2010

KenolKobil Limited
Annual Report & Financial Statements

*Life's a journey.
We're with you
all the way.*

Vision

◊ To be the leading brand in all markets we operate in, and a major player in Africa.

Mission

◊ To develop, improve and increase quality and total value of our products and services.

◊ To become a market leader through continuous innovation, customer focus and to provide the highest quality products and services.

◊ To maintain a highly motivated, well trained human resource base.

◊ To deliver the highest Shareholders' values.

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DIRECTORATE & ADMINISTRATION

BOARD OF DIRECTORS

J I Segman	Chairman and Group Managing Director
C Field-Marsham	Appointed on 28 September 2001
	Resigned on 16 November 2010
D Oyatsi	Appointed on 10 August 2007
P N Jakobsson	Appointed on 10 August 2007
T M Davidson	Appointed on 25 September 2007
	Resigned on 13 April 2010
	Appointed 01 January 2011
J Mathenge	Appointed on 01 December 2008
P Lai	Appointed on 03 February 2006

SECRETARY

Ms W Juma — Appointed Secretary on 01 January 2011

Livingstone Associates
Deloitte Place,
Waiyaki Way, Muthangari
P O Box 30029, GPO 00100
Nairobi

REGISTERED OFFICE

ICEA Building
Kenyatta avenue
P O Box 44202, GPO 00100
Nairobi

BANKERS

Major bankers include:

BNP Paribas – Paris
NIC Bank
CfC-Stanbic Bank Kenya Limited
Kenya Commercial Bank Limited
Bank of Africa Limited
Societe Generale – Paris
Ecobank Limited
PTA Bank Limited

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
The Rahimtulla Tower
Upper Hill Road
P O Box 43963, 00100
Nairobi

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the 52nd Annual General Meeting of the Company will be held at the InterContinental Hotel, Nairobi, Kenya on Thursday, 28 April 2011 at 11.00 a.m.

AGENDA

ORDINARY BUSINESS

1. To table the proxies and note the presence of a quorum.
2. To read the notice convening the meeting.
3. To receive the audited Financial Statements for the year ended 31 December 2010 together with the reports of the Chairman and Group Managing Director, Directors' and Auditor thereon
4. Dividend:
To consider and approve a first and final dividend of Kshs 0.52 per share for the year ended 31 December 2010 payable on or about 11 May 2011 to the shareholders on the Register of Members at the close of business on Friday, 29 April 2011 and to approve the closure of the Register of Members from the close of business on Friday, 29 April 2011 to the close of business on Monday, 2 May 2011 (both days inclusive) for the purpose of processing the dividend.
5. To approve the Directors' remuneration for the year ended 31 December 2010 as indicated in the Financial Statements for the year ended 31 December 2010.
6. Re-election of directors:
a) To re-elect Ms Patricia Lai, a director retiring by rotation in accordance with Article 96 of the Company's Articles of Association and the Capital Markets Authority Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya and, being eligible, offers herself for re-election.
b) To re-elect Mr T M Davidson, a director retiring in accordance with Article 101 of the Company's Articles of Association, and being eligible, offers himself for re-election.
7. To re-appoint Messrs PricewaterhouseCoopers in office as Auditor by virtue of Section 159 (2) of the Companies Act (Cap. 486) and to authorise the Directors to fix their remuneration for the ensuing financial year.

SPECIAL BUSINESS

8. Increase in Nominal Share Capital

Subject to receipt of the necessary regulatory approvals, to consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:-
"That the Nominal Share Capital of the Company be increased from Kshs 75,000,000/- (Kenya Shillings Seventy Five Million) divided into 1,500,000,000 (One Billion Five Hundred Million) Ordinary shares of Kshs 0.05 each to Kshs 100,000,000/ - (Kenya Shillings One Hundred divided into 2,000,000,000 (Two Billion) Ordinary shares by the creation of an additional 500,000,000 (Five hundred Million) new Ordinary Shares of Kshs 0.05 each to rank "pari passu" in all respects with the existing Ordinary Shares in the capital of the Company."

9. Allotment of Shares to the Employee Share Ownership Plan (ESOP)

To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:-

"Subject to approval by the Capital Markets Authority, to allot 140,000,000 (One Hundred and Fourty Million) Ordinary shares of Kshs 0.05 each out of the authorized but unissued share capital of the Company to the Trustees of the KenolKobil Employee Share Ownership Plan.

BY ORDER OF THE BOARD

WINNIEFRED JUMBA
COMPANY SECRETARY
Date: 24 March 2011

Note:
1. In accordance with Section 136 (2) of the Companies Act (Cap 486), every member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his or her behalf and a proxy need not be a member of the Company. A form of proxy may be obtained from the Company's website www.kenolkobil.com or from the Registered Office of the Company, ICEA Building, 10th Floor, Kenyatta Avenue, Nairobi.
In the case of a member being a limited Company, this form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
2. All proxies must be duly completed by the member and must be lodged with the Company Secretary, Livingstone Associates, P O Box 30029, 00100 Nairobi, or posted in time to reach not later than 10.00 am on Tuesday, 26 April 2011. Alternatively, duly signed proxies can be scanned and emailed to wjumba@deloitte.com in PDF format.
3. In accordance with Article 134 of the Companies Articles of Association a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website www.kenolkobil.com or from the Registered Office of the Company, ICEA Building, 10th Floor, Kenyatta Avenue, Nairobi. An abridged set of the Statement of Financial Position, Comprehensive Income Statement, Statement of Changes in Equity and Statement of Cashflow for year ended 31st December 2010 have been published in two daily newspapers with nationwide circulation.

CHAIRMAN & GROUP MANAGING DIRECTOR'S REPORT

I am pleased to present to you the Annual Accounts of KenolKobil Ltd, representing successful Financial year, January – December 2010.

Net Sales went up by 5.2%, whilst cost of sales was up by 3.7%. Gross profit has gone up by 28% to K.Shs. 7.7 billion in 2010 from K.Shs. 6.0 billion in 2009, representing 7.6% of Net sales compared to 6.2% in 2009. The average Gross margin per unit has gone up, mainly due to stronger contribution coming from sectors as African Trading Desk, Resell, L.P.G, Export, Lubricants, Fuel Oil and Non-Fuels and improved performance in aviation.

The Group's Earning Before Interest, Tax, Depreciation & Amortization (EBITDA), has gone up by 59% from K.Shs. 2.7 billion in 2009 (excluding Capital gain/other income of K.Shs. 307 million) to K.Shs. 4.4 billion in 2010. Depreciation and Amortization increased by only K.Shs. 25 million. As per Company Policy, the Group's assets revaluation is expected to be done in 2011 and will result in higher depreciation charge in coming years and stronger Balance sheet. In a meeting on 24th March 2011, the Board of Directors decided to review and reconsider this Policy.

Profit before Income Tax has gone up by K.Shs. 764 million from K.Shs. 1.9 Billion in 2009 to 2.7 Billion in 2010, representing an increase of 40% in 2010. Excluding Capital gain (other income) in 2009 of K.Shs. 307 million, the Profit before Income Tax in 2010, went up by 65.8% compared to 2009, representing much stronger operating profit before Tax in 2010.

Profit after Income Tax in 2010 is up 37.2% compared to 2009. The Group effective Income Tax Rate in 2010 was 34.1%, down from 39.2% in 2009, excluding the effect of gain on disposal of assets, K.Shs. 307 million being a Non Taxable Income.

In the Year under review, Finance cost went up by K.Shs. 531 million mainly due to the significant increase in Exchange losses of K.Shs. 438 million resulting from the weakness of local currencies in almost all countries of operation. Kenya suffered the highest exchange loss of K.Shs. 361 million, which included K.Shs. 135 million losses due to Hedging positions taken on K.Shs/USD exchange. Interest expenses in 2010 were up 21% compared to 2009, while Interest Income, went up 11.4% respectively. The Group Medium Term Borrowing is only K.Shs. 94 million borrowed by Kobil Rwanda and Kobil Ethiopia for capital expenditure. The Group has no long term borrowings at all, but is considering taking some with the view of restructuring the borrowing-mix.

The Group's Balance Sheet has continued to grow. In 2010, Shareholders equity surpassed the K.Shs. 12.7 billion mark due to a strong business performance as well as continued investments and expansion in the region. The Group's total asset base grew by 3% in 2010 to K.Shs. 32 billion and the Current Ratio improved to 1.38:1 whilst Debt to Equity ratio leveled out at 1:1.

Management recognizes the persistent challenges of Downstream Business in particular the difficult operating environment in Kenya due to Government interference in the Industry. The Board is happy to report to Shareholders that it's two fold strategy, i.e. Geographical expansion outside Kenya, that started late 1999 and focus on certain niche Business lines coupled with focus on development of certain Business lines over the recent years, such as African Trading desk, Non-Fuels, LPG, Fuel Oil business among others, has proved itself as a winning strategy,hence the influence of the very disturbing Kenyan Oil Industry operating environment, has had minimal effect on the KK Group.

High levels of oil prices are expected to prevail and seem to become part of the Oil Industry. It is expected to drive inflation up across the countries the Group operates in. If the same trend continues, we expect to see the growth in demand slowing down. Quite interesting to glance at oil prices data and realize the level of increase in Murban Crude and Refined products prices. For example Murban Crude in early Jan. 2010 was at USD 76/Bbl. and closed the year at USD 91/Bbl. and as end of March 2011, it reached over USD 112/Bbl. while most of the Refined products jumped close to 30% in 2010. Fluctuation in oil price continued to be a major factor in crystallizing average margins on petroleum products; hence the quality of management of the Group's physical inventories and sales policies have considerable effect on the Group's profitability. In order to improve management of inventories, the Board has decided to focus on increasing Group's total

CHAIRMAN & GROUP MANAGING DIRECTOR'S REPORT

storage capacity for Fuels and Gas. Management has made substantial progress in that area and expects more development to be made in the near future.

The KenolKobil Group Assets rationalization exercise which we initiated recently with the aim of enhancing productivity of our various assets continues and will now focus strongly on Non-Fuel Business development. A number of projects have been completed across the Group, including fast food, offices, shopping and service areas while more are being planned.

In 2010, we continued to implement aspects of the Organizational re-structuring process, which began in January 2009. As part of the ongoing process, I was officially appointed Chairman of the Board effective 7th April 2010, after acting in this capacity since 2006. I took up the new challenge and with the support of the Board and KenolKobil's Management, will continue to steer the Company in the right direction towards new highs of success and prosperity.

To realize the benefits of the re-structuring, we continued to strengthen support teams and certain teams in high yield's Business lines, coupled with decentralized Management as we experience the fruit of these changes, especially in quality and speed of business decision making across the Group.

On the expansion front, we continued to strengthen Kobil Burundi S.A, after acquiring all assets of Oil Burundi as a going concern. We recently acquired a depot complex comprising of fuels facilities, warehouse and an office block in Bujumbura. The Management has a strong view of Burundi's future and believes it is on the right path towards consistent stability and economic growth.

In line with our "Move South Expansion Strategy", we continue to scout for business opportunities in the Southern Africa markets. In July 2010, we registered a Company, Kobil Mocambique Limited and have subsequently set up an office in Harare, Zimbabwe to oversee mainly over-land Trading business using the ports of Mozambique. While we develop over-land Trading activities in Zimbabwe as an extended arm of the African Trading desk, we shall screen the market for Downstream assets acquisition and/or joint ventures.

In Uganda, we increased our assets base in December 2010 by acquiring a high volume Depot in Jinja, three additional Service Stations and a three-storey office block in Kampala. The Group will continue focusing on acquiring Fixed Assets as Stations, Storage facilities and others, including stations which are currently long leased to KenolKobil.

We also developed new facilities across the Group, including modern LPG Storage and Filling plant in Uganda and Rwanda. Plans are put up for a much bigger facility in Dar-es-Salaam, Tanzania. Further, Management will continue developing new products and services including Fuel management systems as K-Card or I-Fuel, among others.

To streamline our expanding operation, we have aggressively been implementing the Oracle Management Information System (MIS) across the Group to ensure that our business activities are well integrated. In addition to Kenya, we have so far successfully implemented Oracle in Rwanda and Zambia and are currently rolling out the system in Uganda. Our target is to have the entire length and breadth of our operations on a single MIS platform.

The Board holds the view that the economic situation in all Group operation will continue to grow after relatively quick recovery in 2009 and 2010. In fact, the Board is bullish about the African growth story and expects it to gain steam as we go along. It seems that Sub Saharan Africa's economy will continue to perform strongly and continue to attract foreign investment in all sectors among them Downstream Oil Industry, as we have seen recently in East and Southern Africa.

The Group will continue implementing its two fold strategy as stated before and quite certain that it will position KenolKobil Ltd. strongly to become The Leading Player in all markets it operates in and will continue delivering growth in value to Shareholders.

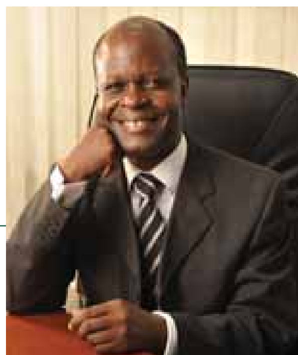
Finally, on behalf of the Board of Directors, I want to take this opportunity to thank each one of you, in the great KenolKobil team and all who have been instrumental to this continuous success story of our Group.

Jacob I. Segman
Chairman & Group Managing Director
2 April 2011

BOARD OF DIRECTORS

Mr. J. Segman
Chairman & Group Managing Director

Mr. J. Mathenge
Non-Executive Director



Mr. D. Oyatsi
Non-Executive Director

Mr. P.N. Jakobsson
Non-Executive Director

Mr. T.M. Davidson
Non-Executive Director

Ms. P. Lai
Group Financial Director

GROUP MANAGEMENT TEAM

Mr. Jacob I. Segman
Chairman and Group Managing Director

Ms. Patricia Lai
Group Finance Director

Mr. George N. Mwangi
Group Export & Regional Support Manager

Mr. Patrick Kondo
Group Mergers & Acqusitions and Regional Support Manager

Mr. Steve W. Muthuma
Group Trading & Supply Optimization Manager

Mr. James J. Kariuki
International Finance Manager

Mr. David Ohana
General Manager - Kenya

Mr. Isaac Gachuria
Assistant General Manager - Kenya

Ms. Evelyne Kariuki
Head of Marketing and Fuel Business Development - Kenya

Mr. Wilson Wambugu
Head of Operations and Projects Development - Kenya

Mr. Ido Granatstein
General Manager, Kobil Uganda Ltd

Mr. Peter Ochieng
Marketing and Operations Manager, Kobil Uganda Ltd

Mr. Fabrice Ezavi
Managing Director, Kobil Tanzania Ltd

Mr. Mathew Mbugua
Marketing Manager, Kobil Tanzania Ltd

Mr. Jerry Thomas
Managing Director, Kobil Zambia Ltd

Mr. Elias Kamundi
Marketing and Operations Manager, Kobil Zambia Ltd

Mr. Patrick Ngugi
Country Manager, Kobil Petroleum Rwanda SARL

Mr. Sehmi Lakhbir Singh
Head of Marketing & Operations, Kobil Petroleum Rwanda SARL

Mr. Avi Wolmark
General Manager, Kobil Ethiopia Ltd

Mr. Charles Shiroko
Marketing Manager, Kobil Ethiopia Ltd

Mr. Francis Mwangi
Country Manager, Kobil Burundi SA

CORPORATE GOVERNANCE

The KenolKobil Board of Directors has continued to be committed to high corporate governance standards and business values and ethics within the organization, to abide by the laws governing in the countries where it operates.

Compliance and maintenance of high standards is core to the organization's performance and maximizing shareholders' value.

The Group's general practice is one of not stating views on either national or international political matters and continues to abstain from participation in politics and interference in political matters. Further, the company and all its subsidiaries, its stakeholders and employees, are guided by the Group's Code of Conduct approved by the Board and Management. The Code of Conduct stipulates the business values and the acceptable behavior standards for all stakeholders regarding the company's business procedures, systems and core ethics.

Board of Directors

The Board consists of 4 non-executive Directors and 2 executive Directors. The Directors all possess qualifications and a wide range of expertise and experience to enable them to contribute in their capacities as directors to the group

Duties:

The Board gives direction on the Group's strategy, objectives and values, and ensures procedures and practices are in place to implement governance and effective control over the Group's assets and operations.

The Board is able to discharge its responsibilities and authorities with regular reports from management, monthly management accounts, reports from each Board Committee, specific proposals for major capital expenditure and reviews in depth any strategic opportunities for mergers and acquisitions.

The Board of Directors meets quarterly or as required to continually review and monitor the Group's progress with respect to strategic direction and operational effectiveness.

Board Committees

Three Board Committees, with written terms of reference, facilitate effective assistance to the Board to enable efficient decision making in executing their duties and responsibilities. Delegation of authority to the Board Committees or management does not mitigate or discharge the Board of its duties and responsibilities.

Audit Committee

This committee comprises of 3 non-executive directors, and by invitation, 2 executive directors, the external auditor's representatives and the Group internal audit manager.

The duties and responsibilities are to review, advice and make recommendations on financial information, budgets, risk management, policies and audit issues.

It reviews auditor's independence, internal controls and compliance with the Code of Conduct and Ethics.

It also reviews adherence to statutory and regulatory requirements.

This committee held 4 meetings during the year.

Remuneration Committee

This committee comprises of 3 non-executive directors and 1 executive director.

The duties are to review, advice and make recommendations on remuneration issues in the Group, including the Employee Share Ownership Plan (ESOP scheme).

The committee held 2 meetings during the year.

Nominations Committee

This committee comprises of 3 non-executive directors and 1 executive director.

The duties are to review, advice and make recommendations on Board nominations and resignations in the Group.

The committee held 2 meetings during the year.

Compliance

The Group complies with statutory and regulatory requirements, including stock exchange requirements, code of conduct.

Directors' remuneration

Following the Government guidelines on directors' remuneration, non-executive directors are paid an annual fee and sitting allowance for meetings attended. Approval of the fees is to be tabled at the Annual General Meeting.

CORPORATE SOCIAL RESPONSIBILITY

In 2010, just like in previous years, the KenolKobil Group continued to be an active and caring member of its host communities by contributing to their wellbeing through various structured Corporate Social Responsibility activities.

In line with our Corporate slogan, KenolKobil Cares for You, we continued to contribute to various sustainable and long term community initiatives in the various countries we have set up business including Kenya, Uganda, Tanzania, Zambia, Rwanda, Ethiopia, and Burundi.

In Kenya, two of the pioneer beneficiaries of the KenolKobil Education Scholarship Fund, Abigael Bundi and Susan Miring'u, graduated from the University of Nairobi and subsequently got employed in our Marketing and Business Development Department where they are doing exceptionally well.

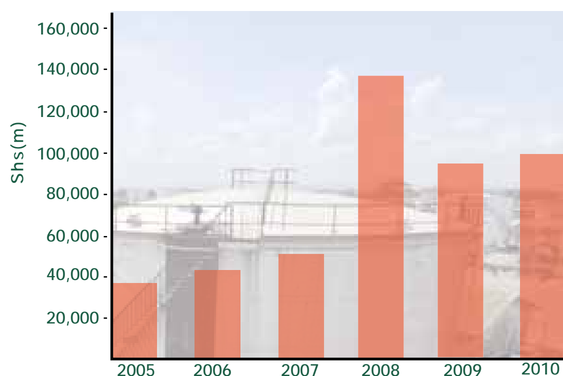
In addition to the Scholarship Fund, we partnered with the Israeli Embassy to make a one off donation of desks to Kisumu KDN School in Korogocho slum. The school was built by the slum community with financial support from the Embassy. Further, we continued to support Light and Hope Academy for Children with Disability with regular food stuff and other supplies.

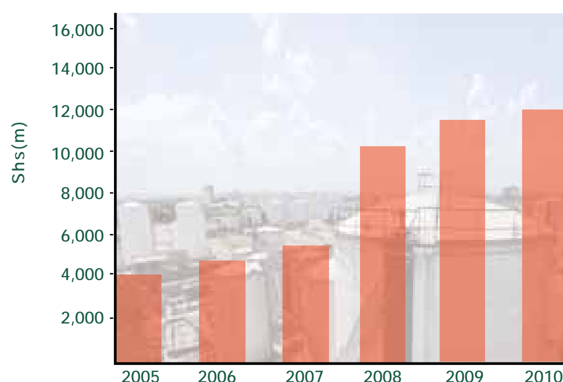
Across the Group, Kobil Uganda continued its long term annual sponsorship of the Bika bya Buganda Football Tournament. In addition, Kobil Uganda sponsored the construction of a house for the Officer in Charge at Kitebi Police Station in Kampala.

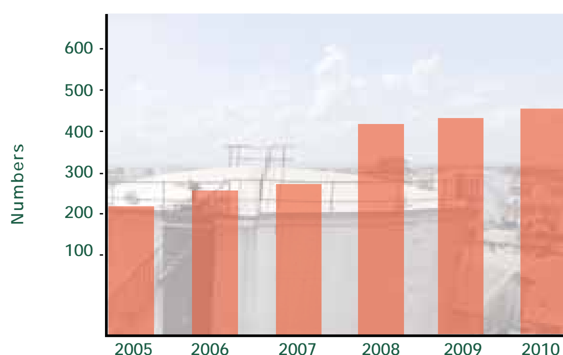
In Tanzania, Kobil Tanzania fully sponsored a Kobil team which won the 2010 Tanga Rally while in Burundi; Kobil Burundi sponsored a bicycle racing competition during the annual Kenya-Burundi Friendship Week in October 2010. In Rwanda, Kobil Rwanda sponsored Kwita Izina, the famous annual gorilla naming ceremony, as well as contributed towards the genocide survivors' kitty. In Zambia, Kobil Zambia sponsored the annual River Lure Fishing competition in Copperbelt Province while in Ethiopia; Kobil Ethiopia continued to sponsor the annual Ethiopia Motor Rally.

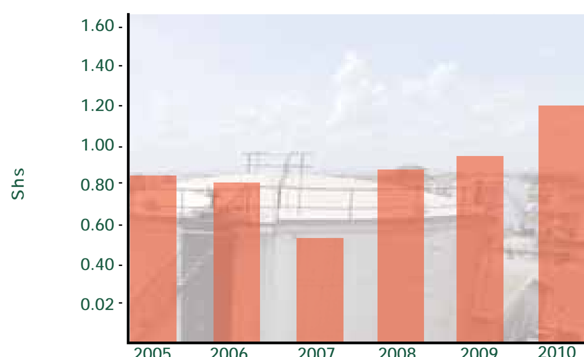
As the KenolKobil Group expands its business presence in Africa and strengthens its current subsidiaries, Management plans to connect much more with host communities through long term CSR projects. In this respect, we are working on a Group CSR strategy and policy to guide all our sponsorship engagements in line with our motto, KenolKobil Cares for You.

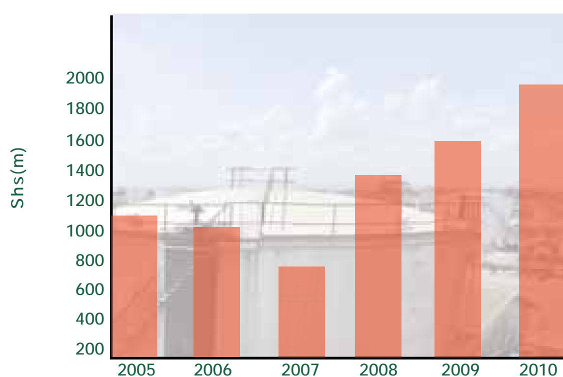
FINANCIAL HIGHLIGHTS

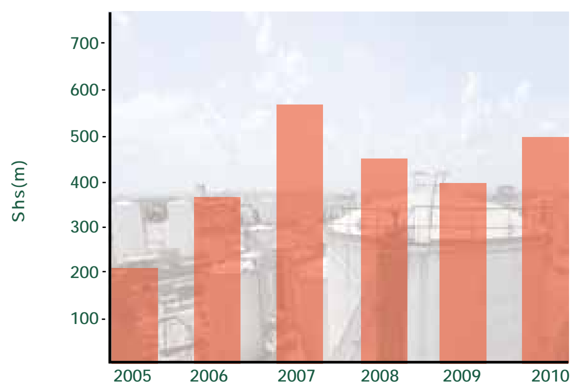


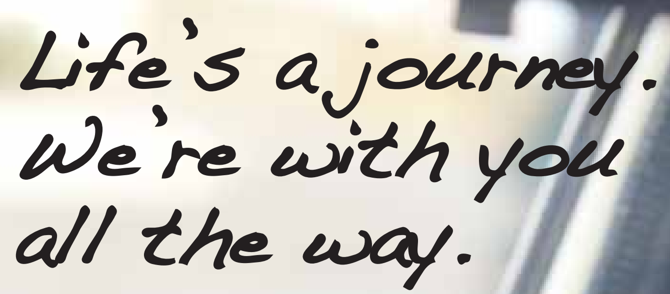











Life's a journey.
We're with you
all the way.

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 December 2010, in accordance with Section 157 of the Kenyan Companies Act, which discloses the state of affairs of KenolKobil Limited (the Company) and its subsidiaries (the Group).

PRINCIPAL ACTIVITIES

The principal activities of the Group are the importation of crude oil for refining, trading, storage and distribution of refined and other petroleum products.

RESULTS AND DIVIDEND

Profit for the year of Shs 1,776,640,000 (2009: Shs 1,294,505,000) has been added to retained earnings. During the year, no interim dividend was paid (2009: Nil). The directors recommend the approval of a final dividend of Shs 765,316,000 (2009: 478,322,000) at the Annual General Meeting.

The results of the year are set out fully on pages 18 to 70 in the attached financial statements.

DEVELOPMENTS DURING THE YEAR

During the year, the company progressed in setting up its investments in Zimbabwe (Kobil Zimbabwe Limited) and in Mocambique (Kobil Mocambique Limited).

DIRECTORS

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

J. I. Segman	-	Chairman and Group Managing Director
P. Lai		
D. Oyatsi		
P. N. Jakobsson		
J. Mathenge		
T. M. Davidson	-	Resigned on 13 April 2010 and reappointed on 01 January 2011
C. Field-Marsham	-	Resigned on 16 November 2010

AUDITOR

The Company's auditor, PricewaterhouseCoopers, has indicated its willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 24 March 2011.

By order of the Board

SECRETARY

24 March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's profit or loss. It also requires the directors to ensure that the Group keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Group. They are also responsible for safeguarding the assets of the Group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in compliance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's profit or loss in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Director

Director

24 March 2011

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENOLKOBIL LIMITED

Report on the financial statements

We have audited the accompanying consolidated financial statements of KenolKobil Limited (the Company) and its subsidiaries (together, the Group), as set out on pages 18 to 70. These financial statements comprise the consolidated statement of financial position at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2010 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2010 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF KENOLKOBIL LIMITED

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;

iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Certified Public Accountants
Nairobi

25 March 2011

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Net Sales	5	101,760,803	96,692,834
Cost of sales		(94,052,548)	(90,654,847)
Gross profit		7,708,255	6,037,987
Other (costs) / income	6	(7,382)	307,084
Distribution costs		(1,043,432)	(1,082,467)
Administrative expenses		(2,989,989)	(2,875,458)
Operating profit		3,667,452	2,387,146
Finance costs	9	(1,117,254)	(586,091)
Finance income	9	146,697	131,797
Share of profit in associate	23	928	604
Profit before income tax		2,697,823	1,933,456
Income tax expense	10	(921,183)	(638,951)
Profit for the year (of which Shs 1,459,966,000 has been dealt with in the accounts of the Company)		1,776,640	1,294,505
Attributable to:			
Equity holders of the Company		1,776,640	1,294,505
Non controlling Interest		-	-
		1,776,640	1,294,505
Earnings per share			
Basic (Shs per share)	11	1.21	0.88
Diluted (Shs per share)	11	1.20	0.88

The notes on pages 25 to 70 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Profit for the year		1,776,640	1,294,505
Other comprehensive income for the year, net of tax;			
Revaluation deficit	14	(316)	(12,910)
Movement in hedge reserve	14	(14,993)	14,993
Currency translation differences	14	(119,629)	(205,426)
Total comprehensive income for the year		1,641,702	1,091,162
Attributable to:			
Equity holders of the Company		1,641,702	1,091,162
Non controlling Interest		-	-
		1,641,702	1,091,162

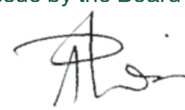
The income tax relating to each component of the other comprehensive income is disclosed in note 14.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
EQUITY			
Share capital	13	73,588	73,588
Share premium		5,166,350	5,166,350
Other reserves	14	244,494	316,649
Retained earnings		6,455,764	5,419,719
Proposed dividend		765,316	478,322
Total equity		12,705,512	11,454,628
Non-current liabilities			
Borrowings	15	94,974	75,929
Deferred income tax	17	536,737	465,113
Total non-current liabilities		631,711	541,042
		13,337,223	**11,995,670**
REPRESENTED BY:			
Non-current assets			
Prepaid operating lease rentals	18	674,562	733,908
Property, plant and equipment	19	4,595,011	4,512,380
Intangible assets	20	867,069	855,227
Investment in associate	23	17,920	16,685
		6,154,562	6,118,200
Current assets			
Inventories	25	12,750,781	13,172,275
Receivables and prepayments	26	11,122,908	8,064,874
Derivative financial asset	27	-	14,993
Current income tax		55,288	112,060
Cash and cash equivalents	28	2,133,091	3,806,455
		26,062,068	25,170,657
Current liabilities			
Payables and accrued expenses	29	4,744,344	14,787,916
Current income tax		403,501	245,259
Borrowings	15	13,677,675	4,204,867
Dividends payable		53,887	55,145
		18,879,407	19,293,187
Net current assets		7,182,661	5,877,470
		13,337,223	**11,995,670**

The financial statements on pages 18 to 70 were approved for issue by the Board of Directors on 24 March 2011 and signed on its behalf by:

Director



Director

COMPANY STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
EQUITY			
Share capital	13	73,588	73,588
Share premium		5,166,350	5,166,350
Other reserves	14	519,289	458,138
Retained earnings		4,387,080	3,681,070
Proposed dividend		765,316	478,322
Total equity		10,911,623	9,857,468
Non-current liabilities			
Deferred income tax	17	143,682	75,366
		11,055,305	**9,932,834**
REPRESENTED BY:			
Non-current assets			
Prepaid operating lease rentals	18	63,488	78,312
Property, plant and equipment	19	756,335	742,508
Intangible asset	20	6,858	7,285
Investment in subsidiaries	21	5,954,499	5,890,642
Loan to subsidiary	24	16,416	45,757
		6,797,596	6,764,504
Current assets			
Inventories	25	8,448,404	1,366,333
Receivables and prepayments	26	3,651,898	3,047,834
Loan to related party	31	5,784,286	3,784,085
Derivative financial asset	27	-	14,993
Cash and cash equivalents	28	1,834,313	2,960,739
		19,718,901	11,173,984
Current liabilities			
Payables and accrued expenses	29	3,039,121	4,005,859
Borrowings	15	12,065,900	3,789,181
Current income tax		302,284	155,469
Dividends payable		53,887	55,145
		15,461,192	8,005,654
Net current assets		4,257,709	3,168,330
		11,055,305	**9,932,834**

The financial statements on pages 18 to 70 were approved for issue by the board of directors on 24 March 2011 and signed on its behalf by:

Director

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

	Notes	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
		Attributable to equity holders of the Company					
Year ended 31 December 2009							
At start of the year		73,588	5,166,350	581,991	4,578,815	515,116	10,915,860
Comprehensive income for the year							
Profit for the year		-	-	-	1,294,505	-	1,294,505
Other comprehensive income:							
Revaluation surplus	14	-	-	(18,443)	-	-	(18,443)
Deferred tax on revaluation surplus	17	-	-	5,533	-	-	5,533
Transfer of excess depreciation							
Net of tax	14	-	-	(24,721)	24,721	-	-
Movement in hedge reserve	14	-	-	14,993	-	-	14,993
Currency translation differences		-	-	(205,426)	-	-	(205,426)
Total other comprehensive income		-	-	(228,064)	24,721	-	(203,343)
Total comprehensive income		-	-	(228,064)	1,319,226	-	1,091,162
Transactions with owners							
Movement in ESOP reserve	14	-	-	(37,278)	-	-	(37,278)
Dividends:							
- Final for 2008 paid	12	-	-	-	-	(515,116)	(515,116)
- Proposed for 2009	12	-	-	-	(478,322)	478,322	-
		-	-	(37,278)	(478,322)	(36,794)	(552,394)
At end of year		73,588	5,166,350	316,649	5,419,719	478,322	11,454,628
Year ended 31 December 2010							
At start of the year		73,588	5,166,350	316,649	5,419,719	478,322	11,454,628
Comprehensive income for the year							
Profit for the year		-	-	-	1,776,640	-	1,776,640
Other comprehensive income:							
Revaluation surplus, net of tax	14	-	-	(316)	-	-	(316)
Movement in hedge reserve	14	-	-	(14,993)	-	-	(14,993)
Transfer of excess depreciation,							
net of tax	14	-	-	(24,721)	24,721	-	-
Currency translation differences		-	-	(119,629)	-	-	(119,629)
Total other comprehensive income		-	-	(159,659)	24,721	-	(134,938)
Total comprehensive income		-	-	(159,659)	1,801,361	-	1,641,702
Transactions with owners							
Movement in ESOP reserve	14	-	-	87,504	-	-	87,504
Dividends:							
- Final for 2009 paid	12	-	-	-	-	(478,322)	(478,322)
- Proposed for 2010		-	-	-	(765,316)	765,316	-
Total transactions with owners		-	-	87,504	(765,316)	(286,994)	(390,818)
At end of year		**73,588**	**5,166,350**	**244,494**	**6,455,764**	**765,316**	**12,705,512**

COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010

	Notes	Share capital Shs'000	Share premium Shs'000	Other reserves Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total equity Shs'000
		Attributable to equity holders of the Company					
Year ended 31 December 2009							
At start of the year		73,588	5,166,350	491,783	3,320,707	515,116	9,567,544
Comprehensive income for the year							
Profit for the year		-	-	-	827,325	-	827,325
Other comprehensive income:							
Transfer of excess depreciation net of tax	14	-	-	(11,360)	11,360	-	-
Movement in hedge reserve	14	-	-	14,993	-	-	14,993
Total other comprehensive income		-	-	3,633	11,360	-	14,993
Total comprehensive income		-	-	3,633	838,685	-	842,318
Transactions with owners							
Movement in ESOP reserve	14	-	-	(37,278)	-	-	(37,278)
Dividends:							
- Final for 2008 paid	12	-	-	-	-	(515,116)	(515,116)
- Proposed for 2009	12	-	-	-	(478,322)	478,322	-
Total transactions with owners		-	-	(37,278)	(478,322)	(36,794)	(552,394)
At end of year		73,588	5,166,350	458,138	3,681,070	478,322	9,857,468
Year ended 31 December 2010							
At start of the year		73,588	5,166,350	458,138	3,681,070	478,322	9,857,468
Comprehensive income for the year							
Profit for the year		-	-	-	1,459,966	-	1,459,966
Other comprehensive income:							
Transfer of excess depreciation net of tax	14	-	-	(11,360)	11,360	-	-
Movement in hedge reserve	14	-	-	(14,993)	-	-	(14,993)
Total other comprehensive income		-	-	(26,353)	11,360	-	(14,993)
Total comprehensive income		-	-	(26,353)	1,471,326	-	1,444,973
Transactions with owners							
Movement in ESOP reserve	14	-	-	87,504	-	-	87,504
Dividends:							
- Final for 2009 paid	12	-	-	-	-	(478,322)	(478,322)
- Proposed for 2010	12	-	-	-	(765,316)	765,316	-
Total transactions with owners		-	-	87,504	(765,316)	(286,994)	(390,818)
At end of year		**73,588**	**5,166,350**	**519,289**	**4,387,080**	**765,316**	**10,911,623**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

	Notes	2010 Shs'000	2009 Shs'000
Operating activities			
Cash (absorbed in) / generated from operations	30	(8,667,031)	5,263,285
Interest received	5	146,697	131,797
Interest paid	9	(544,195)	(451,292)
Income tax paid		(634,410)	(794,040)
Net cash generated from operating activities		(9,698,939)	4,149,750
Investing activities			
Prepayment for operating lease rentals	18	(312,182)	(306,670)
Purchase of property, plant and equipment	19	(565,234)	(352,374)
Acquisition of Kobil Burundi S.A	21	-	(15,876)
Purchase of intangible asset	20	(20,417)	-
Purchase of associate - Lublend Limited	23	-	(8,099)
Proceeds from disposal of property, plant and equipment		729	403,338
Proceeds from disposal of prepaid operating lease		1,500	119,146
Net cash used in investing activities		(895,604)	(160,535)
Financing activities			
Net proceeds / (repayment) of borrowings		9,491,854	(2,315,903)
Dividends paid		(479,580)	(479,246)
Net cash generated from / (absorbed by) financing activities		9,012,274	(2,795,149)
Net (decrease) / increase in cash and cash equivalents		(1,582,269)	1,194,066
Movement in cash and cash equivalents			
At start of year		3,677,897	2,437,882
			-
Increase		(1,582,269)	1,194,066
Effects of exchange rate changes on cash and cash equivalents		37,463	45,949
At end of year	28	2,133,091	3,677,897

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

1. General information

KenolKobil Limited, is incorporated in Kenya under the Companies Act as a public limited liability company, and is domiciled in Kenya. The address of its registered office is:

ICEA Building
10th Floor
PO Box 44202 00100
NAIROBI

The Company's shares are listed on the Nairobi Stock Exchange.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the income statement, in these financial statements.

2. Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis convention, as modified by the revaluation of land and buildings, available for sale financial assets and derivative instruments at fair value through profit or loss. The financial statements are presented in Kenyan Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policy and disclosures

(i) New and amended standards but not relevant to the Group

The following new standards and amendments to standards are mandatory for the first time for the financial period beginning 1 January 2010.

IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2 . Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(i) New and amended standards but not relevant to the Group (continued)

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in income statement. IAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The Group's and parent entity's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9, 'Financial instruments' – effective 1 January 2013. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. It introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The Group is yet to assess IFRS 9's full impact.

IAS 24 (Revised) 'Related party disclosures' – effective 1 January 2011. The revised standard clarifies and simplifies the definition of a related party. When the revised standard is applied, the subsidiaries of the Group will need to disclose any transactions between itself and associates of its parent Company. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

'Classification of rights issues' (amendment to IAS 32) – effective 1 February 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments' - effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. It is not expected to have any impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2 . Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

Prepayments of a minimum funding requirement' (amendments to IFRIC 14). – effective 1 January 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments should be applied retrospectively to the earliest comparative period presented.

Annual improvements 2009 and 2010 – This is a collection of amendments to 12 standards as part of the IASB programme to annual improvements.

(b) Consolidation

(i) Subsidiaries

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value over any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(b) Consolidation (continued)

(ii) 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 (see Note 23).

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 other comprehensive income. 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. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising from investments in associates are recognised in the income statement.

(c) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2 . Summary of significant accounting policies (continued)

(c) Functional currency and translation of foreign currencies (continued)

(iii) 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:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement amount are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that are recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

(d) Segment reporting

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

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

(e) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax (VAT), returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2 . Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Revenue is recognised as follows:

(i) Sales of goods are recognised in the period in which the Group has delivered products to the customer, the customer has full discretion over the channel to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been accepted by the customer.

(ii) Interest income is recognised using the effective interest method.

(iii) Dividends are recognised as income in the period in which the right to receive payment is established.

(f) Property, plant and equipment

All categories of property, plant and equipment are initially recorded at cost. Buildings, freehold land and plant and equipment are subsequently shown at fair value, based on periodic, (but at least every five years), valuations by external independent valuers, less subsequent depreciation for buildings. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Increases in the carrying amount arising on revaluation are credited to a revaluation surplus reserve in equity. Decreases that offset previous increases of the same asset are charged against the revaluation surplus; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from the revaluation surplus to retained earnings.

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

- Buildings on freehold land	40 years
- Buildings on leasehold land	shorter of 40 years or the period of the lease
- Motor vehicles	5 years
- Plant and machinery	10 years
- Furniture and equipment	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are included in the income statement. On disposal of revalued assets, amounts in the other reserves relating to that asset are transferred to retained earnings.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(ii) Computer software

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

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group, are recognised as intangible assets, when the following criteria have been met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred.

Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(h) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates such designation at every reporting date:

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 month after the statement of financial position date. These are classified as non-current assets.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in the loans and receivables category. They are included in non-current assets unless management intends to dispose of the investment within 12 month of the statement of financial position date.

(ii) Recognition and measurement

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

(iii) Offsetting financial instruments

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

(iv) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(h) Financial assets (continued)

(iv) Impairment of financial assets (continued)

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio;
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(i) Accounting for leases

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

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the lease property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the assets useful life and the lease term.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of crude oil and refined products is determined by the weighted average cost method (taking into account the cost of purchase plus incidental costs incurred to bring the inventory to the present location). Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(k) Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a classified as current assets. If not, they are presented as non-current assets

(l) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

(m) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(n) Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(o) Employee benefits

(i) Retirement benefit obligations

The Group operates defined contribution retirement benefit schemes for all its employees. The Group and all its employees, where applicable, also contribute to the appropriate National Social Security Fund, which are defined contribution schemes. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

The Group's contributions to the defined contribution schemes are charged to the income statement in the year to which they relate.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the statement of financial position date is recognised as an expense accrual.

(iii) Share options

The Group has an Employee Share Ownership Plan (ESOP) under which, subject to the vesting conditions, eligible employees are entitled to acquire units in a separately administered Trust, each unit in the trust representing one share in KenolKobil Limited. The Group also operates a scheme under which senior management and the executive directors are entitled to acquire a predetermined number of shares at a predetermined price, subject to fulfilment of the vesting conditions.

In addition, the Company has an Options agreement with the CEO under which he is entitled to receive options for units amounting to 4% of the company's shares in respect of the financial years 2010 to 2014 to be issued on or about 1 May 2011.The direct cost to the Group of fulfilling its obligations under the above schemes is charged to the income statement when incurred.

The cost of issued share options is recognised in the income statement over the vesting period, measured at the fair value of the option. On allocation of shares to the trust, appropriate adjustments are made to increase share capital and the corresponding adjustments are made to the trust account. On vesting, the trust allocates the shares to the eligible individuals with adjustments made to the ESOP reserve.

(p) Current and deferred income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the relevant tax legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(p) Current and deferred income tax (continued)

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

Deferred income tax is determined using tax rates enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 month after the statement of financial position date.

(r) Dividend distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the period in which they are declared. Dividends are declared upon an approval at the annual general meeting. Proposed dividends are shown as a separate component of equity until declared.

(s) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

2. Summary of significant accounting policies (continued)

(t) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so the nature of the item being hedged.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 27. The movements on the hedging reserve in shareholders' equity are shown in Note 14. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedge item is more than 12 month; it is classified as a current asset or liability when the remaining maturity to the hedge item is less than 12 month.

(i) Cash flow hedge

The effective portions of changes in the fair value of derivatives that are designated and qualify as cash flow hedge are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other gains/ losses (net)

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised in the income statement within other gains/ (losses) net.

(u) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Critical accounting estimates and judgements

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

(i) Critical accounting estimates and assumptions

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

3. Critical accounting estimates and judgements (continued)

(i) Critical accounting estimates and assumptions (continued)

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The carrying amount of the goodwill and the key assumptions made are set out in Note 20.

Provisions for obligations and use of estimates

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

Income taxes

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

Were the actual final outcome (on the judgement areas) of expected cash flows to differ by 10% from management's estimates, there would be no significant impact on the income tax liability and the deferred income tax liability.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, management has made judgements in determining:

- whether assets are impaired
- provisions and contingent liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

4. Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the treasury department under policies approved by the Board of Directors. Treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investment of excess liquidity.

Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages foreign exchange risk arising from future commercial transactions and recognised assets and liabilities using forward contracts (which have been entered into in 2010), but has not designated any derivative instruments as hedging instruments.

Currency exposure arising from the net assets of foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

At 31 December 2010, if the US dollar had weakened/strengthened by 5% against the respective functional currencies of Group companies with all other variables held constant, consolidated post tax profit for the year would have been Shs 353,847,000 (2009: Shs 292,249,000) higher/lower, mainly as a result of US dollar receivables, borrowings and bank balances.

(ii) Cash flow and fair value interest rate risk

The Group has borrowings at variable rates, which expose the Group to cash flow interest rate risk. The Group regularly monitors financing options available to ensure optimum interest rates are obtained.

At 31 December 2010, an increase/decrease of 50 basis points would have resulted in an decrease/increase in consolidated post tax profit of Shs 79,507,000 (2009: Shs 16,377,000), mainly as a result of higher/lower interest charges on variable rate borrowings.

Credit risk

Credit risk is managed on a group basis. Credit risk arises from derivative financial instruments and deposits with banks, as well as trade and other receivables. Neither the Group nor the Company has any significant concentrations of credit risk. The group assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

4. Financial risk management (continued)

Credit risk (continued)

The amount that best represents the Group's and Company's maximum exposure to credit risk at 31 December 2010 and 2009 is made up as follows:

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Cash equivalents	2,133,091	3,805,759	1,834,313	2,960,729
Trade receivables	6,510,197	5,982,947	2,339,254	2,209,390
Loans to related parties	-	-	5,800,702	3,829,842
Other receivables	2,684,029	1,144,382	260,674	571,214
	11,327,317	10,933,088	10,243,943	9,571,175

No collateral is held for any of the above assets. All receivables that are neither past due nor impaired are within their approved credit limits, and no receivables have had their terms renegotiated. None of the above assets are either past due or impaired except for the following amounts in trade receivables (which are due within 30 days of the end of the month in which they are invoiced).

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Past due but not impaired:				
- by up to 30 days	784,252	1,188,513	56,541	916,095
- by 31 to 90 days	1,094,532	492,570	236,804	5,352
Total past due but not impaired	1,878,784	1,681,083	293,345	921,447
Impaired and fully provided for	(496,862)	(817,048)	(111,585)	(145,819)

All receivables past due by more than 90 days are considered to be impaired, and are carried at their estimated recoverable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

4. Financial risk management (continued)

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

The table below analyses the Group's and the Company's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year Shs'000	Between 1 and 2 years Shs'000	Over 2 Years Shs'000
(a) Group			
At 31 December 2010:			
- borrowings (excluding finance leases)	15,040,888	62,035	-
- finance leases	4,140	16,558	22,021
- trade and other payables	4,744,344	-	-
At 31 December 2009:			
- borrowings	4,705,243	32,228	13,358
- finance leases	3,757	15,030	20,198
- trade and other payables	14,787,916	-	-
(b) Company			
At 31 December 2010:			
- borrowings (excluding finance leases)	13,272,490	-	-
- trade and other payables	3,039,121	-	-
At 31 December 2009:			
- borrowings (excluding finance leases)	4,243,883	-	-
- trade and other payables	4,005,859	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

4. Financial risk management (continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new capital or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing level is managed on an ongoing basis to ensure it is within acceptable levels as determined by the board. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity plus net debt.

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2010 Shs'000
Total borrowings	13,772,649	4,280,796	12,065,900	3,789,181
Less: cash and cash equivalents	(2,133,091)	(3,806,455)	(1,834,313)	(2,960,739)
Net debt	11,639,558	474,341	10,231,587	828,442
Total equity	12,705,512	11,454,628	10,911,623	9,857,468
Total capital	24,345,070	11,928,969	21,143,210	10,685,910
Gearing ratio	48%	4%	48%	8%

5. Segment information

Management has determined the operating segments based on the reports reviewed by the Group Management Team in making strategic decisions.

The Group Management Team considers the business from a geographical perspective. Geographically, the business consists of Kenya, East African countries' (EAC) subsidiaries and other subsidiaries. Kenya is further segregated into inland sales and other sales.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

5. Segment information (continued)

The reportable operating segments derive their revenue primarily from the importation of crude oil for refining, trading, storage and distribution of refined and other petroleum products.

The Group Management Team assesses the performance of the operating segments based on a measure of adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and goodwill impairments when the impairment is the result of an isolated, non-recurring event.

The segment information provided to the Group Management Team for the reportable segments for the year ended 31 December 2010 is as follows:

	Kenya Inland Shs '000	Kenya Other Shs '000	E.A.C. subsidiaries Shs '000	Other subsidiaries Shs '000	Total Shs '000
Total segment revenue	33,843,799	49,498,019	14,624,773	10,514,802	108,481,393
Inter-segment revenue	-	(5,717,949)	(1,002,641)	-	(6,720,590)
Revenue from external customers	33,843,799	43,780,070	13,622,132	10,514,802	101,760,803
Adjusted EBITDA	1,862,637	983,500	610,739	332,761	3,789,637
Depreciation and amortisation	(400,454)	(32,955)	(188,889)	(72,947)	(695,244)
Interest expense	(238,211)	(147,694)	(113,996)	(44,294)	(544,195)
Interest income	72,158	44,721	17,146	12,671	146,697
Income tax expense	(428,589)	(282,971)	(125,737)	(83,886)	(921,183)
Share of profit from associates	-	-	-	928	928
Profit after tax	867,542	564,601	199,263	145,233	1,776,640
Total assets	11,559,418	13,517,407	4,520,309	2,619,496	32,216,630
Total liabilities	7,238,432	8,468,242	2,427,954	1,376,490	19,511,118

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

5. Segment information (continued)

The segment information provided to the Group Management Team for the reportable segments for the year ended 31 December 2009 is as follows:

	Kenya Inland Shs '000	Kenya Other Shs '000	E.A.C. subsidiaries Shs '000	Other subsidiaries Shs '000	Total Shs '000
Total segment revenue	27,855,855	53,128,666	8,931,366	8,251,680	98,167,567
Inter-segment revenue	-	(500,911)	(973,822)	-	(1,474,733)
Revenue from external customers	27,855,855	52,627,655	7,957,544	8,251,680	96,692,834
Adjusted EBITDA	954,080	954,201	712,278	306,230	2,926,789
Depreciation and amortisation	(397,254)	(56,232)	(158,428)	(62,528)	(674,442)
Interest expense	(309,184)	(56,984)	(60,528)	(24,596)	(451,292)
Interest income	103,527	17,873	6,550	3,847	131,797
Income tax expense	(95,076)	(232,529)	(220,138)	(91,208)	(638,951)
Share of profit from associates	-	-	-	604	604
Profit after tax	256,093	626,329	279,734	132,349	1,294,505
Total assets	8,376,136	17,201,095	3,485,336	2,226,290	31,288,857
Total liabilities	4,541,190	12,792,790	1,427,733	1,072,516	19,834,229

6. Other (costs) / income

	Group	
	2010 Shs'000	2009 Shs'000
Gain on disposal of property, plant and equipment	577	307,084
Loss on disposal of prepaid lease rentals	(7,959)	-
	(7,382)	**307,084**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

7. Expenses by nature

The following items have been charged/ (credited) in arriving at profit before income tax:

	Group	
	2010	2009
	Shs'000	Shs'000
Employee benefits expense (Note 8)	1,030,824	776,868
Amortisation of operating lease rentals (Note 18)	343,419	292,887
Depreciation of property, plant and equipment (Note 19)	343,356	368,262
Receivables – provision for impairment losses (Note 26)	(176,354)	172,441
Repairs and maintenance of property, plant and equipment	167,621	169,877
Excess provisions relating to prior periods no longer required	-	(207,000)
Auditors' remuneration		
- Company	11,320	8,443
- Group (including Company)	25,399	22,680

At every year end, the directors carry out an assessment to ensure that the Company has accounted for all its obligations (both legal and constructive) in accordance with the requirements of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets). Based on the facts available at the time, a provision is recognised if it is deemed to be probable that a payment will be required to be made to settle the obligation.

In prior years, a provision was recognised with respect to various legal actions that the Company was defendant in. In the opinion of the directors, some of these provisions were not required following favourable resolution of the legal cases. Therefore, the previous year's statement of comprehensive income includes a credit of Shs 207,000,000 with respect to those provisions made in the prior years.

8. Employee benefits expense

	Group	
	2010	2009
	Shs'000	Shs'000
The following items are included within employee benefits expense		
Salaries and wages	722,020	667,090
Retirement benefits costs:		
- Defined contribution scheme	40,312	40,205
- National Social Security Funds	17,448	17,895
Employee Share Ownership Plan (ESOP) costs	87,504	(37,278)
Other staff costs	163,540	88,956
	1,030,824	**776,868**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

9. Finance income /(costs)

	Group	
	2010	2009
	Shs'000	Shs'000
Finance income:		
Interest income	146,697	131,797
Finance costs:		
Interest expense	(544,195)	(451,292)
Net foreign exchange losses	(573,059)	(134,799)
Net finance costs	**(1,117,254)**	**(586,091)**

10. Income tax expense

	Group	
	2010	2009
	Shs'000	Shs'000
Current income tax	850,583	503,057
Deferred income tax (Note 17)	72,455	63,945
Prior year (over) / under provision of current income tax	(1,159)	24,349
Prior year (over) / under provision of deferred income tax (Note 17)	(696)	47,600
Income tax expense	**921,183**	**638,951**

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

	Group	
	2010	2009
	Shs'000	Shs'000
Profit before income tax	2,697,823	1,933,456
Tax calculated at a tax rate of 30% (2009: 30%)	809,347	580,037
Effect of different tax rates in Kobil Zambia and Kobil Petroleum Limited (Kenya) (35%) / (37.5%)	36,532	19,763
Prior year (over) / under provision of current income tax	(1,159)	24,349
Prior year (over) / under provision of deferred income tax	(696)	47,600
Expenses not deductible for tax purposes	95,616	75,817
Effect of unutilised tax losses	299	4,411
Tax effect of:		
Income not subject to tax	(9,894)	(114,942)
Deferred tax asset not recognised	(8,862)	1,916
Income tax expense	**921,183**	**638,951**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

11. Earnings per share

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

	2010	2009
Profit attributable to equity holders of the Company (Shs '000)	1,776,640	1,294,505
Number of ordinary shares in issue	1,471,761,200	1,471,761,200
Basic earnings per share (Shs)	1.21	0.88

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares.

	2010	2009
Profit attributable to equity holders of the Company (Shs'000)	1,776,640	1,294,505
Number of ordinary shares in issue	1,471,761,200	1,471,761,200
Adjustment for Group employee share ownership plan	3,941,360	3,772,000
Weighted average number of ordinary shares for diluted earnings per share	1,475,702,560	1,475,533,200
Diluted earnings per share (Shs)	1.20	0.88

This computation does not take into account gains/losses recognised directly in equity

12. Dividends

At the annual general meeting scheduled to take place on 28 April 2011, a dividend payment of Shs 0.52 per share will be proposed (2009: Shs 0.325). This amounts to Shs 765,316,000 (2009: 478,322,000).

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting.

Dividend payments are subject to withholding tax at the rate of 0%, 5% or 10% depending on the residence of the individual shareholder.

13. Share capital

	Number of ordinary shares	Ordinary share capital Shs'000
Balance at 1 January 2010	147,176,120	73,588
Share split done in the year (1:10)		
Balance at 31 December 2010	1,471,761,200	73,588

At the annual general meeting held on 20 May 2010 the shareholders resolved to subdivide the 150,000,000 ordinary shares of Shs 0.50 each into 1,500,000,000 shares of Shs. 0.05 each. After the subdivision, the number of outstanding and fully paid ordinary shares is 1,471,761,200.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

14. Other reserves

Group Year ended 31 December 2009	Revaluation surplus Shs'000	ESOP reserve Shs'000	Fair value reserve Shs'000	Translation reserve Shs'000	Hedge reserve Shs'000	Total Shs'000
At start of year	445,466	51,271	85,445	(191)	-	581,991
Revaluation	(18,443)	-	-	-	-	(18,443)
Deferred income tax on revaluation	5,533	-	-	-	-	5,533
Currency translation differences	-	-	-	(205,426)	-	(205,426)
Transfer of excess depreciation	(35,315)	-	-	-	-	(35,315)
Deferred tax on transfer of excess depreciation	10,594	-	-	-	-	10,594
Movement in the ESOP reserve	-	(37,278)	-	-		(37,278)
Movement in hedge reserve	-	-	-	-	14,993	14,993
Net gain/ (loss) recognised	(37,631)	(37,278)	-	(205,426)	14,993	(265,342)
At end of year	**407,835**	**13,993**	**85,445**	**(205,617)**	**14,993**	**316,649**

Group Year ended 31 December 2010	Revaluation surplus Shs'000	ESOP reserve Shs'000	Fair value reserve Shs'000	Translation reserve Shs'000	Hedge reserve Shs'000	Total Shs'000
At start of year	407,835	13,993	85,445	(205,617)	14,993	316,649
Revaluation	(451)	-	-	-	-	(451)
Deferred income tax on revaluation	135	-	-	-	-	135
Transfer of excess depreciation	(35,315)	-	-	-	-	(35,315)
Deferred tax on transfer of excess depreciation	10,594	-	-	-	-	10,594
Currency translation differences	-	-	-	(119,629)	-	(119,629)
Movement in the ESOP reserve	-	87,504	-	-		87,504
Movement in hedge reserve	-	-	-	-	(14,993)	(14,993)
Net gain/ (loss) recognised	(25,037)	87,504	-	(119,629)	(14,993)	(72,155)
At end of year	**382,798**	**101,497**	**85,445**	**(325,246)**	**-**	**244,494**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

14. Other reserves (continued)

Company Year ended 31 December 2009	Revaluation surplus Shs'000	ESOP reserve Shs'000	Fair value reserve Shs'000	Hedge reserve Shs'000	Total Shs'000
At start of year	355,067	51,271	85,445	-	491,783
Transfer of excess depreciation net of tax	(16,228)	-	-	-	(16,228)
Deferred income tax on transfer	4,868	-	-	-	4,868
Movement in the ESOP reserve	-	(37,278)	-	-	(37,278)
Movement in hedge reserve	-	-	-	14,993	14,993
Net gains/ (loss) recognised	(11,360)	(37,278)	-	14,993	(33,645)
At end of year	**343,707**	**13,993**	**85,445**	**14,993**	**458,138**

Company Year ended 31 December 2010	Revaluation surplus Shs'000	ESOP reserve Shs'000	Fair value reserve Shs'000	Hedge reserve Shs'000	Total Shs'000
At start of year	343,707	13,993	85,445	14,993	458,138
Transfer of excess depreciation net of tax	(16,228)	-	-	-	(16,228)
Deferred income tax on transfer	4,868	-	-	-	4,868
Movement in the ESOP reserve	-	87,504	-	-	87,504
Movement in hedge reserve	-	-	-	(14,993)	(14,993)
Net gains/ (loss) recognised	(11,360)	87,504	-	(14,993)	61,151
At end of year	**332,347**	**101,497**	**85,445**	**-**	**519,289**

The revaluation surplus represents solely the surplus on the revaluation of buildings, freehold land, plant and equipment net of deferred income tax and is non-distributable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

15. Borrowings

The borrowings are made up as follows:

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Non-current				
Bank borrowings	56,395	40,701	-	-
Finance leases	38,579	35,228	-	-
Total Non-current	94,974	75,929	-	-
Current				
Bank borrowings				
- borrowings in KShs	3,271,656	562,655	2,231,014	487,750
- borrowings in US$	8,861,297	3,451,174	8,851,167	3,301,431
- borrowings in TShs	390,139	112,592	-	-
- borrowings in UShs	16,953	28,904	-	-
- borrowings in Ebirr	46,403	27,730	-	-
- borrowings in Zkw	103,368	18,055	-	-
Commercial paper	983,719	-	983,719	-
Finance leases	4,140	3,757	-	-
Total current	13,677,675	4,204,867	12,065,900	3,789,181
Total borrowings	**13,772,649**	**4,280,796**	**12,065,900**	**3,789,181**

The bank borrowings are secured by certain land and buildings of the Group with a value in excess of Shs 450 million.

Finance leases are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

The carrying amounts of short-term borrowings and lease obligations approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the statement of financial position date.

It is impractical to assign fair values to the Group's long term borrowings due to inability to forecast interest rate and foreign exchange rate changes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

15. Borrowings (continued)

Maturity of non-current borrowings (excluding finance lease liabilities):

	Group	
	2010 Shs'000	2009 Shs'000
Between 1 and 2 years	56,395	28,775
Between 2 and 5 years	-	11,926
	56,395	**40,701**

Letter of credit (LC) facilities available to the Group are US$ 227 million (2009: US$ 243 million). Unutilised LC facilities at year end amount to US$ 139 million (2009: US$ 46 million).

Finance lease liabilities – minimum lease payments	Group	
	2010 Shs'000	2009 Shs'000
Not later than 1 year	4,140	3,757
Later than 1 year and not later than 5 years	16,558	15,030
Later than 5 years	22,021	20,198
	42,719	**38,985**

16. Employees' Share Ownership Plan (ESOP)

As at 31 December 2010, the Group had the following share-based compensation plans:

(i) Employee Share Ownership Scheme

All employees are entitled to participate under this scheme. The grant is made based on merit which is at the sole discretion of the Board of Directors. For an employee to receive a grant, he / she must among other conditions:

- be above 19 years of age
- have been in continuous service for at least 12 month, for a full time basis;

The vesting period under this scheme is 3 years from the date of the grant.

(ii) Executive Option Scheme

This scheme is open to all permanent employees holding a managerial position in the Company or any subsidiary who the Board may from time to time decide is eligible to participate. Entitlement is based on merit which is at the sole discretion of the Board of Directors.

The vesting period is 3 years from the date of the grant after which the options must be exercised within a period of 1 year.

The number of units in respect of which options may be granted (including units issued under the employee share ownership scheme) on any day shall not exceed 10% of shares in issue immediately prior to that day.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

16. Employees' Share Ownership Plan (ESOP) (continued)

(iii) CEO Option agreement

The company has an options agreement with the CEO under which he is entitled to receive options for units amounting to 4% of the company's shares in respect of the financial years 2010 to 2014 to be issued on or about 1 May 2011. The CEO options are governed by the same terms and pricing as the other options issued under the executive option scheme.

A summary of the status of all schemes as at 31 December 2010 and 31 December 2009 and changes during the years ended on these dates is presented below:

Employee Share Ownership Scheme	2010	2009
	Number of units	Number of units
Outstanding at 1 January	3,772,000	3,955,380
Granted	1,188,480	1,423,400
Exercised / vested	(842,450)	(1,207,170)
Forfeited	(176,670)	(399,610)
Outstanding at 31 December	**3,941,360**	**3,772,000**

There were 842,450 share options exercised during the year (2009: 1,207,170).

Executive Option Scheme	Number of options	2010 weighted average exercise price	Number of options	2009 weighted average exercise price
		Shs		Shs
Outstanding at 1 January	51,785,390	9.543	32,942,780	11.145
Granted	21,762,610	4.715	19,317,610	6.860
Exercised	-	-	-	-
Forfeited	(1,280,000)	8.400	(475,000)	11.480
Expired	-	-	-	-
Outstanding at 31 December	**72,268,000**	**8.109**	**51,785,390**	**9.543**
Exercisable at 31 December	**32,486,750**	**-**	**15,005,520**	**-**

There were no options exercised during the year (2009: nil). The options outstanding at 31 December 2010 had a weighted average exercise price of Shs 8.109 (2009: Shs 9.543) and a weighted average remaining contractual life of 5 years (2009: 5 years).

Under the employee schemes, market price of the shares at the year end has been taken to be the fair value, while under the executive scheme, the probability of the each employee exercising the option and the price of shares as at 31 December has been used to estimate the fair value.

The financial results of the ESOP trust have not been consolidated on the basis that they are not material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

17. Deferred income tax

Deferred income tax is calculated using the enacted income tax range rates of between 30% and 37.5% (2009: 30% - 37.5%). The movement on the deferred income tax account is as follows:

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
At start of year	465,113	359,101	75,366	70,593
Charge to income statement (Note 10)	71,759	111,545	68,316	4,773
Credit to equity	(135)	(5,533)	-	-
At end of year	**536,737**	**465,113**	**143,682**	**75,366**

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

Group 2010

	At 1 January 2010 Shs'000	Charged/ (credited) to income statement Shs'000	Credited to equity Shs'000	At 31 December 2010 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	223,087	(7,087)	-	216,000
- on revaluation surplus	345,146	(42,247)	(135)	302,764
Unrealised exchange differences	-	141,059	-	141,059
Currency translation differences	5,653	2,675	-	8,328
	573,886	94,400	(135)	668,151
Deferred income tax assets				
Provisions (including hedge reserve)	(101,817)	(13,136)	-	(114,953)
Tax losses	(1,783)	(9,819)	-	(11,602)
Unrealised exchange differences	(5,173)	314	-	(4,859)
	(108,773)	(22,641)	-	(131,414)
Net deferred income tax liability	**465,113**	**71,759**	**(135)**	**536,737**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

17. Deferred income tax (continued)

Group 2009

	At 1 January 2009 Shs'000	Charged/ (credited) to income statement Shs'000	Charged to equity Shs'000	At 31 December 2009 Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	145,992	77,095	-	223,087
- on revaluation surplus	381,794	(31,115)	(5,533)	345,146
Currency translation differences	1,670	3,983	-	5,653
	529,456	49,963	(5,533)	573,886
Deferred income tax assets				
Provisions (including hedge reserve)	(86,984)	(14,833)	-	(101,817)
Tax losses	(44,025)	42,242	-	(1,783)
Unrealised exchange differences	(39,346)	34,173	-	(5,173)
	(170,355)	61,582	-	(108,773)
Net deferred income tax liability	**359,101**	**111,545**	**(5,533)**	**465,113**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

17. Deferred income tax (continued)

Company 2010

	At 1 January 2010	Charged/ (credited) to income statement	Charged to equity	At 31 December 2010
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	(7,977)	(6,130)	-	(14,107)
- on revaluation surplus	115,077	(8,716)	-	106,361
Provisions	(22,967)	(15,349)	-	(38,316)
Unrealised exchange differences	(8,767)	98,511	-	89,744
Net deferred tax liability	**75,366**	**68,316**	**-**	**143,682**

Company 2009

	At 1 January 2009	Charged/ (credited) to income statement	Charged to equity	At 31 December 2009
	Shs'000	Shs'000	Shs'000	Shs'000
Deferred income tax liabilities				
Property, plant and equipment:				
- on historical cost basis	(8,051)	74	-	(7,977)
- on revaluation surplus	120,001	(4,924)	-	115,077
Provisions	(14,407)	(8,560)	-	(22,967)
Unrealised exchange differences	(26,950)	18,183	-	(8,767)
Net deferred tax liability	**70,593**	**4,773**	**-**	**75,366**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

Deferred income tax of Shs 10,594,000 and Shs 4,868,000 respectively for the Group and the Company in 2010, was transferred within shareholders' equity from revaluation reserves to retained earnings (see Note 14). This represents deferred income tax on the difference between the actual depreciation on the property and the equivalent depreciation based on the historical cost of the property and revaluation surplus on disposed assets.

18 . Prepaid operating lease rentals

	Group		Company	
	2010	2009	2010	2009
	Shs'000	Shs'000	Shs'000	Shs'000
At start of year	733,908	869,135	78,312	176,330
Additions	312,182	306,670	93,186	109,705
Disposals	(9,459)	(119,146)	-	(117,704)
Amortisation for the year	(343,419)	(292,887)	(108,010)	(90,019)
Currency translation differences	(18,650)	(29,864)	-	-
At end of year	**674,562**	**733,908**	**63,488**	**78,312**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

19 . Property, plant and equipment

(a) Group

	Freehold land	Buildings	Motor vehicles	Plant & equipment	Furniture & office equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2009						
Cost or valuation	573,998	2,613,715	57,637	1,956,044	284,272	5,485,666
Accumulated depreciation	-	(220,365)	(15,998)	(241,699)	(143,966)	(622,028)
Net book amount	**573,998**	**2,393,350**	**41,639**	**1,714,345**	**140,306**	**4,863,638**
Year ended 31 December 2009						
Opening net book amount	573,998	2,393,350	41,639	1,714,345	140,306	4,863,638
Additions	-	240,954	3,143	91,867	16,410	352,374
Disposals	(4,286)	(83,147)	-	(8,821)	-	(96,254)
Transfers	(573)	31,811	32,545	(26,086)	(37,697)	-
Currency translation differences	(50,418)	(85,508)	(3,028	(77,318)	(4,401)	(220,673)
Depreciation charge	-	(172,332)	(9,930)	(160,540)	(25,460)	(368,262)
Revaluation	-	(28,967)	-	10,524	-	(18,443)
Closing net book amount	**518,721**	**2,296,161**	**64,369**	**1,543,971**	**89,158**	**4,512,380**
At 31 December 2009						
Cost or valuation	518,721	2,629,425	83,395	1,943,403	217,331	5,392,275
Accumulated depreciation	-	(333,264)	(19,026)	(399,432)	(128,173)	(879,895)
Net book amount	**518,721**	**2,296,161**	**64,369**	**1,543,971**	**89,158**	**4,512,380**
Year ended 31 December 2010						
Opening net book amount	518,721	2,296,161	64,369	1,543,971	89,158	4,512,380
Additions	-	361,954	26,865	148,594	27,821	565,234
Disposals	-	-	-	(69)	(83)	(152)
Transfers	-	(6,059)	-	5,094	966	1
Currency translation differences	(23,408)	(118,181)	(31,363)	64,507	(30,446)	(138,891)
Charge for the year	-	(147,555)	(11,867)	(159,832)	(24,102)	(343,356)
Revaluation	-	-	-	(205)	-	(205)
Closing net book amount	**495,313**	**2,386,320**	**48,004**	**1,602,060**	**63,314**	**4,595,011**
At 31 December 2010						
Cost or valuation	495,313	2,734,277	129,493	2,027,157	410,991	5,797,231
Accumulated depreciation	-	(347,957)	(81,489)	(425,097)	(347,677)	(1,202,220)
Net book amount	**495,313**	**2,386,320**	**48,004**	**1,602,060**	**63,314**	**4,595,011**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

19. Property, plant and equipment (continued)

(b) Company

	Freehold land	Buildings	Motor vehicles	Plant & equipment	Furniture & office equipment	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
At 1 January 2009						
Cost or valuation	108,375	479,181	245,793	6,174	158,839	998,362
Accumulated depreciation	-	(5,518)	-	(1,662)	(122,986)	(130,166)
Net book amount	**108,375**	**473,663**	**245,793**	**4,512**	**35,853**	**868,196**
Year 31 December 2009						
Opening net book amount	108,375	473,663	245,793	4,512	35,853	868,196
Additions		4,438	3,620	12,770	16,721	37,549
Transfers	-	17,854	-	7,433	(25,287)	-
Disposals	-	(54,631)	-	(4,966)	-	(59,597)
Charge for the year	-	(66,580)	(1,927)	(26,103)	(9,030)	(103,640)
Closing net book amount	**108,375**	**374,744**	**6,205**	**234,927**	**18,257**	**742,508**
At 31 December 2009						
Cost or valuation	108,375	441,324	9,794	261,030	150,273	970,796
Accumulated depreciation		(66,580)	(3,589)	(26,103)	(132,016)	(228,288)
Net book amount	**108,375**	**374,744**	**6,205**	**234,927**	**18,257**	**742,508**
Year 31 December 2010						
Opening net book amount	108,375	374,744	6,205	234,927	18,257	742,508
Additions	-	76,103	10,000	5,652	5,432	97,187
Transfers	-	(18,355)	-	1,317	9,556	(7,482)
Disposals	-	-	-	-	(83)	(83)
Charge for the year	-	(37,417)	(3,227)	(26,462)	(8,689)	(75,795)
Closing net book amount	**108,375**	**395,075**	**12,978**	**215,434**	**24,473**	**756,335**
At 31 December 2010						
Cost or valuation	108,375	499,072	19,794	267,999	165,177	1,060,417
Accumulated depreciation	-	(103,997)	(6,816)	(52,565)	(140,704)	(304,082)
Net book amount	**108,375**	**395,075**	**12,978**	**215,434**	**24,473**	**756,335**

In the opinion of the directors, there are no impairments of property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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19. Property, plant and equipment (continued)

(c) Revaluations

Freehold land, all buildings and plant and equipment for the Group and the Company were valued as at 31 December 2008 by independent professional valuers. Valuations were made on the basis of open market value for land and buildings and depreciated replacement costs for plant and equipment. The book values of the properties were adjusted to the revaluations and the resultant surplus net of deferred income tax was credited to the revaluation surplus in shareholders' equity.

The revaluation reserve is non distributable.

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

	Land & buildings		Plant & equipment	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Group				
Cost	3,786,071	3,424,117	1,890,825	1,798,412
Accumulated depreciation	(884,695)	(790,043)	(742,839)	(826,606)
Net book amount	**2,901,376**	**2,634,074**	**1,147,986**	**971,806**
Company				
Cost	497,297	473,224	346,289	315,184
Accumulated depreciation	(305,970)	(294,897)	(271,289)	(233,782)
Net book amount	**191,237**	**178,327**	**75,000**	**81,402**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

20. Intangible assets

(a) Group	Goodwill Shs'000	Computer software Shs'000	Total Shs'000s
At 1 January 2009			
Cost	835,034	62,753	897,787
Accumulated amortisation and impairment	-	(42,175)	(42,175)
Net book amount	835,034	20,578	855,612
Year ended 31 December 2009			
Opening net book amount	835,034	20,578	855,612
Additions	12,908	-	12,908
Amortisation	-	(13,293)	(13,293)
Closing net book amount	847,942	7,285	855,227
At 31 December 2009			
Cost	847,942	62,753	910,695
Accumulated amortisation and impairment	-	(55,468)	(55,468)
Net book amount	847,942	7,285	855,227
Year ended 31 December 2010			
Opening net book amount	847,942	7,285	855,227
Additions	-	20,417	20,417
Amortisation	-	(8,469)	(8,469)
Currency translation differences	-	(106)	(106)
Closing net book amount	847,942	19,127	867,069
At 31 December 2010			
Cost	847,942	83,064	931,006
Accumulated amortisation and impairment	-	(63,937)	(63,937)
Net book amount	847,942	19,127	867,069

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

20. Intangible assets (continued)

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	2010 Shs'000	2009 Shs'000
Cost – Kobil Uganda Limited	26,098	26,098
Cost – Kobil Petroleum Limited	808,936	808,936
Cost – Kobil Burundi SA	12,908	12,908
	847,942	**847,942**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial projections approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The growth rates do not exceed the long-term average growth rates for the respective businesses in which the CGUs operate.

	Kenya	Uganda	Burundi
EBITDA margin[1]	2%	5%	5%
Growth rate[2]	3%	2%	2%
Discount rate[3]	10%	15%	15%

[1] Budgeted EBITDA margin
[2] Weighted average growth rate used to extrapolate cash flows beyond the projected period.
[3] Pre-tax discount rate applied to the cash flow projections

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted EBITDA margin based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

20. Intangible assets (continued)

(b) Company	Computer software Shs'000
At 1 January 2009	
Cost	62,753
Accumulated amortisation and impairment	(42,175)
Net book amount	20,578
Year ended 31 December 2009	
Opening net book amount	20,578
Additions	-
Amortisation	(13,293)
Closing net book amount	7,285
At 31 December 2009	
Cost	62,753
Accumulated amortisation and impairment	(55,468)
Net book amount	7,285
Year ended 31 December 2010	
Opening net book amount	7,285
Additions	7,482
Amortisation	(7,909)
Closing net book amount	6,858
At 31 December 2010	
Cost	70,235
Accumulated amortisation and impairment	(63,377)
Net book value	**6,858**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

21. Investment in subsidiaries (at cost)

The Company's interest in its subsidiaries, all of which are unlisted and all of which have the same year end as the Company, were as follows:

	Company			
	Country of incorporation	% interest held	2010 Shs'000	2009 Shs'000
Kobil Petroleum Limited	USA	100	5,172,440	5,172,440
Kobil Uganda Limited	Uganda	100	82,526	82,526
Kobil Tanzania Limited	Tanzania	100	129,564	129,564
Kobil Zambia Limited	Zambia	100	-	-
Kobil Rwanda SARL	Rwanda	100	794	794
Kobil Petroleum Rwanda SARL	Rwanda	100	-	-
Kobil Ethiopia Limited	Ethiopia	100	489,442	489,442
Kobil Burundi SA	Burundi	100	79,733	15,876
Kobil Mocambique Limited	Mozambique	100	-	-
Kobil Zimambwe Limited	Zimbabwe	100	-	-
			5,954,499	**5,890,642**

KenolKobil Limited acquired 100% of the issued share capital of Oil Burundi SA on 6 October 2009. The initial investment amount was Shs 15,876,000. This investment was increased by Shs 63,857,000 in the current year through the issue of additional shares in the Company.

During 2010, KenolKobil registered wholly owned subsidiaries in Mozambique (Kobil Mocambique Limited) and in Zimbabwe (Kobil Zimbabwe Limited) to pursue the Group's expansion strategy. The Company is planning to fund the share capital in 2011.

22. Available-for-sale investment

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
At start of year	-	8,820	-	-
Reclassification to investment in associates	-	(8,820)	-	-
	-	**-**	**-**	**-**

23. Investment in associates

	Group		Company	
	2010 Shs' 000	2009 Shs' 000	2010 Shs' 000	2009 Shs' 000
At start of year	16,685	-	-	-
Transfer from available for sale investments (Note 22)	-	8,820	-	-
Acquisition	-	8,099	-	-
Share of profit	928	604	-	-
Exchange differences	307	(838)	-	-
At end of year	**17,920**	**16,685**	**-**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

23. Investment in associates (continued)

Investments in associates at 31 December 2010 include goodwill of Shs 12,191,000. The investment in associates represents the investment made by Kobil Zambia Limited in Lublend Limited. Lublend Limited effectively became an associate entity on 17 December 2009

Key financial data of Lublend Limited for the year ended 31 December 2010 and 31 December 2009 is as follows;

Year ended 31 December	Country of incorporation	% interest held	Assets Shs'000	Liabilities Shs'000	Revenues Shs'000
2010	Zambia	25.5	51,618	69,742	76,259
2009	Zambia	25.5	60,308	41,767	100,856

24. Loan to subsidiary

	Company	
	2010 Shs'000	2009 Shs'000
Kobil Ethiopia	**16,416**	**45,757**

The loan to Ethiopia is denominated in US dollars. The loan is provided with interest and is not required to be repaid within one year and is unsecured.

25. Inventories

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Refined products on hand	**12,750,781**	**13,172,275**	**8,448,404**	**1,366,333**

All inventories are stated at the lower of cost and net realisable value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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26. Receivables and prepayments

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Trade receivables	7,007,059	6,799,995	2,450,839	2,355,209
Less: provision for impairment losses	(496,862)	(817,048)	(111,585)	(145,819)
Net trade receivables	6,510,197	5,982,947	2,339,254	2,209,390
Prepayments	1,928,682	937,545	894,385	169,383
Other receivables	2,684,029	1,144,382	260,674	571,214
Receivables from related parties	-	-	157,585	97,847
	11,122,908	**8,064,874**	**3,651,898**	**3,047,834**
Provision for impairment losses movement				
At start of year	(817,048)	(699,199)	(145,819)	(117,214)
		-		-
Credited/(Charged) to income statement	176,354	(172,441)	(37,589)	(66,041)
Amounts recovered	71,823	43,110	71,823	37,436
Provisions utilised	72,009	11,482		-
	(496,862)	**(817,048)**	**(111,585)**	**(145,819)**

The creation and release of provision for impaired receivables have been included in 'other expenses' in the income statement. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group and Company does not hold any collateral as security.

The fair value of trade and other receivables approximates their carrying value.

27. Derivative financial assets

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Derivative financial instruments	-	14,993	-	14,993
The carrying amounts of the financial assets are classified as follows:				
Designated at fair value on initial recognition	**-**	**14,993**	**-**	**14,993**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

28. Cash and cash equivalents

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Cash at bank and in hand	2,133,091	3,806,455	1,834,313	2,960,739
Less: Restricted cash	-	(128,558)	-	-
Cash and cash equivalents for cash flow statement purposes	**2,133,091**	**3,677,897**	**1,834,313**	**2,960,739**

Restricted cash related to amounts held in bank accounts that were not controlled by the Group. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks, net of restricted cash.

29. Payables and accrued expenses

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Trade payables	2,807,040	10,011,049	95,905	1,480,224
Payables to related companies	-	-	2,407,784	2,066,544
Accrued expenses	1,207,784	487,096	49,304	274,611
Other payables	691,022	4,269,326	476,075	168,798
Accrued leave	38,498	20,445	10,053	15,682
	4,744,344	14,787,916	3,039,121	4,005,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

30. Cash generated from operations

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

	Group	
	2010 Shs'000	2009 Shs'000
Profit before income tax	2,697,823	1,933,456
Adjustments for:		
Interest income (Note 5)	(146,697)	(131,797)
Interest expense (Note 9)	544,195	451,292
Depreciation (Note 19)	343,356	368,262
Amortisation of prepaid operating lease rentals (Note 18)	343,419	292,887
Amortisation of intangible assets (Note 20)	8,469	13,293
Gain on sale of property, plant and equipment	(577)	(307,084)
Share of profit in associate (Note 23)	(928)	(604)
ESOP reserve movement recognized through the income statement	87,504	(37,278)
Loss on disposal of prepaid rentals	7,959	-
Changes in working capital		
- receivables and prepayments	(3,058,034)	(215,753)
- inventories	421,494	(2,355,945)
- payables and accrued expenses	(10,043,572)	5,381,114
- movement in restricted cash	128,558	(128,558)
Cash (absorbed in)/generated from operations	**(8,667,031)**	**5,263,285**

31. Related parties and related parties transactions

The Group has shareholding by various companies as shown on page 71. There are various other companies that are related to the Group through common shareholdings and/or common directorships.

In January 1986, certain operations of KenolKobil Limited (formerly Kenol) were integrated with those of Kobil Petroleum Limited-Kenya Branch (Kobil). Under the joint operation, the Head Office departments of the two entities were integrated and depot operations combined.

Subsequently in 1993, Kenol and Kobil entered into an operating agreement to integrate their operations. Crude oil and refined products consignments, export, reseller, commercial, and aviation sales and distribution, selling, marketing, administration and financial expenses are shared, unless otherwise agreed, between KenolKobil and Kobil on the basis of agreed market shares of sales volume in their respective classes of business. This sharing arrangement is reviewed on a regular basis and revised as necessary. For the year ended 31 December 2010 the ratio, for agreed items, between KenolKobil and Kobil for consignment sales and related expenses was 80% to 20% (2009: 80% to 20%) and for other sales and related expenses it was 80% to 20% (2009: 42.5% to 57.5%)

Under a separate arrangement, Kobil has allowed KenolKobil's subsidiaries to use its brand name outside Kenya.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

31. Related parties and related parties transactions (continued)

The following transactions were carried out with related parties:

i) Purchase of goods

During the year, the following purchases were made from Kobil Petroleum Limited – Kenya branch and Kobil Tanzania Limited by Group companies.

	2010 Shs'000	2009 Shs'000
KenolKobil Limited	5,100,544	-
Kobil Uganda Limited	366,838	370,766
Kobil Tanzania Limited	101,718	13,919
Kobil Rwanda SARL	-	-
Kobil Petroleum Rwanda SARL	788,277	829,238
Kobil Zambia Limited	30,922	78,781
Kobil Ethiopia Limited	81,597	95,394
Kobil Burundi SA	250,694	86,635
	6,720,590	**1,474,733**

ii) Advances from Company to Kobil Petroleum Limited – Kenya branch

	2010 Shs'000	2009 Shs'000
Due from Kobil Petroleum Limited	**5,784,286**	**3,784,085**

The amounts due from Kobil Petroleum Limited are interest free, unsecured and payable within one year

iii) Key management compensation

	Group	
	2010 Shs'000	2009 Shs'000
Salaries and other short term employment benefits	284,733	216,859
Post-employment benefits	7,355	6,075
	292,088	**222,934**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

31. Related parties and related parties transactions (continued)

iv) Directors' remuneration

	Group	
	2010 Shs'000	2009 Shs'000
Fees for services as a director	5,828	5,140
Other emoluments (included under key management compensation above)	62,132	42,587
Total remuneration of directors of the Company	**67,960**	**47,727**

During the year, the Group undertook transactions with entities connected to directors as follows:

	2010 Shs'000	2009 Shs'000
Shapley Barret	15,899	12,376
Kestrel Capital Limited	1,740	-
	17,639	**12,376**

32. Contingent liabilities

The Group is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

The Company has also provided corporate guarantees in favour of subsidiaries and other entities to a maximum of US$ 9.676 million (2009: US $ 11.541 million).

In addition, at year end, the Company had transit bonds and performance guarantees totaling Shs 1,494 million (2009: Shs 1,192 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2010

33. Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements as follows:

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Property, plant and equipment	**62,445**	**57,659**	**26,333**	**26,479**

(b) Operating lease commitments

	Group		Company	
	2010 Shs'000	2009 Shs'000	2010 Shs'000	2009 Shs'000
Not later than 1 year	290,746	275,557	209,391	96,710
Later than 1 year and not later than 5 years	1,025,224	977,132	401,002	355,469
Later than 5 years	2,284,646	2,208,483	1,158,532	1,021,041
	3,600,616	**3,461,172**	**1,768,925**	**1,473,220**

PRINCIPAL SHAREHOLDERS AND SHARE DISTRIBUTION

The ten major shareholdings in the Company and the respective number of shares held at 28 February 2011 is as follows:

	Name of shareholder	Number of shares	% Shareholding
1.	Wells Petroleum Holdings Limited	366,614,280	24.91%
2.	Petroholdings Limited	255,211,080	17.34%
3	Highfield Limited	183,350,000	12.46%
4	Chery Holding Limited	128,204,000	8.71%
5	Energy Resources Capital Limited	88,185,720	5.99%
6	CFC Stanbic Nominees Kenya Ltd (A/c NR13302)	28,866,200	1.96%
7	Standard Chartered Nominees Non Resd A/c 9867	23,132,700	1.57%
8	KenolKobil Ltd Employee Share Ownerwship plan (ESOP)	9,000,000	0.61%
9	Kenya Commercial Bank Nominees Ltd (A/c 769G)	8,603,610	0.58%
10	CFC Stanbic Nominees Ltd (A/c R48703)	8,362,700	0.57%

Distribution of shareholders

	Number of shareholders	Number of shares	% Shareholding
Less than 500 shares	1,122	247,798	0.01
500 – 5,000 shares	4,013	8,314,324	0.56
5,001 – 10,000 shares	1,009	8,437,438	0.57
10,001 – 100,000 shares	1,631	56,205,565	3.81
100,001 – 1,000,000 shares	364	103,109,570	7.00
Over 1,000,000 shares	93	1,295,446,505	88.02
Total	**8,232**	**1,471,761,200**	**100**

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