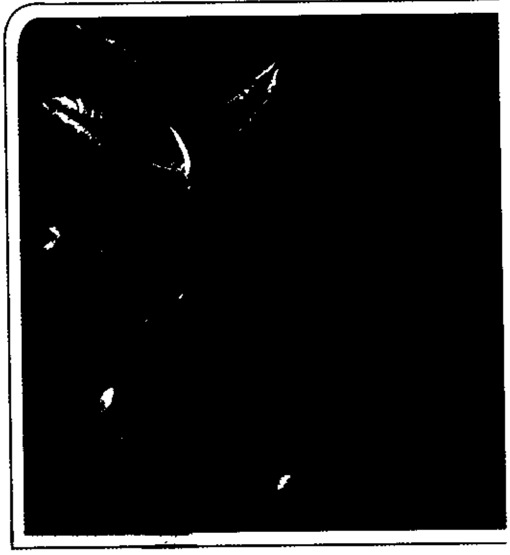
# | CONTENTS |









## VISION

To be a leader in quality of our products and services

To be a leader in profitability and return to our stakeholders.

To be the most responsible and preferred company in the region.

## MISSION

The purpose of TOTAL KENYA is to market quality petroleum products and services to its customers responsibly and profitably in an innovative way to ensure that the public will come and continue to turn to Total

# | NOTICE OF THE ANNUAL GENERAL MEETING |

Notice is hereby given that the 54th Annual General Meeting of the Company will be held at the KICC, Aberdares and Lenana Meeting rooms, Nairobi on Wednesday 28, May 2008 at 3.00 p.m. to transact the following business:

1. To confirm the minutes of the 53rd Annual General Meeting held on 29 May 2007.

2. To receive and consider the Financial Statements for the year ended 31 December 2007 together with the Chairman's Statement and the reports of the Directors and Auditors thereon.

3. To declare a dividend of Kshs 2.50 per share in respect of the financial year ended 31 December 2007.



4. To approve the Directors' fees for the financial year ended 31 December 2007.

5. To re-elect a Director:-

   Mr M Karanja retires in accordance with Article 97 of the Company's Articles of Association and, being eligible, offers himself for re-election.

6. To re-appoint Messrs Deloitte & Touche in office as the Auditors 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.

**BY ORDER OF THE BOARD**



**J L G MAONGA**
**SECRETARY**

**Date: 25 March 2008**

Note: A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy, which is provided with this report, must be duly completed by the member and must be lodged at the Registered Office of the Company, Chai House, Koinange Street, P O Box 30736, 00100-Nairobi, or posted in time to reach not later than the close of business on 26 May 2008.

# | DIRECTORS & PROFESSIONAL ADVISERS |

BOARD OF DIRECTORS

| | |
|---|---|
| Hervé Allibert * | Chairman |
| Bertrand Fontanges* | Managing Director (Also alternate to Hervé Allibert as Chairman) |
| Alain Champeaux* | |
| Olivier Berthaud* | |
| Michael Karanja | |
| | |
| Franck Dessaintjean* | (Alternate to Bertrand Fontanges) |
| Joseph Adewa | (Alternate to Olivier Berthaud) |
| Franklin Juma | (Alternate to Alain Champeaux) |

* French

SECRETARY

J L G Maonga
P.O Box 30029-00100
Nairobi
Kenya

HEAD OFFICE AND REGISTERED OFFICE

Chai House Koinange Street
P O Box 30736–00100
Nairobi
Kenya

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
"Kirungii", Ring Road, Westlands,
P O Box 40092-00100
Nairobi
Kenya

ADVOCATES

Njoroge Regeru and Company
P.O Box 46856-00100
Nairobi
Kenya

BANKERS

Citibank NA
P.O Box 30711-00100
Nairobi
Kenya

SHARE REGISTRAS

Comprite Kenya Limited
P.O Box 63428-00619
Nairobi
Kenya

# REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

## ACTIVITY

The principal activity of the company is the sale of petroleum products.

## RESULTS

| The results for the year are as follows: | Kshs'000 |
|---|---|
| Profit before taxation | 781,935 |
| Taxation | (257,745) |
| Profit for the year transferred to revenue reserve | 524,190 |

## DIRECTORS

The present membership of the Board is set out on page 4. The changes in directorship during the year were as follows:

- Emmanuel Morand-Fehr resigned as an alternate director to Bertrand Fontanges on 16 July 2007 and was replaced on the same date by Franck Dessaintjean.

## DIVIDEND

The directors recommend a dividend of Kshs 2.50 (2006 Kshs 2.50) per share in respect of the year. The dividend is subject to withholding tax at a rate of 5% for residents and 10% for non-residents, unless specifically exempted.

## AUDITORS

Deloitte & Touche, having confirmed their willingness, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap 486).

**BY ORDER OF THE BOARD**

**J L G MAONGA**
**SECRETARY**

**25 March 2008**

# | DIRECTORS' PROFILE |

HERVÉ ALLIBERT

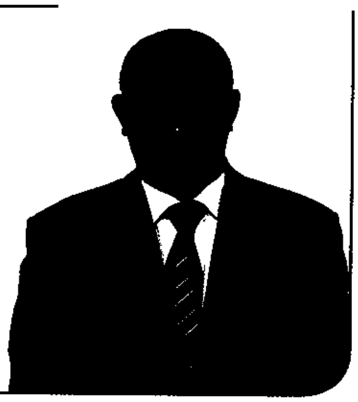
Hervé Allibert aged 50 is a graduate of the French Business School ICN (Institut Commercial de Nancy). He joined the group in 1983; worked in several positions in marketing and international development in both Network Sector and Specialities. He was the Managing Director of Elf Olie Denmark in charge of Scandinavia from 1994 to 1998. Thereafter he took the position of Marketing General Manager of Total Overseas (Africa, Middle East and Carribean) in 2002. He was appointed Executive Vice President of North East Africa in January 2007.

BERTRAND FONTANGES

Mr. Bertrand Fontanges aged 46 holds an Engineering Degree from Ecole Centrale de Lille (former Institut Industriel du Nord), France. He has held several positions in the Total Group in operations and marketing in Europe and Africa from 1987 to 1997. Thereafter, he was the Managing Director of Total Portugal for four years. In 2001, he was appointed Strategy Manager Total Overseas (Africa, Middle East and Carribean) until 2003 when he moved to Total Lebanon as Managing Director, a post he held until August 2005 when he was appointed Managing Director, Total Kenya.

ALAIN CHAMPEAUX

Mr. Alain Champeaux aged 58 holds an Engineering Degree from Ecole Nationale Supérieure des Mines de Paris, France as well as a Masters of Arts in Economics from Standford University, USA. He joined the Total Group in 1976. He has worked in several positions in Planning / Budget / Investment Projects as well as in the Network Sector in Europe. He became the Senior Vice President Marketing Europe in 1995 and has been the Senior Vice President of Africa / Middle East since 2002.



MICHAEL KARANJA

Mr. Michael Karanja aged 68, has a Bsc Degree from Makerere and a Diploma in Brewing from Heriot-Watt University-Edinburgh. He worked with Kenya Breweries tor 36 years rising to the position of Deputy Chairman East African Breweries. He is the Chairman of Cooper Kenya Limited and Rhino Ark Trustees. He is also a Director of I&M Bank and several other companies.

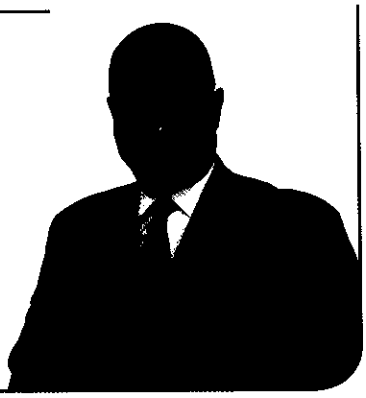
# DIRECTORS' PROFILE

OLIVIER BERTHAUD

Mr. Olivier Berthaud aged 31 holds a Master's degree in Strategy and Management of International Business from Ecole Supérieure des Sciences Economiques et Commerciales (ESSEC) and has an Industrial Engineer's degree from L'Institut National des Sciences Appliquées (INSA) of Lyon. He joined the Total Group in 2001 as the Economist for Middle East and North African Affiliates. After three years, he became the Economist in the Economic Department of Gas and Power. Since 2006, he joined the Financial Department of Total SA, Refining and Marketing.

FRANCK DESSAINTJEAN

Mr. Franck Dessaintjean aged 38 has a MSc in Finance and Controlling from Institut Supérieur de Gestion (I.S.G). He worked in Total Cameroon as Finance and Information Technology Manager, Total France as Management Controller for Europe, Totalfinaelf Deutschland (Germany) as Management controller for Refining and Marketing. He was appointed the Finance Manager of Total Kenya Limited in July 2007.

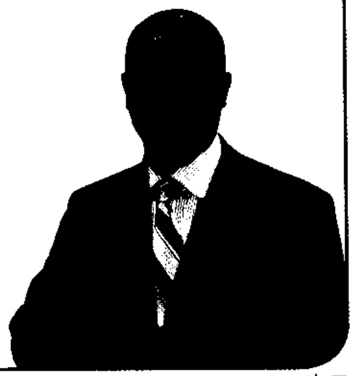


JOSEPH ADEWA

Mr. Joseph Adewa aged 58, a professional marketer who is currently the Deputy Managing Director, having joined the Company as a Business Development Manager in 1990. Prior to joining Total Kenya, he worked at Kenya Breweries as District Manager (Inspectorate) and Kenya Oil Company Limited as Area Sales Manager.

FRANKLIN JUMA

Mr. Franklin Juma aged 36 has a B A degree from Panjab University, India and LLB degree from Goa University, India. He is an Advocate of the High Court of Kenya and is a Certified Public Secretary. He is a member of the Law Society of Kenya, the Institute of Certified Public Secretaries of Kenya and the Chartered Institute of Arbitrators. He joined the company in 2000 and was appointed Legal Manager in 2004



J L G MAONGA COMPANY SECRETARY

Mr Maonga aged 47, has a B A Degree from Nairobi University and is a Certified Public Secretary. He is a member of the Institute of Certified Public Secretaries of Kenya and has over 20 years experience in Company Secretarial and Registration Services. He was appointed Company Secretary on 1st February 1999.

**The Eco Challenge – a milestone in CSR**

When we launched the Total Eco Challenge in 2003 as a five year project aimed at reversing the effects of deforestation in Kenya, we set ourselves what looked like an impossible target of inspiring Kenyans to plant 100 million trees every year. We considered this to be the number that needed to be planted and nurtured to be able to make an impact.

At the end of 2007, we are delighted to report that the Eco Challenge has achieved its target to inspire and enable the planting of 100 million trees per year – ahead of schedule. The campaign has been remarkably effective and now involves more than one million Kenyans participating in some 2,500 projects nationwide.

The Eco Challenge was conceived as a five year plan to progressively build awareness and capacity, to not only achieve the planting target to restore Kenya's forest cover and meet future demand for wood, but also to ensure there are in-built attitudes and viable market systems to sustain that achievement every year, possibly in perpetuity.

In the first year 10 million trees were planted, and in the following two years the numbers rose to 30 million and then 60 million. In the fourth year, 2007, conservative estimates indicated plantings of 100 million trees, and the number of projects registered with Total Eco Challenge have risen and spread across every economic cadre and geographical zone. The message and the response are truly national. Participating projects range from single individuals to farms and community groups, clubs and societies, schools, universities, churches, housing and welfare associations, NGOs, businesses, factories, major corporations and both agricultural and industrial estates. Others include parastatals, local government councils and other arms of central government including the Kenya Armed forces through their environmental soldier programme.

TOTAL ECOchallenge

MITI NI MALI. MITI TOSHA!

We at Total Kenya regard this as a good start and are especially encouraged that schools, community groups and small nursery businesses lead the response both in numbers and enthusiasm. While big business has recorded some exceptional achievements, overall corporate support has been slow to mobilize but is now growing. More and more companies are starting to make tree planting a regular part of their CSR programmes.

Total's input has been national promotion and multi-media public education campaigns, production and distribution of information materials, direct technical support for projects through a full-time forester, matching corporate funding to community needs, co-ordinating of supply-demand balances and sources, dedicating of over 100 Total service stations as tree centres for information and seedling supply, support for nurseries, staging of stakeholder conferences, an awards system including the appointment of Trees Ambassadors, web-site and technical hot-line services and more.

The Eco Challenge has become a major national platform for encouraging, guiding, recognizing, rewarding and further driving tree planting of every kind, by everyone, everywhere. The concept and results are so dramatic that it is receiving international attention and recognition.

The fact that our original target has been reached does not complete Total's task. It inspires and extends the company's commitment to sustain and press forward with a formula that has done much good and has potential to do more. Total's own "challenge" is to use its creative ideas and resources to maintain the momentum, and ensure tree planting becomes an ever more established part of national policy, the national economy and indeed the national culture.

So once again, we take the opportunity to remind Kenyans of the clarion call that is so simple and apt – "One person, one event, one tree". So let us keep planting!

### Our products

All of Total's products are of the highest specification and purity and all are subject to uncompromising quality controls. The company is committed and true to this pledge on quality without exception across the full range of LPG, avgas, premium and unleaded motor spirits, Jet A1 and illuminating kerosene, low-sulphur automotive gasoil, marine diesel and industrial fuel oil. Quartz and Rubia lubricants meet the highest specifications of the world's leading engine manufacturers and the most demanding operating conditions. Equally stringent standards are met by all Total's ancillary and car care products such as 2T and Extreme Pressure transmission oils, Automatic Transmission Fluids, greases, brake and clutch fluids, distilled water and Organicool coolant formulas.

Total brands and seals, at authorised Total outlets, offer an absolute quality assurance to the customer.

### The facilities

All Total's facilities conform to an international Premier standard and in particular, in relation to the safety of staff, customers and the environment, through both built-in design, the integrity of equipment and strict operational codes. These systems are enforced by requirement, reinforced by training, and maintained by constant monitoring and special inspection.

At our stations, for example, these standards apply to every aspect from construction of buildings to fail-safe wiring, double-skinned storage tanks, underground seepage barriers, oil and grease traps, the integrity of equipment, the skill and discipline of personnel, and emergency response procedures.

Both design and operations ensure clean and spacious layouts, clear signage, smooth traffic flows and efficient function of all equipment. Staff are well trained and constantly upgraded.

### Personnel performance

All Total staff receive regular and specialist training. Teamwork, professionalism and energy are the corporate culture. This creates a performance ethic that ensures every task and service - whether at the reception desk of a depot or under-bonnet checks at a station forecourt - is friendly, proficient and quick.

### Station services

Total stations offer a wide and ever-increasing range of value added services – all delivered to high quality standards.

In addition to the core function of refuelling, under-bonnet checks and air pressure and water, all are linked to Total's "Bon Voyage" fuel-card system. Most Total stations have 24-hour puncture repair and some hold stocks of tyres, tubes and batteries. Many now feature Total's "Bonjour" corner shops for the convenience of both passing travellers and neighbourhood residents, "Bon Voyage" safari refreshment areas, "Auto Express" lubrication services (formerly Pit Stop), "Auto Clean" car and engine wash and even complete valet services.

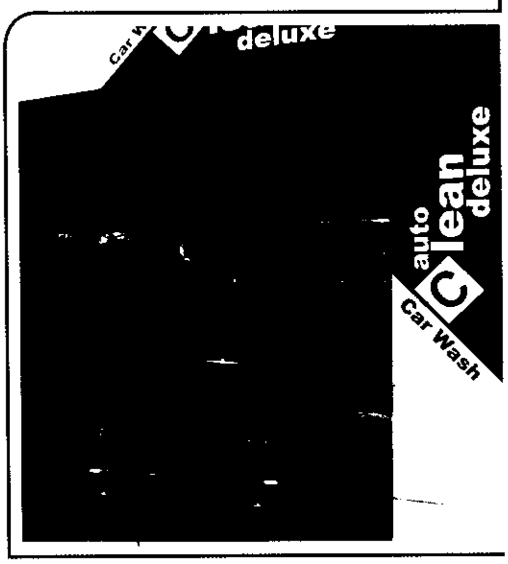
All Total stations are both an oasis of services for travelers and an integral part of their local community.

### Business Conduct

Total Kenya's own business is run to a high standard of integrity and professionalism in all respects, and all its investments, employment practices, safety-health-environment commitments, and commercial dealings guarantee these qualities.

In sum, Total are good people to do business with, in any context.

The company constantly innovates and invests – in people, equipment and systems – to ensure it offers the best possible service to its customers in competitive value, product quality, reliable delivery, management and structure support, and administrative efficiency.




SAFETY FIRST

**Innovation**

Creative thinking and action is more than just a buzzword at Total. It is an ever-present part of the company's marketing strategy and performance delivery – a determination to make good products and services even better, to tailor both even more exactly to customer preferences, to take a competitive position and add even more value.

Kenya's LPG market was limited to 12 kg cylinders for many decades. It was Total who introduced the more portable and lower cost 6 kg Meko for lower-budget consumers, and added a simple stove attachment, and a light attachment, and then an even smaller Baby Meko. In parallel, Total invested heavily in high capacity storage and the most sophisticated refilling facilities.

Lubrication bays are commonplace. Total upgraded theirs through Pit-Stop for an even faster and more thorough service, including a 44-point diagnostic check and this has since been superseded by Auto Express with high tech bulk oil dispensers to further cut time and costs.

Fuel cards have become universal currency. Total's Bon Voyage was the first to introduce smart card technology as opposed the conventional magnetic strip.

Total did not simply buy title to the Motor show. It was a partner in founding the event, and a prime mover in its subsequent growth to international stature and regional pre-eminence.

The Eco Challenge is no off-the-peg project. Its concept and design, developed by Total, are unique. Its success is unprecedented not only in the promotion of tree planting, but it is also a best practice model for any sustainable development project.

That is the essence of Total Kenya. Being the best, and always striving to be even better.

**ISO**

Total Kenya was the first Oil Company in the country to have achieved ISO 9001-2000 certification for its service station network. Total Kenya successfully completed the ISO 9001:2000 recertification (certificate renewal) process in April 2007. The exercise conducted by Bureau Veritas Kenya came after the three-year period for the previous certificate lapsed. ISO 9001:2000 is an International Quality Management System that is customer focus based with emphasis on continual improvement. This means that Total stations operate to international standards, and that the Company is committed to Quality management.

**Safety achievement - International Small Site Safety Rating System (ISSSRS)**

Total Kenya was awarded a major Safety Achievement, the International Small Site Safety Rating System (ISSSRS), Level 3 (Excellent) certification for its Nairobi LPG Plant and Lokichoggio Aviation Depot. ISSSRS identifies and mitigates Risks relating to Equipment, Systems and Humans in order to eliminate accidents. It is based on 13 safety control elements which are used to determine the extent and quality of loss control management. The award is from level 1-4, and was awarded to the company on September 22nd 2007 by Det Norske Veritas (DNV) a UK audit firm. The significance of this to Total Kenya is the increased confidence that our facilities are safe and better structured to deal with emergencies.

ISO 9001
BUREAU VERITAS
Certification
UKAS
QUALITY MANAGEMENT
008

DNV

**Introduction**
Through corporate governance, Total Kenya underscores the processes by which company is directed, controlled and held to account with the aim of improving stakeholders' value through accountable and transparent business practices.

Total Kenya Limited actively follows principles of openness, transparency, integrity and accountability in the running of its affairs. The directors examine corporate governance matters frequently and recognise the evolving nature of the requirements of corporate while assessing the Company's compliance to these principles. Further, the Board determines the overall company policy and strategic direction while monitoring and supervising the attainment of business objectives within the defined systems of internal control designed to safeguard stakeholders' assets and ensure reliability of financial information.

**Board of Directors**
The composition of the Board is given on pages 6 and 7 of this report. The Directors are appointed by the shareholders on a three-year term and are bound by the Company's and Group's code of conduct. The Board meets regularly during the year to review the Company's performance, strategies and policies.

The Board is responsible for setting the direction of the Company through determination of strategic vision, objectives and policies that should be adopted. It also has the overall responsibility of ensuring that the company complies with all statutory and regulatory requirements.

**Principles of control and risk evaluation**
Internal control is structured into specific organisation procedures, with delegation of responsibilities and employee training that reflects the general framework of the company. The identification and analysis of the risks that could impact the achievement of the company's objectives is the responsibility of the Board. The Board is assisted by the Management Committee, and the Audit Committee.

**Audit committee**
The Board has established an Audit Committee made up of at least three directors, headed by an independent, non-executive director as its chairman. In selecting the members of the Audit Committee, the board pays particular attention to their financial and accounting qualifications and experience. During the year members of the committee were as follows:

| | |
|---|---|
| Michael Karanja | Chairman |
| Emmanuel Morand-Fehr | Member (Replaced by Franck Dessaintjean in July 2007) |
| Franklin Juma | Member |

The principal responsibilities of this committee include reviewing financial reports, internal audit reports, management letters and other information that it may require tabled before it. The committee holds at least four formal meetings each year which are also attended by the external auditors. It may also meet with the Managing Director, perform inspections and interview managers of the company.

**Management Committee**
This is a committee comprising the Managing Director and all the heads of departments and key senior managers. The committee meets every fortnight to discuss and map out operational strategies for the company and to improve coordination of the various business processes. It also serves to provide a channel for communication and feedback on issues that affect the business and performance of the Company in the short to medium term.

**Procurement Committee**
This Committee comprises the following people:

| | |
|---|---|
| Managing Director | Chairman |
| Corporate Affairs Manager | |
| Operations Manager | |
| Procurement Manager | Secretary |
| Finance Manager | |
| HSEQ Manager | |

They are tasked with monitoring and evaluating procurement policies and ensuring that all tenders are conducted in an open and unbiased manner, in compliance with the laid down procedures. The committee ensures the Company's procurement process conforms to Total Group's standards and is independent of any interference.

**Communication with the Shareholders**
The company provides timely and appropriate information to shareholders through publication of quarterly accounts and the Annual Report. Shareholders are also kept informed of all important events that impact on the company's operations. The Company maintains a policy of openness with the shareholders and in addition to the Annual General Meeting, invites them to a meeting once a year where they are briefed on the Company's performance and strategy

**Relations with the Employees**
Total Kenya is keen on its human resource policies and endeavours to promote dialogue and warm relations with its employees. Key employee relations activities include regular staff communication meetings, team building activities, performance evaluation and training, career management, safety briefs and monthly staff communication bulletin.

**Corporate Social Responsibility (CSR)**
Corporate Social Responsibility is integral to business and prosperity. Total Kenya through its social investment programmes acknowledges that the human and environmental resource bases must be sustainably developed if the future is to be protected.

Total actively demonstrates the value it places on people by supporting, developing and uplifting communities, by creating employment opportunities, supporting education and preserving our heritage through arts and culture. The key CSR areas for Total Kenya include;

- Environmental awareness and rehabilitation through efforts such as the Total Eco Challenge initiative to plant 100 million trees per year.
- Health awareness through organised health talks and the Be Alive initiative aimed at ensuring there is full awareness about HIV / AIDS at the work place.
- Industrial safety through enhancing workplace, operating and facility safety.
- Respecting neighbouring communities and supporting educational and cultural activities in areas where Total Kenya operates in.

The Board is aware of the need for Total Kenya to comply with local legislation and ensure that all operations are carried out in a safe manner and where necessary, with the required approval from governmental authorities.

# I CHAIRMAN'S STATEMENT / TAARIFA YA MWENYEKITI I

It is my pleasure to welcome you and to present to you the Annual Report and Financial Statements for Total Kenya Limited for the year ended 31 December 2007.

### ENVIRONMENT OF OUR ACTIVITY

The Kenyan economy continued to grow in 2007 with GDP growth projected at 6.5% mainly buoyed by significant growth in Agriculture, Tourism and Manufacturing industries. This growth was equally felt at the Nairobi Stock Exchange as evidenced by increased activity and investment appetite. In the course of 2007, the Government disposed of its shares in two key parastatals namely Telkom Kenya and Kenya Reinsurance Corporation, leading to significant inflows of foreign currency into the economy, thereby strengthening the Kenya shilling. All these factors presented a favourable overall economic environment for investors. However, we experienced a rising inflation and the cost of doing business remained high due to infrastructural challenges and in the case of our industry, heavy requirement of working capital as well.

Politically, 2007 experienced a lot of activity with the General Elections scheduled for the end of the year. As with most election years, the economy was affected negatively towards the end of the year with some investors adopting a cautious approach due to the uncertainty usually associated with electioneering and particularly because past elections had been accompanied with some violence. Unfortunately, the year ended on a sour note due to widespread chaos and loss of both property and lives due to disputed election results. This impacted negatively on business due to disruption of the supply chain caused by damage to installations and infrastructure.

HERVÉ ALLIBERT
Chairman/Mwenyekiti

Nina furahia kuwakaribisha nyote na kuwasilisha kwenu Ripoti ya Mwisho wa Mwaka na Taarifa ya Kifedha ya kampuni ya Total Kenya Limited iliyomalizikia Desemba 31, 2007.

### MAZINGIRA YA SHUGHULI ZETU

Uchumi wa Kenya uliendelea kukua katika kipindi cha mwaka wa 2007, huku matarajio ya ukuwaji wa kiuchumi wa viwango vya kawaida (GDP) yakifikia asilimia 6.5, baada ya kuwepo kwa mapato bora katika sekta ya Kilimo, Utalii na Viwanda vya Uzalishaji. Kadhalika ukuwaji huu ulidhihirika moja kwa moja katika kampuni ya Nairobi Stock Exchange kwani palishuhudiwa kuongezeka kwa shughuli za kibiashara na nyenzo za uwekezaji. Katika kipindi cha mwaka wa 2007, Serikali iliuza baadhi ya hisa zake kutoka kwa mashirika yake mawili makuu; yakiwa ni Telkom Kenya na Kenya Reinsurance Corporation, hali hii ilisababisha kuongezeka kwa pesa za kigeni katika uchumi wa nchi, hivyo basi kusababisha kuimarika kwa shilingi ya Kenya. Kwa ujumla, hayo matukio yote yaliboresha mazingira ya kiuchumi kwa wawekezaji. Hata hivyo, gharama ya kuendesha biashara ilibakia kuwa kubwa kulingana na changamoto la kimuundo msingi na katika sekta yetu, palihitajika kuwepo kwa mtaji mkubwa wa kuendesha biashara.

Kisiasa, mwaka wa 2007 ulikuwa na harakati nyingi zilizoelekezwa katika kipindi cha Uchaguzi Mkuu uliokuwa umepangwa kufanyika mwishoni mwa mwaka huo. Kama ilivyo katika miaka ya uchaguzi mkuu wa kisiasa, uchumi uliathirika sana mwishoni mwa mwaka huo, na hali hiyo kuwafanya baadhi ya wawekezaji kuchukua tahadhari kabla ya hatari, huku wakifahamu vyema kwamba kipindi hicho kinachokaribia uchaguzi huwa na rabsha nyingi kwani chaguzi zilizopita zilikuwa na vurugu pia.
Kwa bahati mbaya, mwaka huo ulimalizika katika hali ya atiati. Palitibuka hali ya zahama, vurumai na fujo na kusababisha watu wengi kupoteza mali na maisha yao kufuatia kutoelewana kwa vigogo wawili wa kisiasa katika matokeo ya hisabu ya kura. Vurumai hilo lilivuruga biashara kufuatia kukatizwa kwa njia na taratibu za kusambaza bidhaa kwa watumiaji na kusababisha kuzorota kwa muundo msingi.

Mazingira ya kibiashara ya mwaka wa 2007 katika sekta ya mafuta ya petroli ulikuwa wenye changamoto kubwa, hii ilitokana na kupanda kwa gharama ya mafuta kwenye masoko ya kimataifa katika kipindi cha mwaka mzima.
Hata hivyo, ni vigumu kuwaongezea wateja bei ya mafuta kila baada ya ongezeko la bei ya mafuta katika soko lenya upinzani mkubwa, suala ambalo lilisababisha kuwepo kwa msukumo wa viwango vya gharama. Matatizo yaliyopo ya usambazaji wa bidhaa kufuatia kutokuwepo kwa vifaa vya kutosha vya kuhifadhi mafuta na pia mabomba ya kusafirishia mafuta hayo; hali inayotupatia changamoto kubwa katika kuwahudumia wateja wa humu nchini na wale wa nje ya nchi. Hali hii inaelekea itabakia hivyo atika mwaka huu wa 2008.

### TATHMINI YA UTENDAKAZI NA MATOKED YA KIFEDHA

Licha ya changamoto hii ya kimazingira, jumla ya mapato yetu ya kibiashara ya mwaka huo yaliongezeka kwa 13%, hii ni

The 2007 business environment for the oil industry remained as challenging as ever, with volatile and extremely high international oil prices persisting for most of the year. In a context of rising prices and a very competitive market, it is always difficult to fully pass on product cost increases to the end consumer and margins get depressed. The existing supply constraints due to capacity limitations in storage facilities and pipeline throughput meant that our ability to fully exploit the growing internal and external markets remained a challenge. This situation is likely to remain for most of 2008.

**PERFORMANCE REVIEW AND FINANCIAL RESULTS**

In spite of this challenging environment, our turnover for the year increased by 13%, attributable to global sales volumes increase from 607 KMT in 2006 to 715 KMT in 2007. The main contributing factor to the increase was higher volumes sold on account of supplies made to power generation plants this year in comparison to the previous year. However, Export Sales continued to suffer, with effects of tax regulations implemented in 2005 still hampering this business channel.

Our inland market share increased from 19.6% to 21.2% in the year under review mainly due to a strong growth of our General Trade sales with smaller fluctuations in the other channels accounting for the rest of the movement. Aviation sales declined further with fierce competition and depressed margins persisting. Our LPG activity experienced a slight decline in the sales volumes due to increased competition occasioned by new entrants into this market segment and unfortunately by a growing illegal refilling activity that represents not only an unfair competition for official LPG marketers like us but also a very serious safety hazard for the public at large.

Gross profit for the year under review grew by 8%, driven by higher turnover. Though operating profit declined by 10%, it is important to note that there was a significant exceptional result in 2006 on account of asset disposals amounting to Kshs 157 million compared to only Kshs 20 million for 2007. In essence, operating profit from core operating activities grew by 4% over the previous year, without the impact of asset disposal. Profit before tax increased by 15% mainly due to the significant decrease in financing charges compared to 2006. This commendable effort was achieved as a result of the close attention paid to management of Working Capital which led to less borrowing. Profit after tax increased from Kshs 486 million

kufuatia ongezeko la mauzo ya kimataifa kutoka kiwango cha 607 KMT mwaka wa 2006 mpaka 715KMT kwenye mwaka wa 2007. Kisababishi kikuu cha ongezeko hilo kilitokana na mauzo ya juu ya usambazaji wa bidhaa kwa makampuni yanayonunua bidhaa zetu kwa misingi ya uzalishaji wa kawi, ukilinganisha na mwaka uliotangulia. Hata hivyo, Mauzo ya bidhaa zetu nje ya nchi yalipungua sana, kufuatia mabadiliko ya sheria za ushuru yaliyofanyika mnamo mwaka wa 2005, bado yanaendelea kuathiri mkondo huu wa kibiashara.

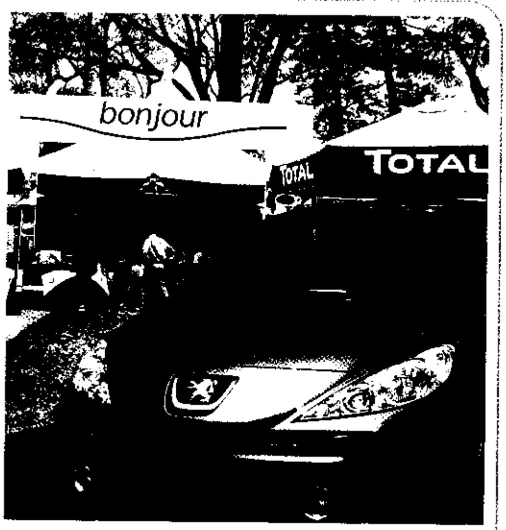
Mgao wetu wa soko la biashara za humu nchini uliongezeka kutoka 19.6% hadi 21.2% mwaka huo kufuatia mauzo ya juu kwenye mkondo wa jumla ya biashara zetu huku pakiwa na mabadiliko machache katika nyanja nyinginezo ambazo zilisimamia mikondo iliyobakia.

Mauzo ya bidhaa zinazotumika kwenye sekta ya vyombo vya kuruka angani, kwa mfano ndege, yalipungua mno kufuatia ushindani mkubwa wa kibiashara na kupungua kwa viwango vya faida. Shughuli zetu za LPG zilishuhudia kupungua kwa mauzo kufuatia ushindani wa kibiashara wa wanabiashara wapya kwenye soko na kwa bahati mbaya kuongezeka kwa vituo haramu vya shughuli za mafuta, ambavyo vimesababisha ushindani wa kidhuluma katika wauzaji rasmi wa gesi za LPG kama sisi. Hali ambayo kwa kweli imekuwa hatari mno kwa wananchi wa kawaida.

in 2006 to Kshs 524 million in 2007 an increase of 8%. Consequently, earnings per share increased to Kshs 2.99 from Kshs 2.78 in 2006. Given the difficult environment the oil industry operates in, this is indeed a very commendable result.

Total Kenya Limited continues to invest widely in Kenya with operations in all the major towns in the country. This is in line with our strategy and commitment to grow in Kenya. During the year we expanded our Network presence by opening one new site on Outering road. We have planned several other investments for the coming year aimed at strengthening our position in the market.

Our company continues to be a forerunner in sustainable development through our Eco Challenge initiative which has gained country wide recognition. Our target of inspiring the growing of 100 million trees per year, which seemed like a distant dream at the beginning of the project, has finally turned into reality. This is attributable to the various institutions and communities we partnered with in this noble course and who remain as committed as we are in ensuring that the tree planting culture is embraced by a majority of Kenyans.




MOTORSHOW

Organised in conjunction with Kenya Motor Industry Association

Faida ya jumla ya mwaka huo iliongezeka kwa 8%, kufuatia matokeo ya mapato mazuri ya kibiashara. Ijapokuwa faida ya uendeshaji biashara ilipungua kwa 10%, ni vyema kukumbuka kwamba palikuwa na matokeo mazuri mno katika kipindi cha mwaka wa 2006, hasa kwenye mauzo ya bidhaa zetu zilizokuwa zinadondoshwa kutoka kwenye hazina ya mali yetu na ambayo ilituletea kitita cha shilingi milioni 157, ukilinganisha na shilingi milioni 20 katika mwaka wa 2007.
Kimsingi, faida ya uendeshaji biashara kutokana na kiini cha shughuli za kiusimamizi, iliongezeka kwa 4% ukilinganisha na mwaka uliotangulia, bila ya kuongezea malipo ya mali iliyouzwa. Faifa kabla ya ushuru iliongezeka kwa 15% kufuatia kupungua kwa matozo ya kifedha ukilinganisha na mwaka wa 2006. Matokeo haya bora yalifikiwa baada ya kupigia darubini usimamizi wa Mtaji wa Uendeshaji Biashara, uliosababisha kuwepo kwa kiwango cha chini cha uchukuaji wa mikopo. Faida kabla ya ushuru iliongezeka kutoka shilingi milioni 486 kwenye mwaka wa 2006 hadi shilingi milioni 524 mwaka wa 2007, ongezeko la 8%. Licha ya hivyo, malipo ya hisa yaliongezeka hadi shilingi 2.99 kutoka shilingi 2.78 mnamo mwaka wa 2006. Kutokana na mazingira mabaya ya uendeshaji biashara kwenye sekta ya mafuta ya petroli, kwa kweli matokeo haya ni ya kupendeza.

**UENDESHAJI BIASHARA NA UWEKEZAJI**

Total Kenya Limited inaendelea kuwekeza pakubwa humu nchini huku ikiwa na biashara katika miji yote mikubwa nchini. Hii ni mojawapo ya mikakati na uwajibikaji wetu katika harakati za uendeshaji biashara humu nchini. Katika mwaka huo, tuliongezea tawi letu jingine kwenye barabara ya Outering. Tayari tumepanga kufanyika kwa harakati nyingine nyingi za uwekezaji mwaka ujao ili kuimarisha kuwepo kwetu kwenye soko.

**MAJUKUMU YA KUISHUGHULIKIA JAMII**

Kampuni yetu inaendelea kuwa mstari wa mbele katika maendeleo endelezi kupitia mradi wetu wa Eco Challenge ambao umefahamika katika kila pembe ya nchi yetu. Azma yetu ya kupanda miti milioni 100 kwa mwaka, amabyo awali ilionekana kama ndoto mbele ya fikra za wengi, wakati huu imetimia. Mradi huu ulifaulu kufuatia ushirikiano wa dhati wa taasisi na jamii mbali mbali waliokuwa na shabaha kama yetu ya kupanda miti kwa wingi. Ni tegemeo letu kwamba hii tamaduni ya upandaji wa miti itaigwa na wakenya wengi.

**MATARAJIO YA MWAKA WA 2008**

Mwaka wa 2008 unatarajiwa kuwa mwaka wenye changamoto nyingi katika sekta yetu. Ikiwa bado kuna gharama ya juu kwenye bei ya mafuta ya petroli katika masoko ya kimataifa, huku wakati huu tope la mafuta ambalo halijachujushwa likibaki kuwa la bei ya juu na hata hivyo bado bei haijatulia. Vurumai za kisiasa za baada ya uchaguzi zilitatiza shughuli za kiuchumi nchini na hususan, sekta muhimu kama vile uchukuzi na utalii zilileta picha mbovu zaidi katika hali ya uendeshaji biashara kwa ujumla. Hata hivyo, kufuatia nafasi nzito ya wateja wetu wakuu na sera zetu za ukuaji wa kibiashara, na pia

**PROSPECTS FOR 2008**

2008 should be an equally challenging year for our industry. The volatile international oil prices still prevail, with crude prices having reached unprecedented high levels recently and still unstable. The post election unrest with the resultant disruptions to economic activities and especially to some key sectors we serve like transport and tourism has had a negative impact on the business in general. However, taking into consideration our strong portfolio of key customers and our policy of profitable growth, with selective investments in Network, General Trade and LPG channels already underway, we have reason to look to the future with confidence.

**DIVIDENDS**

Taking into account the various investments planned for the year and in line with our stable dividend policy, I am proposing a dividend of 2.50 Kenya Shillings per share for consideration and approval by the members.

**THANKS AND ACKNOWLEDGEMENTS**

The Company receives a lot of support and goodwill from our customers, dealers, transporters and other business partners. We thank you most sincerely for this. On behalf of the board, I wish to thank the Management and Staff for their commitment and contribution towards the good result achieved in 2007. To you the shareholders thank you for the confidence you have in us and therefore choosing to invest in Total Kenya Limited.

Finally, I wish to thank the members of the board of directors for their continued commitment and able support that has helped your company remain a major player in our market.

**Hervé Allibert**
Chairman

kufuatia taratibu za uwekezaji, Jumla ya Uendeshaji Biashara na mikondo ya LPG inayoendelea, tuna kila sababu ya kuwa na imani ya biashara nzuri kwa kipindi kijacho.

**MGAWO WA HISA**

Kulingana na vitega uchumi vyetu mbali mbali tulivyovipangia mwaka huu na kuambatana na sera zetu thabiti, napendekeza kukubalika kwa malipo ya mgawo wa hisa wa shilingi 2.50 kwa kila hisa na kuidhinishwa na wanachama wote.

**SHUKURANI NA PONGEZI**

Kampuni hii inapokea hisani na usaidizi mkubwa sana kutoka kwa wateja wake, wanabiashara, washikadau wa uchukuzi na washirika dau wengineo. Tunawashukuru mno kwa huo uungwana wenu. Kwa niaba ya halmashauri, ningependa kuwashukuru wasimamizi na wafanyikazi wote kwa kujitolea na kuchangia kwao katika matokeo bora yaliyopatikana mwaka wa 2007. Nawashukuru sana nyie wenyehisa wote kwa uadilifu na uaminifu wenu ambao mmetupatia na hivyo basi kuchagua kuwekeza hapa kwetu katika Total Kenya Limited.
Hatimaye, napenda kuwapongeza wanachama wote wa halmashauri ya wakurugenzi kwa kujitolea kwa dhati na usaidizi wao ambao umeiwezesha kampuni yenu kuwa bingwa miongoni mwa mashirika mengine kwenye sekta hii.

**Hervé Allibert**
Mwenyekiti

TOTAL BE ALIVE

## | MANAGEMENT EXECUTIVES |

From Left; **Jean-François Balay** (EA Lubes Manager), **Chris Kasima** (Strategy & Exports Manager), **Tom Maganga** (Planning & Supply Manager), **James Kamau** (Health, Safety, Environment and Quality Manager), **Partha Majumder** (Operations Manager), **Bertrand Fontanges** (Managing Director), **Joseph Adewa** (Deputy Managing Director), **Gilles du Réau** (Commercial Manager), **Simon Oonge** (Audit Manager), **Lillian Kageenu** (Special Projects Manager), **Maurice K'Anjejo** (Corporate Affairs Manager), **Adele Tura** (Human Resources and General Administration Manager),

Not in the picture; **Franck Dessaintjean** (Finance Manager)

**OVERVIEW OF THE 2007 FINANCIAL YEAR FOR TOTAL KENYA LIMITED**

The operating environment for the oil industry in Kenya remained difficult and at times unfavourable. The industry faced a very challenging environment with high and volatile international oil prices and the insufficient capacity of the pipeline leading to stock-outs and added logistical costs. As a result, margins were depressed especially on main products sales as it was not possible to pass on the global increase in crude prices and other costs to the final consumer.

In spite of the difficult environment, Kenyan Inland petroleum consumption grew by 5.6% in the year 2007 showing resilience against the high prices. This was attributed to the growth in tourism, construction, manufacturing and agricultural sectors.

**SUMMARY OF RESULTS**

The analysis of industry results reveal that Total Kenya's performance continues to rank favourably among the majors in terms of profitability, earnings per share, dividend yield and return on capital employed.

Total Kenya global sales volume increased by 17.7% in 2007 (from 607KMT in 2006 to 714KMT in 2007). This was mainly due to increased sales to General trade contract customers. The increase in sales volume coupled with increase in international oil prices, resulted in increase in net turnover by 13% from Kshs 30.7 billion in 2006 to Kshs 34.8 billion.

Gross profit went up by 8% from Kshs 2,252 million in 2006 to Kshs 2,435 million as a result of

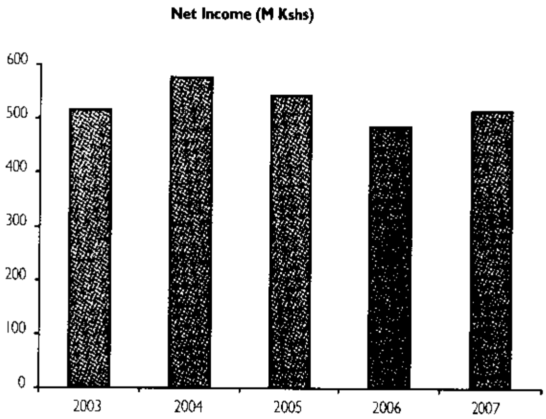
increase in sales volume especially in the General Trade Segment. All the company's business channels had positive contributions to the operating profit for the year 2007 except for Aviation. Other Income decreased significantly from Kshs 274 million in 2006 to Kshs 75 million in 2007. Included in Other Income in 2006, is an exceptional item relating to gain on disposal of assets amounting to Kshs 157million compared to a similar gain of only Kshs 20 million in 2007.

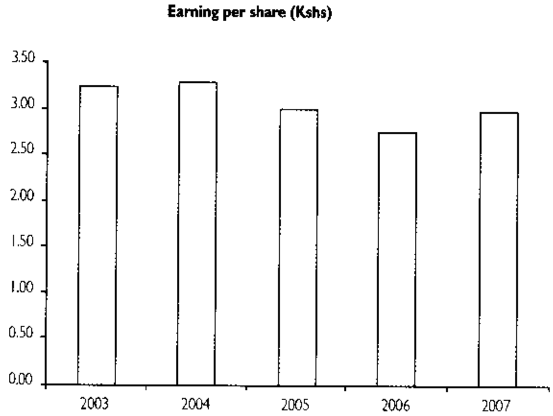
Operating expenses were fairly controlled and increased only slightly by 3.5% compared to 2006 despite an annual inflation rate of 9.8% for the year under review. Amortization of Intangible assets in 2007 was impacted by accounting, payroll and other computer software that were acquired in 2006.

Net finance charges reduced by Kshs 210 million, from Kshs 387 million in 2006. This was due to a reduction in interest paid on borrowings of Kshs 128 million and an increase in foreign exchange gains of Kshs 82 million when compared to 2006.

Profit before tax increased by 16% from Kshs 677 million in 2006 to Kshs 782 million in 2007, while profit after tax increased by 8% from Kshs 486 million to Kshs 524 million in 2007. This resulted in an increase in earnings per share from Kshs 2.78 in 2006 to Kshs 2.99 in 2007.

Investments during the year amounted to Kshs 256 million. This was mainly related to supply of equipment and construction works at network stations, consumer sites and depots.

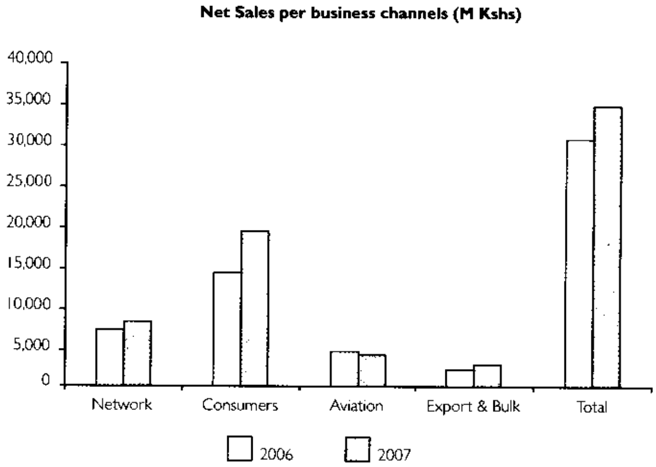



## ANALYSIS BY BUSINESS CHANNELS

The company's four business channels are:

- The Network channel, which includes the distribution of petroleum products through 104 service stations located across the country;
- The General Trade channel, which includes sales of a broad range of products to all sizes of industrial consumers;
- The Aviation channel, which comprises of sales of turbine kerosene and aviation gasoline to local and international air carriers;
- The Exports and Bulk channel, which comprises of sales of our full range of products to neighbouring countries and other industry players.




## NETWORK

The network market environment was still very competitive. In spite of the challenging conditions, sales in this channel registered a growth of 6% from 122 KMT in 2006 to 129 KMT in 2007. As a result of the increase in sales and the rise in international prices, the net turnover went up from Kshs 7.7 billion in 2006 to Kshs 8.5 billion in 2007. Profitability of this channel remained at an acceptable level, with the company continuing to strategically rely on its nationwide presence and reputation for quality service.

The company continued widening its network. One new station was opened in Nairobi and others remodelled. The objective remains to invest in areas where population and traffic are growing.

The range of our services has continued to grow in diversity including Bonjour for our shops, Auto Clean for Car Wash and Auto Express Service for car service. The Bon Voyage card has remained popular amongst individuals and corporates and has ensured customer loyalty. Our objective is to remain competitive as we strive to fully meet the expectations of our customers.

| Network - Key figures | 2007 | 2006 | % |
|---|---|---|---|
| **Number of service stations** | 104 | 104 | - |
| **Volumes Sold** | 129 | 122 | 6% |
| **Turnover- net of taxes (Kshs'million)** | 8,464 | 7,716 | 9% |

## GENERAL TRADE

The General Trade market was stable in 2007. Volumes sold increased by 34% compared to 2006 (407KMT in 2007 compared to 303KMT in 2006) mainly attributed to Diesel. Black products (mainly furnace oil) sales also went up on account of economic growth in Agricultural and Manufacturing sectors.

For LPG, volumes sold declined slightly to 17.4 KT (2006 17.8 KT) mainly due to stiff competition from new entrants. However, there is still potential for growth in this segment and we hope that the ongoing reforms aimed at encouraging gas consumption in Kenya will yield positive results and that the problem of the illegal refilling that has reached alarming proportions will be tackled seriously by the authorities.

Turnover in this channel increased by 29% from Kshs 15.0 billion in 2006 to Kshs 19.3 billion in 2007.The financial contribution of this channel to the company's income remained at a satisfactory level.

| Consumer-Key figures | 2007 | 2006 | % |
|---|---|---|---|
| **Volumes Sold (excl. LPG) - KM** | 407 | 303 | 34% |
| **Turnover- net of taxes (Kshs'million)** | 19,267 | 14,963 | 29% |

## AVIATION

In a context of exacerbated competition and extremely depressed margins, our sales reduced by 25% from 104KMT in 2006 to 78KMT in 2007. There was little incentive for growing volumes in this channel in the light of declining margins. The decrease in volumes sold led to a decrease in turnover, from Kshs 5.4 billion in 2006 to Kshs 4 billion in 2007.

| Aviation-Key figures | 2007 | 2006 | % |
|---|---|---|---|
| **Volumes Sold (KMT)** | 78 | 104 | -25% |
| **Turnover- net of taxes (Kshs'million)** | 3,958 | 5,370 | -26% |

## EXPORTS AND BULK

Exports business continues to be adversely affected by the tax regulations introduced in August 2005 with most companies in the Eastern Africa region, which would ordinarily buy oil products from Kenyan companies, preferring to buy directly from offshore suppliers and transit through Kenya. Bulk sales to competitors are unpredictable and are subject to winning oil industry importation tenders.

Export sales declined by 31% from 39 KMT in 2006 to 27KMT in 2006 while Bulk sales went up from 21KMT in 2006 to 54.8 KMT in 2007. Consequently, turnover generated by these activities increased by 17% from Kshs 2,612 million to Kshs 3,069 million.

## FINANCIAL POSITION SUMMARY

In 2007 Total Kenya adopted an aggressive financial management strategy, with focus on controlling working capital elements, and sourcing for the lowest possible financing options. This led to lower incremental borrowing rates despite the average Treasury Bill rate increasing from 6.0% at the end of 2006 to a high level of 7.6%. The Kenya Shilling remained strong against the US Dollar for most of the year thus leading to higher exchange gains.

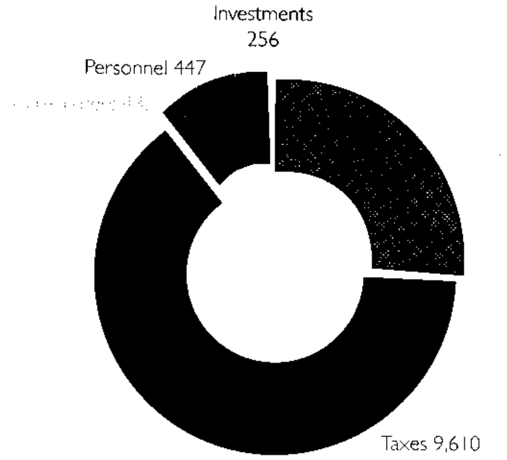
As a result of the efforts put in managing our financial position, cash flow generated from operating activities was Kshs 2,454 million compared to Kshs 211 million in 2006. Cash flow used in investing activities was Kshs 215 million as at the end of December 2007. Cash used in financing activities amounted to Kshs 432 million. This was used to pay dividends for 2006. The overall impact was an increase in cash and cash equivalents as at 31 December 2007 of Kshs 1,807 million.

Our net-debt-to-equity-ratio was 41% in 2007 down from 80% in 2006 while equity-to-total liability-ratio was 38% in 2007 up from 30% in 2006. The company's balance sheet remained strong with net current assets at 2.0 billion as at 31 December 2007 compared to 1.8 billion in 2006. The Company will continue to focus on optimization of working capital requirement elements so as to ensure an even stronger financial position for the periods ahead.

## CONTRIBUTION TO THE KENYAN ECONOMY

Total Kenya has remained a key player in the Kenyan oil industry and the economy as a whole. During the year under review, the company continued to make a significant contribution to the Kenyan economy as it carried on with its business and corporate responsibility activities. Total Kenya continued to be among the biggest tax payers in the country, having paid direct and indirect taxes of over Kshs 9.6 billion (Kshs 7,6 billion in 2006). The total financial impact on the economy in 2007 was Kshs 14.7 billion (2006 Kshs 11.9 billion) comprising the following:

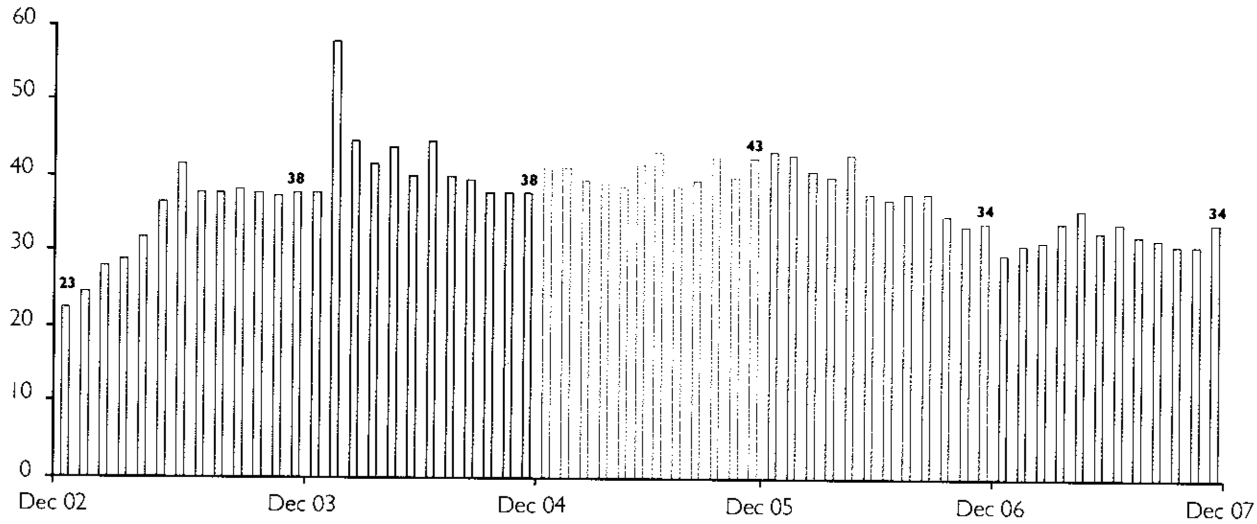
**Contribution to the Kenyan economy 2007 (M Kes)**




## SHARE PRICE EVOLUTION AND DIVIDEND

In 2007, Total Kenya share price traded between Kshs 34 and Kshs 30 per share. The shares continued to register one of the highest dividend yields at the Nairobi Stock Exchange. The dividend yield at the close of the year was 7.4% (2006 7.4%).

**Total Kenya Share Price (Kshs)**
**Monthly closing rates (Dec 02 - Dec 07)**



## SHAREHOLDERS ANALYSIS

### TOP TEN SHAREHOLDERS

| | Number of shares | % |
|---|---|---|
| Total Outre-Mer | 126,327,070 | 72.16% |
| Total Africa Limited | 10,732,950 | 6.13% |
| Kimani, John Kibunga | 1,761,486 | 1.01% |
| Shah, Rajesh Dharamshi | 1,565,586 | 0.89% |
| Dsl Nominees Ltd A/C 2210 | 759,146 | 0.43% |
| The Jubilee Insurance Company Of Kenya Limited | 566,736 | 0.32% |
| Mashru, Jitendra Popatlal Naranji | 527,080 | 0.30% |
| Benjamin, Emmett Joseph | 523,539 | 0.30% |
| Rahim Ahmed Mian Abdur | 459,609 | 0.26% |
| Phoenix Of East Africa Assurance Company Limited | 450,000 | 0.26% |

### SHARES DISTRIBUTION SCHEDULE

| (i) By number of shares range | Number of shareholders | Number of shares |
|---|---|---|
| 1 - 500 | 2,025 | 502,582 |
| 501 - 1,000 | 1,039 | 889,643 |
| 1,001 - 100,000 | 2,808 | 22,515,093 |
| 100,001 - 500,000 | 42 | 8,393,795 |
| 500,001 - 1,000,000 | 4 | 2,376,501 |
| 1,000,001 - 999,999,999,999 | 4 | 140,387,092 |
| Total | 5,922 | 175,064,706 |
| (ii) By category of shareholder | | |
| Foreign Investors | 67 | 138,514,896 |
| *E.A.P.S. Individuals | 5,299 | 28,811,310 |
| *E.A.P.S. Institutions | 556 | 7,738,500 |
| Total | 5,922 | 175,064,706 |

*East African Partner States

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

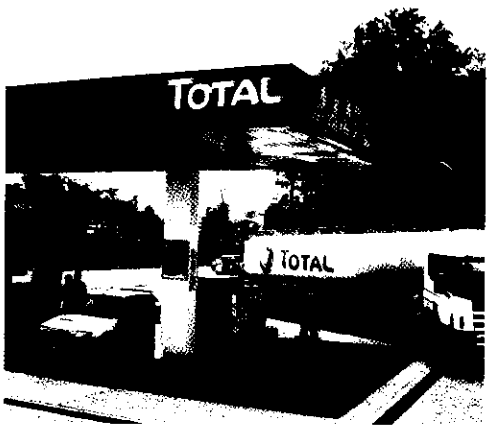
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the 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 company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

| | |
|---|---|
| **Bertrand Fontanges** | **Michael Karanja** |
| Director | Director |

25 March 2008



# I INDEPENDENT AUDITORS' REPORT I
to the members of Total Kenya Limited

**Deloitte.**

**Deloitte & Touche**
**Certified Public Accountants (Kenya)**
"Kirungii"
Ring Road, Westlands
P. O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel : + (254-20) 444 1344/05-12
Fax : + (254-20) 444 8966
Dropping Zone No. 92
E-mail : admin@deloitte.co.ke

We have audited the financial statements of Total Kenya Limited set out on pages 24 to 49 which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

**Respective responsibilities of directors and auditors**

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

**Basis of opinion**

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether 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 our judgment and include an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

Deloitte & Touche

25 March 2008

# | INCOME STATEMENT |

| For the year ended December 31 | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Gross sales | 44,109,728 | 38,052,875 |
| Indirect taxes and duties | (9,351,985) | (7,391,454) |
| **Net sales (Note 3)** | **34,757,743** | **30,661,421** |
| Cost of sales (Note 4) | (32,322,298) | (28,408,979) |
| **Gross profit** | **2,435,445** | **2,252,442** |
| Other income (Note 5) | 75,055 | 274,098 |
| Depreciation (Note 12) | (274,425) | (235,006) |
| Amortisation of prepaid operating leases (Note 13) | (6,107) | (19,687) |
| Amortisation of intangible assets (Note 14) | (26,248) | (5,167) |
| Other operating expenses (Note 6) | (1,243,279) | (1,200,930) |
| Finance charges, net (Note 7) | (178,506) | (388,556) |
| **Profit before taxation** | **781,935** | **677,194** |
| Taxation (Note 9) | (257,745) | (191,116) |
| **Profit for the year** | **524,190** | **486,078** |
| **Earnings per share (basic and diluted) (Note 10)** | **Kshs 2.99** | **Kshs 2.78** |

# | BALANCE SHEET |

| As of December 31 | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment (Note 12) | 1,992,896 | 2,029,452 |
| Prepaid operating leases (Note 13) | 308,741 | 325,499 |
| Intangible assets (Note 14) | 53,302 | 71,686 |
| Goodwill (Note 15) | 336,604 | 336,604 |
| Deferred tax asset (Note 16) | 46,086 | 65,876 |
| **Total non-current assets** | **2,737,629** | **2,829,117** |
| **Current assets** | | |
| Inventories (Note 17) | 3,438,874 | 6,049,585 |
| Trade and other receivables (Note 18) | 5,017,520 | 4,558,518 |
| Due from related companies (Note 19(i)) | 472,596 | 598,746 |
| Taxation recoverable (Note 9 (iii)) | 12,397 | 53,101 |
| Bank and cash balances (Note 24(ii)) | 833,737 | 1,264,389 |
| **Total current assets** | **9,775,124** | **12,524,339** |
| **TOTAL ASSETS** | **12,512,753** | **15,353,456** |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Share capital (Note 21(ii)) | 875,324 | 875,324 |
| Share premium (Note 20) | 1,967,520 | 1,967,520 |
| Revenue reserve | 1,908,747 | 1,822,220 |
| **Shareholders' equity** | **4,751,591** | **4,665,064** |
| **Current liabilities** | | |
| Trade and other payables (Note 22) | 4,764,986 | 5,379,352 |
| Due to holding company (Note 25(ii)) | 59,705 | 212,794 |
| Due to related companies (Note 19(ii)) | 147,777 | 75,500 |
| Unpaid dividends (Note 11) | 12,162 | 6,746 |
| Short term bank borrowings (Note 23) | 2,776,532 | 5,014,000 |
| **Total current liabilities** | **7,761,162** | **10,688,392** |
| **TOTAL EQUITY AND LIABILITIES** | **12,512,753** | **15,353,456** |

The financial statements on pages 24 to 49 were approved by the board of directors on 12 March 2008 and were signed on its behalf by:

Bertrand Fontanges
Michael Karanja } Directors

# | CASH FLOW STATEMENT |

| for the year ended December 31 | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Cash generated from operations (Note 24 (i)) | 2,937,272 | 380,438 |
| Interest paid (Note 7) | (287,102) | (415,493) |
| Interest received (Note 7) | 730 | 1,809 |
| Taxation paid (Note 9(iii)) | (197,251) | (178,130) |
| **Net cash from/(used in) operating activities** | **2,453,649** | **(211,376)** |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment (Note 12) | (247,522) | (332,780) |
| Purchase of leasehold land (Note 13) | (777) | (19,282) |
| Purchase of intangible assets (Note 14) | (7,355) | (43,431) |
| Proceeds on disposal of property, plant and equipment | 14,968 | 6,149 |
| Proceeds on disposal of leasehold land | 26,100 | 258,735 |
| **Net cash used in investing activities** | **(214,586)** | **(130,609)** |
| **FINANCING ACTIVITIES** | | |
| Dividends paid (Note 11) | (432,247) | (435,386) |
| **Net cash used in financing activities** | **(432,247)** | **(435,386)** |
| **Net increase/(decrease) in cash and cash equivalents** | **1,806,816** | **(777,371)** |
| **Cash and cash equivalents as at 1 January** | **(3,749,611)** | **(2,972,240)** |
| **Cash and cash equivalents as at 31 December (Note 24 (ii))** | **(1,942,795)** | **(3,749,611)** |

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards, issued by the International Accounting Standards Board (IASB), interpretations issued by the Standing Interpretations Committee of the IASB and applicable requirements of the Kenyan Companies Act.

The principal accounting policies adopted remain unchanged from the previous year and are stated below:

**Adoption of new and revised International Financial Reporting Standards**

Standards and interpretations effective in the current period

In the current year, the company has adopted *IFRS 7 Financial Instruments: Disclosures,* which is effective for annual reporting periods beginning on or after 1 January 2007 and the consequential amendments to *IAS 1 Presentation of financial statements.*

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments and management of capital.

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are:

- *IFRIC 7 Applying the Restatement Approach under IAS 29, Financial Reporting in HyperinflationeryEconomies;*
- *IFRIC 8 Scope of IFRS 2;*
- *IFRIC 9 Reassessment of Embedded Derivatives; and*
- *IFRIC 10 Interim Financial Reporting and Impairment*

The adoption of these interpretations has not led to any changes in the company's accounting policies.

Standards and interpretations in issue but not yet adopted

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

- *IAS 23 (Revised) Borrowing costs (effective for accounting periods beginning on or after 1 January 2009);*
- *IFRS 8 Operating Segments 1 (effective for accounting periods beginning on or after 1 January 2009);*
- *IFRIC 11 IFRS 2: Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007);*
- *IFRIC 12 Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008);*
- *IFRIC 13 Customer Loyalty Programmes (effective for accounting periods beginning on or after 1 July 2008);*
- *IFRIC 14 IAS 19 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for accounting periods beginning on or after 1 January 2008);*

The directors anticipate that the adoption of the above standards and interpretations will have no material impact on the financial statements of the company in the period of initial application.

a. Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting except for the revaluation of certain non-current assets and financial instruments. The financial statements are presented in Kenya Shillings (Kshs) thousands.

b. Revenue recognition

Turnover, which represents sales to external customers during the year, is recognised upon delivery of products and customer acceptance and is stated net of value added tax, returns and rebates.

Interest income is recognised when it accrues, by reference to the principal outstanding and the interest rate applicable. All other revenues are recognised at the time goods are supplied or services are provided.

c. Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values at the date of exchange of assets, liabilities incurred or assumed and equity instruments issued by the company in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the company's interest in the fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

d. Goodwill

Goodwill arising on acquisition represents the excess of the cost of business combination over the fair value of the company's share of the net assets of the acquiree's identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

**e. Intangible assets**

Intangible assets represent computer software which is stated at cost less amortisation and any accumulated impairment losses

Amortisation is calculated to write off the cost of the assets on a straight line basis over their estimated useful life of 3 years.

**f. Leasehold land**

Payments to acquire leasehold interests in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

**g. Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write off the cost of property, plant and equipment in equal annual installments over their estimated useful lives.

The annual rates in use are:

| | |
|---|---|
| Freehold land | Nil |
| Buildings | 2% - 15% |
| Plant, motor vehicles and other equipment | 5% - 25% |
| Furniture, fittings and office equipment | 10% - 33.3% |

**h. Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price and other costs incurred to bring the inventories to their present location and condition, together with refining costs as appropriate. For products refined locally, costs are allocated over the refinery output in proportion to the appropriate world market prices. Net realisable value is the estimate of the selling price in the ordinary course of business. Specific provision is made for obsolete, slow moving and defective inventories.

**i. Financial instruments**

Financial assets and liabilities are recognized on the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

In connection with international trading activities, the company uses derivative instruments to adjust its exposure to expected fluctuations in the prices of crude oil and refined products. In order to hedge against this risk, the company uses various instruments such as currency swaps and forward exchange contracts on organized markets. All derivative contracts are marked-to-market and the related realized gains and losses are recorded in the income statement.

<u>Accounts receivables</u>

Accounts receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

<u>Short term bank borrowings</u>

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise. Interest and other finance charges are recognised as an expense in the period which they are incurred.

<u>Trade payables</u>

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether billed or not.

**j. Foreign currencies**

Assets and liabilities denominated in foreign currency are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date.

Transactions during the year are converted into Kenya Shillings at the rates ruling on the transaction dates. Gains and losses on conversion and translation are dealt with in the income statement.

**k. Operating leases**

Payments madé under operating leases are charged to the income statement on a straight line basis over the period of the lease. Any payment required to be made to the lessor by way of penalty, for termination of lease before the expiry of the lease period, is recognised in the year in which termination takes place.

### l. Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation. Deferred taxation is provided, under the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. Deferred tax assets are recognised for all deductible temporary differences, carry forward of unusual tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and the unused tax credits can be utilised.

### m. Employee benefit costs

The company operates a locally registered defined contribution pension fund and an off-shore retirement benefits scheme for its employees. The assets of the schemes are held in separate trustee administered funds.

The schemes are funded by payments from both the employees and the company. Benefits are paid to retiring staff in accordance with the rules of the respective scheme.

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to a maximum of Kshs 200 per employee per month.

Contributions by the company in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

Employees' entitlements to annual leave are charged to the income statement as they fall due.

### n. Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared.

### o. Cash and cash equivalents

Cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which are within three months of maturity when acquired, less advances from the bank repayable within three months from the date of advance.

Cash on hand and in banks and short term deposits which are held to maturity are carried at cost plus interest earned but not yet received at the balance sheet date.

### p. Earnings per share

Earnings per share are calculated by dividing the net income by the weighted average number of ordinary shares outstanding during the year.

### q. Impairment of assets

At each balance sheet date, the company reviews the carrying amount of its financial, tangible and intangible assets to determine whether there is any indication that the assets have suffered impairment. If any such indication exists, the assets recoverable amount is estimated and an impairment loss is recognised in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

### r. Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the company consists of debt, which includes the borrowings disclosed in note 23, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 20 and 21 respectively.

The company's risk management committee reviews the capital structure on a quarterly basis. As a part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the company will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt. The company's overall strategy remains unchanged from 2006.

### s. Comparatives

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

## 2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

*Key sources of estimation uncertainty*

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was Kshs 336 million and no impairment loss was recognised during 2007.

Useful lives of property, plant and equipment

The company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.

## 3. NET SALES

The major part of the business of the company falls under the category of sale of petroleum products with other income comprising less than 5% of the total income. Net sales by business channel are shown below.

**(i) Business channels**

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| General trade | 19,266,848 | 14,963,429 |
| Network | 8,464,357 | 7,715,697 |
| Aviation | 3,957,502 | 5,370,019 |
| Export and bulk | 3,069,036 | 2,612,276 |
| **Total net sales** | **34,757,743** | **30,661,421** |
| **(ii) Geographical analysis** | | |
| Local sales | 33,758,916 | 29,120,807 |
| Export sales | 998,827 | 1,540,614 |
| **Total net sales** | **34,757,743** | **30,661,421** |

## 4 COST OF SALES

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Product purchases | 30,441,738 | 26,997,574 |
| Other variable costs | 1,880,560 | 1,411,405 |
| **Total cost of sales** | **32,322,298** | **28,408,979** |

## 5. OTHER INCOME

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Rents and commissions | 41,229 | 37,421 |
| Profit on disposal of property, plant and equipment | 5,824 | 2,736 |
| Profit on disposal of prepaid operating leases | 14,672 | 153,989 |
| Reversal of accruals and other credits | 13,330 | 79,952 |
| **Total other income** | **75,055** | **274,098** |

## 6. OTHER OPERATING EXPENSES

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Directors' emoluments - fees | 1,600 | 1,600 |
| - other emoluments | 23,005 | 20,607 |
| Payroll and staff (Note 8) | 423,982 | 410,213 |
| Other expenses | 340,327 | 383,544 |
| Repairs and maintenance | 217,499 | 175,780 |
| Technical assistance (Note 25(i)) | 115,834 | 126,789 |
| Operating lease rentals | 74,813 | 70,508 |
| Impairment on receivables | 54,270 | 7,929 |
| Auditor's emoluments | 4,280 | 3,960 |
| Write back of provision for obsolete inventories | (12,331) | - |
| **Total other operating expenses** | **1,243,279** | **1,200,930** |

## 7. FINANCIAL CHARGES, NET

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Financial charges on borrowings | 287,102 | 415,493 |
| Financial income | (730) | (1,809) |
| Net gain on foreign exchange | (107,866) | (25,128) |
| **Financial charges, net** | **178,506** | **388,556** |

## 8. PAYROLL AND STAFF

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries | 270,650 | 275,367 |
| Pension costs – defined contribution plans | 45,921 | 69,166 |
| Provision for accrued leave | 6,535 | 2,427 |
| Other costs | 100,876 | 63,253 |
| **Total personnel expenses** | **423,982** | **410,213** |
| **Average number of employees (permanent staff)** | **282** | **297** |

## 9. TAXATION

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **(i) Taxation charge** | | |
| Current taxation based on adjusted profit for the year at 30% | 232,139 | 220,798 |
| Prior year under/(over) provision | 5,816 | (2,060) |
| | **237,955** | **218,738** |
| Deferred taxation charge/(credit) (Note 16(ii)) | 19,790 | (27,622) |
| | **257,745** | **191,116** |
| **(ii) Reconciliation of taxation charge to expected tax based on accounting profit** | | |
| Accounting profit before taxation | 781,935 | 677,194 |
| Tax at the applicable rate of 30% | 234,580 | 203,374 |
| Tax effect of expenses not deductible for tax | 21,406 | 38,825 |
| Tax effect of income not subject to tax | (4,057) | (49,023) |
| Prior year under/(over) provision of corporate tax | 5,816 | (2,060) |
| **Taxation charge** | **257,745** | **191,116** |
| **(iii) Taxation recoverable** | | |
| Balance at 1 January | 53,101 | 93,709 |
| Income statement charge | (237,955) | (218,738) |
| Payments during the year | 197,251 | 178,130 |
| **Balance at 31 December** | **12,397** | **53,101** |

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit for the year divided by the weighted average number of ordinary shares in issue during the year.

| For the year ended December 31, | 2007 | 2006 |
|---|---|---|
| Profit after taxation (Kshs'000) | 524,190 | 486,078 |
| Weighted average number of ordinary shares on issue – basic (In thousands of shares) | 175,065 | 175,065 |
| **Earnings per share (Kshs)** | **2.99** | **2.78** |

**Diluted earnings per share**

The diluted earnings per share is the same as basic earnings per share.

## 11. DIVIDENDS

In May 2007, a dividend of Kshs 2.50 per share amounting to Kshs 438 million, relating to the year ended 31 December 2006 was paid to shareholders.

In respect of the current year, the directors propose that a dividend of Kshs 2.50 per share will be paid out to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total estimated dividend to be paid is Kshs 438 million.

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| The movement in unclaimed dividend is as follows: | | |
| At 1 January | 6,746 | 4,469 |
| Final dividend declared | 437,663 | 437,663 |
| Dividend paid | (432,247) | (435,386) |
| **Balance at 31 December** | **12,162** | **6,746** |

Payment of dividends to members is subject to withholding tax at the rate of 5% for residents and 10% for non-residents. For locally incorporated companies, withholding tax is only deductible where the shareholding is below 12.5%.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings Kshs'000 | Plant, motor vehicles and other equipment Kshs'000 | Furniture, fittings and office equipment Kshs'000 | Capital Work in Progress Kshs'000 | Total Kshs'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| **1 January 2006** | **847,320** | **2,221,026** | **249,158** | **201,388** | **3,518,892** |
| Additions | 61,368 | 108,466 | 36,793 | 126,153 | 332,780 |
| Disposals | (2,278) | (13,328) | (11,581) | - | (27,187) |
| Transfer from work in progress | - | 98,107 | 6,230 | (136,878) | (32,541) |
| Transfer to prepaid leases | (25,000) | - | - | - | (25,000) |
| **31 December 2006** | **881,410** | **2,414,271** | **280,600** | **190,663** | **3,766,944** |
| **1 January 2007** | **881,410** | **2,414,271** | **280,600** | **190,663** | **3,766,944** |
| Additions | 34,147 | 84,544 | 19,960 | 108,871 | 247,522 |
| Disposals | (6,479) | (17,948) | - | - | (24,427) |
| Transfer from work in progress | - | 138,497 | 2,302 | (141,308) | (509) |
| **31 December 2007** | **909,078** | **2,619,364** | **302,862** | **158,226** | **3,989,530** |
| **DEPRECIATION** | | | | | |
| **1 January 2006** | **252,384** | **1,089,397** | **184,479** | - | **1,526,260** |
| Charge for the year | 7,044 | 197,910 | 30,052 | - | 235,006 |
| Disposals | (2) | (13,378) | (10,394) | - | (23,774) |
| **31 December 2006** | **259,426** | **1,273,929** | **204,137** | - | **1,737,492** |
| **1 January 2007** | **259,426** | **1,273,929** | **204,137** | - | **1,737,492** |
| Charge for the year | 25,025 | 214,477 | 34,923 | - | 274,425 |
| Disposals | (1,058) | (14,225) | - | - | (15,283) |
| **31 December 2007** | **283,393** | **1,474,181** | **239,060** | - | **1,996,634** |
| **NET BOOK VALUE** | | | | | |
| **31 December 2007** | **625,685** | **1,145,183** | **63,802** | **158,226** | **1,992,896** |
| **31 December 2006** | **621,984** | **1,140,331** | **76,463** | **190,663** | **2,029,452** |

Property, plant and equipment with a cost of Kshs 1,054,054,220 (2006 – Kshs 860,729,071) were fully depreciated as at 31 December 2007. The notional depreciation charge in respect of these property, plant and equipment amount to Kshs 237,404,474 (2006 – Kshs 112,524,438).

The capital work in progress relates mainly to construction work (e.g. remodelling of stations) and technical installations being undertaken by the company.

## 13. PREPAID OPERATING LEASES

| | 2007<br>Kshs'000 | 2006<br>Kshs'000 |
|---|---|---|
| **COST** | | |
| **At 1 January** | **414,996** | **510,613** |
| Reclassification from property, plant and equipment | - | 25,000 |
| Additions | 777 | 19,282 |
| Disposals | (11,975) | (123,799) |
| Write down of impaired land | - | (16,100) |
| **At 31 December** | **403,798** | **414,996** |
| **AMORTISATION** | | |
| **At 1 January** | **89,497** | **104,963** |
| Amortisation for the year | 6,107 | 19,687 |
| Write down of impaired land | - | (16,100) |
| Disposals | (547) | (19,053) |
| **At 31 December** | **95,057** | **89,497** |
| **NET BOOK VALUE** | | |
| **At 31 December** | **308,741** | **325,499** |

The prepaid operating leases relate to amounts that the company has paid for the land on which most of its stations and depots stand.

## 14. INTANGIBLE ASSETS

| | 2007<br>Kshs'000 | 2006<br>Kshs'000 |
|---|---|---|
| **COST** | | |
| **At 1 January** | **107,833** | **31,861** |
| Additions | 7,355 | 43,431 |
| Transfers from capital work in progress | 509 | 32,541 |
| **At 31 December** | **115,697** | **107,833** |
| **AMORTISATION** | | |
| **At 1 January** | **36,147** | **30,980** |
| Charge for the year | 26,248 | 5,167 |
| **At 31 December** | **62,395** | **36,147** |
| **NET BOOK VALUE** | | |
| **At 31 December** | **53,302** | **71,686** |

The intangible assets relate to accounting, payroll and other computer software acquired by the company.

## 15. GOODWILL

The goodwill arose from the acquisition of a subsidiary, Elf Oil Kenya Limited, in March 2001. With effect from 1 January 2005, the operations of Elf Oil Kenya Limited were merged with those of Total Kenya Limited and this was achieved through a business sale agreement which resulted in the transfer of all Elf Oil Kenya Limited business, assets and liabilities to Total Kenya Limited.



**Allocation of goodwill to cash-generating units**

Goodwill has been allocated for impairment testing purposes to two cash generating units as follows:

- Network service station operations – cash flows and profits from acquired stations
- Rental fees income generation – fees paid by dealers operating acquired stations

Both units continue to generate positive cash flows and goodwill has been globally allocated to both. The recoverable amount of the cash generating units is based on value in use calculation which uses cash flow projections based on annual network business financial budgets and a long term business plan approved by management covering a five year period.

The cash flows from the cash generating units are based on expected return on capital invested at between 10% to 25% and a stable market share. Management is of the opinion that any possible reasonable change in these assumptions would not cause the global carrying amount to exceed the recoverable amount.

At 31 December 2007, no impairment loss was assessed.

## 16. DEFERRED TAXATION ASSET

**(i) The net deferred tax asset is attributable to the following:**

| | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Accelerated capital depreciation | (16,639) | (6,418) |
| Unrealised exchange differences | - | (30,348) |
| General provisions | (29,447) | (29,110) |
| **Net deferred tax asset** | **(46,086)** | **(65,876)** |

**(ii) Movement on the deferred tax account is as follows:**

| | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| At 1 January | (65,876) | (38,254) |
| Income statement charge/(credit) (Note 9 (i)) | 19,790 | (27,622) |
| **At 31 December** | **(46,086)** | **(65,876)** |

Deferred taxation is estimated on all temporary differences under the liability method using the currently enacted tax rate of 30% (2006 - 30%).

## 17. INVENTORIES

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Refined products | 2,991,124 | 5,591,501 |
| Raw materials and crude oil | - | 217,866 |
| Consumables and accessories | 462,546 | 267,345 |
| Provision for obsolete and defective stocks | (14,796) | (27,127) |
| **Total inventories** | **3,438,874** | **6,049,585** |

## 18. TRADE AND OTHER RECEIVABLES

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Trade receivables | 4,426,891 | 3,432,836 |
| Recoverable taxes | 971,322 | 1,361,791 |
| Other receivables and prepayments | 174,472 | 295,833 |
| Provision for doubtful debts | (555,165) | (531,942) |
| **Total trade and other receivables** | **5,017,520** | **4,558,518** |

The company provides for receivables over 90 days with the exception of cases where there is an agreed payment plan. Trade receivables between 60 days and 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

The company uses an internal credit rating system to assess potential customers' credit quality and defines credit limit for each customer. Limits attributed to customers are reviewed continuously. Of the trade receivables balance at the end of the year, Kshs 693.2 million (2006: Kshs 12.4 million) is due from the company's largest customer. There is only one customer who represents more than 5% of the total balance of trade receivables.

Included in the company's trade receivables are debtors with a carrying amount of Kshs 41.7 million (2006: Kshs 81.6 million) which are past due at the reporting date. The company has not made provisions as there has not been a significant change in credit quality and the amounts are still considered recoverable. The average age of these receivables is 37 days (2006: 67 days).

## 19. RELATED COMPANY BALANCES

### (i) Amounts due from related companies

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Total Uganda Limited | 26,809 | 199,842 |
| Total Tanzania Limited | 110 | 4,727 |
| Fina Congo S.A.R.L | 9,676 | 29,237 |
| Total Rwanda S.A.R.L | - | 59,280 |
| NETCO Management Limited | 339,789 | 292,211 |
| Others related companies | 96,212 | 13,449 |
| | **472,596** | **598,746** |

### (ii) Amounts due to related companies

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Total France | 57 | 56,481 |
| Other related companies | 147,720 | 19,019 |
| | **147,777** | **75,500** |

## 20. SHARE PREMIUM

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **As of 1 January and 31 December** | **1,967,520** | **1,967,520** |

This is a non distributable reserve as per the requirements of the Kenyan Companies Act.

## 21. SHARE CAPITAL

### (i) Number of shares

| As of December 31, | 2007 | 2006 |
|---|---|---|
| | in thousand of shares | |
| **Authorised ordinary shares of Kshs 5 each** | **181,630** | **181,630** |
| Issued and fully paid ordinary shares of Kshs 5 each: | | |
| Ordinary shares | 173,013 | 173,013 |
| Ordinary Class A shares | 2,052 | 2,052 |
| **Total issued shares** | **175,065** | **175,065** |

### (ii) Share capital

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **Authorised ordinary share capital** | **908,150** | **908,150** |
| **Issued and fully paid:** | | |
| Ordinary shares | 865,067 | 865,067 |
| Class 'A' ordinary shares | 10,257 | 10,257 |
| **As of 1 January and 31 December** | **875,324** | **875,324** |

### (iii) Shareholding structure

| As of December 31, | 2007 | 2006 |
|---|---|---|
| | in thousand of shares | |
| Total Outre Mer | 126,327 | 126,327 |
| Total Africa Limited | 10,733 | 10,733 |
| **Total stable shareholders** | **137,060** | **137,060** |
| Class A shares | 2,052 | 2,052 |
| Other shareholders | 35,953 | 35,953 |
| **Total issued shares** | **175,065** | **175,065** |

Class A ordinary shares relate to the shares held by the employees of the company and are not traded at the stock exchange. During the 2005 Annual General Meeting, the shareholders passed a special resolution allowing the conversion of class A ordinary shares to normal ordinary shares with effect from 1 January 2006. The conversion has not yet been effected as the necessary approvals have not been given by the Capital Markets Authority.

## 22. TRADE AND OTHER PAYABLES

| As of December 31, | 2007<br>Kshs'000 | 2006<br>Kshs'000 |
|---|---|---|
| Trade payables | 4,045,496 | 4,958,484 |
| Other payables and accruals | 719,490 | 420,868 |
| **Total payables** | **4,764,986** | **5,379,352** |



Interest is only charged on trade payables relating to purchase of petroleum products at rates set by the Open Tender Supply (OTS) agreement. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 23. SHORT TERM BANK BORROWINGS

| As of December 31, | 2007<br>Kshs'000 | 2006<br>Kshs'000 |
|---|---|---|
| Bank overdrafts | 504,782 | - |
| Short term bank loans | 2,271,750 | 5,014,000 |
| **Total short term borrowings and bank overdraft** | **2,776,532** | **5,014,000** |

Bank overdraft facilities are held with various financial institutions, primarily international and strong local banks, and are unsecured. The facilities are operated within designated limits and under the terms and conditions stipulated by the financial institutions.

The short term bank loans are interest bearing and are drawn from various financial institutions with maturity periods not exceeding 3 months (2006: 3 months).

### Interest rates

The borrowings are repayable on demand or within three months and are unsecured. The interest on these borrowings is based on prevailing money market rates. The weighted average interest rates paid on borrowings during the year were as follows:

| For the year ended December 31, | 2007 | 2006 |
|---|---|---|
| **Average interest rate on short term borrowings** | **7.63%** | **6.93%** |

### Analysis by currency

| As of December 31, | 2007<br>Kshs'000 | 2006<br>Kshs'000 |
|---|---|---|
| Kenya Shilling | 2,271,750 | 5,014,000 |
| **Total short term borrowings and bank overdraft** | **2,271,750** | **5,014,000** |

## 24. NOTES TO THE CASH FLOW STATEMENT

### (i) Reconciliation of operating profit to cash generated from operations

| For the year ended December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| **Profit before taxation** | **781,935** | **677,194** |
| Adjustments for: | | |
| Net finance charges recognized in profit | 178,506 | 388,556 |
| Net gain on foreign exchange (Note 7) | 107,866 | 25,128 |
| Depreciation (Note 12) | 274,425 | 235,006 |
| Amortisation – prepaid operating leases (Note 13) | 6,107 | 19,687 |
| Amortisation – intangible assets (Note 14) | 26,248 | 5,167 |
| Profit on disposal of property, plant and equipment | (5,824) | (2,736) |
| Profit on disposal of prepaid operating leases | (14,672) | (153,989) |
| **Operating profit before working capital changes** | **1,354,591** | **1,194,013** |
| (Increase)/decrease in inventories | 2,610,711 | (3,146,613) |
| Increase in trade and other receivables | (459,002) | (1,348,529) |
| Increase/(decrease) in trade and other payables | (614,366) | 3,908,160 |
| Decrease in amounts due to holding company | (153,089) | (121,587) |
| Movement in balances with related companies | 198,427 | (105,006) |
| **Cash generated from operations** | **2,937,272** | **380,438** |

### (ii) Analysis of the balances of cash and cash equivalents as shown on the balance sheet

| As at December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Bank and cash balances | 833,737 | 1,264,389 |
| Bank overdrafts (note 23) | (504,782) | - |
| Short term loans (Note 23) | (2,271,750) | (5,014,000) |
| **Cash and cash equivalents** | **(1,942,795)** | **(3,749,611)** |

**Cash and cash equivalents**

For the purposes of the cash flow statement, cash equivalents include short term liquid investments which are readily convertible to known amounts of cash and which were within three months of maturity when acquired, less advances from the bank repayable within three months from the date of advance.

## 25. RELATED PARTY TRANSACTIONS

### (i) Transactions with related companies

During the year, the company made purchases amounting to Kshs 2,506 million (2006 – Kshs 1,195million) from the holding company and other companies related to it by virtue of common shareholding. The company also earned revenue of Kshs 749 million (2006 – Kshs 1,680 million) from related companies.

Sales and purchases to/from related parties were made on terms and conditions similar to those offered to major customers or available from major suppliers.

The company purchased plant and equipment amounting to Kshs 59 million (2006- Kshs 114 million) from the holding company and other companies related to it by virtue of common shareholding. The company also has technical assistance agreements with the holding company for which it paid fees for the year amounting to Kshs 116 million (2006- Kshs 126 million) as disclosed on note 6.

## 25. RELATED PARTY TRANSACTIONS (Cont')

### (ii) Amounts due to holding company

The amount due to the holding company in relation to the above transactions is Kshs 59,705,000 (2006 – Kshs 212,794,000) as set out on the balance sheet. Other amounts due to/from related companies are shown on note 19.

### (iii) Key management compensation

The remuneration of directors and other members of key management were as follows:

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Salaries and other short-term employment benefits | 52,450 | 43,267 |
| Post-employment benefits | 2,393 | 2,187 |
| | 54,843 | 45,454 |
| **(iv) Directors' remuneration** | | |
| Fees for services as a director | 1,600 | 1,600 |
| Other emoluments (included in key management compensation above) | 23,005 | 20,607 |
| | 24,605 | 22,207 |

## 26. COMMITMENTS AND CONTINGENCIES

### Guarantees and bonds

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Total commitments given | 540,287 | 697,087 |
| Total commitments received | 260,694 | 294,191 |

Commitments given include primarily customs bonds. The bonds are held in the ordinary course of business. No losses are anticipated in respect of these contingent liabilities.

Commitments received include primarily customer guarantees.

Commitments received/given are all held with local banks.

### Capital commitments

Commitments related to construction work and purchase of assets at the year end for which no provision has been made in these financial statements are as stated below:

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Network and commercial installations | 175,855 | 175,670 |
| Plant and equipment | 140,002 | 269,648 |
| Accounting software | 17,255 | 5,136 |
| Office equipment, furniture and fittings | 12,125 | 32,073 |
| **Total capital commitments** | **345,237** | **482,527** |

## 26. COMMITMENTS AND CONTINGENCIES (Cont')

### Foreign currency agreements

In connection with international trading activities, the company uses derivative instruments to adjust its exposure to expected fluctuations in the prices of crude oil and refined products. In order to hedge against this risk, the company uses various instruments such as currency swaps and forward exchange contracts on organized markets.

Commitments and contingencies related to the company's financial derivatives activities as at year-end were nil. Any amounts that would be outstanding would normally indicate the levels of notional involvement by the company and are not indicative of an unrealized gain or loss.

### Legal claims

Two legal claims have been made against the company. The claims are made by a former employee and a customer respectively. The plaintiffs are suing for some specific and general damages which the company has disputed. The cases are on going and the likely outcome is unknown. However, based on information currently available, the directors are of the opinion that the ultimate resolution of these cases would not have a material effect on the company's operations, financial position or liquidity.

### Industry dispute

The company is involved in a dispute with other oil companies over the price to be applied for the re-invoicing of November 2004 industry crude import which was shipped by the company under the contractual arrangements of the Open Tender System (OTS). During the year, the matter was determined in the company's favour but other oil companies have lodged an appeal and the matter referred for arbitration. The company directors and legal advisers are of the opinion that the final decision will be in the company's favour. The total amount in dispute over the tender is Kshs 106 million, which has been fully provided for in the financial statements.

## 27. OPERATING LEASE COMMITMENTS

| As of December 31, | 2007<br>Kshs'000 | **2006<br>Kshs'000** |
|---|---:|---:|
| Maturing within one year | 5,426 | 9,436 |
| Maturing over one year to five years | 16,277 | 25,634 |
| **Total operating lease commitments** | **21,703** | **35,070** |

All the commitments relate to future rent payable for the head office (Chai House) based on the existing contracts.

## 28. FINANCIAL INSTRUMENTS

### Capital risk management

The company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The company's overall strategy remains unchanged from 2006.

The capital structure of the company consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and retained earnings as disclosed in notes 20, 21 and 24.

## 28. FINANCIAL INSTRUMENTS (CONT')

### Gearing ratio

The gearing ratio at the end of the year was as follows:

| As of December 31, | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Borrowings (note 23) | 2,776,532 | 5,014,000 |
| Bank and cash balances | (833,737) | (1,264,389) |
| **Net borrowings** | **1,942,795** | **3,749,611** |
| Equity* | 4,751,591 | 4,665,064 |
| **Net debt to equity ratio** | **41%** | **80%** |

*Equity includes capital and reserves.

### Financial risk management objectives

The company's Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by Total Group's policies, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The company's Treasury function reports monthly to the Group's treasury, a section of the Group that monitors risks and policies implemented to mitigate risk exposures.

### Market risk

The activities of the company expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including forward foreign exchange contracts to hedge the exchange rate risk arising on the trade of petroleum products.

There has been no change to the company's exposure to market risks or the manner in which it manages and measures the risk.

### Foreign currency risk management

Certain transactions of the company are undertaken in foreign currencies hence exposures to exchange rate fluctuations arise. In connection with international trading activities, the company uses derivative instruments to adjust its exposure to expected fluctuations in the prices of crude oil and refined products. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts, including various instruments such as currency swaps and forward exchange contracts on organized markets.

## 28. FINANCIAL INSTRUMENTS (CONT')

### Foreign currency risk management (cont')

As at end of the year, the carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2007 Kshs'000 | 2006 Kshs'000 | 2007 Kshs'000 | 2006 Kshs'000 |
| US Dollars | 1,223,381 | 1,895,813 | 1,352,608 | 2,070,128 |
| Euro | 3,221 | 191,616 | 6,207 | 1,694 |
| Others | - | - | - | - |

### Foreign currency sensitivity analysis

The main foreign currency exposure that the company is exposed to relates to the fluctuation of the Kenya Shilling exchange rate to the US Dollar and Euro currencies.

The table below details the company's sensitivity to a 10% increase and decrease in the Kenya Shilling against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans. A positive number below indicates an increase in profit and other equity where the Kenya Shilling strengthens 10% against the relevant currency. For a 10% weakening of the Kenya Shilling against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | USD Impact | | Euro Impact | |
|---|---|---|---|---|
| | 2007 Kshs'000 | 2006 Kshs'000 | 2007 Kshs'000 | 2006 Kshs'000 |
| Profit or loss (With 10% change) | 13,227 | 17,384 | 299 | 18,992 |

The US Dollar impact is mainly attributable to the exposure on outstanding US Dollar receivables, payables and overdraft at the year end while the Euro impact is mainly attributable to the exposure on outstanding Euro receivables and payables at the year end.

The sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

### Forward foreign exchange contracts

The company enters into forward foreign exchange contracts to manage risk associated with anticipated trade transactions

## 28. FINANCIAL INSTRUMENTS (CONT')

### Interest rate risk management

The company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the company by maintaining an appropriate mix between fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite.

### Interest rate sensitivity analysis

The analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

If interest rates had been 0.5% higher/lower and all other variables were held constant, the company's profit before tax for the year ended 31 December 2007 would decrease/increase by KES 13.9 million (2006: by KES 25.1 Million). This is mainly attributable to the company's exposure to interest rates on its borrowings and overdraft.

The company's sensitivity to interest rates has decreased during the current period mainly due to the reduction in financial requirements.

### Credit risk management

Credit risk refers to the risk of financial loss to the company arising from default by a counterparty on its contractual obligations. The company's policy requires that it deals only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available. If not available, the company uses other publicly available financial information and its own trading records to rate its major customers. The company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is requested.

The company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The company defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company's maximum exposure to credit risk as at 31 December 2007 is anlaysed in the table below:

| | **Fully performing Kshs'000** | **Past due Kshs'000** | **Impaired amount Kshs'000** | **Total Kshs'000** |
|---|---|---|---|---|
| Network | 132,627 | - | 40,185 | **172,812** |
| Non-Network | 3,903,345 | 41,689 | 309,045 | **4,254,079** |
| **Trade receivables** | **4,035,972** | **41,689** | **349,230** | **4,426,891** |
| Cash and cash equivalents | (1,942,795) | - | - | **(1,942,795)** |
| Others | 939,859 | - | 205,935 | **1,145,794** |

The default risk on the customers under the fully performing category is very low as they are active in paying their debts as they continue trading. The past due amounts have not been provided for since the amounts continue to be paid. The impaired amounts have been fully provided for in these financial statements.

## 28. FINANCIAL INSTRUMENTS (CONT')

### Liquidity risk management

The company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in financing facilities section of this note, is a listing of additional undrawn facilities that the company has at its disposal to further reduce liquidity risk.

The table below analyses the company's financial liabilities that will be settled on a net basis. 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 month Kshs'000 | Between 1-3 months Kshs'000 | Over 3 months Kshs'000 |
|---|---|---|---|
| Borrowings from related party | - | - | - |
| Borrowings – Bank Borrowings | 2,776,532 | - | - |
| Trade and other payables | 3,499,709 | 1,265,277 | - |

### Financing facilities

| | 2007 Kshs'000 | 2006 Kshs'000 |
|---|---|---|
| Unsecured bank loans and overdraft, payable at call and reviewed annually | | |
| Amount used | 2,776,532 | 5,014,000 |
| Amount unused | 8,223,468 | 5,986,000 |
| **Total facilities** | **11,000,000** | **11,000,000** |

The table below shows the breakdown of amounts used with 6 main banks at the balance sheet date.

| | 2007 Carrying amount Kshs'000 | 2006 Carrying amount Kshs'000 |
|---|---|---|
| **Bank** | | |
| Citibank NA | 504,782 | 1,044,000 |
| Standard Chartered Bank | 584,000 | 2,180,000 |
| Kenya Commercial Bank | 912,900 | 1,060,000 |
| Barclays Bank | 150,000 | - |
| Stanbic Bank | 624,850 | 430,000 |
| Bank of Africa | - | 300,000 |
| **Total** | **2,776,532** | **5,014,000** |

**29. FAIR VALUE**

The directors consider that the fair values of financial assets and liabilities are not significantly different from their carrying values.

**30. ASSETS PLEDGED AS SECURITY**

As at 31 December 2007, there were no assets pledged by the company to secure liabilities.

**31. INCORPORATION**

Total Kenya Limited is a limited liability company incorporated and domiciled in Kenya under the Kenyan Companies Act. The parent company is Total Outre Mer while the ultimate holding company is Total S.A, both incorporated in France.

**32. CURRENCY**

The financial statements are presented in Kenya Shillings thousands.

# | APPENDIX 1 |

## FIVE-YEAR SUMMARIZED CONSOLIDATED INCOME STATEMENT AND BALANCE SHEE

### i) INCOME STATEMENT

| For the year ended December 31, | 2007 | 2006 | In Million Kshs 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Gross sales | 44,109.7 | 38,052.9 | 40,547.5 | 37,628.1 | 22,393.2 |
| Indirect taxes and duties | (9,352.0) | (7,391.5) | (6,998.0) | (5,870.7) | (3,660.9) |
| **Net sales** | **34,757.7** | **30,661.4** | **33,549.5** | **31,757.4** | **18,732.3** |
| Cost of sales | (32,322.3) | (28,409.0) | (31,048.5) | (29,148.5) | (16,739.3) |
| **Gross profit** | **2,435.4** | **2,252.4** | **2,501.0** | **2,608.9** | **1,993.0** |
| Expenses and other income | (1,475.0) | (1,186.7) | (1,418.6) | (1,547.1) | (1,232.8) |
| Interest charges, net | (178.5) | (388.5) | (284.3) | (130.2) | (3.6) |
| **Profit before taxation** | **781.9** | **677.2** | **798.1** | **931.6** | **756.6** |
| Taxation | (257.7) | (191.1) | (266.6) | (354.6) | (241.7) |
| **Net profit for the year** | **524.2** | **486.1** | **531.5** | **577.0** | **514.9** |

### ii) BALANCE SHEET

| As of December 31, | 2007 | 2006 | In Million Kshs 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, equipment and leases | 2,301.6 | 2,355.0 | 2,398.3 | 1,942.1 | 1,806.4 |
| Goodwill | 336.6 | 336.6 | 336.6 | 336.6 | 366.5 |
| Other intangible assets | 53.3 | 71.7 | 0.8 | 1.1 | 5.0 |
| Deferred taxation | 46.1 | 65.8 | 38.3 | 50.2 | 82.7 |
| **Total non-current assets** | **2,737.6** | **2,829.1** | **2,774.0** | **2,330.0** | **2,260.6** |
| Current assets | | | | | |
| Inventories | 3,438.9 | 6,049.6 | 2,903.0 | 3,670.0 | 3,182.0 |
| Other current assets | 5,502.5 | 5,210.3 | 3,828.9 | 4,247.9 | 2,036.7 |
| Cash and cash equivalent | 833.7 | 1,264.4 | 1,267.3 | 300.8 | 380.7 |
| **Total current assets** | **9,775.1** | **12,524.3** | **7,999.2** | **8,218.7** | **5,599.4** |
| **TOTAL ASSETS** | **12,512.7** | **15,353.4** | **10,773.2** | **10,548.7** | **7,860.0** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 875.3 | 875.3 | 875.3 | 875.3 | 840.4 |
| Share premium | 1,967.5 | 1,967.5 | 1,967.5 | 1,967.5 | 1,741.4 |
| Revenue reserves | 1,908.7 | 1,822.2 | 1,773.8 | 1,242.2 | 1,102.9 |
| Proposed dividends – gross | - | - | - | 437.7 | 437.7 |
| **Total capital and reserves** | **4,751.5** | **4,665.0** | **4,616.6** | **4,522.7** | **4,122.4** |
| Current liabilities | | | | | |
| Trade and others | 4,984.7 | 5,674.4 | 1,917.0 | 2,947.8 | 2,448.5 |
| Short term borrowings | 2,776.5 | 5,014.0 | 4,239.6 | 3,078.2 | 1,289.1 |
| **Total current liabilities** | **7,761.2** | **10,688.4** | **6,156.6** | **6,026.0** | **3,737.6** |
| **TOTAL EQUITY AND LIABILITIES** | **12,512.7** | **15,353.4** | **10,773.2** | **10,548.7** | **7,860.0** |

# PROXY FORM

**The Secretary**
**Total Kenya Limited**
**P O Box 30736 - 00100**
**Nairobi.**

I/WE ..........................................................................................................................................

of address ....................................................................................................................................

Being a member of Total Kenya Limited, hereby appoint: .........................................................

of address ....................................................................................................................................

whom failing ................................................................................................................................

of address ....................................................................................................................................

as our/my proxy, to vote for us/me and on our/my behalf at the Annual General Meeting of the Company to be held on 28 May 2008 at KICC, Aberdares and Lenana Meeting rooms, Nairobi and at any adjournment thereof.

As witness our/my hand this............................................day of.......................................................2008

Note:

1. This proxy must be delivered to the Company's registered office not later than the close of business on 26 May 2008 failing which it is invalid.

2. In the case of a member being a limited Company this form must be completed under its common seal.