Instrument

Commercial Paper ("Notes") being promissory notes, which constitute legally binding, unsecured obligations of Kenol.

Security

The Notes are unsecured and will rank *pari passu* with all unsecured debt of Kenol.

Transferability

These Commercial Papers are not transferable nor can be listed on the Nairobi Stock Exchange.

Purpose

The Commercial Paper Programme is intended to be used by Kenol as a revolving short term financing facility to diversify and supplement its current working capital financing. By allowing Kenol to select the timing and size of the issue of the Notes, the programme will enable the Company to achieve greater financial flexibility and reduce its cost of financing.

Amount

The maximum face value of Notes outstanding at any one time will not exceed Kenya Shillings One and a Half Billion (Kshs 1,500,000,000).

Interest Rate

For Kenya Shilling denominated Notes, to be fixed over or below the 91-day or 182-day Government of Kenya Treasury Bill yield rate as announced from time to time. For US Dollar denominated Notes, to be fixed over or below the 60-day or 90-day LIBOR.

Discount and Pricing

To be determined from time to time by Kenol under advice from the Placing Agents, and quoted as a percentage per annum of face value.

Notes will be issued at a fixed discount to face value. The discount rate will vary from time to time and may differ between individual Notes according to their time of issue and respective value and tenor. The applicable discount rates will be those, which Kenol selects and agrees from prior bids obtained by the Placing Agents from Investors.

Denomination

The Notes are to be issued in denominations of Kenya Shillings One Million (Kshs 1,000,000) face value or US Dollar equivalent or such other increased amount as elected by Kenol.

Tenor

Notes will have tenors of one year or less but typically 30, 60, 90, 180, 270 or 360 days, as elected by Kenol.

Arranger

Kestrel Capital (East Africa) Limited

Placing Agents

Kestrel Capital (East Africa) Limited

Issuing and Paying Agent

Barclays Bank of Kenya Limited

Investors

Institutional, corporate and high net worth individual investors as approved by Kenol.

Governing Laws

The Notes will be governed by the Laws of Kenya.

Redemption

On presentation to the Issuing and Paying Agent at their maturity, Notes will be redeemed by Kenol at their full face value through the Issuing and Paying Agent.

Withholding Tax

Withholding tax will be deducted as required by law.

Issuance and Custody of Notes

Notes will be delivered by the Issuing and Paying Agent and, unless otherwise requested by the holder, will be held by the Issuing and Paying Agent. Where the Issuing and Paying Agent acts as custodian for the holder of any Note, it will arrange for the Note to be presented for payment on behalf of the holder. If a Note holder takes physical delivery of a Note, he will be responsible for making physical presentation of the Note on the maturity date, as specified on the face of the Note, to the Issuing and Paying Agent. A claim against the Issuer for any payment(s) under the Note Programme is void unless such claim is made within 7 years from the date such payment(s) became payable.

CORPORATE INFORMATION

Board of Directors

J I Segman P O Box 44202, Nairobi	Acting Chairman and Group Managing Director Appointed Acting Chairman on 24 January 2006
Pat Lai P O Box 44202, Nairobi	Group Finance Director Appointed on 03 February 2006
C Field-Marsham P O Box 40005, Nairobi	Non-Executive Director Appointed on 28 September 2001
R Paterson P O Box 44202, Nairobi	Non-Executive Director Appointed on 01 June 2007
D Oyatsi P O Box 44202, Nairobi	Non-Executive Director Appointed 10 August 2007
P N V Jakobsson P O Box 44202, Nairobi	Non-Executive Director Appointed 10 August 2007
T M Davidson P O Box 44202, Nairobi	Non-Executive Director Appointed 25 September 2007

Secretary

Ms C Munene Livingstone Associates Ring Road, Westlands P O Box 30029, 00100 Nairobi	Appointed 24 January 2006

Registered Office

ICEA Building
Kenyatta Avenue
P O Box 44202, 00100
Nairobi

Bankers

Kenya Commercial Bank Limited
6th Floor, Kencom House
Moi Avenue
P O Box 48400, 00200
Nairobi

Bank of Africa Kenya
Reinsurance Plaza, Taifa Road
P O Box 69562
Nairobi

Barclays Bank of Kenya Limited
Barclays Plaza
Loita Street
P O Box 30120
Nairobi

NIC Bank
NIC House Branch
Masaba Road
P O Box 44599
Nairobi

Stanbic Bank Kenya Limited
Kimathi Street
P O Box 30550
Nairobi

BNP Paribas
Palais Du Hanovre
16 rue de Hanovre
75002 Paris
France

Societe Generale – Paris
Tour Societi Valmy
17, Cours Valmy
92972 Paris
La Defense Cedex
France

Auditors

PricewaterhouseCoopers
Rahimtulla Trust Building
Upper Hill Road
P O Box 43963, 00100
Nairobi

Advocates

Karimbux-Effendy & Co.
4th Floor, Yaya Centre
P O Box 43356 - 00100
Nairobi

Shapley Barret & Co.
Prudential Assurance Building
P O Box 40286 - 00100
Nairobi

Arrangers

Kestrel Capital (East Africa) Limited
5th Floor, ICEA Building
P O Box 40005, 00100
Nairobi

Placing Agents

Kestrel Capital (East Africa) Limited
5th Floor, ICEA Building
P O Box 40005, 00100
Nairobi

Issuing & Paying Agent

Barclays Bank of Kenya Limited
Barclays Plaza
Loita Street
P O Box 30120, 00100
Nairobi

COMPANY OVERVIEW

History

Kenol was founded by Mr R S Alexander and was incorporated as a Private Limited Company in Kenya on 13 May 1959. The Company started its operations as a wholesaler selling packaged Kerosene, by the brand name "SAFI". A few years later, Kenol began investing in service stations. Kenol became a public company quoted on the Nairobi Stock Exchange ("NSE") in September 1959. The Company's shares are traded on the NSE.

In January 1986, Kenol and Kobil Petroleum Limited ("Kobil") entered into a joint operations and management agreement. This arrangement resulted in the sharing of a wide range of costs, including depots and managerial services thus enabling both Kenol and Kobil to lower their operating costs and enhance their ability to jointly bid for large supply contracts.

In December 2007, Kenol acquired the entire issued share capital of Kobil in exchange for an allotment of new shares in Kenol to the shareholders of Kobil. As a result Kobil became a wholly-owned subsidiary of Kenol.

The Group's vision is to be a major Pan-African player in the petroleum business. In line with this, Kenol has been expanding its geographical presence in various parts of Africa, which will result in improved depth and breadth of its earnings sources in the coming years and spread of country risk.

Geographical Diversification

In May 1999, Kenol set up Kobil Petroleum (Uganda) Limited as a wholly owned subsidiary. In June 2000, the Group acquired a 100% stake in Galana Oil Uganda Limited (renamed Kobil Uganda Limited). Thereafter, the two companies merged and the assets of Kobil Petroleum (Uganda) Limited subsequently transferred to Kobil Uganda Limited. Since then, Kobil Uganda Limited's operations have grown from 19 service stations in 1999 to 60 stations in 2006 with prospects of increased growth in 2007.

Further, in May 2001, Kenol set up Kobil Tanzania Limited as a wholly owned subsidiary in Tanzania. In addition to the existing 15 stations, Kobil Tanzania has increased its network by three stations to date, one in Dar es Salaam and two in Morogoro Town. There are plans to increase this network by five service stations within a short period of time.

To cover the Southern African market, in March 2002 Kenol delved into the Zambian market and acquired a 100% interest in Jovenna Zambia Limited. This has now been rebranded Kobil Zambia Limited. Kobil Zambia remains a leading brand name in Zambia with over 8.5% market share in Zambia with plans to grow. This year, Kobil Zambia has commenced business with the copper mines selling both fuels and the Kobil brand of lubricants. There is potential growth in this area since the mines are the driving force behind Zambia's economy and their output and performance is on the increase.

In February 2006, Kenol acquired Shell Rwanda SARL as a going concern commencing operations immediately thereafter. This acquisition brought along 17 Service Stations and a 16,000 m3 fuel terminal, the largest in Central Africa. One year later in February 2007, Kenol also acquired KLSS Rwanda which has a retail network of 20 service stations. The acquisition saw Kobil Rwanda more than double its retail network from 18 stations to the current 38 stations, further consolidating Kenol's presence in the Great Lakes Region. Kenol has designated Rwanda as the platform for further expansions in Central Africa. Democratic Republic of Congo and Burundi provide a large untapped market with significant growth potential.

Kobil Ethiopia commenced operations in March 2005. The Company opened a flagship service station principally to facilitate the marketing of lubricants. The Ethiopian market is a very large one and presents many opportunities. Following this, the company acquired a retail network of 81 Service Stations and two terminals; one in the capital city of Addis Ababa with a storage capacity of 3,230m^3 while the other is located in Dire Dawa with a capacity of 500m^3. The assets were acquired from the Shell Ethiopia Ltd, a member of Shell International Group.

The Group has major plans for Ethiopia which it intends to use as a frontier into the North African market. Kenya Oil is establishing itself in a market that is yet to be fully liberalized in order to emerge dominant eventually. The subsidiary is expected to become profitable by end of 2008.

Kenol also entered the reseller market in 2003 with the establishment of a new section within the Company. The reseller market provides a conduit through which extra stock can be disposed off at relatively good margins. This section continues to grow steadily with increasingly bright prospects for the future.

Kenol/Kobil Relationship

Kenol previously operated in Kenya under a joint management arrangement with Kobil Petroleum where the two shared profits and expenses in certain areas of business. Under the terms of the Operating Agreement, Kenol accounted for 42.5% of the combined costs and revenues of Kenya retail sales while Kobil accounted for the remaining 57.5%.

Kenya Oil acquired 100% of the shares in Kobil Petroleum ('Kobil') on 19 December 2007, after Kenol's 2007 financial year. The transaction involved Kenol allotting 45.5 million shares in exchange for 100% of the issued shares of Kobil which has strategic assets including important storage depot facilities across Kenya. The combined stronger balance sheet should give the group improved borrowing terms with financiers as well as enable a better negotiating platform with oil suppliers, thus resulting in improved earnings going forward. The acquisition of Kobil is also expected to give synergies to reduce administrative and overhead costs currently being shared by both companies. The new structure should enhance transparency and reduce inter-company transactions between the two companies.

Management & Staff

Kenol and Kobil currently have a combined workforce of 404 employees spread across Kenya and the regional subsidiaries.

Organizational Structure

Kenol/Kobil's management structure is organized into eight departments: General Management, Accounting & Finance, Marketing & Fuel Business Development, Operations & Non-Fuel Business Development, Supply & Trading, Lubricants, Aviation & International Sales and Administration & Management Information Systems .

During 1997, Kenol and Kobil went through an intensive re-engineering programme that resulted in a more efficient and effective workforce. The reorganization has created profit centres along business lines that will ensure sustainable growth and attainment of the Company's overall goals and objectives.

Employee Share Ownership Plan ('ESOP')

Kenol also implemented a Group ESOP in 2003 thereby becoming the first indigenous African oil company outside of South Africa to introduce the ESOP concept. The ESOP, which was approved by the Capital Markets Authority, has as its objective the retention, motivation and reward of Kenol's high performance staff. In total, 1,681,890 shares have been granted thus far with further tranches becoming available for the year 2007.

Shareholder's Profile

Kenol sells petroleum, lubricant and associated fuel products, at wholesale and retail level. The company is listed on the NSE and had a market capitalization of US$ 270 million (Kshs 16.9 billion) as at 24 December 2007. As at 24 December 2007, Kenol had 2,221 shareholders with Petroholdings Limited, a Kenyan private company, being the largest shareholder. The table below summarizes the Company's shareholding structure as at 24 December 2007:

	Name of Shareholder	Number of Shares	% Shareholding
1.	Petroholdings Limited	73,686,308	50.07%
2.	Wells Petroleum Holdings Limited	36,661,428	24.91%
3.	Energy Resources Capital Limited	8,818,572	5.99%
4.	Kenol ESOP ownership plan- JI Segman & C Field-Marsham acting as Trustees	900,000	0.61%
5.	Barclays (Kenya) Nominees Ltd (A/c 9193)	870,400	0.59%
6.	Mulchand Narshi Shah	800,170	0.54%
7.	Stanbic Nominees Kenya Ltd (A/c NR13302)	753,400	0.51%
8.	Kenya Commercial Bank Nominees Ltd (A/c 769G)	635,661	0.43%
9.	Stanbic Nominees Kenya Limited (A/c R66502)	489,480	0.33%
10.	CFC Life Assurance Ltd	457,540	0.31%
	Sub-total	**124,072,959**	84.29%
	Others	23,103,161	15.71%
	Total	**147,176,120**	**100.00%**

Refining and Transportation

Kenol has an agreement with the Kenya Pipeline Company ("KPC") for storage and transportation of petroleum products to various parts of Kenya. As with the other petroleum distributors, Kenol uses the Kenya Petroleum Refinery Limited ("KPRL") for the refining of its imported crude. All oil companies are required to process 70% of their Crude requirements through KPRL.

Network

Kenol has an extensive distribution network currently operating 64 service stations in Kenya and a total of 137 service stations outside Kenya. A further 102 stations are to be opened in 2007 in pursuit of the company's strategic regional expansion plan in Africa. The company's impressive regional growth has resulted in significant increased revenues and profits.

The table below summarizes the Company's progress over the last 15 years in developing its network:

Network Growth	**Number of Stations**									
Sales Area	**1991**	**1995**	**2000**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Expected Growth**	**End 2008**
Kenya	41	48	73	82	65	68	69	64	69	5	74
Uganda	-	-	26	42	52	52	58	60	61	0	61
Tanzania	-	-	-	11	15	15	15	18	18	0	18
Zambia	-	-	-	11	14	15	16	20	20	2	22
Rwanda	-	-	-	1	1	1	18	38	38	2	40
Ethiopia	-	-	-	-	-	-	1	1	50	8	58
Total	**41**	**48**	**99**	**147**	**147**	**151**	**177**	**201**	**256**	**17**	**273**

Market Share & Growth

In 2007, Kenol had an average market share in the Kenyan markets as follows:

- the retail market sector of 10.72% (2006 = 11.84%, 2005 = 11.16%, 2004 = 10.24%);
- the commercial market sector of 10.72% (2006 = 12.75%, 2005 = 9.28%, 2004 = 9.48%);
- the inland market sector of 10.72% (2006 = 12.23%, 2005 = 10.36%, 2004 = 9.93%).

The table below details the Company's market share in Kenya between 1994 and 2006:

Year	Retail (%)	Commercial (%)	Total Inland (%)
1994	4.49	3.41	4.01
1995	4.68	5.90	5.21
1996	4.10	5.14	4.53
1997	4.57	8.23	6.09
1998	7.07	5.72	6.53
1999	9.01	3.38	6.55
2000	8.78	5.89	7.48
2001	11.72	3.96	8.51
2002	13.20	5.11	9.00
2003	8.74	7.76	8.80
2004	10.24	9.48	9.93
2005	11.16	9.28	10.36
2006	11.84	12.75	12.23
2007	10.72	10.72	10.72

Source:* *1994 - 2001*[1]*:* *Murdock McCrae & Smith
2002 - 2007*[2]*:* *Pipeline Co-ordinator (Oil Industry Secretariat Pipeline Co-ordinator – Ministry of Energy)

[1] *Murdock McCrae & Smith is part of Deloitte Touche Tohmatsu International. Murdock McCrae merged with Deloitte and Touche in 1991 and conducts business as Deloitte and Touche International.*

[2] *All oil companies have to send their sale volumes at the beginning of every month to the Ministry of Energy who will in turn forward this data to Pipeline Co-ordinator (PipeCor). PipeCor can then be accessed for this market information.*

Kenol's strategy of improving its market position by increasing the number of service stations has been successful, having increased its volume from 74,939 cubic meters (m^3) in 1994 to 236,318m^3 in 2007 representing a 215.3% growth, achieved in a very competitive environment. The following table demonstrates the trend:

Volumes in m^3 (000 Litres)

Year	Retail (m^3)	Commercial (m^3)	Total Inland (m^3)
1994	46,957	27,982	74,939
1995	54,600	52,540	107,140
1996	52,326	46,659	98,985
1997	57,913	74,076	131,989
1998	93,834	51,618	145,452
1999	118,162	34,467	152,629
2000	118,423	65,478	183,901
2001	148,419	33,805	182,724
2002	145,861	38,660	184,521
2003	88,882	48,586	137,468
2004	108,983	66,845	175,828
2005	129,118	79,381	208,499
2006	128,769	104,406	233,175
2007	138,871	97,447	236,318

Source:* *1994 - 2001:* *Murdock McCrae & Smith
2002 - 2006:* *Pipeline Co-ordinator (Oil Industry Secretariat Pipeline Co-ordinator – Ministry of Energy)

Kenol is active in the major sectors of the economy, such as transport, energy, agriculture, tourism, construction, manufacturing, aviation and marine. The Company markets a wide range of petroleum products, such as gasoline, diesel, kerosene, Jet A1, bitumen products, fuel oil products, industrial diesel oil and liquefied petroleum gas. The Company also markets lubricants covering a wide range of activities such as motoring, manufacturing, and marine.

SEGMENT INFORMATION

Lubricants

The Company markets three lubricants brands namely Castrol, Kenol and Kobil covering a wide range of applications in the automotive, manufacturing, marine. and aviation sectors. In response to the growing volumes and customer demands, Kenol established a lubricants division in July 2003 to handle and focus on all aspects of the lubricants business. The division is responsible for the development, supply and sale of the three brands of lubricants marketed in Kenya and subsidiaries. It now accounts for 11.2%[3] of market share of the total lubricants sold in the Kenyan market and is gradually capturing a sizeable share at the subsidiaries.

Kenol launched its own brand of lubricants in 2001, which are now available countrywide. The Kobil brand is a re-brand of Kenol and is marketed in subsidiaries and other export markets. The lubricants are blended to meet lubrication needs in the automotive, industrial, marine, and aviation segments, conforming to international standards and exceeding the performance levels required by most original equipment manufacturers. The Castrol Brand is blended locally under license from Castrol International of UK.

Kenol is among the few oil companies to be awarded the ISO 9001: 2000 certification for its lubricants business segment. Kenol has recently launched lubricants blending in Tanzania and introduced the Kobil brand in Ethiopia.

K-Gas

K-Gas is Kenol Group's Liquefied Petroleum Gas ('LPG') brand and was introduced in the market in September 2002 and officially launched in February 2003. The growth of K-gas can be attributed to its focus on consumer needs. Before K-gas was launched, extensive consumer research was conducted both locally and internationally. This research showed that consumers worldwide had three basic desires when using Liquefied Petroleum Gas: safety, availability and value for money. K-gas addressed these issues and as a result has posted impressive growth figures.

K-gas now has 350,000 cylinders in the market with the end consumer. It also boasts of a 12%[4] retail market share, a commercial market share of 9% and an overall market share of 11%, all achieved in less than four years. To guarantee supplies of K-Gas to customers Kenol has invested in a modern LPG plant that cost US$ 1.5 million which operations in February 2006. The plant has allowed Kenol to penetrate the commercial segment, which was previously ignored due to capacity constraints.

The LPG business line is now ISO 9001 - 2000 certified. The International Standards Organization (ISO) is an internationally renowned agency that establishes quality benchmarks for a wide range of products and services.

K-gas was launched in Uganda in mid 2004 and in Rwanda in early 2005. These markets have great potential but growth has been limited by capacity and logistic constraints. Kenol plans to invest in filling plants in both markets. Once the plants are completed, market growth of about 50% is anticipated.

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[3] *Pipeline Coordinator (Oil Industry Secretariat Pipeline Co-ordination – Ministry of Energy)*

[4] *Pipeline Coordinator (Oil Industry Secretariat Pipeline Co-ordination – Ministry of Energy*

Low Sulphur Diesel

Kenol was the first oil company to introduce low sulphur diesel and unleaded premium (prior to even National Implementation of the same after the Dakar Declaration that took effect on 1st January 2006) to the Kenyan market. Low sulphur diesel has a sulphur content of 0.25% which is half the sulphur content of regular diesel. It is far more environmentally friendly than regular diesel. By reducing the sulphur levels, this brand of fuel increases a vehicle's engine life as well as its efficiency. Indeed, Toyota Kenya have recommended low sulphur diesel for its diesel engines. Further, unlike the unleaded fuel that is also in the market, low sulphur diesel is compatible with all diesel engines without any need for customization. Low sulphur diesel is available in all Kenol service stations within the country. Plans are already underway to further reduce the level of sulphur in the low sulphur diesel.

Storage

Kenol has a depot at Sagana in the Mt. Kenya region. The Company also works with Kenya Pipeline Company and other oil companies in Mombasa, Nakuru, Eldoret, Kisumu and Nairobi. A dry goods storage depot is located at Ruaraka in Nairobi. The Aviation sector consumers are served through the Nairobi Refueling Services and Mombasa Refueling Services.

ISO Certification

The group has currently obtained ISO 9001:2000 certification for the following activities: refining, blending, storage, distribution and marketing of petroleum products, lubricants and specialties.

Non-Fuel Business

Over the last few years, the Company has developed and financed convenience stores, restaurants and other non-fuel businesses as part of its network. These businesses are managed by independent third parties, freeing up Kenol's resources and management time while enhancing income through revenue sharing agreements. In addition, the Company charges license fees to Dealers for the service stations and other activities carried out on the premises.

The Company has a partnership agreement with the Kengeles Restaurants franchise. Under the partnership agreement, the Kengeles Restaurants franchise pays license fees to Kenol for the use of its premises, other ancillary facilities and parking space. In return, Kengeles has granted exclusive rights to Kenol/Kobil meaning that Kengeles Restaurants group cannot enter into a similar arrangement with another oil company.

Other restaurants operating in Kenol outlets include Friday Corner, Maggies, Kula Corner.

In line with management's strategy of increasing its non-fuel based business, Kenol has also entered into a partnership with other companies namely Kenital for Solar, Blue Shield for insurance shops, White Rose for dry cleaning and Sameer Africa for Tyre Centres.

The Company has also entered into a partnership agreement with PESA POINT, which specializes in ATM (Automatic Teller Machine) installations. Currently there are 12 outlets where ATM's are installed with many more planned to come. Other agreements have been entered into with banks among them Cooperative Bank Kenya Limited, NIC, Barclays Bank of Kenya Limited, Kenya Commercial Bank Limited and Equity Bank for provision of ATM installations.

The Company is one of the biggest distributors of Safaricom products such as mobile phones, connection services, and scratch cards. These products and services are available through Kenol's service stations. In Uganda, there is a similar arrangement with mobile phone provider MTN.

In addition to the above, Kenol has a Distribution Agreement with Holt Lloyd International (UK) to market and distribute Car Care and Fuel additive products in East Africa. Kenol also markets Car Care products, and has signed a distributorship agreement with Holts of UK to market Simoniz brand of Car Care products in East and Central Africa.

Trading Desk

In 2002 the Company formally established a Trading Desk jointly with Kobil charged with developing new markets in African countries, especially those that have no refining facilities for petroleum products. To date, the Trading Desk has won tenders to supply petroleum products to Mozambique and has successfully completed the contracts to the satisfaction of the clients. The Trading Desk is actively participating in tenders to supply petroleum products to Malawi, Sudan, Ethiopia, Mauritius and other countries in the region. Businesses in this market are denominated in US Dollars and are generally guaranteed and/or confirmed by letters of credit issued by reputable international banks, which reduces both foreign exchange and credit risk.

Despite the intense competition, the trading desk won 47% of the crude and 13% of the products imported into Kenya under the OTS in 2006 representing an increase of about 9% in the tender volumes won in 2006 as compared to 2005.

Future developments involve expansion plans, which are in line with our growth and expansion strategies. Consideration is being given to extend trading activities outside of Kenya and setting up a trading desk in Southern Africa to support the Group activities and service the inland markets of the Southern African region.

SUBSIDIARIES & NEW ACTIVITIES

Kobil Uganda Limited

Kobil Uganda was the first Kenol subsidiary and has been very successful since its inception in 1999. Growth in 2007 was modest with the addition of 1 (one) station to its retail network to bring the number of stations to 61. The focus in 2008 will be to consolidate the business and grow the same without increased investment save for refurbishment costs. The market has become very competitive, but the company is still expected to perform well in this environment.

Kobil Tanzania Limited

Kobil Tanzania started operations in May 2001 and currently operates 18 services stations in Tanzania. Kobil Tanzania has continued to maintain a market share of about 6%. The Company is currently selling large quantities of both fuel and lubricants. Tanzanian continues to be a strategic market place for the Group as it is one of the fastest growing economies in East Africa.

In 2006, Kobil upgraded and refurbished two of its retail stations and completed building an additional station on Sam Nujoma Road. It recently embarked on an aggressive programme in the commercial sector especially with fleet owners in a move to improve its volume in this sector. Tanzania has become a major artery for product supplies to Zambia and has enhanced its exports to Malawi and Southern Congo DR (Lumbumbashi).

With the constrained supplies from the Kenya, Tanzania is being developed as an alternative supply route to Uganda, Rwanda and Burundi.

Kobil Zambia Limited

Kenol acquired a 100% interest in Jovenna Zambia in March 2002 before renaming it Kobil Zambia Limited in 2003. Kobil Zambia has been operating in Zambia since then and is one of the leading oil companies in that market.

Kobil Zambia has continued to grow especially in the commercial sector. It surpassed expectations in profitability registering a growth of 200% over its 2006 performance despite operating in a very competitive environment. Further, in 2007, Kobil Zambia managed to secure several lucrative commercial contracts and has signed up a major mining company in 2008.

In 2008, Kobil Zambia plans to invest in at least two modern service stations to increase its network to 22 stations. It also plans to further improve and invest in the commercial sector. Plans are underway to increase fuel storage capacity for strategic purposes and to ensure that it provides excellent services to the market.

Kobil Rwanda SARL

Kobil Rwanda was incorporated in May 2002 with the aim of covering the Eastern part of Central African markets of Rwanda, Burundi and Eastern Congo. The Company started with one service station but has now been transformed into the biggest oil company in Rwanda with a market share of over 30%[5]. Kobil Rwanda also sells both Kobil and Castrol lubricants, fuel oil and bitumen in the region and in 2005 introduced its K-Gas LPG brand becoming the only major trader in this segment in Rwanda.

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[5] *No central body exists to collate all the market information. However, the market is import controlled and hence all information is cross checked with Custom records.*

Kobil Rwanda SARL was incorporated in May 2002. In February 2006, the Group acquired the entire shareholding of Shell Rwanda SARL in February 2006, from Shell Overseas Holdings Limited taking effective control of the company and acquiring the entire shareholding in Shell Rwanda SARL as a going concern. The transaction involved taking over an asset portfolio of 17 service stations and the operation of the largest depot facility in Kigali with a capacity of over 16,000m^3. Kenol injected over KShs.75 million to upgrade, refurbish and re-brand the stations.

In 2007, Kobil Rwanda acquired the entire retail network of KLSS Rwanda of 20 service stations. it made another major acquisition in Rwanda signing an agreement with KLSS Rwanda to acquire its entire retail network of 20 service stations. The stations are situated in key locations, mainly in Kigali and other prime areas all over the country. The company will now service the entire commercial customers portfolio previously serviced by KLSS. This new acquisition saw Kobil Rwanda increase its retail network to 38 stations. During the year, the programme to upgrade the KLSS network to its standards will continue.

Kobil Ethiopia Limited

Kobil Ethiopia was established in 2005. The company acquired from Shell Ethiopia Ltd (a member of Shell International Group) a retail network of 81 service stations and two terminals spread all over the country, including the capital city, Addis Ababa. Thus far, 63 stations and one depot have been handed over to Kobil Ethiopia. Of these, 53 stations are in operation. We expect to commission the remaining ten in 2008. In addition, there are plans to work with local investors to bring more stations on board during 2008.

Through the acquisition, Kobil Ethiopia hopes to consolidate its fuels business in the country, as well as the sale of the Kobil Lubricants and LPG brands with plans to put up an LPG Storage and Filling facility to supplement its LPG business in the country. Sales volumes have continued to grow at a steady state and within and at times exceeding expectations.

Kobil Ethiopia is the Kenol Group's first major acquisition towards the North African region.

Summary of Kenol's Subsidiaries

	Kobil Uganda Ltd	Kobil Tanzania Ltd	Kobil Zambia Ltd	Kobil Rwanda Sarl	Kobil Ethiopia Ltd
Country of incorporation	Uganda	Tanzania	Zambia	Rwanda	Ethiopia
Registered office and address	4 Wankulukuku Rd, Nalukolongo Kampala, Uganda	Bandari Rd, Kurasini PO Box 2238 Dar es Salaam, Tanzania	1630 Malambo Rd Lusaka, Zambia	B. P. 2992 Kigali, Rwanda	Kirkos Sub-City, Kebele 04, House No. 1189 Addis Ababa
Year of incorporation/ acquisition	1999	2001	2002	2002/ 2006	2005
Kenol's shareholding	100%	100%	100%	100%	100%
Market share 2006	12%	6.0%	8.5%	30%	N/A
Market share 2007	12%	6.0%	8.5%	30%	4%
No of service stations as at Dec 2007	61	18	20	38*	50**

* *Includes Shell Rwanda's service stations acquired on 1 February 2006*
** *Includes Shell Ethiopia's service stations acquired in February 2007*

DIRECTORS

Mr J Segman - Acting Chairman & Group Managing Director

Mr. Segman has over 29 years experience in the oil industry, having worked for various companies in Israel, Iran and Kenya. He has been central to the expansion of Kenol since he joined the Kenol/Kobil team in 1990. Prior to his appointment as the Managing Director, Mr. Segman worked as the Deputy Managing Director and General Manager, Marketing and Operations. He holds a BA Degree in Economics from Israel University and an MBA from USIU. He is also a director of Kobil Petroleum Ltd. Mr. Segman was appointed the Company's Acting Chairman on January 24, 2006.

Mr R Paterson - Non-Executive Director

Mr. Paterson was appointed Non-Executive director on June 1, 2007. He served in Exxon Mobil for over 30 years, the last five as Chairman and CEO of Mobil Kenya Limited. Before his appointment as CEO of Mobil Kenya, he managed Mobil retail businesses in Ethiopia, Eritrea, Djibouti, Zambia, Zimbabwe, Malawi, Mozambique and the Indian Ocean Islands. Mr. Paterson has also held senior positions in Thailand, Japan, Malaysia, Canada and for the last two years was Chairman of the Petroleum Institute of East Africa (PIEA).

Mr T M Davidson - Non-Executive Director

Mr. Davidson was appointed a Non-Executive Director on September 25, 2007. He is an experienced career banker, having successfully served as the Chief Executive Officer of the Kenya Commercial Bank for four and half years until he took an early retirement early this year. He has also served for over 30 years in senior capacities within the Citibank Group in London including Managing Citibank in Kenya and in South Africa being the Regional HO.A Kenyan by birth, Mr. Davidson is a Council Member of the University of Nairobi, and a member of the Board of several leading enterprises including the Deposit Protection Fund. He has also served as the Chairman of the Kenya Bankers' Association on two occasions, and has previously served in the Board of the Federation of Kenya Employers.

Mr D Oyatsi - Non-Executive Director

Mr. Oyatsi was appointed a non-executive Director on August 10, 2007. Mr. Oyatsi is an Advocate of the High Court of Kenya, and Managing Partner of Shapley, Barret & Co., Advocates. Mr. Oyatsi's main practice is Commercial Law. He is currently a Commissioner of Kenya Law Reform Commission and Non Executive Director of Metropolitan Life Insurance Kenya Ltd. During 1999-2002, he acted as a Non Executive Director of Capital Market Authority and between 1999-2003, as a Non Executive Director of Telkom Kenya Ltd.

Mr P N V Jakobsson - Non-Executive Director

Mr. Jakobsson has for the last 7 years been the Managing Director of a Property company and Investment company active in Stockholm, founded by his grandfather in 1938. Apart from being experienced in Property Development and Management, Mr. Jakobsson has vast experience in the Downstream Oil Industry in Africa.

Mr C Field-Marsham - Non-Executive Director

Mr. Field-Marsham is the Founder and an Executive Director of both Kestrel Capital (East Africa), a licensed investment bank in Kenya, and Panafrican Truck & Equipment, the distributor in Kenya and Tanzania for Komatsu construction and mining equipment. He is also an Executive Director of Kenya Fluorspar, a mining company in Kenya. He is a Director of AMREF Canada. AMREF is the leading African health development organization, headquartered in Kenya with operations across Africa.

Ms P Lai - Finance Director

Ms Lai was appointed Kenol's Finance Director in February 2006. She has experience at senior management level in accounting and finance, having previously worked in South Africa. Ms Lai is a Chartered Accountant and holds a Bachelor of Commerce and Bachelor of Accountancy degree from the University of Witwatersrand, South Africa.

MANAGEMENT

Mr J I Segman (Israeli) – Acting Chairman and Group Managing Director - 52 years

As described above

Mr G N Mwangi (Kenyan) - Assistant Group Managing Director - 60 years

Mr Mwangi joined the Company in 1976 and served as the Operations Manager for five years. In 1996, he was promoted to the position of Marketing Manager before being appointed the Assistant Managing Director in July 2001. In 2004, Mr Mwangi became the Country Manager for Kenya in addition to being the Assistant Group MD. Mr Mwangi has attended several marketing courses in Israel, Canada and the USA.

Ms P Lai (South African) - Group Finance Director - 50 years

As described above

Mr K Mugenda (Kenyan) – Finance Manager – 44 years

Mr Mugenda joined the Company in 1989 and grew through the rank and file, accumulating experience from various areas within the accounting and finance department. He is a qualified accountant, CPA (K) and holds a BSc Degree in International Business Administration from USIU and has had extensive training both locally and in Israel. He is currently pursuing an MBA (Finance) at the University of Nairobi

Mr A Bigal (Israeli) – Head of Operations & Non-Fuel Business Development - 53 years

Mr Bigal joined Kenol in January 2005 in his present position. He has over 25 years experience in managerial positions in Operations and Marketing in different business surroundings, including 6 years in the Oil & Gas exploration and production in Israel holding the position of Chief Economist. He holds a BA degree in Economics and Business administration from Israel University.

Mr E M Kinyua (Kenyan) - Head of Group Corporate Affairs - 41 years

Edwin joined the Company in 1991 and worked in both Retail & Commercial Marketing until the end of 1997 when he was appointed the Business Development Manager. In March 1999 he was appointed the country manager of Kobil Uganda, a subsidiary of Kenol. In 2000, he was promoted to the position of General Manager-Marketing. In 2004 he was appointed Director for Marketing & Operations and in 2006 he was promoted to join the Management Team in Kenya as Head of Group Corporate Affairs. He has a BCom Degree in Business Administration from the University of Nairobi. He has extensive knowledge in the oil industry and has trained widely outside Kenya including Israel in 1998 where he undertook Project Planning & Local Economic Development.

Ms R Uku (Kenyan) – Human Resource Manager - 36 years

Ms Rose Uku joined the company as a Sales Representative in March 1998. She rose to the position of Retail Sales Supervisor and in 2003 was promoted to Credit Control Manager. In 2005 she was appointed Country Manager for Kobil Ethiopia Limited – a subsidiary of Kenol. 2006 saw her transferred back to the Head Office taking up the position of Human Recourses Manager. Ms. Uku holds a BSc Degree in Business Administration from USIU and a MCom Degree from the University of New South Wales in Australia.

Mr J M Gituara (Kenyan) – Head of Lubricants Business - 56 years

Mr Gituara was promoted to the Head of Lubricants in 2003 after it became a separate department from the Marketing Department. Prior to joining Kenol in 1992 as the Technical Manager for the lubricants section, Mr. Gituara already had more than 12 years experience in the oil industry as a sales engineer. He was responsible for the growth in the lubricants business and was instrumental in Kenol obtaining the ISO 9001 certification for this business. He is a Chemical Engineer and has trained locally and abroad in the areas of lubricant formulation and production.

Mr I Gachuria (Kenyan) – Marketing Manager – 51 years

Mr Isaac Gachuria joined Kenol in 1988 and is now responsible for the sales and marketing activities of the Company. Prior to his present appointment, he was the Commercial Manager and the Assistant Marketing Manager. He holds a BSc Degree from the University of Nairobi and a Postgraduate Diploma in Petroleum Management from the Canadian Petroleum Institute.

Mr D Ohana (Israeli) – Head of Marketing & Fuel Business Development - 38 years

Mr. Ohana joined Kenol in 2002. Prior to his current appointment, he was the Head of Operations & Non-Fuel Business Development. In October 2004 he took over as the Head of Marketing & Fuel Business Development. He has more than 11 years experience in the oil industry having worked at the Israel Pipeline Company previously. Mr. Ohana holds a BA Degree in Economics' and Business Administration from the Ben Gurion University in the Negev in Israel.

Mr W Wambugu (Kenyan) – Operations Manager -40 years

Mr. Wambugu joined the company in 1991 as a Bulk Supervisor in the Operations Department. He worked in various depots around the country, rising to the position of Depot Manager. In 2000, he was promoted to the position of Depots and Distribution Manager. In the same year he was promoted to Country Manager for Kobil Tanzania Limited, a subsidiary of Kenol. He held this position until August 2004 when he became Operations Manager. He holds a BSc Degree in Survey from the University of Nairobi.

Mr S W Muthuma (Kenyan) – Supply & Trading Manager - 40 years

Mr Muthuma joined the Company in 1992 as a Planning and Supply Analyst prior to his promotion to Supply Manager in 1998. In 2002 he became the Trading Manager and played a key role in setting up the Trading Desk, then a new business line for Kenol. He was promoted to Supply and Trading Manager in 2003. Mr. Muthuma holds a BA Degree in Economics from the University of Nairobi and has been trained in Canada and the United Kingdom.

Mr P Kondo (Kenyan) – Head of Aviation & International Sales - 43 years

Mr Patrick Kondo joined the company in 1990 as a Management Trainee. In 1991 he became the Terminal Manager at Mombasa. In 1994 he became the NJD Manager running the joint depot operations in Nairobi. In 1998 he rose to the position of Depots Manager and thereafter Assistant Operations Manager. He moved to Zambia in 2001 as the General Manager of Kobil Zambia Limited. He returned to Kenya to take up the position of International Business Development Manager in 2003. In 2004 he was promoted to his present position. He is a graduate of the University of Nairobi with a BSc Eng. (Surveying & Photogrammetry) Degree.

Ms E Kariuki (Kenyan) – Retail Manager - 43 years

Ms Kariuki joined the Company in 1990. Prior to her present appointment, she was the company's Credit Controller. She holds a Bachelor of Commerce degree from the University of Nairobi and has had extensive training in the oil industry both in Israel and the United Kingdom.

Mr J Ongweny – Group Administration & IT Manager - 39 years

Mr Ongweny joined the company in 1994 as a Systems Analyst and Programmer in the MIS Department. In 1998, he was promoted to MIS Manager followed in 2007 with further promotions to the position of Group Administration and IT Manager and a member of the Management Team. He has been instrumental in the upgrade of the organization's IT systems, including Wide Area Network and Oracle Financials implementation. He has attended various training programmes locally and overseas, including in Singapore, South Africa and Dubai. He has a Bachelor of Science degree from the University of Nairobi and is currently pursuing an MSC- Information Systems from the University of Nairobi.

GROUP MANAGEMENT TEAM - SUBSIDIARIES

Mr J K Thomas (Indian) - Managing Director Kobil Zambia Ltd - 44 years

Mr Thomas joined the Company in 1998 as the Managing Director of Kobil Uganda which he helped to start up. He has 20 years of diverse experience in downstream Oil industry and in the telecom industry. He has lived and worked in Kuwait, India, Uganda and Zambia. He has worked very successfully in start-ups as well as mature companies across industries, geographic locations and in culturally diverse teams. He holds a PGDM (MBA) with specialization in Finance and Marketing from the Xavier Institute of Management, India and a Bachelors Degree in Civil Engineering from Kerala University, India.

Mr F Mwangi (Kenyan) - Marketing & Operations Manager Kobil Zambia Ltd - 35 years

Mr Mwangi joined the company over 9 years ago in Kenya and worked in various capacities, locations including in retail sales management. He was the Non-Fuel business Manager in Kenya prior to joining Kobil Zambia Limited in 2006. He is a Mechanical Engineer and has attended several training programs in Kenya, Israel and Zambia on marketing & sales management, customer care, and debt management amongst others.

Mr P K Ngugi (Kenyan) - Marketing Manager Kobil Tanzania Ltd - 38 years

Mr Ngugi joined the company in 1996 as a Technical Sales Representative. In 2001 he was temporarily transferred to Kobil Tanzania to initiate the launch of Castrol Lubricants in this new Kenol subsidiary. Later, in 2003, Mr. Ngugi was permanently transferred to Kobil Tanzania to the position of the Marketing Manager which he holds up to now. He is a graduate of the University of Nairobi with a BSc Mechanical engineering degree and also holds an MBA from ESAMI.

Mr F Ezavi (Israeli/French) - Managing Director Kobil Tanzania Ltd - 44 years

Fabrice joined the company in November 2003 as General Manager Kobil Tanzania. In 2004 he was promoted to the position of Managing Director for Kobil Tanzania. Prior to joining the Company he worked in Eastern Europe in the oil industry with Total Oil and in the Engineering field for other companies in France, Hungary, and Israel. Fabrice Ezavi holds a degree in Architecture from the National School of Architecture of Toulouse in France.

Mr D Segal (Israeli) - General Manager Kobil Uganda Ltd - 41 years

Mr Segal joined the Company in 2003 as Head of Marketing & Fuel Business Development in Kenol/ Kobil Kenya. In November 2004 he was appointed as the General Manager of Kobil Uganda Ltd a position he is currently holding. He has 14 years experience in the oil industry having previously worked in various positions for 8 years in Caribbean Petroleum Corporation in Puerto Rico. Mr. Segal holds a BSc degree in Chemistry from the Technion, Israel Institute of Technology.

Mr P O Ochieng' - (Kenyan) Marketing & Operations Manager-Kobil Uganda Ltd - 35 years

Mr Ochieng' joined the company in 1997 as a Sales Representative in Kenya. In February 2001, he was promoted to be the Manager in charge of the new Non-Fuel Business Development Section. After successfully developing this section, he was in November 2005 transferred to the position of Human Resources Manager for Kenya. In August 2006, he was transferred Kobil Uganda to the position of Marketing & Operations Manager. He holds a BSc. (Mechanical Engineering) degree from the University of Nairobi.

Mr Y Zilber (Israeli) - General Manager, Kobil Ethiopia Ltd - 37 years

Mr Zilber has over 13 years experience in International Marketing, Business Development and Management having worked in Israel, Czech Republic, Brazil, Rwanda and Ethiopia. He joined the Kenol/Kobil group in 2004 as General Manager of Kobil Rwanda. During his tenure he oversaw and managed the acquisition and successful takeover of Shell Rwanda by Kobil Rwanda. Currently he is the General Manager of Kobil Ethiopia Limited, where he once more managed the take-over by Kobil Ethiopia of the assets acquired from Shell Ethiopia Ltd. Mr. Zilber is fluent in four languages (Hebrew, French, English and Portuguese) and holds a BA in economics and an MBA – both from Tel-Aviv University

Mr I Granatstein (Israeli) - General Manager Kobil Rwanda Sarl - 36 years

Mr Granatstein joined the Kenol/Kobil group in October 2006 as the General Manager of Kobil Petroleum Rwanda Sarl. Previously, he has worked in Belgium at the cargo aviation industry performing various managerial duties. He holds a Masters Degree in International Business Studies from the University of Maastricht, The Netherlands.

Mr T Girma (Ethiopian) - Operations Manager, Kobil Ethiopia Ltd - 53 years

Mr Girma has over 27 years experience in the oil industry in Ethiopia, both in the state owned Petroleum Corporation and the private sector in senior management positions. Mr. Girma joined Kenol/Kobil in March 2005 as Assistant Country Manager. In February 2007 with the acquisition by Kobil Ethiopia of Assets from Shell Ethiopia Limited, he was appointed as the Operations Manager. He holds a BSC degree in Electrical Engineering from Addis Ababa University (Faculty of Technology) and an MBA from the Open University (UK).

Mr J Wainaina (Kenyan) - Director of Marketing & Operations - 43 years

Mr Wainaina has over 20 years experience in the oil industry having joined the company in Kenya in 1987. In 1994 he became the Assistant Terminal manager in Mombasa. In 1998, he was promoted to the position of Deport Manager Eldoret before being transferred back to Mombasa as Terminal Manager in 1999. In 2002 he was appointed to set up company business operations in Rwanda as the Country Manager. In 2006 he was appointed Director for Marketing & Operations for Kobil Rwanda. Mr Wainaina holds CPA (K) and has attended several management courses in Israel and other countries.

FUTURE PROSPECTS

Kenol's vision is to be the leading brand in all markets they operate in and a major player in Africa. Its mission statement is “To develop, improve and increase quality and total value of its products and services; to become a market leader through continuous innovation, customer focus and to provide the highest products and services, to maintain a highly motivated, well trained human resource base, and to deliver highest Shareholder Value”.

As one of the leading oil companies in Kenya, Kenol is set to achieve its mission by continuously investing and enhancing its relationship with customers and stakeholders through its well-trained and motivated workforce. Further, the Group has a Statement of Business Values, which outlines the standards of corporate behaviour that govern the way it does business and its interaction with people both internally and externally. All employees are expected to practise and live up to these ethics, since it is the people in the organization that set it apart from other organizations.

Kenol’s strategy is to maintain its current market position by supplying consumers’ energy needs through its retail network, commercial sector and reseller segment. The Company will further buttress its position by continuous investment in modern technology to meet increasing customers’ expectations.

International oil prices do not show signs of receding and the trends are being monitored very closely. The implementation of the OTS (q.v.) and SEP (q.v.) for the importation of all refined products stabilized the Kenyan market somewhat, although challenges previously facing the oil industry in Kenya remain valid.

Subsidiaries will continue to grow organically with higher volumes and the growth in the retail network. The Group will continue to seek growth through diversification, organic expansion and acquisition in fulfillment of its vision “to be the leading brand in all markets they operate in and a major player in Africa”. The acquisitions in both Rwanda and Ethiopia bode very well for expansion into the greater lakes region and also into Africa. However, whilst implementing the Group’s vision, this strategy is preceded by a careful assessment of risks versus potential opportunities of growth.

The Company wishes that operating conditions can be more business friendly for the oil industry in all the countries particularly Kenya, and that supplies to neighboring countries using Kenya Pipeline will be more dependable.

OVERVIEW OF THE KENYAN OIL INDUSTRY

Sector Classification

The Oil Industry in Kenya, which was de-regulated in October 1994, is classified into seven main sectors:

- Inland encompassing the retail sector which includes all service stations, resellers and the commercial sector which includes all bulk sales to industries and certain end users;
- Aviation which includes sales of petroleum and related products to the aviation sector;
- Trading which involves the sale of bulk petroleum products from one oil company to another oil company;
- Exports to neighbouring countries;
- Liquefied petroleum gas;
- Lubricants; and
- Non-fuel.

Major Players

It is currently dominated by the following multinational oil companies: Shell/BP, Kenol/Kobil, Chevron, Total and Mobil Oil. There are other smaller oil companies operating in Kenya, such as National Oil Corporation of Kenya (NOCK), Engen, Dalbit, Gapco, Galana, Triton, Petro Oil, Fossil, Oilcom, Hashi Empex, Hass, Global, Addax, Bakri, MGS, Metro, Somken, Gulf Oil and others.

There is also a network of independent service station dealers that operate under the umbrella of the Independent Petroleum Dealers of Kenya.

Mobil recently divested from 14 countries across the African continent. BP also pulled out of Kenya citing thin margins. Not too long ago, Agip pulled out of Kenya, selling its entire stake to Shell Kenya. It would appear that Multinationals (MNCs) do not have the critical mass required to service country wide operations in countries across Africa. The additional costs associated with setting up stations to international standards and the hiring of expensive expatriates cannot sustain such operations. Kenol leverages off its local expertise trained to international standards and its knowledge of the local market to garner a foothold and succeed in African markets.

Further, small retail markets are generally not considered 'core business' for the large global oil companies, which are mainly involved in exploration and refining business. Kenol's core business is oil marketing. It therefore plans to continue benefiting from the exit of MNCs from this region. As western multinationals exit Africa, there are moves by governments to attract other players into the industry. In Kenya, Libya Oil of Libya recently bought the Mobil retail chain of petrol stations. Reliance Petroleum of India, which is particularly strong in refining, is also set to make entry into the market.

The main impact of new entrants is expected to be felt mainly in the aviation sector. Entry into the retail market requires a substantial presence of outlets which may be expensive to purchase. In addition, after entry, the new players would still have to grapple with the challenges facing current players.

Changes in the Industry

Imported Crude is processed at the Kenya Petroleum Refineries Limited (KPRL) and transported via pipeline (Kenya Pipeline Company) to upcountry depots. From the storage depots, it is distributed to service stations, neighboring export markets and other consumer locations.

High financing costs and margin pressures, as well as a preference by consumers to buy fuel from branded outlets, continues to enhance market consolidation for large players such as Kenol. Independents and small scale importers are finding it increasingly difficult to operate. The trend is towards more orderly markets thereby contributing to better margins.

In the last six years, the following major changes have taken place:

- Increase in registered marketers;
- Rise of the distributor segment;
- Increased price competition;
- Introduction of unleaded gasoline;
- Introduction of low sulphur diesel;
- Implementation of the Open Tender System ('OTS') for the supply of crude and refined fuel to the Kenyan market;
- Introduction of a Single Entry Point ('SEP') for the importation of refined products;
- Phasing out of leaded fuel; and
- The implementation of a new tax regime by the Kenya Revenue Authority.

Oil Prices

The year 2007 was another difficult year for the oil industry, posing tough challenges on several fronts. The oil prices have continued to remain volatile. Crude oil prices set new record highs of above US$91.75/bbl in 2007. The annual average price for Murban Adnoc crude oil price rose 11.6% to US$72.46/bbl as compared to US$64.93/bbl in 2006.

The freight market was also tremendously volatile in 2007. Prices have declined since but there is still no clear indication as to where they will settle.

The Kenyan Open Tender System ('OTS')

In January 2004, the Kenyan Ministry of Energy implemented the OTS to streamline and regulate the importation of crude and refined petroleum products for Kenya use. It came about because of the desire to achieve a level playing field for all petroleum companies in Kenya. OTS was put forward to create an orderly market place with a hope to reduce energy costs to Kenya through the economies of scale. The OTS continues to work well.

The fluctuation of oil prices has made trading conditions challenging. The OTS has somewhat mitigated the difficulties posed by the fluctuating oil prices as all the players in the Kenyan Oil Industry are sourcing crude oil and most refined oil products at the same prices and thus operating on the basis of similar importation costs. This has increased price homogeneity across the oil distribution sector.

Further, the implementation of the Single Entry Point ('SEP') requires that all refined oil products enter the Kenyan market through one point. This has helped to level the playing field for the oil marketers in Kenya. However, ullage constraints for refined product imports into KOSF ('Kipevu Oil Storage Facility') through the SEP have posed significant challenges for the local oil importing companies in 2006 due to the significant delays and demurrages incurred on the discharge of these shipments into KOSF. The Government however, in liaison with the Oil Industry, is working on mechanisms to alleviate this problem. I n addition, the introduction of the new KRA tax regime from 01 August 2005 (Simba System) has significantly reduced the dumping of products thus enhancing fair competition.

The total inland market share for the five major players for 2002 to 2006 is summarized in the table below:

	Total Inland Market Share %					
Company	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Shell/BP/Agip	25.33	25.21	21.31	22.96	21.47	29.10
Kenol/Kobil	23.63	27.09	24.29	21.67	16.39	18.10
Total Kenya	24.22	19.85	25.64	25.14	15.18	14.20
Chevron	15.40	17.46	18.79	15.85	15.06	16.10
Mobil Oil	11.42	10.39	9.97	14.38	13.90	11.30
Subtotal	**100.00**	**100.00**	**100.00**	**100.00**	**82.00**	**88.80**
Others *					18.00	11.20
Total					**100.00**	**100.00**

Pipeline Coordinator (Oil Industry Secretariat Pipeline Co-ordination - Ministry of Energy)

** In 2002 and 2003, smaller independent companies sourced their own product, but from 2004 onward, they purchased from the major oil companies.*

Crude

Kenya's current crude requirement is about 160,000 Metric Tonnes[6] ('MT') per month – about two cargoes of 80,000 MT each. Kenyan law requires that every petroleum company in Kenya shall import crude for processing by Kenya Petroleum Refineries Ltd (KPRL) in Mombasa.

Before the OTS, each oil company imported its own crude. This resulted in the following:

- Smaller petroleum companies did not have the capacity to import one full shipment of crude and they had to purchase their crude from other oil companies in Kenya. This resulted in higher cost for them;
- As different oil companies imported their crude in different months, the cost for their crude varied according to the month in which the crude was imported. Companies that had imported expensive crude found it difficult to compete with those, which had imported their crude in a cheaper month. When an oil company judged that the crude price was high during the month it scheduled to import crude, it resorted to default and tried to delay the crude importation. This resulted in KPRL temporarily shutting down its operation, and in some cases a fuel shortage in Kenya, which had a negative impact on its economic activities.

The Kenyan Government thus sought to correct these undesirable situations. Under the OTS, each petroleum company's monthly crude processing requirement is computed in accordance with a formula set by KPRL. Tenders are then invited from the oil companies to bid for the supply. The company with the lowest bid automatically wins the tender. The winner will import the crude and have it discharged into KPRL tanks in Mombasa. Title to the crude is then transferred after the buyer has prepaid the tender price to the Importer.

6 Pipeline Coordinator (Oil Industry Secretariat Pipeline Co-ordination - Ministry of Energy).

A heavy penalty is imposed on a buyer who defaults on payment: its oil-trading license will be cancelled and it will not be allowed to participate in future OTS tenders. As a result, the buyer's default rate is expected to be low.

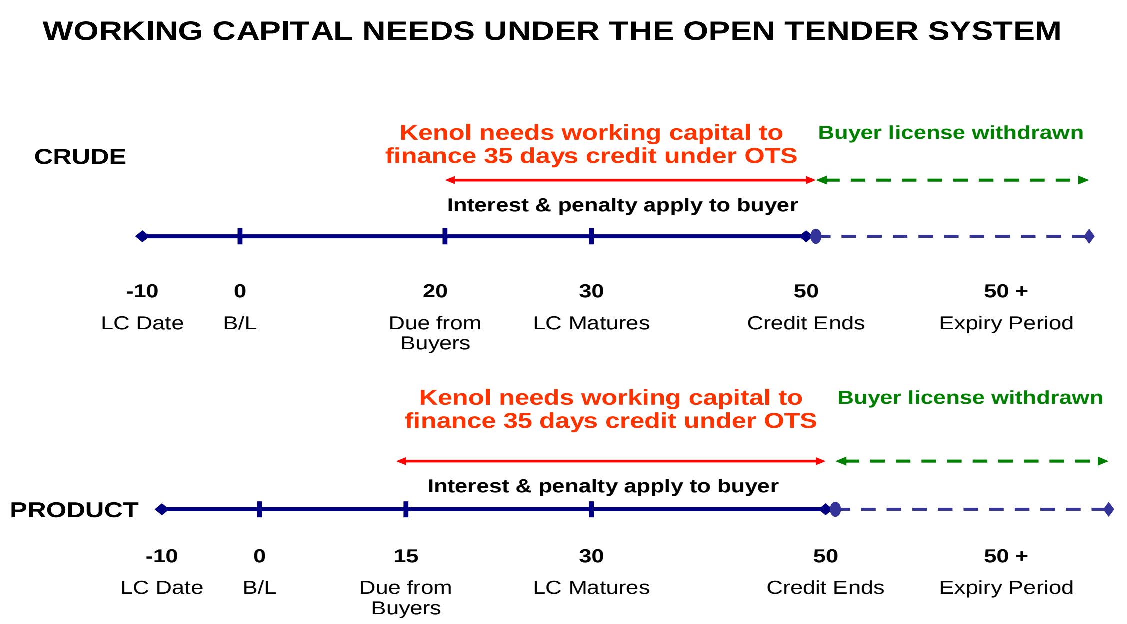
Payment for OTS crude is due 20 days from the Bill of Lading (B/L) date. Heavy interest is payable after the 20th day. A buyer is declared to be in default after the 50th day.

Refined Products

KPRL does not produce all the fuel required by Kenya. The shortfalls are imported in the form of refined products. The modus operandi of the OTS for importing refined products is similar to that for Crude except that payment is due 15 days from the Bill of Lading date.

Timeline

The following timeline illustrates graphically how the working capital needs under the OTS are met:



RISK FACTORS – LOCAL & REGIONAL

Industry Risks

- **Fluctuation of international oil prices**: As a leading oil company in Kenya, Kenol is subject to the vagaries of fluctuating crude and refined oil prices. Consequently, changing international crude prices, which are affected by various factors beyond a local company's control, present significant risks. Kenol mitigates this risk by adjusting its retail prices taking into consideration the competitive factors in the industry and by carefully managing its inventories and sales.

- **Exchange rate volatility**: The Group's major cost inputs are US Dollar denominated and are therefore exposed to currency risk. This risk is mitigated by the management's efforts to increase its US Dollar sales and frequently monitoring of the foreign exchange market in order to find ways of lowering the currency risk. Kenol also reduces the exchange risk by adjusting its retail prices, timely conversion of local currencies into US dollars, and careful management of inventories.

- **Fuel adulteration**: The sale and distribution of petroleum products that do not meet regulatory standards is a perennial problem facing the oil industry. This results in an unfair competitive advantage to those practicing this trade, which can be damaging to both the consumers and the industry in general. Kenol is at the forefront of public education to create awareness and assist the authorities in pointing out the dangers of such products.

- **Credit risk**: Credit sales increase default risk. In the circumstances, Kenol Group is addressing this risk by increasingly focusing on cash sales and maintaining strong credit control measures on outstanding credit balances.

- **Competition:** The current market environment is extremely competitive especially with independent dealers making forays into the trading and retail business. The Kenol Group seeks to address this risk through competitive pricing and better service delivery.

Company Risks

- **Fluctuation of oil prices:** As outlined above, Kenol is subject to fluctuating crude prices. Consequently, changing international crude prices, which are affected by various factors beyond a local company's control, present significant risks. Kenol mitigates this risk by adjusting its retail prices taking into consideration the competitive factors in the industry and by carefully managing its inventories and sales

- **Tax regime difficulties:** The oil industry is presently encountering huge pressures on cash flows and on operations resulting from difficult tax regimes. This is stifling operations in Kenya and inhibiting supplies to neighboring countries. Operational efficiencies and effective cash management and borrowings are reliant on tax procedures and refunds being duly adhered to by Industry and the tax authorities. Ongoing lobbying by industry players and consistent dialogue with the Kenya Revenue Authority to ensure a reliable tax system is put into place has shown progress. Tax refunds are beginning to flow back.

- **Political risk:** The Group is subject to foreign investment risk associated with its subsidiaries in Uganda, Tanzania, Zambia, Ethiopia and Rwanda, as well as the conditions in Kenya. Ongoing dialogue with the respective government regulatory bodies aims to minimize any potential risk by sensitizing government to the needs of the industry.

FINANCIAL OVERVIEW

Use of Proceeds

Over the last ten years, Kenol's policy has been to reinvest the majority of its profits for growth and expansion of its network. Further, the Company has also paid substantial dividends to shareholders in the last five years. With expansion and growth comes the necessity to fund the Group's increased working capital requirements. The CP programme is meant to fulfill these needs.

Group Working Capital Requirements

The Group has achieved significant growth in recent years both through internal growth and through acquisition of companies as discussed under "Subsidiaries and New Activities". With the establishment of a Trading Desk, the Group has begun tapping into new markets. As a result, the Group's net sales have grown from Kshs 8.7 billion in 2001 to Kshs 51.6 billion in 2007. Similarly, the Group's growth has resulted in the need for an increase in working capital requirements as shown in the table below.

Because of the Group's high growth, it has become necessary to fund this growth both in terms of long-term capital and short-term capital needs. While the internally generated funds are set aside to fund long-term capital investments (acquisitions and capital expenditure), the CP programme is designed to fund the Group's short-term capital needs.

The following table depicts growth in sales and short-term capital requirements for the Group for the last five years:

	2003	**2004**	**2005**	**2006**	**2007**
	Kshs (000)	**Kshs (000)**	**Kshs (000)**	**Kshs (000)**	**Kshs (000)**
Net sales	**12,572,138**	**30,414,739**	**37,536,818**	**46,381,292**	**51,621,436**
Net current assets	588,471	1,305,974	1,861,485	2,080,793	2,282,793
External funding:					
Commercial paper	263,000	489,193	1,186,966	1,498,476	1,501,000
Overdraft facilities	130,000	558,193	700,023	4,223,937	3,822,409
Finance Leases	-	-	-	3,725	6,856
Total operating capital	**981,471**	**2,353,360**	**3,748,474**	**7,806,931**	**5,330,265**

Kenol intends to utilise the Kshs 1.5 billion Commercial Paper facility to meet projected working capital needs and support the Group's vision of being a major player in Africa.

Financial Summary

- As shown in the balance sheet, shareholders' funds in the Group amounted to Kshs 5.0 billion as at 30 September 2007. This is significantly in excess of the minimum paid up share capital and reserves of Kshs 50 million, which is one of the requirements to qualify as an issuer of Commercial Paper by the CMA;

- In the last three years, the Group has increased its revenues as shown in the extracts of the audited Profit & Loss statements on page 35 of this Information Memorandum;

- The Group's strategy is to use long-term capital to fund long-term investments and to fund working capital with short-term lines of credit. The Group has also effectively utilized its CP programme to fund its working capital requirement by the Kshs 1,500 million draw down of the facility as at September 30, 2007;

- The Group's gearing ratio for the years 2003, 2004,2005, 2006 and 2007 has been 21%, 29%, 43%, 91% and 121% respectively. This has remained well below the maximum 400% set by the CMA;

- As shown in the cash flow statements on page 37 the Group has consistently generated positive cash flow from its operations, which has been utilized to fund its expansion programme. Consequently, the Group has to rely on short term funding for its working capital requirements, for which the CP programme plays a pivotal role;

- The Group's financial position continues to be strong and in good stead as indicated by the ratios in the Accountant's Report and the audited financial statements. This shows the Group will have no difficulty servicing the CP programme as and when the short-term obligations fall due. Kenol is pleased to report that it has **never** defaulted nor even delayed on a single payment to CP creditors since the inception of the CP program in 2001.

Credit Rating

Kenol was credit rated in June 2007 on results to March 2007 by the Global Credit Rating Company ('GCR') from South Africa. GCR is one of the leading rating agencies in Africa, rating more organizations than any other rating agency operating on the African continent. GCR is a credit rating agency approved by the CMA. To date, it has rated a good number of companies within Kenya.

GCR's expertise in the corporate sector spans across southern, eastern and western Africa and covers a diverse range of corporate entities, which include the industrial, resource, transportation, retail, telecommunications and information technology sectors.

GCR's rating methodology embraces those methodologies used by international rating agencies, incorporating key principles specific to emerging market entities. GCR's comparative advantage with regards to according ratings in emerging market economies results from its operational presence in all markets in which ratings are accorded, thereby facilitating an accurate evaluation of the relative credit risks within a particular market.

Kenol is pleased to announce its commercial paper issue received a rating of A1 from GCR. This means the commercial paper issue carries a very high certainty of timely payment. Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor. The outlook for the CP issue remains stable for the coming future.

Financial Analysis for the Period Ended 30 September 2007

The Group has continued to perform well, achieving impressive growth in sales. The company was however affected by prepaid taxes which increased working capital due to the slow pace of refunds. Kenya remains a highly competitive market for oil companies. High and volatile crude oil prices continue to present a challenging environment which the Group has continued to manage prudently.

The financial highlights are summarized below:

- The net sales increased from Kshs 46.4 billion in 2006 to Kshs 51.6 billion in the current year. The 11.30 % increase was mainly as a result of increase of oil prices. Sales volumes increased 6%.

- The Group's gross profit increased to Kshs 2.7 billion in the year 2007 from Kshs 2.5 billion in 2006, a rise of 8.3%. Margins were under pressure due to inability to pass increases of oil costs to consumers;

- The Group's basic earnings per share decreased by 31.2% to Kshs 5.83 in 2007 compared to Kshs 8.23 in 2006. This was as a result of an increase in distribution costs of 47% compared to the previous year. Also, the 1Q2007 weakness contributed to an overall decline in profitability for the FY2007;

- The distribution costs increased from Kshs 153 million in 2006 to Kshs 226 million in 2007. This was due to the use of road transport for both local and export markets from the Mombasa terminals occasioned by inadequate pipeline throughput capacity. This resulted much higher distribution costs and transit losses;

- Administrative and operating costs registered a 12.30% increase from Kshs 1,175 million in 2006 to Kshs 1,328 million in 2007 in line with a wider network of operation. These costs accounted for 2.53% and 2.57% of net sales in the year 2006 and 2007 respectively;

- The Group's operating profits decreased from Kshs 1,1326 million in 2006 to Kshs 1,111 million in 2007 representing 16.2% decrease over the previous year;

- The Group registered a net finance cost of Kshs 284 million compared to a net finance cost of Kshs 175 million in 2006. This was due to a delayed repayment in tax refunds and tax claims in Kenya as well as the higher oil costs which increased working capital.

CONSOLIDATED PROFIT & LOSS ACCOUNTS (In Kshs millions)

Year end - 30 September	**2007** (Audited)	**2006** (Audited)	**2005*** (Audited)	**2004** (Audited)	**2003** (Audited)
Gross sales	**56,715**	**50,587**	**41,745**	**34,479**	**16,658**
Indirect taxes	(5,094)	(4,206)	(4,208)	(4,064)	(4,086)
Net sales	51,621	46,381	37,537	30,415	12,572
Cost of sales	(48,956)	(43,920)	(34,724)	(28,090)	(10,799)
Gross profit	**2,665**	**2,462**	**2,812**	**2,325**	**1,773**
Other operating income	-	193	-	40	71
Distribution costs	(226)	(154)	(135)	(160)	(123)
Admin and operating expenses	(1,328)	(1,175)	(1,081)	(1,020)	(947)
Operating profit	**1,111**	**1,326**	**1,596**	**1,185**	**774**
Financing costs	(235)	(99)	(235)	8	(64)
Profit before tax and unrealized exchange loss	876	1,226	1,361	1,193	710
Unrealized exchange losses	**-**	**-**	**-**	**8**	**(80)**
Profit before tax	**876**	**1,226**	**1,361**	**1,201**	**630**
Tax	(283)	(383)	(458)	(362)	(163)
Minority interest				-	(2)
Net profit after tax	**593**	**843**	**903**	**838**	**469**
Earnings per share (basic) Kshs per share	**5.83**	**8.35**	**8.96**	**8.32**	**4.65**

** restated*

The income statement shown above plus the balance sheet and cash flow statement on the following pages have been prepared on a Group basis incorporating all the subsidiaries listed on pages 16 and 17. The consolidation principles used in preparing these audited financial statements are stated below:

Consolidation principles applied are as follows:

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and consolidation ceases from the date of disposal.

The income statements of subsidiaries are translated at average exchange rates for the year and the balance sheets at the year-end rates. The resulting differences upon translation are dealt with in reserves.

All intercompany transactions, balances, and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

CONSOLIDATED BALANCE SHEETS (In Kshs millions)

Year end - 30 September	2007 (Audited)	2006 (Audited)	2005* (Audited)	2004 (Audited)	2003 (Audited)
Non-current Assets:					
Property, plant and equipment	2,610	2,282	1,851	1,794	1,440
Goodwill arising on consolidation	58	43	26	26	31
Negative goodwill on consolidation					
Prepaid operating rentals	553	534	552	556	573
Deferred income tax asset	64	133			
Total	**3,286**	**2,992**	**2,429**	**2,376**	**2,044**
Current Assets:					
Inventories	1,340	909	1,204	314	259
Trade receivables	3,198	3,834	2,228	2,126	1,226
Loan to related party	3,364	4,224	250	558	
Cash and cash equivalents	1,869	1,330	2,265	858	1,033
Tax recoverable	214	61	7	3	25
Total	**9,983**	**10,359**	**5,954**	**3,859**	**2,543**
Current Liabilities:					
Trade and other payables	2,306	2,503	2,089	1,352	1,543
Borrowings	5,330	5,726	1,887	1,088	393
Current tax	46	39	107	108	15
Dividends payable	19	10	10	5	4
Total	**7,701**	**8,278**	**4,086**	**2,553**	**1,954**
Net Current Assets	**2,283**	**2,081**	**1,858**	**1,306**	**589**
Total Assets	**5,569**	**5,072**	**4,287**	**3,682**	**2,633**
Non Current Liabilities:					
Deferred tax	176	186	171	213	134
Long term loan	408	213	100	77	100
Minority interest	-	-	-	-	-
Financed By:					
Share capital	51	51	50	50	50
Share premium	17	13			
Revaluation and other reserves	329	348	361	376	270
Fair value reserve	85	85	85	85	85
Translation reserves	(97)	(45)	(54)	37	(34)
Hedge reserve	(40)	-	-	-	-
Retained earnings	4,639	3,993	3,349	2,642	1,972
Proposed dividends - ordinary and millennium	-	228	227	202	55
Long term Liabilities & Shareholders' Funds	**4,984**	**4,673**	**4,018**	**3,682**	**2,633**

CONSOLIDATED CASH FLOW STATEMENTS (In Kshs millions)

Year end - 30 September	2007	2006	2005	2004	2003*
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
Profit before tax	876	1,226	1,361	1,201	630
Depreciation	178	168	147	133	128
Deficit on revaluation	-	-	-	15	-
(Profit) / Loss on sale of assets	(1)	7	3	(1)	-
Interest Income	(41)	(38)	(15)	(16)	-
Negative goodwill	-	(192)	-	-	-
Interest expense	284	175	111	53	53
Leasehold land amortization	139	125	111	89	62
Amortization of intangible assets	10	6	-	5	5
Loss on sale of prepaid operating leases	-	4	-	-	-
Dividend Income	-	-	-	-	(10)
Profit on disposal of Mid Oil	-	-	-	-	(17)
Changes in working capital:					
Receivables and prepayments	637	(1,593)	(87)	(900)	(109)
Inventories	(431)	309	(889)	(55)	20
Trade and other payables & provisions	(254)	389	737	(191)	90
Cash (utilized by) / generated from operations	**1,397**	**586**	**1,478**	**333**	**842**
Interest received	41	39	15	16	9
Interest paid	(284)	(175)	(111)	(53)	54
Tax paid	(373)	(425)	(495)	(239)	(220)
Cash from operating activities	**782**	**24**	**887**	**57**	**578**
Investing activities:					
Purchase of property, plant and equipment	(318)	(387)	(215)	(216)	(267)
Purchase of intangible asset	(25)	(23)	-	-	-
Purchase of assets by Kobil Ethiopia	(265)	-	-	-	-
Purchase of investment-Kobil Petroleum Rwanda	-	(164)	-	-	-
Payment for operating leases	(177)	(116)	(144)	(49)	(122)
Proceeds from disposal of property, plant and equipment	3	1	2	1	15
Dividends received	-	-	-	-	10
Disposal of subsidiary net of cash disposed	-	-	-	-	46
Proceeds from disposal of prepaid operating leases	-	2	-	-	-
Cash (utilized in) / from investing activities	**(782)**	**(688)**	**(356)**	**(264)**	**(318)**
Financing activities					
(Payment) / Proceeds from commercial paper	3	311	698	226	(154)
Loan to related party	(3,364)	(4,224)	(250)	(558)	-
Repayment of loan by related party	4,224	250	558	-	-
Net proceeds from long term borrowings	198	14	(17)	18	32
Net proceeds from short term borrowings	(402)	3,608	142	428	130
Repayments under finance lease	-	1	-	-	-
Dividends paid	(219)	(227)	(196)	(55)	(146)
Dividends paid to minority shareholders	-	-	-	-	(10)
Cash from financing activities	**440**	**(268)**	**935**	**59**	**(147)**
(Decrease) / Increase in cash	**440**	**(931)**	**1,465**	**(148)**	**113**
Movement in cash and cash equivalents					
Opening cash as at 1 October	**1,330**	**2,265**	**858**	**1,033**	**878**
On acquisition of KPRS	**-**	**19**	**-**	**-**	**-**
(Decrease) / Increase	**440**	**(931)**	**1,455**	**(148)**	**113**
Effects of exchange gain / (loss) difference	**(98)**	**(23)**	**(48)**	**(27)**	**42**
Closing cash as at 30 September	**1,869**	**1,330**	**2,265**	**858**	**1,033**

** Restated*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (In Kshs '000)

Year ended 30 September 2006	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Proposed dividends**	**Total equity**
At start of year	50,398	-	392,634	3,348,974	226,791	4,018,797
Transfer of excess depreciation	-	-	(42,172)	42,172	-	-
Deferred income tax on transfer of excess depreciation	-	-	13,002	(13,002)	-	-
Movement in ESOP reserve	-	-	21,549	-	-	21,549
Currency translation differences	-	-	8,658	-	-	8,658
Net gains/(losses) recognized directly in equity	**-**	**-**	**1,037**	**29,170**	**-**	**30,207**
Profit for the year	-	-	-	842,947	-	842,947
Total recognized gains for 2006	-	-	1,037	872,117	-	873,154
Dividends:						
- Final for 2005 paid	-	-	-	-	(226,791)	(226,791)
- Proposed final for 2006	-	-	-	(228,319)	228,319	-
Issue of shares	340	12,562	(5,159)	-	-	7,743
At end of year	**50,738**	**12,562**	**388,512**	**3,992,772**	**228,319**	**4,672,903**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (In Kshs '000)

Year ended 30 September 2007	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Proposed dividends**	**Total equity**
At start of year	50,398	12,562	388,512	3,992,772	228,319	4,672,903
Transfer of excess depreciation	-	-	(78,674)	78,674	-	-
Deferred income tax on transfer of excess depreciation	-	-	25,975	(25,975)	-	37,135
Movement in ESOP reserve	-	-	37,135	-	-	(51,119)
Currency translation differences	-	-	(51,119)	-	-	(56,571)
Movement in hedge reserve			(56,571)			
Deferred tax on movement in hedge reserve			16,971			16,971
Net gains/(losses) recognized directly in equity	**-**	**-**	**(106,283)**	**52,699**	**-**	**(53,584)**
Profit for the year	-	-	-	593,434	-	593,434
Total recognized gains for 2007	-	-	(106,283)	646,133	-	539,850
Dividends:						
- Final for 2006 paid	-	-	-	-	(228,319)	(228,319)
- Proposed final for 2007	-	-	-	-	-	-
Issue of shares	340	12,562	(4,198)	-	-	-
At end of year	**50,738**	**12,562**	**278,031**	**4,638,905**	**-**	**4,984,434**

COMPLIANCE WITH CMA REGULATIONS

Incorporation

Kenol was incorporated in Nairobi, Kenya, on 13 May 1959 under the Companies Act as a Limited Liability Company. In terms of its Memorandum of Association (Clause 3 (a)), the principal activity of Kenol is the production, refining, distilling, storing, supplying, importing and distribution of petroleum and petroleum products of all descriptions.

The Company was listed on the Nairobi Stock Exchange in September 1959. Its registration number is 4399.

Authorization

The issue of the Commercial Paper Notes has been duly authorized by a resolution of the Board of Directors of the Company passed on 7 February 2006.

Pending Legal or Arbitration Proceedings

Kenol is currently unaware of any legal or arbitration proceedings pending or threatened against it, which may have a significant influence on the group's financial position.

Material Contracts

Kenol Group has not entered into any material contracts outside the ordinary course of business within two years immediately preceding the publication of this Information Memorandum. The Group does not have any contractual arrangement with any controlling shareholder and carries on its business independently of all its shareholders.

Auditors

The auditors of Kenol Group are currently PricewaterhouseCoopers, Certified Public Accountants, P O. Box 43963, Nairobi, Kenya, who have audited the Group's accounts and have reported without any qualification for the last five years.

Information on Share Capital, Directors' Interests, Major Shareholders and Related Party Transactions

The Company's authorized, issued and fully paid up share capital is as follows:

Authorized Share Capital	Issued and Fully Paid Up Share Capital*	Issued and Fully Paid Up Share Capital**
150,000,000 ordinary shares of Kshs 0.50 each	101,475,170 ordinary shares	147,176,120 ordinary shares
Kshs 75,000,000	Kshs 50,738,000	Kshs 73,588,000

** As at 30 September 2007 ** As at 31 December 2007, following the acquisition of Kobil*

The Company has only one class of shares (ordinary shares) and all the shareholders have equal voting rights.

No Kenol director currently holds more than 3% of the issued share capital of Kenol. Between the end of the last financial year; September 2007, and the publication of this Information Memorandum, there has been no material change in the directors' interests in Kenol.

Petroholdings Limited, which is the only major shareholder in Kenol, held 74,941,308 shares or 74.35% of the Company's voting rights as at 31 December 2006.

The Kenol Group has not provided any loan(s) to:

a) Any individual(s) owning interests in the Group that gives such individual(s) significant influence over the Company;

b) Key management and personnel of the Group;

c) Enterprise(s) owned by director(s) or major shareholder(s) of the Group;

d) Enterprises that are under common control by the Kenol Group, except that transactions with related parties are carried out in the ordinary course of business and at arms length.

Documents Available for Inspection

Copies of the following documents are available for inspection at the registered office of the Company:

a) The Memorandum and Articles of Association of the Company;

b) The latest certified appraisals or valuations of movable and immovable property;

c) Audited consolidated accounts of Kenol and its subsidiaries for each of the last three years, including all notes, reports or information required under the Companies Act (Cap 486) of the Laws of Kenya;

d) The Reporting Accountants' report as reproduced in this Information Memorandum;

e) The Agreement between Kenol and the Issuing and Paying Agent and the Agreement between Kenol and the Placing and Arranging Agents.

Borrowing Powers

The Kenol Group Board of Directors has full borrowing powers and no exchange control or other restrictions apply on such powers. The Directors are entitled to borrow money and to mortgage or charge its undertaking, property and uncalled and unpaid capital or any part thereof and to issue debentures and other securities.

Material Changes

Save as disclosed herein and in this Information Memorandum, there have been no material changes in the trading and financial position of Kenol Group since September 2006. There have also been no material exceptional factors or material interruptions or material changes in Kenol Group's business in the last five years.

Summary of Terms of Agreement with the Issuing and Paying Agent

The duty of the Issuing and Paying Agent is to deliver completed and verified CP Notes to the Placing Agents or designated consignees, which delivery shall be against receipt of cleared funds for payment. The Issuing and Placing Agent is also responsible for paying from the Issuer's account funds to the Note holders upon the presentation of CP Notes by the holder thereof at maturity.

The Agreement with the Issuing and Paying Agent (Barclays Bank of Kenya Limited) may be terminated at any time by either party giving the other 30 days prior written notice, but such termination shall not affect the respective liabilities of the parties hereunder with respect to the CP Notes issued, authenticated and delivered prior to such termination, which shall survive until such CP Notes have been paid in full.