

**International Petroleum Investment
Company PJSC and its subsidiaries**

**CHAIRMAN'S REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS**

31 DECEMBER 2011

**International Petroleum Investment
Company PJSC and its subsidiaries**

CHAIRMAN'S REPORT

31 DECEMBER 2011



شركة الاستثمارات البترولية الدولية
INTERNATIONAL PETROLEUM INVESTMENT COMPANY

Chairman's Report to the Shareholder

From its founding in 1984 to today, the International Petroleum Investment Company has been identifying, acquiring and growing a primary portfolio of refining, petrochemical and related energy investments around the world. We are proud to have been entrusted with this mandate by the Government of Abu Dhabi, and are fortunate to be able to draw upon the dedication of our people, the benefits of our technologies, and the strengths of our business partnerships in order to promote value creation and lead in the global market place.

On 2nd December 2011, the United Arab Emirates celebrated 40 years of nationhood. The Emirati people reflected upon four decades of remarkable progress and development, while looking ahead to the hopes and demands of the future. The extraordinary advances made by our still-young nation are due in no small part to the vision of our leaders and their wise deployment of the natural resources with which we have been blessed. At IPIC, we are proud to have contributed to this success story and wish both the Federal Government and each of the seven Emirates continued success in the future.

We continue to live in challenging times. Market and geopolitical uncertainty continue as a theme as it did for the past few years, yet we remain cautiously optimistic. His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, together with His Highness General Sheikh Mohamed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces have laid the framework for a policy which has helped Abu Dhabi and the UAE weather these times through sustainable development and diversification, a policy which IPIC not only embraces, but implements.

IPIC operates on five continents, and through new investments is gaining greater access to regions in Asia and Latin America. As at 31st December 2011, IPIC's assets were US \$ 65.3 billion, a 36% increase from 2010. Although group net profit was down significantly this year, at US \$ 44.7 million, primarily attributable to market driven events, the impact of Euro/Dollar exchange rates and volatility in equity markets, our core underlying operational revenues grew to US \$ 34.3 billion, a 164% increase from the prior year. Additionally, our profit from continuing operations increased from US \$ 118.4 million to US \$ 540.6 million, an increase of 357%. Our results in this challenging environment are an affirmation of IPIC's business model, which seeks to diversify across geographies and the various parts of the hydrocarbon value chain. They are also a confirmation of the investments we have made to date. As a long-term shareholder, we take great care in the organizations we choose to partner with, and we take great pride in the success and resilience of the collaborations we create. While our short-term performance will always be affected by industry and market cycles, we believe our investment approach creates enduring long-term economic value.

The Global Economy & Energy Sector

2011 in Review

The major macroeconomic issue which dominated 2011 was the uncertainty facing sovereign issuers around the world, as nations had to deal with the twin tasks of servicing current debt while implementing budgetary controls to limit future deficit spending. This was a major issue in the Eurozone throughout the year, as investor concerns regarding a possible Greek debt default and a European Union-led bailout package spilled into other markets, leading to increased sovereign funding costs. The unprecedented downgrade of United States government debt to below AAA levels during the year heightened these concerns as well.



Investor and business confidence likely suffered as a result of the global financial uncertainty. Year-over-year real GDP growth in the EU, which was 2.1% in the fourth quarter of 2010, slowed to 0.7% by the fourth quarter of 2011. The US, still the largest economy in the world, saw a similar slowdown as the effects of fiscal stimulus in 2009 and 2010 began to fade. US GDP growth was 3.1% in the fourth quarter of 2010, but had slowed to 1.6% by the fourth quarter of 2011. The BRIC countries (Brazil, Russia, India, and China) helped offset the sluggish economies of the developed world, but they also saw a progressive decline in year-on-year growth throughout 2011. China's GDP growth rate declined modestly from 9.8% in the first quarter to 8.9% in the fourth quarter of 2011, but the drop-off was more pronounced in India and Brazil, where on a similar basis, GDP growth declined from 8.3% to 6.1% and from 5.3% to 1.4%, respectively. Russia, with its economy driven by commodity exports rather than consumption, saw slower but more stable growth during 2011, with year-over-year GDP growth increasing from 4.0% in the first quarter of 2011 to 4.8% in the final quarter of the year.

The slowdown in global economic growth was less apparent on world crude oil demand in 2011, as global oil demand, as compiled by the International Energy Agency ("IEA"), rose to 89.1 million barrels per day, up from 88.3 million in 2010 and 85.6 million barrels in 2009. Despite weaker demand, crude oil prices rose in 2011, as social and political unrest surrounding the "Arab Spring" led to production disruptions, notably in Libya, Egypt and Yemen. Additionally, geopolitical concerns regarding Iran may have led to some stockpiling and likely added a further risk premium to market prices during the year. Brent blend spot prices opened 2011 at around US \$ 95 per barrel, rising to as much as US \$ 125 a barrel by April before settling in a range of US \$ 105 to US \$ 115 per barrel for the rest of the year. For the year, the benchmark Brent grade averaged US \$ 112 per barrel, compared with an average of US \$ 80 per barrel in 2010.

Global refining margins, as calculated by IEA, were generally down from 2010 in all regions. In northwest Europe in particular, refining margins have declined to levels where refinery owners are opting to permanently close capacity, with 11 refineries either closing or converting to storage terminals since 2009. The closure of older, less efficient refining capacity is a positive sign and should lead to firmer refining margins in the future.

In the petrochemical sector, product prices held up well in 2011, given the slowing economic environment. Prices for ethylene delivered in Europe averaged approximately US \$ 1,370 per metric ton in 2011, up from US \$ 1,090 in 2010. Similarly, US polyethylene prices were approximately US \$ 1,350 per metric ton in 2011, up from US \$ 1,240 per metric ton in 2010.

Outlook for 2012

The slowdown in global GDP growth has continued into 2012, particularly in Europe. The debate over another round of monetary and fiscal stimulus versus budgetary restraint continues around the world. We see any future governmental stimulus efforts as likely to be relatively restrained in comparison to what was executed in 2009 and 2010.

After rallying strongly early in 2012 to over US \$ 125 per barrel, Brent crude prices have pulled back to under US \$ 110 per barrel despite the bite of US economic sanctions against Iran, which has caused some buyers to forego Iranian crude. However, the current crude price would be in line with the 2011 average, and would be favorable to our upstream businesses, given stable demand.

On the petrochemical side of our business, IPIC is benefiting from continued low natural gas prices in North America, which gives NOVA Chemicals Corporation, our wholly-owned subsidiary, an advantaged feedstock cost position.

We also continue to monitor the Euro, particularly in relation to the US Dollar, as many of IPIC's subsidiaries and investees transact in Euros. The Euro/Dollar exchange rate averaged 1.39 in 2011, while the rate now is around 1.24.

Lastly, while any further slowing of global economic growth may lead to a decline in crude oil prices, it likely will also lead to more attractive asset prices, particularly in the upstream sector. We believe our strong credit rating and healthy cash flows from our existing operations will enable us to take advantage of attractive acquisition opportunities which may present themselves to us in 2012.

Our Subsidiaries

Aabar Investments PJS

Aabar continued to pursue its strategic mandate of acquiring assets which diversify the Abu Dhabi economy with investments into the commodity sector through Glencore International Plc and the Asian banking sector through RHB Capital Berhad. As a diversified investment holding company, Aabar's investments were subject to the dramatic market volatility of 2011. Changes in the value of their listed investments at 31st December 2011 negatively affected the overall group profitability. For example, the share prices of Daimler AG declined 33% during 2011 settling at € 33.92 from € 50.73 the prior year. However, as of 29 May 2012, Daimler shares had appreciated by about 14%. Aabar's investment approach focuses on lasting economic value, which is often independent of near-term market disruptions.

Aabar will continue to be an integral part of the group investment strategy, by providing diversification and synergy to the overall portfolio.

Compañía Española de Petróleos SA (CEPSA)

CEPSA is both IPIC's oldest and largest investment to date. Having completed the 100% acquisition of CEPSA in August 2011, IPIC immediately began to implement changes in the company's strategy. CEPSA, until now a largely Iberian-focused refiner and marketer, will begin a transformation which will balance its portfolio between the downstream and upstream sectors, and also enhance IPIC's presence in markets such as Latin America and Northern Africa.

Revenues for CEPSA increased by 23% to € 27.2 billion in 2011 from € 22.1 billion in 2010. Furthermore, total assets as at 31st December 2011 increased by 9.6% while gearing improved from 17.9% in 2010 to 15.5% by the end of the year.

Nova Chemicals Corporation ("Nova")

Nova Chemicals, acquired in late 2009, was a milestone transaction for IPIC, and has become a focal point of IPIC's portfolio. Nova provides IPIC financial and geographic diversification, complimentary business product lines, and acts as a technology transfer conduit among our portfolio companies. Nova is an example of the long-term value growth IPIC seeks to implement in its acquisitions; the company was generating negative EBITDA when we acquired the business, but in 2011 generated EBITDA of approximately \$1.3 billion. Nova also positions IPIC to participate in shale gas developments in North America, which promises to dramatically reshape the oil and gas business globally.



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Revenues for Nova increased by 13% to US \$ 5.2 billion in 2011 from US \$ 4.6 billion in 2010. Furthermore, total assets as at 31st December 2011 increased by 11% while their gearing improved from 41.3% in 2010 to 24.7% by the end of the year.

Borealis AG (“Borealis”)

Borealis is a key component of Abu Dhabi’s long-term strategy to expand into higher value, higher margin petrochemical production. It is anticipated that in 2014, in partnership with Abu Dhabi National Oil Company, completion of Borouge 3, the third phase of Abu Dhabi’s core petrochemical production complex, will increase production of polyolefin from 2 million tonnes to 4.5 million tonnes/year, making it one of the largest production facilities in the world. Borealis technology has provided Abu Dhabi with a platform for global leadership in numerous polyolefin product applications.

Revenues for Borealis increased by 12.7% to € 7.1 billion in 2011 from € 6.3 billion in 2010. Furthermore, total assets as at 31st December 2011 increased by 8.9% while their gearing improved from 26.7% in 2010 to 25.8% by the end of the year.

Our Projects

Abu Dhabi Crude Oil Pipeline (“ADCOP”)

Regional geopolitical tensions have focused global attention on the Strait of Hormuz, which by some estimates, transits 20% of the world’s oil and 35% of seaborne crude cargos. In this context, the strategic importance of ADCOP to Abu Dhabi and the region become ever more apparent. ADCOP extends some 400 km from the central crude collection facilities at Habshan to the seaport of Fujairah, allowing approximately 1.5 million barrels a day of crude production to bypass the Strait of Hormuz. IPIC is proud to have been selected by the Government of Abu Dhabi to deliver on this important project and we are pleased to report that major construction works were completed in 2011 and pending final testing of the pipe, ADCOP should become operational in 2012.

Emirates Liquefied Natural Gas (LNG) LLC (“ELNG”)

IPIC and Mubadala Development Company PJSC announced in early 2012 a 50/50 joint venture to develop and deliver an LNG storage and regasification facility to meet the increasing energy demand in the UAE. This project will draw upon the financial and technical expertise of both organizations, and, similar to our other domestic projects, offers both commercial and socio-economic benefits. Anticipated completion of the project will come in two phases, in 2014 and 2015, respectively.

Refinery Projects

Over the course of 2011, IPIC announced two new projects in the refining sector. Both projects will provide significant benefits to the regions in which they are established.

Our first announced refinery project in 2011 is the Fujairah Refinery project. The refinery will be located next to the ADCOP Main Oil Terminal in the Emirate of Fujairah. It is designed to process a mixture of Abu Dhabi and other crudes with a capacity of 200,000 barrels per day, producing mainly middle distillates and bunker fuel. Anticipated completion is in 2016.



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Our second announced refinery in 2011 is Duqm Refinery. This project is a 50/50 joint venture between IPIC and Oman Oil Company S.A.O.C. and is located on the coast of the Arabian Sea in Oman. It is designed to process a mixture of Oman, Abu Dhabi and other crudes with a capacity of 230,000 barrels per day, producing mainly middle distillates and naphtha. Completion of this asset is anticipated in 2017.

A Note on Divestments

In November 2011, IPIC and commercial vehicle and engineering group MAN SE entered into a settlement agreement regarding the retransfer of all of IPIC's shares in Ferrostaal AG. This retransfer was completed in March 2012, and brings to an end the arbitration proceedings between IPIC and MAN SE.

Liquidity

Concerns over liquidity, both at the sovereign and corporate level, is as constant of a theme today as it has been in recent years. Fortunately, IPIC enjoys access to numerous sources of capital; including dividends from invested companies, equity from our Shareholder, and the banking and fixed income markets. Over the course of 2011, IPIC successfully raised in excess of US \$ 9 billion, seizing on the low interest rate environment to both fix long term coupons and enjoy historically low floating LIBOR rates. Our ability to raise this capital is in part due to our strong credit profile, our AA/AA/Aa3 ratings, and our continued efforts to engage with investors and creditors transparently and professionally. This was demonstrated by our ability to access markets during the height of the "Arab Spring" and during the November European fiscal crisis. We also achieved a milestone in issuing US \$ 750 million of 30 year notes, fully completing our yield curve, and establishing Abu Dhabi's first State Owned Entities ("SOE") benchmark in that tenor. Subsequently, our efforts have been recognized by the international financial community through industry accolades. Significantly, IPIC received these awards in the context of Emerging Markets, a step up from previous MENA or Gulf regional accolades, a signal of IPIC's growing international profile in the investor community.

We ended the year with a flexible cash position and are confident of our ability to effect acquisitions when opportunities arise.

Looking Forward

IPIC's portfolio ambitions are closely aligned with the Government of Abu Dhabi's growth and diversification plans. Our investment strategy is designed to create value for our Shareholder and further enhance our existing portfolio. Similar to last year's identified investment areas, we will again seek out selective upstream, utilities, and oil field services sectors. However, this aforementioned should not preclude Aabar's investments outside of the hydrocarbon sector, as they too, invest in line with and on behalf of Abu Dhabi's economic strategy.

Appreciating Our Stakeholders

IPIC benefits from an extremely experienced board of directors and their prudent oversight has guided IPIC's successes to date. I thank the board members for their contribution over the last year.

I would also like to thank the management and staff of IPIC and of all companies in our portfolio. It is our human capital which ultimately enables our growth. I express my sincere appreciation for your dedication to building IPIC as a sustainable institution for the shared benefit of the wider community today and for future generations.



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IPIC is also proud of its relationships with other stakeholders, including our Shareholder, governmental authorities and departments, other SOEs, lenders, advisors, service providers, and friends for their continued support. We pride ourselves on the development of these relationships which we believe enhance our ability to meet our objectives.

Lastly, I wish to convey our profound appreciation to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi and His Highness General Sheikh Mohamed bin Zayed Al Nahyan the Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, for their continued encouragement, guidance, and generous support.

Abu Dhabi, June 2012

MANSOUR BIN ZAYED AL NAHYAN

CHAIRMAN OF THE BOARD OF DIRECTORS

**International Petroleum Investment
Company PJSC and its subsidiaries**
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2011

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF INTERNATIONAL PETROLEUM INVESTMENT COMPANY PJSC

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of International Petroleum Investment Company PJSC (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2011 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the Chairman's report relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended), or the articles of association of the Company, have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

A handwritten signature in blue ink, appearing to read 'Ernst & Young', written in a cursive style.

Signed by
Bassam E Hage
Partner
Ernst & Young
Registration No 258

3 June 2012
Abu Dhabi

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

| | Notes | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified*</i> |
|---|-------|---------------------|--|
| CONTINUING OPERATIONS | | | |
| Revenue | 13 | 34,318,409 | 12,989,531 |
| Cost of sales | 14 | (30,183,416) | (10,516,667) |
| Gross profit | | 4,134,993 | 2,472,864 |
| Share of post tax profits of associates and jointly controlled entities | 7 | 1,045,514 | 658,599 |
| Selling and distribution costs | 14 | (1,591,167) | (753,492) |
| General and administrative expenses | 14 | (842,130) | (707,012) |
| Research and development expenses | 14 | (238,319) | (149,737) |
| Operating profit | | 2,508,891 | 1,521,222 |
| Net foreign exchange gain | | 838,983 | 340,968 |
| Finance income | 8 | 765,109 | 221,154 |
| Finance costs | 9 | (1,452,249) | (807,542) |
| Other income | | 76,745 | 49,313 |
| Other expenses | 14 | (344,395) | (612,640) |
| Gains on acquisitions and disposals | 10 | 50,139 | 132,514 |
| Other losses on financial instruments | 11 | (1,490,426) | (317,765) |
| Profit before tax from continuing operations | | 952,797 | 527,224 |
| Tax expense | 12 | (412,232) | (408,799) |
| Profit for the year from continuing operations | | 540,565 | 118,425 |
| DISCONTINUED OPERATIONS | | | |
| (Loss) profit for the year from discontinued operations | 15 | (495,873) | 1,229,748 |
| PROFIT FOR THE YEAR | | 44,692 | 1,348,173 |
| Profit for the year attributable to: | | | |
| Equity holder of the parent | | (140,209) | 1,245,187 |
| Non-controlling interests | | 184,901 | 102,986 |
| | | 44,692 | 1,348,173 |
| | | US \$ | US \$ |
| Basic and diluted earnings per share attributable to equity holder of the parent | 16 | (40) | 356 |
| Basic and diluted earnings per share from continuing operations attributable to equity holder of the parent | 16 | 101 | 33 |

*Certain amounts shown here do not correspond to the 2010 consolidated financial statements, as disclosed in Note 44.

The attached notes 1 to 44 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|----------------------------------|----------------------------------|
| PROFIT FOR THE YEAR | <u>44,692</u> | <u>1,348,173</u> |
| Exchange loss on translation of foreign subsidiaries | <u>(1,135,203)</u> | <u>(162,108)</u> |
| (Losses) gains arising on hedge of net investment | (170,759) | 11,459 |
| Reclassification of gains on hedge of net investment included in the consolidated income statement | 1,214 | 8,130 |
| Deferred tax credit (expense) from hedge of net investment (note 12) | <u>3,636</u> | <u>(6,780)</u> |
| | <u>(165,909)</u> | <u>12,809</u> |
| Actuarial losses on defined benefit plans | (165,929) | (148,557) |
| Deferred tax credit from defined benefit plans (note 12) | <u>39,698</u> | <u>15,457</u> |
| | <u>(126,231)</u> | <u>(133,100)</u> |
| (Losses) gains arising on cash flow hedges | (185,201) | 492 |
| Reclassification of gains on cash flow hedges included in the consolidated income statement | 6,243 | 48,142 |
| Deferred tax credit (expense) from cash flow hedges (note 12) | <u>48,805</u> | <u>(19,804)</u> |
| | <u>(130,153)</u> | <u>28,830</u> |
| (Losses) gains arising on available-for-sale financial assets | (349,077) | 319,025 |
| Reclassification of cumulative reserves on acquisition of subsidiary included in the consolidated income statement (note 10(iii)) | (782,651) | (93,619) |
| Deferred tax expense from available-for-sale financial assets (note 12) | <u>(499)</u> | <u>(114)</u> |
| | <u>(1,132,227)</u> | <u>225,292</u> |
| Share of other comprehensive income of associates and jointly controlled entities | <u>104,476</u> | <u>(523,775)</u> |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR | <u>(2,585,247)</u> | <u>(552,052)</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>(2,540,555)</u> | <u>796,121</u> |
| Total comprehensive income for the year attributable to: | | |
| Equity holder of the parent | (2,637,534) | 727,268 |
| Non-controlling interests | <u>96,979</u> | <u>68,853</u> |
| | <u>(2,540,555)</u> | <u>796,121</u> |

The attached notes 1 to 44 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | | <i>At 31 December 2011 US \$ '000</i> | <i>At 31 December 2010 US \$ '000</i> |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 17 | 17,282,471 | 9,842,760 |
| Intangible assets | 18 | 2,461,065 | 1,330,902 |
| Investment properties | 20 | 1,937,370 | 1,292,574 |
| Investments in associates and jointly controlled entities | 7 | 8,906,994 | 10,922,636 |
| Deferred tax assets | 12 | 365,573 | 335,391 |
| Investments in financial instruments | 21 | 2,650,288 | 10,819,947 |
| Trade and other receivables | 22 | 11,331 | 74,063 |
| Other assets | 23 | <u>4,231,247</u> | <u>3,981,649</u> |
| | | <u>37,846,339</u> | <u>38,599,922</u> |
| Current assets | | | |
| Inventories | 24 | 5,125,543 | 2,052,522 |
| Trade and other receivables | 22 | 6,435,999 | 2,847,167 |
| Investments in financial instruments | 21 | 7,054,187 | 425,554 |
| Other assets | 23 | 1,038,874 | 743,302 |
| Cash and short term deposits | 25 | <u>4,992,819</u> | <u>3,150,931</u> |
| | | <u>24,647,422</u> | <u>9,219,476</u> |
| Assets included in disposal groups held for sale | 15 | <u>2,770,103</u> | <u>59,179</u> |
| TOTAL ASSETS | | <u>65,263,864</u> | <u>47,878,577</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holder of the parent | | | |
| Share capital | 26 | 3,500,000 | 3,500,000 |
| Shareholder loan | 27 | 1,000,000 | 500,000 |
| Retained earnings | | 7,435,103 | 7,360,086 |
| Other reserves | 28 | <u>523,341</u> | <u>2,973,363</u> |
| | | 12,458,444 | 14,333,449 |
| Non-controlling interests | | <u>1,764,714</u> | <u>1,672,429</u> |
| Total equity | | <u>14,223,158</u> | <u>16,005,878</u> |

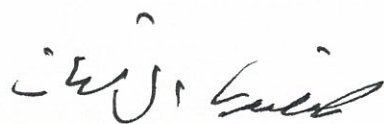
The attached notes 1 to 44 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued

At 31 December 2011

| | | <i>At 31 December 2011 US \$ '000</i> | <i>At 31 December 2010 US \$ '000</i> |
|---|--------------|---|---|
| | <i>Notes</i> | | |
| EQUITY AND LIABILITIES continued | | | |
| Non-current liabilities | | | |
| Borrowings | 29 | 26,182,633 | 19,161,098 |
| Defined benefit plan deficit | 30 | 772,712 | 723,599 |
| Deferred tax liabilities | 12 | 2,424,042 | 1,525,668 |
| Derivative financial liabilities | 34 | 323,434 | 2,377,638 |
| Provisions | 31 | 376,447 | 321,527 |
| Trade and other payables | 32 | 46,295 | 48,249 |
| Other liabilities | 33 | 278,223 | 148,940 |
| | | <u>30,403,786</u> | <u>24,306,719</u> |
| Current liabilities | | | |
| Trade and other payables | 32 | 6,048,608 | 3,314,140 |
| Borrowings | 29 | 9,597,178 | 1,880,143 |
| Other liabilities | 33 | 1,650,743 | 1,720,680 |
| Derivative financial liabilities | 34 | 935,088 | 373,446 |
| Provisions | 31 | 121,236 | 277,571 |
| | | <u>18,352,853</u> | <u>7,565,980</u> |
| Liabilities included in disposal groups held for sale | 15 | <u>2,284,067</u> | - |
| Total liabilities | | <u>51,040,706</u> | <u>31,872,699</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>65,263,864</u> | <u>47,878,577</u> |



CHAIRMAN



MANAGING DIRECTOR



CHIEF FINANCIAL OFFICER

The attached notes 1 to 44 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

| | <i>Attributable to equity holder of the parent</i> | | | | | <i>Non-controlling interests</i> | |
|--|--|-------------------------|--------------------------|-----------------------|-------------------|----------------------------------|-------------------|
| | <i>Share capital</i> | <i>Shareholder loan</i> | <i>Retained earnings</i> | <i>Other reserves</i> | <i>Total</i> | | <i>Total</i> |
| | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> |
| Balance at 1 January 2010 | <u>3,500,000</u> | - | <u>5,935,462</u> | <u>3,337,834</u> | <u>12,773,296</u> | <u>2,545,085</u> | <u>15,318,381</u> |
| Profit for the year | - | - | 1,245,187 | - | 1,245,187 | 102,986 | 1,348,173 |
| Other comprehensive income for the year | - | - | - | (517,919) | (517,919) | (34,133) | (552,052) |
| Total comprehensive income for the year | - | - | 1,245,187 | (517,919) | 727,268 | 68,853 | 796,121 |
| Dividends paid to non-controlling shareholders | - | - | - | - | - | (22,136) | (22,136) |
| Acquisition of additional interest in a subsidiary (Note 3) | - | - | 229,798 | - | 229,798 | (459,571) | (229,773) |
| Recycle of reserves on disposal of interest in a subsidiary (Note 4.1) | - | - | (50,361) | 153,448 | 103,087 | (459,802) | (356,715) |
| Shareholder loan (Note 27) | - | <u>500,000</u> | - | - | <u>500,000</u> | - | <u>500,000</u> |
| Balance at 31 December 2010 | <u>3,500,000</u> | <u>500,000</u> | <u>7,360,086</u> | <u>2,973,363</u> | <u>14,333,449</u> | <u>1,672,429</u> | <u>16,005,878</u> |
| Profit for the year | - | - | (140,209) | - | (140,209) | 184,901 | 44,692 |
| Other comprehensive income for the year | - | - | - | (2,497,325) | (2,497,325) | (87,922) | (2,585,247) |
| Total comprehensive income for the year | - | - | (140,209) | (2,497,325) | (2,637,534) | 96,979 | (2,540,555) |
| Dividends paid to non-controlling shareholders | - | - | - | - | - | (57,828) | (57,828) |
| Acquisition of additional interest in a subsidiary (Note 3) | - | - | 120,483 | - | 120,483 | (101,141) | 19,342 |
| Reserves on disposal group held for sale | - | - | (15,803) | 15,803 | - | - | - |
| Recycle of reserves on disposal of interest in a subsidiary (Note 4.2) | - | - | 105,203 | 31,500 | 136,703 | 154,275 | 290,978 |
| Movement in other reserves | - | - | 5,343 | - | 5,343 | - | 5,343 |
| Shareholder loan (Note 27) | - | <u>500,000</u> | - | - | <u>500,000</u> | - | <u>500,000</u> |
| Balance at 31 December 2011 | <u>3,500,000</u> | <u>1,000,000</u> | <u>7,435,103</u> | <u>523,341</u> | <u>12,458,444</u> | <u>1,764,714</u> | <u>14,223,158</u> |

The attached notes 1 to 44 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | Notes | 2011 US \$ '000 | 2010 US \$ '000 |
|---|-------|---------------------|--------------------|
| OPERATING ACTIVITIES | | | |
| Profit before tax | | 469,687 | 2,094,098 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 17 | 1,226,855 | 544,757 |
| Depreciation of investment properties | 20 | 230 | 69 |
| Amortisation of intangible assets | 18 | 138,994 | 160,156 |
| Impairment of property, plant and equipment | 17 | 42,358 | 37,456 |
| Impairment of investment properties | 20 | 155,096 | 514,810 |
| Impairment of advances on investment properties | | 52,581 | - |
| Impairment of intangible assets | 18 | 103,197 | 3,978 |
| Impairment of goodwill | | 50,611 | 97,533 |
| Gains on disposals and acquisitions | | (68,767) | (1,536,032) |
| Other gains on financial instruments | | 1,500,332 | 336,851 |
| Finance income | | (803,546) | (348,663) |
| Finance expense | | 1,475,154 | 922,118 |
| Unrealised exchange difference | | (787,088) | (478,107) |
| Share of post tax profits of associates and jointly controlled entities | | (1,151,328) | (743,197) |
| Other non-cash adjustments | | <u>84,753</u> | <u>136,282</u> |
| | | 2,489,119 | 1,742,109 |
| Working capital changes: | | | |
| Inventories | | (250,431) | (187,725) |
| Trade and other receivables | | (454,219) | (858,327) |
| Accounts payable and accruals | | 819,654 | 505,683 |
| Other assets and liabilities | | <u>(256,268)</u> | <u>(512,781)</u> |
| | | 2,347,855 | 688,959 |
| Income tax paid | | <u>(747,316)</u> | <u>(171,870)</u> |
| Net cash from operating activities | | <u>1,600,539</u> | <u>517,089</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of subsidiaries, net of cash acquired | 3 | (4,194,279) | - |
| Purchase of financial instruments | | (1,103,393) | (2,416,185) |
| Acquisition of associates and jointly controlled entities | | (2,881,529) | (392,168) |
| Purchase of property, plant and equipment | | (1,479,114) | (1,987,882) |
| Purchase of intangible assets | | (345,771) | (54,708) |
| Purchase of derivative financial instruments | | (671,151) | (550,365) |
| Purchase of investment properties | | (149,507) | - |
| Advances on investment properties | | (519,412) | (671,732) |
| Acquisition of additional interest in a subsidiary | | (141,476) | (229,773) |
| Advances on acquisition of subsidiaries | | 25,822 | - |
| Proceeds on disposal of a subsidiary | | - | 1,782,318 |
| Proceeds on sale of property, plant and equipment | | 40,465 | 606,764 |
| Proceeds on sale of investment property | | 654 | 14,563 |
| Proceeds on sale of financial investments | | 235,107 | 969,389 |
| Proceeds on disposal of associate | | - | 19,958 |
| Interest received | | 230,318 | 124,472 |
| Dividend received | | 660,637 | 311,832 |
| Income tax paid | | - | (236,443) |
| Repayment of loan from associates | | 95,652 | 93,232 |
| Capital contribution to associates | | - | (282,756) |
| Payments on other assets | | <u>(95,225)</u> | <u>(718,172)</u> |
| Net cash used in investing activities | | <u>(10,292,202)</u> | <u>(3,617,656)</u> |

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

| | <i>Notes</i> | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|--|--------------|----------------------------------|----------------------------------|
| FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | 18,364,941 | 15,638,350 |
| Repayments of borrowings | | (6,807,262) | (11,976,464) |
| Interest paid | | (944,181) | (675,812) |
| Repayment of shareholder loan | | (50,514) | - |
| Proceeds from shareholder loan | 27 | 500,000 | 500,000 |
| Dividends paid to non-controlling shareholders | | (57,828) | (22,136) |
| Other financing activities | | <u>14,730</u> | <u>-</u> |
| Net cash from financing activities | | <u>11,019,886</u> | <u>3,463,938</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 2,328,223 | 363,371 |
| Net foreign exchange difference | | (189,363) | (102,269) |
| Cash and cash equivalents at 1 January | | <u>3,150,019</u> | <u>2,888,917</u> |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | | <u>5,288,879</u> | <u>3,150,019</u> |
| <i>Analysed as follows:</i> | | | |
| Bank balances and cash | 25 | 4,992,819 | 3,150,019 |
| Bank balances and cash from assets held for sale | | <u>296,060</u> | <u>-</u> |
| | | <u>5,288,879</u> | <u>3,150,019</u> |

The attached notes 1 to 44 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

1 CORPORATE INFORMATION

International Petroleum Investment Company PJSC (the “Company”) is a public joint stock company established on 29 May 1984 in Abu Dhabi, United Arab Emirates (“UAE”) by Emiri Decree No 3/1984 (subsequently replaced by Emiri Decree No 2/1986). The Company is wholly owned by the Government of Abu Dhabi. The Company’s registered head office is P O Box 7528, Abu Dhabi, UAE.

The principal activity of the Company is to invest, on a long-term basis, in overseas energy and energy-related assets and to undertake strategic projects on behalf of its shareholder. Additionally the Company’s subsidiary, Aabar Investment PJS (“Aabar”), undertakes other investing activities in various growth industries.

As of 31 December 2011, the Company had control over six significant operating companies either directly or through its special purpose vehicles: Borealis AG (“Borealis”) (based in Austria); Aabar (based in UAE); Falcon Private Bank Ltd (“Falcon Bank”) (based in Switzerland), Ferrostaal AG (“Ferrostaal”) (based in Germany); Nova Chemicals Corporation (“Nova”) (based in Canada) and Compañía Española de Petróleos SA (“CEPSA”) (based in Spain). Further, the Group has minority stakes in significant operating companies such as OMV AG (“OMV”) (based in Austria), Abu Dhabi Polymers Company Limited (“Borouge”) (based in UAE) and RHB Capital Berhard (“RHB”) (based in Malaysia).

The Company has classified Ferrostaal as a disposal group held for sale as of 31 December 2011 (see Note 15 for further information).

The principal activities of the Company and its subsidiaries (the “Group”) are described in Note 6.

The consolidated financial statements for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 3 June 2012.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been presented in US Dollars (“US \$”), which is the functional currency of the Company and all values are rounded to the nearest thousand (US \$ ‘000) except when otherwise indicated.

The consolidated financial statements are prepared under the historical cost convention basis, except for financial assets at fair value through profit or loss, available-for-sale investments and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges, that would otherwise be carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

2.2 STATEMENT OF COMPLIANCE

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and applicable requirements of the UAE Commercial Companies Law of 1984 (as amended).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise those of the Company and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretation as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (amendment)* effective 1 January 2011
- Improvements to IFRSs (May 2010).

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group. However, the adoption of these standards and interpretations resulted in certain disclosures in the consolidated financial statements as described below:

IAS 24 *Related Party Transactions* (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRS

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value (see Note 3). The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011. The Group, however, adopted these as of 1 January 2011 and changed its accounting policy accordingly as the amendment was issued to eliminate unintended consequences that may arise from the adoption of IFRS 3.
- *IFRS 7 Financial Instruments — Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in Note 21.
- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the consolidated financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 3 Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- *IFRS 3 Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRIC 13 Customer Loyalty Programmes* (determining the fair value of award credits)
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently evaluating the impact of adopting this amended standard.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently evaluating the impact of adopting this amended standard.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently evaluating the impact of adopting this amended standard.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE *continued*

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently evaluating the impact of adopting this amended standard.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group already uses the equity method for consolidating JCEs and accordingly the application of this new standard will not impact the financial position of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently evaluating the impact of adopting this amended standard.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following significant judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Investments and other financial assets

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement (Revised)* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, or available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment and includes factors such as normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgments continued

Classification of property

The Group determines whether a property is classified as investment property or property, plant and equipment:

- Investment property comprises land and buildings (principally offices) which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Property, plant and equipment comprises property that is kept for own use.

Where a property may be used partly to derive rental income and partly as owner-occupied property, provided the parts of the property could be sold or leased under a finance lease separately, they are accounted for separately. The Group accounts for the separated asset based on the ratio of the gross floor area.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 12.

New feedstock, transportation and storage agreements

Throughout 2011, the Group entered into a number of key agreements, including agreements for additional sources of ethane supply and related pipeline transportation services.

These agreements have been evaluated in relation to various IFRS principles, the most significant of which was International Financial Reporting Interpretations Committee ("IFRIC") 4, *Determining Whether an Arrangement Contains a Lease*. IFRIC 4 requires that determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether:

- a) fulfillment of the arrangement is dependent on the use of a specified asset or assets; and
- b) the arrangement conveys a right to use the asset

Management has determined that based on evaluation of the terms and conditions of the arrangements that the feedstock and pipeline arrangements do not meet both criteria under IFRIC 4 and therefore do not contain leases, but that a material storage cavern arrangement contains a lease. Currently, there is only one material storage agreement that has been signed and management has determined this to be an operating lease.

Discontinued operations

INEOS Nova Joint Venture

On 31 October 2010, Nova entered into an agreement with an affiliate of INEOS providing for the sale of a 50% interest in the INEOS Nova Joint Venture. The sale closed on 28 February 2011. Associated results of operations and cash flows are separately reported as discontinued operations for all periods presented and the associated financial position is separately reported as assets and liabilities held for sale as of 31 December 2010.

Syntheon

During 2010, the Board of Directors of Nova approved the sale, subject to certain conditions, of Nova's building and construction businesses, collectively known as Syntheon. The sale was initially expected to complete in 2010; however, negotiations with the intended acquirer ended without a sale being completed. Management has since developed a formal plan for the sale of Syntheon assets. Associated results of operations, financial position and cash flows are separately reported as discontinued operations and assets and liabilities held for sale as of and for the year ended December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgments continued

Ferrostaal

On 28 November 2011 the Company, IPIC Ferrostaal Holdings GmbH & Co KG (a German limited liability partnership indirectly owned and controlled by the Company) ("IPIC KG"), MAN SE and MAN Ferrostaal Betieligungs GmbH (together with MAN SE, "MAN") signed a settlement agreement whereby the parties agreed that IPIC KG will retransfer to MAN, and MAN will repurchase from IPIC KG, all of IPIC KG's shares in Ferrostaal AG, comprising 70% of Ferrostaal's total issued share capital. In consideration for the retransfer, MAN agreed to pay EUR 350 million to IPIC KG. On 7 March 2012, the parties completed the transfer and jointly instructed the arbitral tribunal to terminate the arbitration proceedings between them. Associated results of operations and cash flows are separately reported as discontinued operations for all periods presented and the associated financial position is separately reported as assets and liabilities held for sale as of 31 December 2011.

For more details of the discontinued operations refer to Note 15.

Estimates and assumptions

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

Business combinations

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of licenses and other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation. For more details of the business combinations refer to Note 3.

Reserves base

The oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved reserves estimated or revised by the Group's own engineers in accordance with Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Commercial reserves are determined using estimates of oil in place, recovery factors and future oil prices, the latter having an impact on the proportion of the gross reserves which are attributable to the host government under the terms of the Production Sharing Agreements. Future development costs are estimated using assumptions as to number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities and other capital costs.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets have been impaired.

Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production ("UOP") method over proved developed and undeveloped reserves.

The calculation of the UOP rate of amortisation could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves ("2P").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Carrying value of oil and gas assets continued

These factors could include:

- Changes in proved reserves
- The effect on proved reserves of differences between actual commodity prices and commodity price assumptions
- Unforeseen operational issues

Useful life of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on projected product lifecycles. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of property, plant and equipment and intangible assets subject to amortisation

Management determines whether there are any indications of impairment to the carrying values of property, plant and equipment and intangible assets with definite lives, on an annual basis. If any such indication exists, the Group estimates the recoverable amount of the asset. This assessment requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Group to make an estimate of the expected future cash flows for the periods and also choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill

Goodwill is tested for impairment on annual basis, at the reporting date, and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units or group of cash generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. Where applicable, for the purposes of testing goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that, led to the creation of goodwill, and remain at the reporting date as estimated by the management are treated as part of the relevant CGU or group of CGUs.

The Group's impairment test for goodwill is based on fair value less costs to sell and/or value in use calculations that use valuation techniques including discounted cash flows models. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Impairment of loans and other banking receivables due from banking customers

An estimate of the collectible amount of loans and other banking receivables due from banking customers is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future periods and the amounts expected to be received will be recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the Group's policy for inventory provisioning.

Impairment of trade and other receivables

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates. Any difference between the amounts actually collected in future periods and the amounts expected to be received will be recognised in the consolidated income statement.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and adjustments to tax income and expense already recorded. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 12.

Impairment of non financial assets – impairment testing

The Group's impairment testing for non financial assets is based on calculating the recoverable amount of each cash generating unit or group of cash generating units being tested. Recoverable amount is the higher of value in use and fair value less costs to sell. Value in use for relevant cash generating units is derived from projected cash flows as approved by management and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. Fair value less cost to sell for relevant cash generating units is generally derived from discounted cash flow models using market based inputs and assumptions. Recoverable amount is most sensitive to the price assumptions, foreign exchange rate assumptions and discount rates used in the cash flow models.

Impairment of advances on investment properties and investment properties

Investment properties and advances paid against the purchase of properties are assessed for impairment based on an assessment of cash flows on individual cash generating units, when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets, and are discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of estimation is required in establishing fair values. The estimates include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Percentage of completion

The Group uses the percentage-of-completion method in accounting for its construction contracts to deliver design services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

Pensions and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds in the respective currency with at least AA rating, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Further details about the assumptions used are given in Note 30.

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a derivative and, thus, a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Development costs

Development costs are capitalised in accordance with the accounting policy of the Group. Initial capitalisation of costs is based on management's estimate that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Provision for environmental and legal expenses

The Group recognises a provision for liabilities associated with environmental and legal exposures in accordance with the Group accounting policy. The Group has made certain assumptions based on historical events and their understanding of the current legal and environmental regulations.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Decommissioning costs

Abandon and decommissioning costs will be incurred by the Group at the end of the operating life of wells and some of the Group's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or liability will be recognised, in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured with appropriate IFRS.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Investments in jointly controlled assets

The Group has interests in jointly controlled assets, whereby the venturers have a contractual arrangement that establishes joint ownership of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the venturers. The Group recognises its interest in the jointly controlled assets using a proportionate consolidation method.

The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the jointly controlled assets with similar items, line by line, in its consolidated financial statements. Because the assets, liabilities, income and expenses are recognised in the consolidated financial statements of the Group, no adjustments or consolidation procedures are required in respect of these items when the Group presents consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates and jointly controlled entities

The Group's investments in its associates and jointly controlled entities are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture, while a jointly controlled entity is one where there is a contractual arrangement between the Group and the other ventures for joint control over the economic activity of the entity.

Under the equity method, investments in associates and jointly controlled entities are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates and jointly controlled entities. Goodwill relating to the associates and jointly controlled entities is included in the carrying amount of the investments and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the share of the results of operations of the associates and jointly controlled entities. Where there has been a change recognised directly in the equity of the associates and jointly controlled entities, the Group recognises its share of any changes and discloses this, when applicable, in equity. Unrealised gains and losses resulting from transactions between the Group and the associates and jointly controlled entities are eliminated to the extent of the interest in the associates and jointly controlled entities.

The share of profit of associates and jointly controlled entities is shown on the face of the consolidated income statement. This is the profit attributable to the equity holders of the associates and jointly controlled entities and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates and jointly controlled entities.

The financial statements of the associates and the jointly controlled entities are prepared for the same reporting period as the Company, except for Galactic Venture LLC which are prepared as of 31 March each year. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence over the associates and jointly controlled entities, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associates and jointly controlled entities upon loss of significant influence, and the fair value of the remaining investment and proceeds from disposal, is recognised in the consolidated income statement.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated income statement.

Once classified as held for sale, property, plant and equipment and intangible assets are not depreciated or amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currency translation

The Group's consolidated financial statements are presented in US \$, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by Group entities using their respective functional currency rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All differences are taken to the consolidated income statement with the exception of all monetary items that provide an effective hedge of a net investment in a foreign operation and translation of long-term receivables that are considered part of investments in subsidiaries or associated companies. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those monetary items are accounted for in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Group companies

The assets and liabilities of foreign operations are translated into US \$ at the rate of exchange ruling at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Production of oil

Revenue from the sale of oil is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Lifting or off-take arrangements for oil produced by certain of the Group's jointly owned assets are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within current assets and current liabilities respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis.

Revenue from the production of oil in which the Group has an interest with other producers is recognized based on the Group's working interest and the terms of the relevant production sharing contracts. Differences between production sold and the Group's share of production are not significant. Where forward sale and purchase contracts for oil or natural gas have been determined to be for trading purposes, the associated sales and purchases are reported net.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and materials contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Commission and fee income

The Group earns commission and fee income from securities and investing activities (asset management, brokerage and custody) and other services rendered, as well as lending activities. Fees earned for the provision of services over a period of time are recognised over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Dividend income

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Rental income

The Group's policy for recognition of revenue from operating leases is described below.

Construction contracts

The Group's policy for recognition of revenue from construction contracts is described below.

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. In single cases, particularly if complex orders are involved, percentage of completion is determined based on surveys of work performed. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in other comprehensive income is recognised in other comprehensive income and not in the consolidated income statement. The Group periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Taxes continued

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred income tax items are recognised in correlation to the underlying transactions in other comprehensive income.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- in accordance with the legislation applicable to companies operating in the oil and gas industry, the excise tax on oil and gas sales is recorded as part of the selling price and as an addition to cost under “Revenue” and “Cost of sales”, respectively, in the consolidated income statements; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Investment tax credits

Both, investment tax credits related to the acquisition of assets and investment tax credits related to current expenses are included in the determination of income or loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term projects, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The cost of property, plant and equipment acquired in a business combination is stated at fair value as at the date of acquisition.

The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to Note 31 for further information about the measurement of the decommissioning provision.

Assets under construction

Capital work in progress is recorded at cost which represents the contractual obligations of the Group for the construction of the asset. Allocated costs directly attributable to the construction of the asset are capitalised. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the above policies when construction of the asset is completed and commissioned.

Depreciation on property, plant and equipment is calculated on a straight line basis over the estimated useful lives of the assets as follows:

| | |
|---|----------------|
| Land improvements | 20 years |
| Buildings, structures and production plants | 15 to 67 years |
| Machinery, tools, and technical equipment | 3 to 15 years |
| Information system hardware | 3 to 15 years |
| Motor vehicles | 3 to 15 years |
| Office furniture and fittings | 2 to 15 years |

Land is not depreciated.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted, if appropriate, at each financial year end.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts, being the higher of their fair value less costs to sell and their value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognised.

Oil and Gas properties

Pre-license costs

Pre-license costs are expensed in the period in which they are incurred.

Exploration and production assets

Exploration and production are recognised by the successful efforts method, whereby the accounting treatment of various costs incurred is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Oil and Gas properties continued

Exploration costs in area with unproven reserves:

Exploration costs are charged to income as incurred. Acquisitions of exploration rights are capitalised and feasibility analyses and impairment tests, if any, are performed periodically on a field-by-field basis based on the results of exploration. Exploration rights are amortised over a period not exceeding the term of contract.

Drilling costs are capitalised temporarily until it is determined whether proven reserves have been discovered. On the contrary, if the results are negative, they are charged to income.

Investments in areas with proven reserves:

Investments relating to the acquisition of proven reserves, the development of fields and construction of production plants, as well as the estimated present value of abandonment costs, are capitalised and depreciated over the estimated life of the field based on the proven and recoverable reserves extracted (unit-of-production method) at the beginning of each year.

With respect to joint production contracts, this calculation is based on the production and reserves assigned to the Company taking account of the estimates based on the contractual clauses.

Impairment tests are performed periodically for each field and any impairment losses are recognised in the income statement.

Oil and gas properties are depreciated on a unit-of-production basis over the proved reserves of the field concerned, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case the straight-line method is applied. Rights and concessions are depleted on the unit-of-production basis over the total proved reserves of the relevant area. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Investment properties

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the investment property when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

The investment properties' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate at each financial year end. Depreciation on investment properties is calculated on a straight line basis over the estimated useful lives of the assets as follows:

| | |
|-----------------------|----------------|
| Commercial properties | 25 to 67 years |
|-----------------------|----------------|

Land is not depreciated.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where carrying values exceed the estimated recoverable amount, the investment properties are written down to their recoverable amounts, being the higher of their fair value less costs to sell and their value in use.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Amounts paid to purchase investment properties are recorded as advances on investment properties and the related capital commitments are disclosed in the commitments and contingencies (refer to Note 39). When the investment property recognition criteria are met, advances on investment properties are reclassified to investment properties.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life on a straight line basis as follows:

| | |
|-------------------------|----------------|
| Patents and licences | 10 to 20 years |
| Software | 3 to 7 years |
| Development costs | 3 to 10 years |
| Customer contracts | 8 years |
| Other intangible assets | 3 to 20 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets continued

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets are assessed for impairment whenever there is an indication that they may be impaired. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset; and
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Greenhouse gas emissions

In the absence of a current IFRS standard or interpretation on accounting for greenhouse gas emissions, the following principles have been applied:

- emission rights granted free of charge are accounted for at zero carrying amount;
- liabilities resulting from potential differences between available quotas and quotas to be delivered at the end of the compliance period are accounted for as liabilities and measured at acquisition cost;
- spot market transactions are recognized in income at cost

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined as follows:

- for plastics solutions segment, costs of all inventories are determined on first-in first-out (FIFO) basis, except for spare parts determined based on average cost;
- For petrochemical segment, costs of all inventories are determined on average cost;
- For petroleum refinery segment, costs of all inventories are determined on lower of weighted average costs and net realisable value; and
- For industrial engineering services, cost of inventories is determined based on FIFO.

Cost includes purchase cost, freight, insurance and other related expenses incurred in bringing the goods to their present condition and location. Cost also comprises directly attributable productions costs and a proportionate share of fixed and variable overhead production costs. Allocated overhead costs are primarily calculated based on normal capacity utilisation.

Initial cost of inventories includes the transfer, from other comprehensive income, of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Inventories continued

The Company assesses the net realisable value of the inventories at the end of each year and recognises the appropriate loss if this value is lower than the carrying amount. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed.

Individual costs are allocated to refined products in proportion to the selling price thereof (isomargin method) due to the complexity costs to each item.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make sale.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Amounts due from and to banks arising from banking activities are not considered as cash and cash equivalents at the Group level.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. To the extent that the grant is not matched to expenditure in the year, it is subject to potential government claw back, and is recognised as deferred income.

Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Pensions and other post employment benefits

Employees' end of service benefits

The Group provides end of service benefits to certain employees. These benefits are unfunded. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service year. The expected costs of these benefits are accrued over the years of employment. With respect to its UAE national employees, the Group makes contributions to the Abu Dhabi Retirement Pensions and Benefits Fund calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Pensions and other post employment benefits continued

Defined benefit plans

The Group does not maintain a common pension scheme at the group level. Each entity in the Group operates its own pension and post-employment service schemes. The cost of providing benefits under defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in other comprehensive income.

The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. The value of any plan asset is restricted to the sum of any past service costs not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

The Group's financial assets include loans and other banking receivables due from banking customers, due from banks, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, trade and other receivables, cash and short-term deposits and certain other financial assets.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39 *Financial Instruments: Recognition and Measurement*. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with gains or losses recognised in the consolidated income statement.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate ("EIR") method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the consolidated income statement.

Due from banks and loans and other banking receivables due from banking customers

Due from banks and loans and other banking receivables due from banking customers, include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group, upon initial recognition, designates as available for sale; and,
- those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts due from banks and loans and other banking receivables due from banking customers are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in interest income in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in operational expenses.

The Group may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Group, and not sold in the short term, the commitment is recorded only when the commitment is an onerous contract and it is likely to give rise to a loss (for example, due to a counterparty credit event).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include customer deposits and other amounts due to banking customers, due to banks, borrowings, derivative financial instruments, trade and other payables and certain other financial liabilities.

Subsequent measurement

Subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39 *Financial Instruments: Recognition and Measurement*. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings, customer deposits and other amounts due to banking customers are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans, receivables and advances to customers

For amounts due from loans, receivables and advances to customers carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Loans, receivables and advances to customers

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets continued

Available-for-sale investments

For available-for-sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and collar and put options to hedge its foreign exchange risks, interest rate risks and fair value risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting continued

Initial recognition and subsequent measurement continued

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly other comprehensive income, while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting continued

Cash flow hedges continued

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction or firm commitment occurs.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in other comprehensive income is transferred to the consolidated income statement.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future post tax cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses on continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or cash-generating units' recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement unless the asset is carried at a re-valued amount in which case the reversal is treated as a revaluation increase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets continued

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Associates and jointly controlled entities

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss for the Group's investment in its associates and jointly controlled entities. The Group determines at each reporting date whether there is any objective evidence that investments in associates and jointly controlled entities are impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount of the associates and the jointly controlled entities and their carrying values and recognises the amount in the consolidated income statement.

Intangible assets

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually as at 31 December, either individually or at the cash generating unit level, as appropriate, and when circumstances indicate that the carrying value may be impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Client and fiduciary assets

Assets under management comprise assets which are placed with the subsidiary Falcon Private Bank Limited ("Falcon Bank") for investment purposes and include discretionary and advisory counterparty assets. Discretionary assets are assets for which the customer fully transfers the discretionary power to Falcon Bank with a management mandate. Advisory assets include assets placed with Falcon Bank where the client is provided access to investment advice but retains discretion over investment decisions.

Falcon Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BUSINESS COMBINATIONS

The Group made several acquisitions during the year ended 31 December 2011, which are further described below:

3.1 Acquisition of CEP SA

On 16 February 2011, the Company announced a voluntary offer to acquire the entire issued share capital of CEP SA not already owned by the Company, amounting to 141,648,565 shares or 52.9% of the share capital of CEP SA for the price of Euro 28 per share to all CEP SA shareholders. Regulatory controls including merger control approvals by the European Commission were obtained on 5 July 2011 at which date the Company assumed control of CEP SA.

CEP SA is an integrated business group which operates in the oil and gas industry globally and which engages in business activities related to the exploration and extraction of crude oil, the production of petrochemical and energy products, asphalts, lubricants and polymers, distribution and marketing, as well as gas distribution and electricity generation.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of CEP SA as at the date of acquisition were:

| | <i>Fair value recognised on acquisition Euro '000</i> | <i>Fair value recognised on acquisition US \$ '000</i> |
|--|---|--|
| Assets | | |
| Property, plant and equipment (Note 17) | 5,825,736 | 8,430,422 |
| Inventories | 2,574,032 | 3,724,882 |
| Trade receivables | 2,726,900 | 3,946,097 |
| Other assets | 1,706,161 | 2,468,987 |
| Cash and cash equivalents | <u>1,060,510</u> | <u>1,534,664</u> |
| | <u>13,893,339</u> | <u>20,105,052</u> |
| Liabilities | | |
| Borrowings | (2,714,384) | (3,927,985) |
| Deferred tax liabilities | (967,299) | (1,399,778) |
| Trade payables | (2,017,677) | (2,919,780) |
| Other liabilities | <u>(826,686)</u> | <u>(1,196,297)</u> |
| | <u>(6,526,046)</u> | <u>(9,443,840)</u> |
| Total identifiable net assets at fair value | 7,367,293 | 10,661,212 |
| Non-controlling interest measured at fair value | (111,094) | (160,764) |
| Goodwill arising on acquisition (Note 19) | <u>235,901</u> | <u>341,372</u> |
| Cost of business combination | <u>7,492,100</u> | <u>10,841,820</u> |
| <i>Analysed as follows:</i> | | |
| Fair value of existing interests in CEP SA | 3,525,940 | 5,102,390 |
| Purchase consideration of additional interest in CEP SA not previously owned | <u>3,966,160</u> | <u>5,739,430</u> |
| | <u>7,492,100</u> | <u>10,841,820</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BUSINESS COMBINATIONS continued

3.1 Acquisition of CEPSA continued

The total acquisition costs of 52.9% of the share capital of CEPSA comprised of cash payment of US \$ 5,739,430 thousand and costs of US \$ 2,580 thousand directly attributable to the acquisition. The acquisition was debt – financed and the transaction costs attributable to raising the debt were US \$ 71,163 thousand.

Cash outflow on the acquisition of 52.9% of the share capital is as follows:

| | <i>US \$ 000</i> |
|--------------------------|-------------------------|
| Consideration paid | 5,739,430 |
| Cash acquired with CEPSA | <u>(1,534,664)</u> |
| Net cash outflow | <u>4,204,766</u> |

The goodwill of US \$ 341,372 thousand comprises the value of expected synergies arising from the acquisition. The purchase price allocation was finalized after year end.

From the date of acquisition, CEPSA has contributed US \$ 19,102,970 thousand of revenue and US \$ 312,214 thousand to net profit before tax (after purchase price allocation adjustments) of the Group. If the combination had taken place at the beginning of the year, revenue contribution from CEPSA would have been US \$ 37,443,344 thousand and the profit before tax (after purchase price allocation adjustments) from CEPSA would have been US \$ 1,270,558 thousand.

3.2 Acquisition of Oxygen Capital Limited

Effective 1 April 2011, the Group acquired 100% of the net assets and the related business of Oxygen Capital Limited (“OCL”) registered in British Virgin Islands from a related party. OCL has investment in XO Jet Inc, United States of America. XO Jet Inc is in the business of providing highly personalized private aviation flight services utilizing new aircraft on a guaranteed availability and on-demand basis.

| | <i>Fair value recognised on acquisition US \$ ‘000</i> |
|--|--|
| Investments in XO Jet Inc. (associate) | 45,449 |
| Cash and cash equivalents | 10,488 |
| Other assets | <u>123,582</u> |
| | 179,519 |
| Other liabilities | <u>(192,961)</u> |
| Net deficit acquired | (13,442) |
| Goodwill arising on acquisition (Note 19) | <u>13,442</u> |
| Total acquisition cost | <u>=====</u> |
| Cash inflow on acquisitions is as follows: | |
| Consideration paid | 1 |
| Cash acquired with OCL | <u>(10,488)</u> |
| Net cash inflow | <u>(10,487)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

3 BUSINESS COMBINATIONS continued

3.2 Acquisition of Oxygen Capital Limited continued

The goodwill of US \$ 13,442 thousand was fully impaired as at 31 December 2011.

From the date of acquisition to 31 December 2011, OCL has contributed a profit of US \$ 3,372 thousand to the results of the Group. If the combination had taken place at the beginning of the year, the consolidated profit for the year of the Group would have been higher by US \$ 769 thousand.

4 DISPOSAL OF INTEREST IN SUBSIDIARIES

There was no disposal of subsidiary during the year ended 31 December 2011. The information below relates to the disposal of Hyundai Oilbank Company Limited ("HDO") by the Group during the year ended 31 December 2010.

4.1 Disposal of Hyundai Oilbank in 2010

Pursuant to an arbitration award dated 12 November 2009, each of Hanocal Holding BV and IPIC International BV (which together held a 70% interest in HDO) were directed to sell their respective interests in HDO to the claimants of the arbitration for a fixed amount of KRW 15,000 per share (number of shares: 171,557,696). The sale was concluded on 12 August 2010 for KRW 2,314 billion (net of taxes and charges). The Group realised a net profit of US \$ 771,984 thousand on the sale (note 15).

The results from HDO for the period ended 12 August 2010 is presented below:

| | <i>Period from 1 January 2010 to 12 August 2010 US \$ '000</i> |
|--|--|
| Revenue | 6,255,969 |
| Cost of sales of goods and services | (5,968,925) |
| Gross profit | 287,044 |
| Other income | 436,754 |
| Sales and marketing expenses | (90,039) |
| General administrative expenses | (48,867) |
| Other expense | (114,668) |
| Foreign exchange loss | (17,831) |
| Finance income | 91,604 |
| Finance costs | (88,787) |
| Profit before tax | 455,210 |
| Gain on disposal of discontinued operation | 979,737 |
| Tax charge | (274,665) |
| Profit for the period from a discontinued operation | <u>1,160,282</u> |
| | <i>US \$</i> |
| Basic and diluted earnings per share from a discontinued operation attributable to equity holder of the parent | <u>306</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 DISPOSAL OF INTEREST IN SUBSIDIARIES continued

4.1 Disposal of Hyundai Oilbank in 2010 continued

Cash inflow on sale:

| | |
|--|-------------------|
| | <i>US \$ '000</i> |
| Total consideration received | 2,158,970 |
| Less: bank balances and cash disposed of | <u>(376,652)</u> |
| | <u>1,782,318</u> |

The major classes of assets and liabilities of HDO classified as held for sale were as follows:

| | |
|---|--|
| | <i>12 August 2010 US \$ '000</i> |
| Assets | |
| Property, plant and equipment | 2,395,343 |
| Inventories | 1,160,337 |
| Trade and accounts receivables | 1,049,814 |
| Other assets | 345,101 |
| Cash and short-term deposits | <u>376,652</u> |
| Assets classified as held for sale | <u>5,327,247</u> |
| Liabilities | |
| Borrowings | 2,143,669 |
| Trade and accounts payables | 828,619 |
| Other current liabilities | <u>915,649</u> |
| Liabilities directly associated with assets classified as held for sale | <u>3,887,937</u> |
| Net assets directly associated with disposal group | <u>1,439,310</u> |
| Included in other comprehensive income | |

| | |
|--|--|
| | <i>Period from 1 January 2010 to 12 August 2010 US \$ '000</i> |
| Foreign currency translation reserve | (54,852) |
| Reserve for cash flow hedge | <u>(17,014)</u> |
| Reserves of disposal group classified as held for sale | <u>(71,866)</u> |
| The net cash flows incurred by HDO are as follows: | |
| Operating | 114,498 |
| Investing | (165,298) |
| Financing | <u>90,155</u> |
| Net cash inflow | <u>39,355</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

4 DISPOSAL OF INTEREST IN SUBSIDIARIES continued

4.2 Derecognition of options over non-controlling interests in Ferrostaal

On 28 November 2011 the Company, IPIC KG, and MAN signed a settlement agreement whereby the parties agreed that IPIC KG will retransfer to MAN, and MAN will repurchase from IPIC KG, all of IPIC KG's shares in Ferrostaal AG, comprising 70% of Ferrostaal's total issued share capital. In consideration for the retransfer, MAN agreed to pay EUR 350,000 thousand to IPIC KG. Accordingly, as a result of the settlement agreement, the put and call options over the 30% interest in Ferrostaal became null and void and therefore the Group, from this date, has derecognised its previous interest in Ferrostaal arising through the put and call options. The derecognition has been recorded within equity as transactions between owners.

5 INTEREST IN JOINTLY CONTROLLED ASSETS

During the year ended 31 December 2011, the Group acquired certain oil and gas exploration and production assets through the acquisition of CEPESA (see note 3), which are accounted for as interests in jointly controlled assets. The breakdown of the main assets and operations are as follows:

| <i>Name</i> | <i>Country</i> | <i>Operator</i> | <i>Activity</i> | <i>% of Ownership</i> |
|-----------------|----------------|--|----------------------------|-----------------------|
| Outbound | Algeria | Sonatrach | Exploration and production | 39.76% |
| Timimoun | Algeria | Total Exploration & Production Algeria | Exploration and production | 11.25% |
| Tiple | Colombia | Cepsa Colombia | Exploration | 70.00% |
| Garlbay | Colombia | Cepsa Colombia | Exploration | 50.00% |
| Puntero | Colombia | Cepsa Colombia | Exploration | 70.00% |
| Cabrestero | Colombia | Cepsa Colombia | Exploration | 100.00% |
| Merecure | Colombia | Cepsa Colombia | Exploration | 70.00% |
| El Porton | Colombia | Cepsa Colombia | Exploration | 50.00% |
| Los Ocarros | Colombia | Cepsa Colombia | Exploration | 50.00% |
| Lianos 26 | Colombia | Cepsa Colombia | Exploration | 80.00% |
| Lianos 22 | Colombia | Cepsa Colombia | Exploration | 55.00% |
| Cebucan | Colombia | Petrobras | Exploration | 30.00% |
| Balay | Colombia | Petrobras | Exploration | 30.00% |
| Cpo 14 | Colombia | Metapetroleum | Exploration | 37.50% |
| Cpo 12 | Colombia | Metapetroleum | Exploration | 30.00% |
| SJ & RP | Colombia | HOCOL | Exploration | 33.33% |
| PPN (30%) | Colombia | GRAN TIERRA | Exploration | 30.00% |
| Caracara | Colombia | Cepsa Colombia | Exploration and Production | 70.00% |
| CPR Espinal | Colombia | PETROBRAS | Exploration and Production | 15.00% |
| La Canada Norte | Colombia | Ecopetrol | Exploration and Production | 16.67% |
| Block 127 | Peru | Cepsa Peru SA | Exploration | 80.00% |
| Block 114 | Peru | Cepsa Peru SA | Exploration | 60.00% |
| Block 131 | Peru | Cepsa Peru SA | Exploration | 70.00% |
| Block 130 | Peru | Cepsa Peru SA | Exploration | 100.00% |
| South Alamein | Egypt | Cepsa Egypt SA, BV | Exploration | 50.00% (*) |
| Rodaballo | Spain | Repsol | Exploration and Production | 15.00% |
| Casablanca | Spain | Repsol | Exploration and Production | 7.40% |
| Montanazo | Spain | Repsol | Exploration and Production | 7.25% |
| Boqueron | Spain | Repsol | Exploration and Production | 4.50% |

(*) At 31 December 2011 definitive authorization was pending for the sale-purchase agreement for 50% to TRANSGLOBE.

At 31 December 2011 the Group also held a 50% (31 December 2010: 50%) interest in an ethylene plant and a 20% (31 December 2010: 20%) interest in a cogeneration facility located in Alberta, Canada.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

5 INTEREST IN JOINTLY CONTROLLED ASSETS continued

The Group's share of the assets and liabilities as at 31 December 2011 and income and expenses of the jointly controlled assets for the year ended 31 December 2011, which are consolidated on a proportionate basis in the consolidated financial statements, are as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|-------------------------|-------------------------|
| Share of the jointly controlled assets' assets and liabilities: | | |
| Non-current assets | 3,170,486 | 1,018,698 |
| Current assets | 394,992 | 68,760 |
| Current liabilities | (86,870) | (13,566) |
| Non-current liabilities | <u>(256,915)</u> | <u>(23,837)</u> |
| Net assets | <u>3,221,693</u> | <u>1,050,055</u> |
| Share of capital commitments | 344,687 | - |
| Share of jointly incurred contingent liabilities | <u>2,871</u> | <u>-</u> |
| Share of the jointly controlled assets' revenue and profit: | | |
| | 2011 US \$ '000 | 2010 US \$ '000 |
| Revenue | 1,146,710 | 364,142 |
| Cost of sales | (484,856) | (233,675) |
| Administrative expenses | <u>(280,708)</u> | <u>(19,606)</u> |
| Profit before income tax | 381,146 | 110,861 |
| Income tax expense | <u>(249,224)</u> | <u>(31,429)</u> |
| Profit for the year from continuing operations | <u>131,922</u> | <u>79,432</u> |
| Share of other comprehensive loss, net | <u>(488)</u> | <u>-</u> |

6 OPERATING SEGMENT REPORTING

For management purposes, the Group is organised into business units based on their products, services and location and has seven reportable operating segments as follows:

Plastic solutions - Europe

This segment is engaged in providing plastics solutions based on polyolefin and developing its base chemical business which comprises phenol, acetone, melamine and agrochemicals.

Plastic solutions – North America

This segment is engaged in providing plastic solutions based on ethylene and polyethylene and performance styrenic polymers. This segment also produces plastics and chemicals and develops value-added products and technology for customers worldwide that produce consumer, industrial and packaging products.

Petrochemicals

This segment is engaged in production and sale of petroleum products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

6 OPERATING SEGMENT REPORTING continued

Industrial engineering services

This segment is engaged in building large-scale plants and providing industrial solutions worldwide.

Integrated oil and gas businesses

This segment is engaged in oil and gas exploration and production. This segment is also engaged in oil supply, refining and distributions; cogeneration of electricity; and in the distribution and retailing of electricity and natural gas.

Diversified investments

This segment is engaged in investment advisory and asset management services.

Corporate and others

This segment holds investments in various operating entities and segments and provides financing for the Company.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

6 OPERATING SEGMENT REPORTING continued

The following table presents revenue, results and certain asset and liability information regarding the Group's business segments:

| | <i>Plastic solutions Europe US \$ '000</i> | <i>Plastic solutions North America US \$ '000</i> | <i>Petrochemicals US \$ '000</i> | <i>Industrial engineering services US \$ '000</i> | <i>Diversified investments US \$ '000</i> | <i>Integrated oil and gas US \$ '000</i> | <i>Corporate and Others US \$ '000</i> | <i>Total US \$ '000</i> |
|---|--|---|--------------------------------------|---|---|--|--|-----------------------------|
| Year ended 31 December 2011 | | | | | | | | |
| <i>Results</i> | | | | | | | | |
| Revenue from external customers | <u>9,881,120</u> | <u>5,241,163</u> | <u>-</u> | <u>-</u> | <u>93,156</u> | <u>19,102,970</u> | <u>-</u> | <u>34,318,409</u> |
| Share of post tax profits of associates and jointly controlled entities | 464,253 | - | - | - | (23,267) | 32,716 | 571,812 | 1,045,514 |
| Depreciation for the year | (324,795) | (233,016) | - | - | (3,145) | (624,751) | (257) | (1,185,964) |
| Amortisation for the year | (29,249) | (32,098) | - | - | (14,020) | (22,533) | - | (97,900) |
| Impairment for the year of long lived-assets | (41,291) | (6,114) | - | - | (217,674) | (85,235) | - | (350,314) |
| Finance income | 10,875 | 3,211 | - | - | 430,445 | 38,390 | 282,188 | 765,109 |
| Finance costs | (87,417) | (168,860) | - | - | (504,749) | (43,685) | (647,538) | (1,452,249) |
| Gains on acquisitions and disposals | - | (626) | - | - | (1,975) | 19,323 | 33,417 | 50,139 |
| Other losses on financial instruments | (16,820) | - | - | - | (1,475,725) | (10,824) | 12,943 | (1,490,426) |
| Tax expense | <u>(71,330)</u> | <u>(214,998)</u> | <u>-</u> | <u>-</u> | <u>95,628</u> | <u>(221,532)</u> | <u>-</u> | <u>(412,232)</u> |
| Profit for the year from continuing operations | 705,272 | 607,982 | - | - | (1,647,499) | 90,683 | 784,127 | 540,565 |
| Profit for the year from discontinuing operations | <u>-</u> | <u>7,201</u> | <u>-</u> | <u>(503,074)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(495,873)</u> |
| Profit for the year | <u>705,272</u> | <u>615,183</u> | <u>-</u> | <u>(503,074)</u> | <u>(1,647,499)</u> | <u>90,683</u> | <u>784,127</u> | <u>44,692</u> |
| Assets and liabilities | | | | | | | | |
| Investments in associates and jointly controlled entities | 1,790,719 | - | - | - | 2,498,544 | 604,609 | 4,013,122 | 8,906,994 |
| Assets included in disposal groups held for sale | - | 22,167 | - | 2,747,936 | - | - | - | 2,770,103 |
| Other segment assets | <u>6,185,747</u> | <u>6,185,795</u> | <u>-</u> | <u>-</u> | <u>15,099,750</u> | <u>17,922,013</u> | <u>8,193,462</u> | <u>53,586,767</u> |
| Total assets | <u>7,976,466</u> | <u>6,207,962</u> | <u>-</u> | <u>2,747,936</u> | <u>17,598,294</u> | <u>18,526,622</u> | <u>12,206,584</u> | <u>65,263,864</u> |
| Liabilities included in disposal groups held for sale | - | 7,281 | - | 2,276,786 | - | - | - | 2,284,067 |
| Segment liabilities | <u>3,681,392</u> | <u>3,820,938</u> | <u>-</u> | <u>-</u> | <u>13,010,986</u> | <u>8,720,228</u> | <u>19,523,095</u> | <u>48,756,639</u> |
| Total liabilities | <u>3,681,392</u> | <u>3,828,219</u> | <u>-</u> | <u>2,276,786</u> | <u>13,010,986</u> | <u>8,720,228</u> | <u>19,523,095</u> | <u>51,040,706</u> |
| Other segment information | | | | | | | | |
| Additions during the year | | | | | | | | |
| Property, plant and equipment | 334,625 | 237,606 | - | 12,693 | 1,773 | 423,238 | 574,399 | 1,584,334 |
| Investment properties* | - | - | - | - | 157,930 | - | - | 157,930 |
| Intangible assets | 102,703 | 1,988 | - | 689 | 929 | 290,753 | - | 397,062 |

*At 31 December 2011 the balance of advances made on investment properties amounted to US \$869,281 thousand (31 December 2010: US \$ 1,000,108 thousand), which are reported under other assets as disclosed in Note 23.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

6 OPERATING SEGMENT REPORTING continued

| | <i>Plastic solutions Europe US \$ '000</i> | <i>Plastic solutions North America US \$ '000</i> | <i>Petrochemicals US \$ '000</i> | <i>Industrial engineering services US \$ '000</i> | <i>Diversified investments US \$ '000</i> | <i>Integrated oil and gas US \$ '000</i> | <i>Corporate and Others US \$ '000</i> | <i>Total US \$ '000</i> |
|---|--|---|--------------------------------------|---|---|--|--|-----------------------------|
| Year ended 31 December 2010 | | | | | | | | |
| <i>Results</i> | | | | | | | | |
| Revenue from external customers | <u>8,324,538</u> | <u>4,590,003</u> | <u>-</u> | <u>-</u> | <u>74,990</u> | <u>-</u> | <u>-</u> | <u>12,989,531</u> |
| Share of post tax profits of associates and jointly controlled entities | 159,716 | (507) | - | - | (18,473) | - | 517,863 | 658,599 |
| Depreciation for the year | (292,096) | (214,508) | - | - | (2,839) | - | (395) | (509,838) |
| Amortisation for the year | (40,212) | (32,388) | - | - | (20,644) | - | - | (93,244) |
| Impairment for the year of long lived-assets | (14,232) | (20,300) | - | - | (514,900) | - | - | (549,432) |
| Finance income | 10,733 | 6,059 | - | - | 36,368 | - | 167,994 | 221,154 |
| Finance costs | (75,728) | (200,760) | - | - | (156,649) | - | (374,405) | (807,542) |
| Gains on acquisitions and disposals | - | (3,544) | - | - | 122,487 | - | 13,571 | 132,514 |
| Other losses on financial instruments | (15,581) | (8,000) | - | - | (84,574) | - | (209,610) | (317,765) |
| Tax expense | <u>(95,706)</u> | <u>(123,181)</u> | <u>-</u> | <u>-</u> | <u>(161,222)</u> | <u>-</u> | <u>(28,690)</u> | <u>(408,799)</u> |
| Profit for the year from continuing operations | 442,792 | 223,426 | - | - | (904,385) | - | 356,592 | 118,425 |
| Profit for the year from discontinuing operations | <u>-</u> | <u>38,756</u> | <u>1,160,282</u> | <u>30,710</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,229,748</u> |
| Profit for the year | <u>442,792</u> | <u>262,182</u> | <u>1,160,282</u> | <u>30,710</u> | <u>(904,385)</u> | <u>-</u> | <u>356,592</u> | <u>1,348,173</u> |
| Assets and liabilities | | | | | | | | |
| Investments in associates and jointly controlled entities | 1,340,162 | 3,885 | - | 570,902 | 447,393 | - | 8,560,294 | 10,922,636 |
| Assets included in disposal groups held for sale | - | 59,179 | - | - | - | - | - | 59,179 |
| Other segment assets | <u>6,220,795</u> | <u>5,513,860</u> | <u>-</u> | <u>2,512,814</u> | <u>14,877,946</u> | <u>-</u> | <u>7,771,347</u> | <u>36,896,762</u> |
| Total assets | <u>7,560,957</u> | <u>5,576,924</u> | <u>-</u> | <u>3,083,716</u> | <u>15,325,339</u> | <u>-</u> | <u>16,331,641</u> | <u>47,878,577</u> |
| Liabilities included in disposal groups held for sale | - | - | - | - | - | - | - | - |
| Segment liabilities | <u>3,651,601</u> | <u>3,604,074</u> | <u>-</u> | <u>2,113,903</u> | <u>12,167,323</u> | <u>-</u> | <u>10,335,798</u> | <u>31,872,699</u> |
| Total liabilities | <u>3,651,601</u> | <u>3,604,074</u> | <u>-</u> | <u>2,113,903</u> | <u>12,167,323</u> | <u>-</u> | <u>10,335,798</u> | <u>31,872,699</u> |
| Other segment information | | | | | | | | |
| Additions during the year | | | | | | | | |
| Property, plant and equipment | 162,110 | 148,474 | - | 23,346 | 2,157 | - | 980,812 | 1,316,899 |
| Investment properties* | - | - | - | - | - | - | - | - |
| Intangible assets | 117,730 | 5,072 | - | 1,405 | 8,071 | - | - | 132,278 |

*At 31 December 2010 the balance of advances made on investment properties amounted to US \$ 1,000,108 thousand (31 December 2009: US \$ 2,128,513 thousand), which are reported under other assets as disclosed in Note 23.

International Petroleum Investment Company PJSC and its subsidiaries

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6 OPERATING SEGMENT REPORTING continued

Geographical information

The following tables present geographical information on revenue and certain non-current assets:

| | <i>UAE</i> <i>US \$ '000</i> | <i>Europe</i> <i>US \$ '000</i> | <i>North</i> <i>America</i> <i>US \$ '000</i> | <i>Rest of the</i> <i>World</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|---|---------------------------------|------------------------------------|---|---|-----------------------------------|
| <i>Revenue from external customers*</i> | | | | | |
| Year ended 31 December 2011 | <u>201,865</u> | <u>24,306,076</u> | <u>6,175,102</u> | <u>3,635,366</u> | <u>34,318,409</u> |
| Year ended 31 December 2010 | <u>271,806</u> | <u>7,009,674</u> | <u>4,577,752</u> | <u>1,130,299</u> | <u>12,989,531</u> |
| 2011 | | | | | |
| <i>Non-current assets</i> | | | | | |
| Property, plant and equipment | 3,238,562 | 8,482,963 | 3,457,113 | 2,103,833 | 17,282,471 |
| Intangible assets | 326,554 | 1,452,418 | 406,386 | 275,707 | 2,461,065 |
| Investment properties | 1,937,370 | - | - | - | 1,937,370 |
| 2010 | | | | | |
| <i>Non-current assets</i> | | | | | |
| Property, plant and equipment | 2,834,558 | 3,460,782 | 3,467,325 | 80,095 | 9,842,760 |
| Intangible assets | - | 895,873 | 434,164 | 865 | 1,330,902 |
| Investment properties | 1,285,328 | 7,246 | - | - | 1,292,574 |

*The revenue information above is based on the location of the customer.

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|----------------------------------|---|
| Share of net assets: | | |
| Associates | 8,738,387 | 10,361,587 |
| Jointly controlled entities | <u>168,607</u> | <u>561,049</u> |
| | <u>8,906,994</u> | <u>10,922,636</u> |
| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> <i>Reclassified</i> |
| Share of post tax profits from continuing operations | | |
| Associates | 1,041,224 | 660,049 |
| Jointly controlled entities | <u>4,290</u> | <u>(1,450)</u> |
| | <u>1,045,514</u> | <u>658,599</u> |

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7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES continued

7.1 Investments in associates

The Group has the following significant investments in associates:

| Name of company | Country of incorporation | Percentage holding | |
|--|--------------------------|--------------------|--------|
| | | 2011 | 2010 |
| Abu Dhabi Polymers Company Limited ("Borouge") | UAE | 40% | 40% |
| Borouge Pte Ltd | Singapore | 50% | 50% |
| Speciality Polymers Antwerp NV | Belgium | 33% | 33% |
| Borealis Financial Services Ltd | Jersey | 25% | 25% |
| Pak-Arab Refinery Limited ("PARCO") | Pakistan | 40% | 40% |
| Gulf Energy Maritime PJSC ("GEM") | UAE | 30% | 30% |
| CEPSA Maghreb SA | Morocco | 50% | 50% |
| Oasis International Power LLC | UAE | 36% | 36% |
| Ferro VAZ Gesellsch für Export, Import und Engineering mbH | Germany | 50%** | 50% |
| SCG SILS Centre Gliwice Spzoo | Poland | 50%** | 50% |
| Bank Zweiplus | Switzerland | 42.50% | 42.50% |
| Mercedes GP Ltd | England | 40% | 30% |
| Solar Power Group GmbH | Germany | 42.80%** | 42.80% |
| Intermesa Group | Brazil | 42.80%** | 42.80% |
| Abu Dhabi National Chemicals Company ("ChemaWEyaat") | UAE | 40% | 40% |
| Compañía Española de Petróleos SA ("CEPSA") | Spain | -* | 47.06% |
| OMV AG | Austria | 24.90% | 20.01% |
| Falah Growth Fund (GP) Ltd | British Virgin Islands | 50% | 50% |
| Falah Growth Fund LP | British Virgin Islands | 50% | 50% |
| Dead Sea Resorts PSC | Jordan | 45% | 45% |
| XO Jet Inc. | USA | 40% | - |
| RHB Capital Berhad | Malaysia | 24.75% | - |
| Aabar-SRC Strategic Resources Limited | British Virgin Islands | 50% | - |
| Galactic Ventures LLC ("Virgin Galactic") | British Virgin Islands | 37.80% | 31.80% |
| Qatar and Abu Dhabi Investment Company QSC ("QADIC") | Qatar | 50% | 50% |
| Compañía Logística de hidrocarbon CLH, S.A | Spain | 14.15%* | - |
| Medgaz | Spain | 20%* | - |
| Societat Catalana De Petrolis, S.A (Petrocat) | Spain | 45%* | - |

* In July 2011, the Company finalised its acquisition of 100% of CEPSA by successfully completing its public offer and subsequent squeeze out and delisting of CEPSA. As a result the Company's stake has increased from 47.1% to 100%, and these companies now form part of CEPSA Group as subsidiary.

**These companies form part of Ferrostaal Group, which has been reclassified as disposal group held for sale (Note 15)

| | 2011 US \$ '000 | 2010 US \$ '000 |
|--|--------------------|--------------------|
| Share of the associates' statements of financial position | | |
| Assets | 28,229,922 | 21,405,523 |
| Liabilities | (20,744,137) | (11,567,280) |
| | 7,485,785 | 9,838,243 |
| Goodwill | 1,264,280 | 529,587 |
| Impairment | (11,678) | (6,243) |
| Net assets | <u>8,738,387</u> | <u>10,361,587</u> |

International Petroleum Investment Company PJSC and its subsidiaries

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7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES continued

7.1 Investments in associates continued

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|---|--------------------|---|
| Share of the associates' revenues and profits from continuing operations | | |
| Revenue | 22,705,118 | 22,264,797 |
| Net profit before impairment | 1,054,390 | 660,049 |
| Net other comprehensive income (loss) | 101,917 | (523,775) |
| Impairment recognised during the year | (13,166) | - |

7.2 Investments in jointly controlled entities

The Group has the following significant investments in jointly controlled entities:

| Name of company | Country of incorporation | Percentage holding | |
|------------------------------------|--------------------------|--------------------|--------|
| | | 2011 | 2010 |
| INEOS Nova Joint Venture | North America/Europe | -(a) | 50% |
| NOVIDESA Joint Venture | Mexico | 50%(b) | 50% |
| Consolidated Energy Limited | Trinidad and Tobago | 45%(c) | 45% |
| Coutinho & Ferrostaal GmbH & Co KG | Germany | 33%(c) | 33% |
| MAN Solar Millennium GmbH | Germany | 25%(c) | 25% |
| MAN Solar Millennium LLC | United States of America | 50%(c) | 50% |
| Solar Trust of America LLC | United States of America | 30%(c) | 30% |
| ABAG Aktiengesellschaft | Austria | -(d) | 66.67% |
| Asfaltos Espanoles S.A. (Asesa) | Spain | 50% | - |
| CEPSA Gas Commercializadora S.A | Spain | 35% | - |
| CEPSA Chimie Montreal L.P. | Canada | 51% | - |
| CEPSA Chimie Becancour Inc. | Canada | 51% | - |
| Nueva Generadora Del Sur S.A | Spain | 50% | - |

(a) INEOS Nova Joint Venture had been classified as a disposal group held for sale at 31 December 2010. On February 28, 2011, the Group completed the sale of its 50% interest in the INEOS Nova Joint Venture.

(b) The NOVIDESA Joint Venture has been classified as discontinued operations as part of the Syntheon business (Note 15)

(c) These companies form part of Ferrostaal Group, which has been reclassified as held for sale (Note 15)

(d) The investment in ABAG Aktiengesellschaft, registered in Austria, was sold during 2011.

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|--------------------|--------------------|
| Share of the jointly controlled entities' statements of financial position | | |
| Current assets | 288,804 | 311,419 |
| Non-current assets | 353,716 | 492,698 |
| Current liabilities | (333,152) | (214,425) |
| Non-current liabilities | (140,761) | (23,773) |
| | 168,607 | 565,919 |
| Accumulated impairment | - | (4,870) |
| | 168,607 | 561,049 |
| Share of the jointly controlled entities' capital commitments | 10,207 | - |

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31 December 2011

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES continued

7.2 Investments in jointly controlled entities continued

**Share of the jointly controlled entities' revenues
and profits from continuing operations**

| | 2011 <i>US \$ '000</i> | 2010 <i>US \$ '000</i> <i>Reclassified</i> |
|--|----------------------------------|---|
| Revenue | 675,400 | 18,882 |
| Cost of sales | (232,859) | <u>(18,495)</u> |
| | 442,541 | 387 |
| Operating expenses | (31,891) | (2,273) |
| Other (expense) income | (426,612) | 10 |
| Impairment recognised during the year | 30,494 | - |
| Income tax (expense) credit | (10,242) | <u>426</u> |
| Net profit (loss) | <u>4,290</u> | <u>(1,450)</u> |
| Share of the jointly controlled entities' other comprehensive income | <u>2,559</u> | <u>-</u> |

8 FINANCE INCOME

| | 2011 <i>US \$ '000</i> | 2010 <i>US \$ '000</i> <i>Reclassified</i> |
|-----------------|----------------------------------|---|
| Dividend income | 359,207 | 77,845 |
| Interest income | <u>405,902</u> | <u>143,309</u> |
| | <u>765,109</u> | <u>221,154</u> |

Included in interest income is an amount of US \$ 47,566 thousand which relates to the interest income receivable from cross-currency swaps counterparties. In March 2011, the Company entered into cross currency fixed for fixed GBP/EUR swaps for notional amounts of GBP 550,000 thousand.

9 FINANCE COSTS

| | 2011 <i>US \$ '000</i> | 2010 <i>US \$ '000</i> <i>Reclassified</i> |
|---|----------------------------------|---|
| Interest expense | (1,315,830) | (713,215) |
| Amortisation of arrangement fees on financing | <u>(136,419)</u> | <u>(94,327)</u> |
| | <u>(1,452,249)</u> | <u>(807,542)</u> |

Included in interest expense is an amount of US \$ 47,566 thousand which relates to the interest expense payable to the bondholders. In March 2011, the Company entered into cross currency fixed for fixed GBP/EUR swaps for notional amounts of GBP 550,000 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

10 GAINS ON ACQUISITIONS AND DISPOSALS

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|--|----------------------------------|---|
| Gain on disposal of associates | - | 13,571 |
| Gain on disposal of property, plant and equipment | 18,835 | 2,646 |
| Gain on disposal of investment property | - | 1,616 |
| Gain on disposal of available-for-sale financial instruments (i) | - | 93,620 |
| Gain on disposal of financial instruments at fair value through profit or loss (ii) | - | 21,061 |
| Fair value adjustments on acquisition of subsidiary (iii) | 35,033 | - |
| Other losses | <u>(3,729)</u> | <u>-</u> |
| | <u>50,139</u> | <u>132,514</u> |

- (i) In 2010, gain on disposal of available-for-sale financial instruments mainly relates to gain on disposal of financial instruments of Atlantia SpA by Aabar amounting to US \$ 93,549 thousand.
- (ii) In 2010, gain on disposal of financial instruments at fair value through profit or loss amounting to US \$ 21,061 thousand relates to gain on disposal of financial instruments of Banco Santander by Aabar.
- (iii) The fair value adjustments relate to the net effect of (i) the re-measurement of the previously held equity investment in CEPESA at the assumed acquisition fair value and (ii) the recycling of existing reserves arising from the accounting of the previously held interest in CEPESA which represents the reversal of the cumulative changes in fair value of CEPESA recognised during the period prior to 31 July 2009, i.e. prior to CEPESA being accounted for as an investment in associate and the reversal of the cumulative reserves of CEPESA recognised during the period 1 August 2009 to 30 June 2011, i.e. the period during which CEPESA was accounted for as an investment in associate.

11 OTHER LOSSES ON FINANCIAL INSTRUMENTS

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|--|----------------------------------|---|
| Fair value (loss) gain on non-derivative financial instruments at fair value through profit or loss (i) | (3,440,993) | 1,097,047 |
| Fair value gain (loss) on derivative financial instruments (ii) | 1,951,174 | (1,148,888) |
| Impairment loss on financial instruments at amortised cost | - | (8,000) |
| Impairment loss on available-for-sale financial instruments | - | (257,924) |
| Other gains on financial instruments | <u>(607)</u> | <u>-</u> |
| | <u>(1,490,426)</u> | <u>(317,765)</u> |

- (i) Fair value (loss) gain on non-derivative financial instruments at fair value through profit or loss during the year includes the following:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|----------------------------------|----------------------------------|
| Fair value (loss) gain on Daimler AG shares | (2,249,459) | 1,338,954 |
| Fair value loss on Unicredit SpA shares | (1,174,529) | (239,315) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 OTHER LOSSES ON FINANCIAL INSTRUMENTS continued

(ii) The analysis of the fair value gains (loss) on derivative financial instruments during the year is as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|----------------------------------|----------------------------------|
| Collars and put options on Daimler AG shares (note a) | 1,858,171 | (1,371,646) |
| Call and put options on Unicredit SpA (note a) | 953,697 | 199,384 |
| Embedded derivatives on exchangeable bonds of Daimler AG shares (note b) | 71,912 | - |
| Call spreads on Daimler AG shares (note c) | (920,998) | - |
| CASHES of Unicredit SpA | - | (33,228) |
| Interest rate swaps | (5,567) | - |
| Call and put options on Atlantia SpA shares | - | 12,643 |
| (a) Aabar entered into funded collar transactions upon purchase of equity shares in both Daimler AG and Unicredit SpA. The rationale for entering into such funded collar transactions was to raise long term, non-recourse, high loan-to-value financing to fund the purchase of the shares and to protect the Group against adverse movements in the value of the shares. The funded collar transactions include call and put options that restrict the revaluation gains and losses on the Daimler AG and Unicredit SpA shares within a certain range. However, Aabar still maintains significant exposure to the share price on both the investments. See Note 36 for the Group position at 31 December 2011. | | |
| (b) Aabar has recognised the embedded derivative in its exchangeable bonds issued during the year. The holders of the bonds have the option to exchange their bonds into Daimler AG shares on exercise of exchange rights, however the Group has the option to deliver either shares or cash. | | |
| (c) Aabar holds long-term derivative contracts to further participate in the upside of Daimler AG tied to both the exchangeable bonds and Aabar's underlying equity position in Daimler. | | |

12 TAX EXPENSE

The major components of tax expense for the years ended 31 December 2011 and 2010 are:

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|--|----------------------------------|---|
| Consolidated income statement | | |
| Current income tax expense: | | |
| Corporation tax | (572,112) | (195,641) |
| Prior year charge | (2,742) | (5,772) |
| Total current income tax expense | (574,854) | (201,413) |
| Deferred tax credit (charge): | | |
| Origination and reversal of temporary differences* | 155,649 | (209,145) |
| Impact of change in tax laws | 6,973 | 1,759 |
| Total deferred tax credit (charge) | 162,622 | (207,386) |
| Tax expense reported in the consolidated income statement relating to continuing operations | (412,232) | (408,799) |

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12 TAX EXPENSE continued

*Included in deferred tax charge for the year is an amount of US \$ 70,890 thousand (2010: US \$ 163,720 thousand) relating to deferred tax liabilities on capital gains relating to the Group's net investment gains on Daimler AG shares, after considering the offsetting impact of the collar arrangements, which economically hedge a portion of the investment, in accordance with the requirements of IAS 12 Income Taxes. The recognition of such deferred tax liabilities are highly judgmental because they depend on the manner in which management expects, at the end of the reporting period, to recover or settle the carrying amounts of the financial instruments.

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> <i>Reclassified</i> |
|---|----------------------------------|---|
| Accounting profit before tax from continuing operations | <u>952,797</u> | <u>527,224</u> |
| At average income tax rate of 30% (2010: 28%) | (285,840) | (147,623) |
| Expenses not deductible for tax purposes | (18,307) | (4,517) |
| Effect of share from the profit of investment accounted under equity method | 313,655 | 184,408 |
| Non-taxable net loss) income | (349,356) | (386,114) |
| Higher taxes on overseas earnings | (116,838) | (5,545) |
| Unrecognised tax losses | (3,968) | (5,247) |
| Tax credit previously not recognised | - | 1,760 |
| Impact of changes in tax laws | 6,973 | - |
| Prior year charge | (2,742) | (5,772) |
| Difference in tax rates | 23,024 | (23,033) |
| Others | <u>21,167</u> | <u>(17,116)</u> |
| Income tax charge for the year | <u>(412,232)</u> | <u>(408,799)</u> |
| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
| Consolidated statement of other comprehensive income | | |
| Deferred tax related to items charged or credited directly to equity during the year: | | |
| Cash flow hedges | 48,805 | (19,804) |
| Defined benefit pension scheme | 39,698 | 15,457 |
| Available-for-sale investments | (499) | (114) |
| Net loss (gains) on hedge of net investments | <u>3,636</u> | <u>(6,780)</u> |
| Income tax charged directly to equity | <u>91,640</u> | <u>(11,241)</u> |

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12 TAX EXPENSE continued

Deferred tax

Deferred tax assets relate to the following:

| | 1 January 2010 US \$ '000 | Recognised in profit or loss US \$ '000 | Recognised in other comprehensive income US \$ '000 | Acquisitions and disposals US \$ '000 | Transfers US \$ '000 | Exchange differences US \$ '000 | 31 December 2010 US \$ '000 | Recognised in profit or loss US \$ '000 | Recognised in other comprehensive income US \$ '000 | Acquisitions and disposals US \$ '000 | Transfers US \$ '000 | Exchange differences US \$ '000 | 31 December 2011 US \$ '000 |
|---|---------------------------------|--|---|--|-------------------------|---------------------------------------|-----------------------------------|--|---|--|-------------------------|---------------------------------------|-----------------------------------|
| Derivative contracts | 6,213 | (9,825) | (20,431) | - | - | (647) | (24,690) | 29,472 | 24,825 | 579 | 3,031 | (13,115) | 20,102 |
| Impairment | 5,471 | 11,492 | - | - | - | (320) | 16,643 | (12,480) | - | 13,853 | 29,507 | (35,768) | 11,755 |
| Other timing differences | 3,029 | (12,333) | (6,142) | - | (2,092) | 2,961 | (14,577) | (26,996) | 3,638 | 970 | 1,200 | 1,680 | (34,085) |
| Pension and post-employment medical benefits | 55,186 | (2,004) | 15,331 | - | 495 | (2,635) | 66,373 | (4,374) | (1,002) | 5,314 | 27,306 | (55,522) | 38,095 |
| Tax losses carried forward | 237,719 | 5,501 | - | - | - | (16,496) | 226,724 | (1,555) | - | 23,433 | (1,813) | (10,621) | 236,168 |
| Provisions | 15,458 | (13,733) | - | - | (5,606) | (5,301) | (9,182) | 28,377 | - | 25,398 | 5,189 | (24,848) | 24,934 |
| Others | 73,027 | (2,663) | 1 | - | 4,644 | (909) | 74,100 | 3,658 | (2) | 36,344 | (28,977) | (16,519) | 68,604 |
| | <u>396,103</u> | <u>(23,565)</u> | <u>(11,241)</u> | <u>-</u> | <u>(2,559)</u> | <u>(23,347)</u> | <u>335,391</u> | <u>16,102</u> | <u>27,459</u> | <u>105,891</u> | <u>35,443</u> | <u>(154,713)</u> | <u>365,573</u> |

Deferred tax liabilities relate to the following:

| | | | | | | | | | | | | | |
|---|--------------------|------------------|----------|----------------|---------------|---------------|--------------------|----------------|---------------|--------------------|---------------|----------------|--------------------|
| Accelerated capital allowances | (1,235,128) | 114,564 | - | - | - | (2,731) | (1,123,295) | 17,499 | - | (426,786) | - | 54,676 | (1,477,906) |
| Acquisition fair value adjustment on intangibles | (63,185) | (81,623) | - | (8,301) | - | 4,037 | (149,072) | 54,100 | - | (237,882) | (12,774) | 59,753 | (285,875) |
| Acquisition fair value adjustment on property, plant and equipment | (35,922) | 3,863 | - | - | - | 2,485 | (29,574) | 38,727 | - | (518,290) | - | 68,189 | (440,948) |
| Gain (loss) on revaluation of other assets | (11,054) | (2,163) | - | - | - | 783 | (12,434) | 65,318 | - | (92,707) | 5,565 | 5,935 | (28,323) |
| Gain (loss) on revaluation of non-derivative financial instruments | - | (156,245) | - | - | - | - | (156,245) | 88,357 | - | - | - | - | (67,888) |
| Inventories | (46,568) | 28,457 | - | - | (4,946) | 3,512 | (19,545) | (13,310) | - | (5,869) | 31,340 | 2,127 | (5,257) |
| Other timing differences | (41,256) | 2,746 | - | - | - | 1,828 | (36,682) | 4,739 | (415) | (19,364) | (1,200) | 1,760 | (51,162) |
| Temporary differences on accrued expenses | 39,800 | 29,658 | - | - | - | - | 69,458 | (28,127) | - | - | - | - | 41,331 |
| Uncertain tax provisions | 22,480 | (63,323) | - | - | - | - | (40,843) | (6,328) | - | - | - | - | (47,171) |
| Others | (28,158) | (26,327) | - | - | 25,759 | 1,290 | (27,436) | (59,068) | 64,596 | (98,870) | 44,877 | 15,058 | (60,843) |
| | <u>(1,398,991)</u> | <u>(150,393)</u> | <u>-</u> | <u>(8,301)</u> | <u>20,813</u> | <u>11,204</u> | <u>(1,525,668)</u> | <u>161,907</u> | <u>64,181</u> | <u>(1,399,768)</u> | <u>67,808</u> | <u>207,498</u> | <u>(2,424,042)</u> |

Note: Recognised in profit or loss during 2011 is a net amount of US \$ 15,387 thousand (2010: US \$ 33,428 thousand) relating to deferred tax charge for the year on disposal group held for sale. Additionally, transfers in 2011 include deferred tax balances reclassified to disposal group held for sale

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12 TAX EXPENSE continued

Unrecognised deferred tax assets

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. Deferred tax assets and liabilities listed, relate to income tax levied by different tax authorities.

Certain deferred tax assets have not been recognized in respect of cumulative tax losses on the basis that the Group considers it not to be prudent to recognize such losses until such time as profits against which the losses may be utilized can be anticipated with certainty. The Group has cumulative tax losses in some jurisdictions amounting to US \$ 196,858 thousand (31 December 2010: US \$ 206,134 thousand). However, these losses do not expire and may not be used to offset taxable income elsewhere in the Group.

Unrecognised deferred tax liabilities

The temporary differences associated with investments in associates and subsidiaries, for which a deferred tax liability has not been recognised, aggregate to US \$ 1,419,867 thousand (31 December 2010: US \$ 900,868 thousand).

13 REVENUE

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> <i>Reclassified</i> |
|----------------------------|----------------------------------|---|
| Polyolefins | 8,830,790 | 7,569,895 |
| Base chemicals | 3,088,665 | 2,527,125 |
| Olefins | 2,691,068 | 2,076,165 |
| Performance styrenics | 310,002 | 231,270 |
| Financial services | 93,156 | 74,990 |
| Exploration and production | 631,392 | - |
| Refining and distribution | 14,035,418 | - |
| Petrochemicals | 2,096,414 | - |
| Gas and power | <u>813,324</u> | <u>-</u> |
| | 32,590,229 | 12,479,445 |
| Excise tax on oil and gas | 1,526,421 | - |
| Others | <u>201,759</u> | <u>510,086</u> |
| | <u>34,318,409</u> | <u>12,989,531</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

14 PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

Profit for the year from **continuing operations** is reached after charging the following:

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|---|----------------------------------|---|
| Included in cost of sales | | |
| Costs of inventories recognised as an expense | 25,206,527 | 8,715,972 |
| Staff costs | 784,383 | 514,218 |
| Depreciation of property, plant and equipment | 999,167 | 454,825 |
| Impairment of property, plant and equipment | 39,022 | 27,793 |
| Amortisation of intangible assets | 34,234 | 39,850 |
| Impairment of intangible assets | 83,046 | - |
| Excise tax on oil and gas | 1,528,122 | - |
| Included in selling and distribution costs | | |
| Staff costs | 267,681 | 150,041 |
| Distribution and transportation costs | 669,963 | 402,163 |
| Rent | 89,526 | 31,143 |
| Commission and fees | 158,057 | 9,692 |
| Packaging | 68,511 | 59,244 |
| Depreciation of property, plant and equipment | 91,393 | 17,656 |
| Impairment of property, plant and equipment | 1,295 | - |
| Amortisation of intangible assets | 12,186 | - |
| Impairment of intangible assets | 1,785 | - |
| Included in general and administrative expenses | | |
| Staff costs | 421,228 | 339,894 |
| Consultancy and advisory costs | 104,526 | 102,257 |
| Rent | 37,404 | 23,118 |
| Depreciation of property, plant and equipment | 24,720 | 22,820 |
| Amortisation of intangible assets | 45,871 | 39,330 |
| Impairment of property, plant and equipment | 375 | 2,851 |
| Impairment of intangible assets | 10,873 | 3,978 |
| Included in research and development expenses | | |
| Staff costs | 99,924 | 88,528 |
| Depreciation of property, plant and equipment | 70,454 | 14,468 |
| Amortisation of intangible assets | 5,609 | 14,064 |
| Impairment of intangible assets | 7,493 | - |
| Included in other expenses | | |
| Impairment of investment properties | 155,814 | 514,810 |
| Impairment of advances on investment properties | 52,581 | - |
| Impairment of goodwill | 50,611 | - |
| Net provisions | 16,168 | 70,241 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

15 DISCONTINUED OPERATIONS

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|----------------------------------|----------------------------------|
| Included in the consolidated statement of financial position: | | |
| INEOS Nova Joint Venture (note a) | | |
| Total assets | - | 59,179 |
| Total liabilities | <u>-</u> | <u>-</u> |
| Syntheon (note b) | | |
| Total assets | 22,167 | - |
| Total liabilities | <u>(7,281)</u> | <u>-</u> |
| Ferrostaal (note c) | | |
| Total assets | 2,747,936 | - |
| Total liabilities | <u>(2,276,786)</u> | <u>-</u> |
| Classified as: | | |
| Assets included in disposal groups held for sale | 2,770,103 | 59,179 |
| Liabilities included in disposal groups held for sale | <u>(2,284,067)</u> | <u>-</u> |
| Included in the consolidated income statement: | | |
| Profit from HDO operations | - | 388,298 |
| Profit on disposal of HDO | - | 771,984 |
| Loss on Syntheon | (10,856) | - |
| (Loss) profit from Ferrostaal operations | <u>(503,074)</u> | <u>30,710</u> |
| | (513,930) | 1,190,992 |
| Share of profit of INEOS Nova Joint Venture | <u>18,057</u> | <u>38,756</u> |
| | <u>(495,873)</u> | <u>1,229,748</u> |

- (a) On February 28, 2011, the Group completed the sale of its 50% interest in the INEOS Nova Joint Venture to INEOS for a total consideration of US \$ 55 million.
- (b) The Board of Directors of Nova has approved the sale, subject to certain conditions, of Nova's building and construction businesses, collectively known as Syntheon. Management has since developed a formal plan for the sale of Syntheon assets. Associated results of operations, financial position and cash flows are separately reported as discontinued operations and assets and liabilities held for sale as of and for the year ended December 31, 2011.
- (c) On 28 November 2011 the Company, IPIC KG and MAN signed a settlement agreement whereby the parties agreed that IPIC KG will retransfer to MAN, and MAN will repurchase from IPIC KG, all of IPIC KG's shares in Ferrostaal AG, comprising 70% of Ferrostaal's total issued share capital. In consideration for the retransfer, MAN agreed to pay EUR 350,000 thousand to IPIC KG. On 7 March 2012, the parties completed the transfer and jointly instructed the arbitral tribunal to terminate the arbitration proceedings between them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

15 DISCONTINUED OPERATIONS continued

The results of Ferrostaal for the years ended 31 December are presented below:

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|----------------------------------|----------------------------------|
| Revenues | 1,176,970 | 2,377,421 |
| Cost of sales | <u>(1,113,229)</u> | <u>(1,951,814)</u> |
| Gross profit | 63,741 | 425,607 |
| Share of post tax profits of associates and jointly controlled entities | 87,757 | 45,842 |
| Selling and distribution costs | <u>(143,593)</u> | <u>(186,662)</u> |
| General and administrative expenses | <u>(165,950)</u> | <u>(209,865)</u> |
| Operating (loss) profit | (158,045) | 74,922 |
| Net foreign exchange (loss) gain | (4,904) | 4,693 |
| Finance income | 38,437 | 35,905 |
| Finance costs | <u>(22,905)</u> | <u>(25,789)</u> |
| Other income | 93,751 | 97,659 |
| Other expenses | <u>(445,367)</u> | <u>(79,757)</u> |
| Gains on acquisitions and disposals | 18,628 | 4,624 |
| Other (losses) gains on financial instruments | <u>(9,906)</u> | <u>(19,086)</u> |
| (Loss) profit before tax | <u>(490,311)</u> | 93,171 |
| Tax expense | <u>(12,763)</u> | <u>(62,461)</u> |
| (Loss) profit for the year | <u><u>(503,074)</u></u> | <u><u>30,710</u></u> |

The results of Ferrostaal for the years ended 31 December are presented below:

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|--|----------------------------------|----------------------------------|
| (Loss) profit for the year attributable to: | | |
| Equity holder of the parent | (500,533) | 21,606 |
| Non-controlling interests | <u>(2,541)</u> | <u>9,104</u> |
| | <u><u>(503,074)</u></u> | <u><u>30,710</u></u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

15 DISCONTINUED OPERATIONS continued

The major classes of assets and liabilities of Ferrostaal classified as held for sale as at 31 December are as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|-----------------------|--------------------|
| Assets | | |
| Property, plant and equipment | 200,356 | - |
| Intangible assets | 80,020 | - |
| Investment properties | 6,987 | - |
| Investments in associates and jointly controlled entities | 516,008 | - |
| Deferred tax assets | 71,083 | - |
| Investments in financial instruments | 40,116 | - |
| Trade and other receivables | 392,043 | - |
| Inventories | 457,706 | - |
| Other assets | 687,557 | - |
| Cash and short-term deposits | <u>296,060</u> | - |
| Assets classified as held for sale | <u>2,747,936</u> | - |
| Liabilities | | |
| Borrowings | 50,906 | - |
| Defined benefit plan deficit | 72,791 | - |
| Deferred tax liabilities | 132,068 | - |
| Derivative financial liabilities | 18,591 | - |
| Provisions | 286,837 | - |
| Trade and other payables | 624,085 | - |
| Other liabilities | <u>1,091,508</u> | - |
| Liabilities directly associated with assets classified as held for sale | <u>2,276,786</u> | - |
| Net assets directly associated with disposal group | <u><u>471,150</u></u> | - |

Included in other comprehensive income

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|------------------------|--------------------|
| Foreign currency translation reserve | (7,406) | - |
| Reserve for actuarial losses on defined benefit plans | (349) | - |
| Reserve for cash flow hedges | <u>(4,258)</u> | - |
| Reserves of disposal group classified as held for sale | <u><u>(12,013)</u></u> | - |

The net cash flows incurred by Ferrostaal are as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|--------------------------|-------------------------|-------------------------|
| Operating | (553,266) | (254,396) |
| Investing | 124,614 | (6,138) |
| Financing | <u>14,735</u> | <u>28,670</u> |
| Net cash outflows | <u><u>(413,917)</u></u> | <u><u>(231,864)</u></u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

16 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|--|----------------------------------|---|
| Net profit attributable to ordinary equity holders of the parent from continuing operations | 353,123 | 113,972 |
| (Loss) profit attributable to ordinary equity holders of the parent from discontinued operations | <u>(493,332)</u> | <u>1,131,215</u> |
| Net profit attributable to ordinary equity holders of the parent for basic earnings | <u>(140,209)</u> | <u>1,245,187</u> |
| Weighted average number of ordinary shares for basic earnings per share (in thousands) | <u>3,500</u> | <u>3,500</u> |
| | US \$ | US \$ |
| Basic and diluted earnings per share | <u>(40)</u> | <u>356</u> |
| Basic and diluted earnings per share from continuing operations | <u>101</u> | <u>33</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

17 PROPERTY, PLANT AND EQUIPMENT

| | <i>Land and land improvements US \$ '000</i> | <i>Buildings, structures and production plants US \$ '000</i> | <i>Machinery, tools and technical equipment US \$ '000</i> | <i>Information system hardware US \$ '000</i> | <i>Motor vehicles US \$ '000</i> | <i>Office furniture and fittings US \$ '000</i> | <i>Assets under construction US \$ '000</i> | <i>Oil and gas properties US \$ '000</i> | <i>Total US \$ '000</i> |
|---------------------------------------|--|---|--|---|--|---|---|--|-----------------------------|
| 2011 | | | | | | | | | |
| Cost: | | | | | | | | | |
| At 1 January 2011 | 602,848 | 10,254,710 | 247,552 | 42,610 | 19,129 | 54,131 | 3,059,089 | - | 14,280,069 |
| Additions | 1,099 | 151,380 | 16,664 | 5,443 | 4,097 | 7,340 | 1,221,898 | 176,413 | 1,584,334 |
| Acquired through business combination | 496,224 | 4,778,839 | 81,541 | 43,265 | 388,099 | 19,633 | 517,862 | 2,104,959 | 8,430,422 |
| Classified as held for sale | (42,068) | (161,201) | (66,650) | (3,757) | (9,526) | (39,376) | (163) | - | (322,741) |
| Disposals | (1,429) | (63,952) | (8,854) | (156) | (4,005) | (5,194) | (521) | (2,316) | (86,427) |
| Transfers (note e) | (3,292) | 595,221 | 12,723 | 885 | 1,165 | 3,599 | (788,230) | 6,967 | (170,962) |
| Exchange adjustments | (67,056) | (739,789) | (17,331) | (30,129) | (40,683) | (5,062) | (60,967) | (146,286) | (1,107,303) |
| At 31 December 2011 | <u>986,326</u> | <u>14,815,208</u> | <u>265,645</u> | <u>58,161</u> | <u>358,276</u> | <u>35,071</u> | <u>3,948,968</u> | <u>2,139,737</u> | <u>22,607,392</u> |
| Depreciation: | | | | | | | | | |
| At 1 January 2011 | 188,880 | 4,069,609 | 147,990 | 11,886 | 3,489 | 15,455 | - | - | 4,437,309 |
| Charge for the year | 17,663 | 804,470 | 39,990 | 8,507 | 18,105 | 12,573 | - | 325,547 | 1,226,855 |
| Impairment | - | 41,983 | - | 375 | - | - | - | - | 42,358 |
| Reversal of impairment | - | (1,666) | - | - | (7) | - | - | - | (1,673) |
| Classified as held for sale | (1,089) | (58,560) | (35,388) | (2,324) | (5,136) | (14,529) | - | - | (117,026) |
| Disposals | - | (60,352) | (7,718) | (32) | (2,302) | (4,294) | - | - | (74,698) |
| Transfers | - | (340) | - | 366 | 42 | (68) | - | - | - |
| Exchange adjustments | (3,016) | (149,051) | (8,318) | (5,084) | (1,024) | (1,499) | - | (20,212) | (188,204) |
| At 31 December 2011 | <u>202,438</u> | <u>4,646,093</u> | <u>136,556</u> | <u>13,694</u> | <u>13,167</u> | <u>7,638</u> | <u>-</u> | <u>305,335</u> | <u>5,324,921</u> |
| Net carrying amount: | | | | | | | | | |
| At 31 December 2011 | <u>783,888</u> | <u>10,169,115</u> | <u>129,089</u> | <u>44,467</u> | <u>345,109</u> | <u>27,433</u> | <u>3,948,968</u> | <u>1,834,402</u> | <u>17,282,471</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

17 PROPERTY, PLANT AND EQUIPMENT continued

| | <i>Land and land improvements US \$ '000</i> | <i>Buildings, structures and production plants US \$ '000</i> | <i>Machinery, tools and technical equipment US \$ '000</i> | <i>Information system hardware US \$ '000</i> | <i>Motor vehicles US \$ '000</i> | <i>Office furniture and fittings US \$ '000</i> | <i>Assets under construction US \$ '000</i> | <i>Oil and gas properties US \$ '000</i> | <i>Total US \$ '000</i> |
|------------------------|--|---|--|---|--|---|---|--|-----------------------------|
| 2010 | | | | | | | | | |
| Cost: | | | | | | | | | |
| At 1 January 2010 | 514,579 | 9,515,969 | 261,850 | 38,145 | 17,958 | 56,441 | 2,658,271 | - | 13,063,213 |
| Additions | 211 | 104,547 | 11,956 | 3,799 | 3,135 | 6,898 | 1,186,353 | - | 1,316,899 |
| Disposals | (13,307) | (77,558) | (12,803) | (71) | (918) | (4,583) | (494) | - | (109,734) |
| Transfers | 80,985 | 753,383 | 8,192 | 761 | 35 | 1,242 | (801,793) | - | 42,805 |
| Exchange adjustments | <u>20,380</u> | <u>(41,631)</u> | <u>(21,643)</u> | <u>(24)</u> | <u>(1,081)</u> | <u>(5,867)</u> | <u>16,752</u> | - | <u>(33,114)</u> |
| At 31 December 2010 | <u>602,848</u> | <u>10,254,710</u> | <u>247,552</u> | <u>42,610</u> | <u>19,129</u> | <u>54,131</u> | <u>3,059,089</u> | - | <u>14,280,069</u> |
| Depreciation: | | | | | | | | | |
| At 1 January 2010 | 149,542 | 3,478,612 | 144,135 | 6,589 | 1,857 | 10,505 | - | - | 3,791,240 |
| Charge for the year | 13,496 | 487,898 | 25,449 | 5,170 | 2,553 | 10,191 | - | - | 544,757 |
| Impairment | 709 | 36,672 | - | 68 | - | 7 | - | - | 37,456 |
| Reversal of impairment | - | (918) | - | - | - | - | - | - | (918) |
| Disposals | (741) | (38,575) | (10,096) | (53) | (682) | (3,835) | - | - | (53,982) |
| Transfers | (717) | 39,010 | 2,334 | 3 | (3) | 185 | - | - | 40,812 |
| Exchange adjustments | <u>26,591</u> | <u>66,910</u> | <u>(13,832)</u> | <u>109</u> | <u>(236)</u> | <u>(1,598)</u> | - | - | <u>77,944</u> |
| At 31 December 2010 | <u>188,880</u> | <u>4,069,609</u> | <u>147,990</u> | <u>11,886</u> | <u>3,489</u> | <u>15,455</u> | - | - | <u>4,437,309</u> |
| Net carrying amount: | | | | | | | | | |
| At 31 December 2010 | <u>413,968</u> | <u>6,185,101</u> | <u>99,562</u> | <u>30,724</u> | <u>15,640</u> | <u>38,676</u> | <u>3,059,089</u> | - | <u>9,842,760</u> |

In 2008, the Group has received a plot of land from the Municipality of Abu Dhabi at no cost and has recorded this parcel at a nominal value of AED 1. Effective 1 January 2011 the plot was transferred to investment property.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

17 PROPERTY, PLANT AND EQUIPMENT continued

- a) Additions in assets under construction include an amount of US \$ 471,288 thousand (2010: US \$ 910,686 thousand) relating to the construction of an oil pipeline (ADCOP project).
- b) The amount of borrowing costs capitalised during the year ended 31 December 2011 was US \$ 49,981 thousand (2010: US \$ 72,455 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was 2.2% (2010: 2.1%).
- c) The carrying value of plant and equipment held under finance leases at 31 December 2011 was US \$ 48,111 thousand (31 December 2010: US \$ 4,588 thousand). Leased assets are pledged as security for the related finance lease liabilities.
- d) Property, plant and equipment with a book value of US \$ 2,242,312 thousand (31 December 2010: US \$ 2,358,924 thousand) have been pledged as security for related borrowings and mortgages.
- e) At 31 December 2011, IPIC transferred an amount of US \$ 170,962 thousand to investment properties under development, relating to the portion of IPIC Building which is not for owner-occupied use
- f) Depreciation charge for the year is reflected in the consolidated income statement as follows:

| | <i>2011</i> | <i>2010</i> |
|-------------------------|--------------------------|---------------------|
| | <i>US \$ '000</i> | <i>US \$ '000</i> |
| | | <i>Reclassified</i> |
| Continuing operations | 1,185,734 | 509,769 |
| Discontinued operations | <u>41,121</u> | <u>34,988</u> |
| | <u>1,226,855</u> | <u>544,757</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

18 INTANGIBLE ASSETS

| | <i>Software</i> <i>US \$ '000</i> | <i>Concessions</i> <i>patents and</i> <i>licences</i> <i>US \$ '000</i> | <i>Developments</i> <i>costs</i> <i>US \$ '000</i> | <i>Brands</i> <i>US \$ '000</i> | <i>Customer and</i> <i>flagging</i> <i>contracts</i> <i>US \$ '000</i> | <i>Customer</i> <i>lists</i> <i>US \$ '000</i> | <i>Goodwill</i> <i>US \$ '000</i> | <i>Other</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|--|--------------------------------------|--|--|------------------------------------|---|--|--------------------------------------|-----------------------------------|-----------------------------------|
| 2011 | | | | | | | | | |
| Cost: | | | | | | | | | |
| At 1 January 2011 | 96,462 | 333,420 | 244,206 | - | 77,239 | - | 464,224 | 578,585 | 1,794,136 |
| Additions | 26,719 | 70,956 | 32,784 | - | 1,397 | - | - | 265,206 | 397,062 |
| Acquisitions through business combination | 42,559 | 10,531 | 2,004 | 553,082 | 92,036 | - | 354,654 | 233,627 | 1,288,493 |
| Impairment of goodwill | - | - | - | - | - | - | (50,611) | - | (50,611) |
| Classified as held for sale | (13,892) | (27,935) | - | - | (41,579) | - | - | (191,778) | (275,184) |
| Disposals | (27,693) | (60,878) | (1,297) | - | (24,615) | - | - | - | (114,483) |
| Exchange adjustments | <u>2,814</u> | <u>(3,663)</u> | <u>(9,711)</u> | <u>(57,751)</u> | <u>(5,966)</u> | <u>-</u> | <u>(35,799)</u> | <u>(15,488)</u> | <u>(125,564)</u> |
| At 31 December 2011 | <u>126,969</u> | <u>322,431</u> | <u>267,986</u> | <u>495,331</u> | <u>98,512</u> | <u>-</u> | <u>732,468</u> | <u>870,152</u> | <u>2,913,849</u> |
| Amortisation: | | | | | | | | | |
| At 1 January 2011 | 60,837 | 111,092 | 94,248 | - | 35,469 | - | - | 161,588 | 463,234 |
| Charge for the year | 22,790 | 12,978 | 15,474 | - | 14,449 | - | - | 73,303 | 138,994 |
| Impairment | 449 | - | 17,917 | - | - | - | - | 84,831 | 103,197 |
| Classified as held for sale | (12,448) | - | - | - | (14,046) | - | - | (167,690) | (194,184) |
| Disposals | (27,549) | - | (469) | - | (24,602) | - | - | - | (52,620) |
| Exchange adjustments | <u>7,698</u> | <u>(3,402)</u> | <u>(4,890)</u> | <u>-</u> | <u>(295)</u> | <u>-</u> | <u>-</u> | <u>(4,948)</u> | <u>(5,837)</u> |
| At 31 December 2011 | <u>51,777</u> | <u>120,668</u> | <u>122,280</u> | <u>-</u> | <u>10,975</u> | <u>-</u> | <u>-</u> | <u>147,084</u> | <u>452,784</u> |
| Net carrying amount: | | | | | | | | | |
| At 31 December 2011 | <u>75,192</u> | <u>201,763</u> | <u>145,706</u> | <u>495,331</u> | <u>87,537</u> | <u>-</u> | <u>732,468</u> | <u>723,068</u> | <u>2,461,065</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

18 INTANGIBLE ASSETS continued

| | <i>Software</i> <i>US \$ '000</i> | <i>Concessions</i> <i>patents and</i> <i>licences</i> <i>US \$ '000</i> | <i>Developments</i> <i>costs</i> <i>US \$ '000</i> | <i>Brands</i> <i>US \$ '000</i> | <i>Customer and</i> <i>flagging</i> <i>contracts</i> <i>US \$ '000</i> | <i>Customer</i> <i>lists</i> <i>US \$ '000</i> | <i>Goodwill</i> <i>US \$ '000</i> | <i>Other</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|--|--------------------------------------|--|--|------------------------------------|---|--|--------------------------------------|-----------------------------------|-----------------------------------|
| 2010 | | | | | | | | | |
| Cost: | | | | | | | | | |
| At 1 January 2010 | 98,973 | 309,620 | 225,056 | - | 60,393 | 1,000 | 613,380 | 568,488 | 1,876,910 |
| Additions | 12,673 | 50,188 | 61,116 | - | - | - | - | - | 123,977 |
| Acquisitions through business combination | - | - | - | - | - | - | 8,301 | - | 8,301 |
| Impairment of goodwill | - | - | - | - | - | - | (97,533) | - | (97,533) |
| Disposals | (10,686) | (40,212) | (4,612) | - | - | (1,000) | - | - | (56,510) |
| Transfers | 253 | 24,793 | (25,544) | - | 30,004 | - | (39,526) | 9,522 | (498) |
| Exchange adjustments | (4,751) | (10,969) | (11,810) | - | (13,158) | - | (20,398) | 575 | (60,511) |
| At 31 December 2010 | <u>96,462</u> | <u>333,420</u> | <u>244,206</u> | <u>-</u> | <u>77,239</u> | <u>-</u> | <u>464,224</u> | <u>578,585</u> | <u>1,794,136</u> |
| Amortisation: | | | | | | | | | |
| At 1 January 2010 | 55,567 | 100,676 | 77,065 | - | 11,490 | 1,000 | - | 82,566 | 328,364 |
| Charge for the year | 17,310 | 15,780 | 21,820 | - | 22,778 | - | - | 82,468 | 160,156 |
| Impairment | 15 | 1,591 | 2,372 | - | - | - | - | - | 3,978 |
| Disposals | (9,311) | - | (4,195) | - | - | (1,000) | - | - | (14,506) |
| Transfers | 11 | - | (11) | - | - | - | - | - | - |
| Exchange adjustments | (2,755) | (6,955) | (2,803) | - | 1,201 | - | - | (3,446) | (14,758) |
| At 31 December 2010 | <u>60,837</u> | <u>111,092</u> | <u>94,248</u> | <u>-</u> | <u>35,469</u> | <u>-</u> | <u>-</u> | <u>161,588</u> | <u>463,234</u> |
| Net carrying amount: | | | | | | | | | |
| At 31 December 2010 | <u>35,625</u> | <u>222,328</u> | <u>149,958</u> | <u>-</u> | <u>41,770</u> | <u>-</u> | <u>464,224</u> | <u>416,997</u> | <u>1,330,902</u> |

International Petroleum Investment Company PJSC and its subsidiaries

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18 INTANGIBLE ASSETS continued

Amortisation charge for the year is reflected in the consolidated income statement as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 <i>Reclassified</i> |
|-------------------------|----------------------------------|---|
| Continuing operations | 97,900 | 93,244 |
| Discontinued operations | <u>41,094</u> | <u>66,912</u> |
| | <u>138,994</u> | <u>160,156</u> |

19 IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to the following cash generating units, for impairment testing purposes:

Carrying amount of goodwill allocated to each of the cash-generating units:

| | <i>Plastics solutions Europe</i> <i>US \$ '000</i> | <i>Diversified investments</i> <i>US \$ '000</i> | <i>Private banking</i> <i>US \$ '000</i> | <i>Unallocated</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|--|---|---|---|---|-----------------------------------|
| Carrying amount at 31 December 2010 | 74,850 | 326,554 | 62,820 | - | 464,224 |
| Additions during the year from business combinations | - | - | - | 354,814 | 354,814 |
| Impairment during the year | - | - | (37,169) | (13,442) | (50,611) |
| Exchange difference | <u>(1,716)</u> | <u>-</u> | <u>1,401</u> | <u>(35,644)</u> | <u>(35,959)</u> |
| Carrying amount at 31 December 2011 | <u>73,134</u> | <u>326,554</u> | <u>27,052</u> | <u>305,728</u> | <u>732,468</u> |

Plastics solutions - Europe

Goodwill within the plastics solutions operating segment has been allocated to Borealis, which constitutes the lowest aggregation of assets that generate largely independent cash inflows.

The recoverable amount of Borealis has been determined based on a fair value less cost to sell calculation. The fair valuation was conducted by an independent appraiser. Borouge, a significant associate of Borealis was valued separately for this purpose. The post-tax discount rate applied to cash flow projections is 9.2% for Borealis and 10.6% for Borouge using an average growth rate of 2% and 2.5% respectively.

Key assumptions used in fair value less cost to sell calculations

The calculation of fair value less cost to sell is most sensitive to the following assumptions:

Terminal value: Sustainable earnings include a terminal growth rate of 2.0% which was derived on basis of analyses of sustainable GDP growth of Borealis' key sales regions and long term growth expectations for the end market industries for Polyolefin, Infrastructure, Automotive, and Advanced Packaging.

Discount rates: Market and peer group data were utilized in addition to the specific financing conditions prevailing at Borealis to obtain WACC .

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19 IMPAIRMENT TESTING OF GOODWILL continued

Plastics solutions – Europe continued

Sensitivity to changes in assumptions

With regard to the assessment of fair value less cost to sell, management assessed that no reasonably possible change in any of the above key assumptions would cause the carrying value of Borealis to materiality exceed its recoverable amount.

Diversified investments

Goodwill within the diversified investments segment has been allocated to Aabar, which constitutes the lowest aggregation of assets that generate largely independent cash inflows.

The recoverable amount of Aabar has been determined based on a fair value less cost to sell calculation based on the over-the-counter market price that the Company is continuously buying the minority shares of Aabar.

Private banking

Goodwill within the private banking business has been allocated to Falcon Private Bank, a subsidiary of Aabar.

The Group performed its annual impairment test as at 31 December each year. At 31 December 2011, the recoverable amount of Falcon Bank has been determined based on a value in use calculation derived from financial budgets covering a 5 year period. Terminal value was derived accordingly. The pre-tax discount rate applied to cash flow projections is 10%. As a result, management identified an impairment of US \$ 37,169 thousand of goodwill.

Key assumptions used in value in use calculation

The calculation of value in use is most sensitive to the following assumptions:

- Discount rate: The discount rate represents the current market assessment of the risks specific to Falcon Bank.
- Growth rate to determine increase in assets under management - assets under management increase was assumed at 8% for the years 2011 to 2015 and is based on management expectations and industry research.
- Terminal value

Sensitivity to changes in assumptions

With regard to the assessment of value in use, management assessed that no reasonably possible change in any of the above key assumptions would cause the carrying value of Falcon Bank to materiality exceed its recoverable amount.

Unallocated goodwill

The allocation of the cost of the business combinations (Note 3) relating to the acquisition of CEPESA Group and Oxygen Capital Limited to the different assets, liabilities and contingent liabilities was completed after 31 December 2011 but within a period of twelve months of the acquisition date, and before the issuance of these consolidated financial statements. Accordingly, the fair values were recorded in these consolidated financial statements. Goodwill arising on the acquisition of CEPESA and Oxygen Capital was US \$ 341,372 thousand and US \$ 13,442 thousand respectively. However, because the initial accounting for the business combinations determined provisionally at 31 December 2011, the Group has not been able to complete the initial allocation of the goodwill to cash generating units ("CGUs") or groups of CGUs for impairment purposes before the end of the annual period in which the combination was effected. In addition, as the Group is only required to allocate the goodwill to CGUs by the end of the financial year following the year of acquisitions, it will do so by December 2012.

At the date of these consolidated financial statements, the goodwill arising from the acquisition of CEPESA has not been allocated to the CGUs; however, the Group has reviewed the unallocated goodwill and did not identify any indicators of impairment in respect of the goodwill arising on the acquisition of CEPESA. Given that Oxygen Capital Limited does not generate sufficient cash flows, is in a net assets deficit position and is currently loss-making the goodwill in Oxygen Capital has been fully impaired.

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20 INVESTMENT PROPERTIES

| | <i>Land</i> <i>US \$ '000</i> | <i>Commercial</i> <i>US \$ '000</i> | <i>Under</i> <i>development</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|-----------------------------|----------------------------------|--|---|-----------------------------------|
| 2011 | | | | |
| Cost: | | | | |
| At 1 January 2011 | 1,804,472 | 6,235 | - | 1,810,707 |
| Additions | 64,638 | - | 93,292 | 157,930 |
| Classified as held for sale | - | (9,272) | - | (9,272) |
| Disposals | (1,143) | - | - | (1,143) |
| Transfers (see note below) | 293,343 | - | 356,583 | 649,926 |
| Exchange adjustments | <u>(3,191)</u> | <u>3,037</u> | <u>-</u> | <u>(154)</u> |
| At 31 December 2011 | <u>2,158,119</u> | <u>-</u> | <u>449,875</u> | <u>2,607,994</u> |
| Accumulated depreciation: | | | | |
| At 1 January 2011 | 514,810 | 3,323 | - | 518,133 |
| Charge for the year | - | 230 | - | 230 |
| Impairment | 54,536 | - | 100,560 | 155,096 |
| Classified as held for sale | - | (5,580) | - | (5,580) |
| Disposals | (893) | - | - | (893) |
| Exchange adjustments | <u>1,611</u> | <u>2,027</u> | <u>-</u> | <u>3,638</u> |
| At 31 December 2011 | <u>570,064</u> | <u>-</u> | <u>100,560</u> | <u>670,624</u> |
| Net carrying amount: | | | | |
| At 31 December 2011 | <u>1,588,055</u> | <u>-</u> | <u>349,315</u> | <u>1,937,370</u> |
| 2010 | | | | |
| Cost: | | | | |
| At 1 January 2010 | 4,614 | 14,355 | - | 18,969 |
| Transfers | 1,804,444 | (2,313) | - | 1,802,131 |
| Disposals | (5,122) | (5,511) | - | (10,633) |
| Exchange adjustments | <u>536</u> | <u>(296)</u> | <u>-</u> | <u>240</u> |
| At 31 December 2010 | <u>1,804,472</u> | <u>6,235</u> | <u>-</u> | <u>1,810,707</u> |
| Accumulated depreciation: | | | | |
| At 1 January 2010 | - | 422 | - | 422 |
| Charge for the year | - | 69 | - | 69 |
| Transfers | - | 3,747 | - | 3,747 |
| Impairment | 514,810 | - | - | 514,810 |
| Disposals | - | (265) | - | (265) |
| Exchange adjustments | <u>-</u> | <u>(650)</u> | <u>-</u> | <u>(650)</u> |
| At 31 December 2010 | <u>514,810</u> | <u>3,323</u> | <u>-</u> | <u>518,133</u> |
| Net carrying amount: | | | | |
| At 31 December 2010 | <u>1,289,662</u> | <u>2,912</u> | <u>-</u> | <u>1,292,574</u> |

Properties with a carrying amount of US \$ 478,964 thousand (31 December 2010: US \$ 1,804,444 thousand), prior to impairment charges, have been transferred from advances made on investment properties under other assets to investment properties and investment properties under development. Also included in investment property under development is an amount of US \$ 170,962 thousand relating to the portion of the IPIC Building which is not for owner-occupied use and which has been reclassified from capital work in progress in property, plant and equipment to investment property under development.

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20 INVESTMENT PROPERTIES continued

Effective 1 January 2011, a plot of land (received in 2008 from the Municipality of Abu Dhabi at no cost and recorded at a nominal value of AED 1) was transferred from property and equipment to investment property as a result of change in use.

Investment properties with a book value of US \$ 204,221 thousand (31 December 2010: US \$ 204,221 thousand) have been pledged as security for related borrowings and mortgages.

In reviewing investment properties, the Group has considered whether the value of any of its investment properties is impaired. The recoverable amounts have been determined as the higher of the fair value less costs to sell, and value in use.

Value in use assessments have been performed based on valuation models.

The fair value of investment property under development has been based on valuations performed by accredited independent valuer, as at 31 December 2011. The fair value of the property has not been determined on transactions observable in the market because of the nature of the property and the lack of comparable data. Instead, a valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. The combined fair value of investment properties at 31 December 2011 amounted to US \$1,542,250 thousand (31 December 2010: US \$ 941,548 thousand).

Key assumptions used for value in use assessments:

- Inflation during the development period - assumed as running at 5% per annum during the development period
- Lease capitalization multiples - assumed an average multiple of 9 (determined by reference to current expectations in the market)
- Construction costs - based upon management's estimations for the development of the projects
- Rental incomes - based upon current rental rates being experienced for properties of a similar nature within the local market

Key assumptions used for fair value assessments:

- Inflation during the development period - assumed as running at 5% per annum during the development period
- Lease capitalization multiples - assumed an average multiple of 9 (determined by reference to current expectations in the market)
- Construction costs - based upon management's estimations for the development of the projects.
- Developers profit margin - assumed as 15%
- Rental incomes - based upon current rental rates being experienced for properties of a similar nature within the local market.

No rental income was recognised on investment properties during 2011 (2010: Nil).

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21 INVESTMENTS IN FINANCIAL INSTRUMENTS

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|----------------------------------|----------------------------------|
| Non-derivative financial instruments: | | |
| Held-to-maturity financial assets (Note 21.1) | - | 240,256 |
| Financial assets at fair value through profit or loss (Note 21.2) | 5,366,287 | 8,673,887 |
| Available-for-sale financial assets (Note 21.3) | <u>2,208,057</u> | <u>1,526,183</u> |
| | 7,574,344 | 10,440,326 |
| Derivative financial instruments (Note 34) | <u>2,130,131</u> | <u>805,175</u> |
| | <u>9,704,475</u> | <u>11,245,501</u> |
| Non-current | 2,650,288 | 10,819,947 |
| Current | <u>7,054,187</u> | <u>425,554</u> |
| | <u>9,704,475</u> | <u>11,245,501</u> |

21.1 HELD-TO-MATURITY FINANCIAL ASSETS

During 2011, held-to-maturity financial assets of US \$ 85,996 thousand have been sold and US \$ 151,587 thousand have been reclassified to available-for-sale financial investments. The balance at 31 December 2010 represents mainly investments in Government treasury securities and corporate bonds. They were predominantly denominated in CHF and were investment grade assets.

21.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|-------------------------------|----------------------------------|----------------------------------|
| Daimler AG shares (i) | 4,234,333 | 6,483,793 |
| CASHES of Unicredit SpA. (ii) | 29,739 | 40,581 |
| Unicredit SpA (iii) | 799,698 | 1,974,228 |
| Others (iv) | <u>302,517</u> | <u>175,285</u> |
| | <u>5,366,287</u> | <u>8,673,887</u> |
| Non-current | 43,455 | 8,517,201 |
| Current | <u>5,322,832</u> | <u>156,686</u> |
| | <u>5,366,287</u> | <u>8,673,887</u> |

- i) This represents an investment in Daimler AG shares. In June 2010, the Group terminated one of the two collar and put option agreements and replaced it with another agreement that fixes the floor and cap price for movements in the share price of Daimler AG that expires between 1 October 2012 and 19 November 2012. The other collar and put option agreement is scheduled to expire on 24 September 2012. Shares in Daimler AG are pledged as collateral against term loans.

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21 INVESTMENTS IN FINANCIAL INSTRUMENTS continued

21.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS continued

- ii) This represents an investment in the Convertible and Subordinated Hybrid Equity-Linked Securities of UniCredit SpA, an Italian bank. These convertible bonds, due on 15 December 2050 are exchangeable into ordinary shares of UniCredit SpA. If at any time, between 23 February 2016 and 15 December 2050, the exchange security price of UniCredit SpA shares, for 20 out of 30 consecutive trading days, exceeds 150% of the exchange price (Euro 30.83 after the reverse stock split as described in iii) below), the bonds will be automatically redeemed.
- iii) This represents an investment in UniCredit SpA. The Group acquired a 4.99% stake in UniCredit SpA in 2010. During 2011, the number of shares has decreased from 962,000,000 to 96,200,000 due to a reverse stock split, whereby the shareholders received 1 new ordinary share for every 10 existing ordinary shares already held. The Group has taken collar and put options to fix the floor and cap price for movements in the share price of UniCredit SpA that expire between 3 April 2013 and 12 June 2013. Shares in UniCredit SpA are pledged as collateral against term loans.
- iv) This balance includes an investment made in July 2010 of US \$ 18.9 million into two investment funds: Blue Orchard Private Equity Funds SCA and Oasis Fund SCA with a commitment to invest a further US \$ 35.3 million at a later date. The remaining balance represents mainly investments in government treasury securities and corporate bonds. These are investment grade assets predominantly denominated in CHF.

21.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | <i>2011</i> | <i>2010</i> |
|--------------------------------------|-------------------------|-------------------|
| | <i>US \$ '000</i> | <i>US \$ '000</i> |
| Quoted investments | 1,771,562 | 1,163,503 |
| Unquoted investments at fair value | 399,790 | 362,680 |
| Unquoted investments carried at cost | <u>36,705</u> | <u>-</u> |
| | <u>2,208,057</u> | <u>1,526,183</u> |

Quoted investments

The fair value of the quoted investments is determined by reference to published price quotations in an active market. On 18 May 2011, the Group acquired a 1.4% shareholding in Glencore International Plc ("Glencore") and at 31 December 2011, market value of the investment was US \$ 601,510 thousand.

Unquoted investments

The fair value of the majority of unquoted investments has been estimated using a valuation technique based on assumptions that are not supported by observable market prices. The valuation requires management to make estimates about the expected future cash flows of the shares which are discounted at current rates. See Note 35 for the Group's valuation hierarchy.

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22 TRADE AND OTHER RECEIVABLES

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|--|----------------------------------|----------------------------------|
| Trade receivables | 4,088,219 | 1,206,983 |
| Loans and other amounts due from banking customers | 1,335,335 | 1,083,184 |
| Due from banks | 405,335 | 161,636 |
| Balance due from related parties | 617,374 | 360,659 |
| Receivable from construction contracts | - | 102,786 |
| Other receivables | <u>1,067</u> | <u>5,982</u> |
| | <u>6,447,330</u> | <u>2,921,230</u> |
| Non-current | 11,331 | 74,063 |
| Current | <u>6,435,999</u> | <u>2,847,167</u> |
| | <u>6,447,330</u> | <u>2,921,230</u> |

At 31 December 2011, trade and other receivables amounting to US \$ 209,406 thousand (31 December 2010: US \$ 147,075 thousand) were impaired and fully provided for.

See Note 36 for ageing analysis and movements in the provision for impairment of trade and other receivables.

23 OTHER ASSETS

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|--|----------------------------------|----------------------------------|
| Long term receivable (i) | 1,768,869 | 1,858,432 |
| Taxes receivable | 439,210 | 279,516 |
| Loans to related parties | 1,253,814 | 48,963 |
| Other assets receivable from related parties | 118,714 | - |
| Restricted cash | 85,000 | 85,000 |
| Loans and notes receivable | 207,966 | 529,409 |
| Advances made on investment properties | 869,281 | 1,000,108 |
| Advances made on investments | 80,926 | 516,497 |
| Other advances and deposits paid (ii) | 238,930 | 16,625 |
| Prepaid expense | 37,967 | 35,011 |
| Accrued interest receivable (iii) | 49,918 | 29,523 |
| Other assets and receivables | <u>119,526</u> | <u>325,867</u> |
| | <u>5,270,121</u> | <u>4,724,951</u> |
| Non-current | 4,231,247 | 3,981,649 |
| Current | <u>1,038,874</u> | <u>743,302</u> |
| | <u>5,270,121</u> | <u>4,724,951</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23 OTHER ASSETS continued

- (i) In 2009, the Company acquired an investment in mandatorily exchangeable bonds (the “Bonds”) of Independent Public Business Corporation of Papua New Guinea. Upon maturity in March 2014, the Bonds may be exchanged into 196,604,177 shares of Oil Search Limited, a company listed on the Australian Stock Exchange. The Company has determined that the Bonds contain embedded derivatives and accordingly, the derivative components, amounting to US \$ 87,528 thousand (31 December 2010: US \$ 106,059 thousand), have been separated from the host contract and disclosed as derivative financial instruments in the consolidated financial statements (see Note 34).

The long term receivable represents the carrying value of the host contract at 31 December 2011, and is carried at amortised cost.

- (ii) Includes an amount of US \$ 135,478 thousand relating to Fujairah land reclamation. This cost is expected to be set off against the future rental payments of the land.
- (iii) Includes an amount of US \$ 47,566 thousand interest receivable in respect of GBP/EUR cross currency swaps which the Company undertook in March 2011.

24 INVENTORIES

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|----------------------------|----------------------------------|----------------------------------|
| Raw materials | 1,769,860 | 437,045 |
| Spare parts | 185,600 | 57,065 |
| Consumables | 258,699 | - |
| Work in progress | 11,395 | 403,835 |
| Finished goods | 2,779,732 | 1,152,796 |
| Consignments | 41,293 | - |
| In transit | <u>105,479</u> | <u>25,371</u> |
| | 5,152,058 | 2,076,112 |
| Allowance for obsolescence | <u>(26,515)</u> | <u>(23,590)</u> |
| | <u>5,125,543</u> | <u>2,052,522</u> |

25 CASH AND CASH EQUIVALENTS

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|------------------------------|----------------------------------|----------------------------------|
| Cash and short term deposits | 4,992,819 | 3,150,931 |
| Bank overdrafts | <u>-</u> | <u>(912)</u> |
| | <u>4,992,819</u> | <u>3,150,019</u> |

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Bank overdrafts carried interest at floating rates and were unsecured.

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26 SHARE CAPITAL

| | <i>Authorised</i> | | <i>Issued and fully paid</i> | |
|-------------------------------------|-------------------|-------------------|------------------------------|-------------------|
| | <i>2011</i> | <i>2010</i> | <i>2011</i> | <i>2010</i> |
| | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> | <i>US \$ '000</i> |
| Ordinary shares of US \$ 1,000 each | <u>5,000,000</u> | <u>5,000,000</u> | <u>3,500,000</u> | <u>3,500,000</u> |

27 SHAREHOLDER LOAN

In 2010, the Company received US \$ 500 million and received a further US \$ 500 million in December 2011 from the Department of Finance on behalf of the Government of Abu Dhabi. The funds are to be used to meet the Company's obligations in its investment in Qatar and Abu Dhabi Investment Company QSC ("QADIC"). An amount of US \$ 50 million was injected in QADIC in July 2010.

The funds received are interest-free with no repayment terms and is repayable at the discretion of the Board of Directors of the Company. Accordingly, management has classified the funds as a shareholder loan within equity.

28 OTHER RESERVES

| | <i>Cumulative changes in fair value of available for-sale investments US \$ '000</i> | <i>Foreign currency translation reserve US \$ '000</i> | <i>Reserve for cash flow hedges US \$ '000</i> | <i>Reserve for actuarial gains and losses US \$ '000</i> | <i>Reserves for disposal group held for sale US \$ '000</i> | <i>Share of reserves of associates US \$ '000</i> | <i>Other reserves US \$ '000</i> | <i>Total US \$ '000</i> |
|---|--|--|--|--|---|---|----------------------------------|-------------------------|
| Balance at 1 January 2010 | 3,097,967 | 138,196 | (21,630) | (2,866) | (81,580) | 104,138 | 103,609 | 3,337,834 |
| Other comprehensive income for the year | 244,029 | (134,140) | 18,983 | (121,746) | - | (520,196) | (4,849) | (517,919) |
| Recycle of reserve on disposal of interest in a subsidiary | - | 167,038 | (11,297) | - | (2,293) | - | - | 153,448 |
| Reserves for disposal group held for sale | - | (112,186) | 28,313 | - | 83,873 | - | - | - |
| Balance at 31 December 2010 | <u>3,341,996</u> | <u>58,908</u> | <u>14,369</u> | <u>(124,612)</u> | <u>-</u> | <u>(416,058)</u> | <u>98,760</u> | <u>2,973,363</u> |
| Other comprehensive income for the year | (1,120,103) | (1,249,799) | (102,390) | (129,509) | - | 104,476 | - | (2,497,325) |
| Recycle of reserves on disposal of interest in a subsidiary | - | 15,329 | 37 | 16,134 | - | - | - | 31,500 |
| Reserves for disposal group held for sale | - | (6,485) | (4,258) | (349) | 26,895 | - | - | 15,803 |
| Balance at 31 December 2011 | <u>2,221,893</u> | <u>(1,182,047)</u> | <u>(92,242)</u> | <u>(238,336)</u> | <u>26,895</u> | <u>(311,582)</u> | <u>98,760</u> | <u>523,341</u> |

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29 BORROWINGS

| | 2011 US \$ '000 | 2010 US \$ '000 |
|--|--------------------|--------------------|
| Overdrafts | 433,750 | 39,941 |
| Obligations under finance leases and hire purchase contracts | 8,541 | 11,435 |
| Listed notes and other borrowing instruments | 13,546,976 | 4,241,470 |
| Unlisted borrowings | <u>21,790,544</u> | <u>16,748,395</u> |
| | <u>35,779,811</u> | <u>21,041,241</u> |
| Non-current | 26,182,633 | 19,161,098 |
| Current | <u>9,597,178</u> | <u>1,880,143</u> |
| | <u>35,779,811</u> | <u>21,041,241</u> |

Borrowings as at the reporting date, analysed by each significant sub-group of companies, are as follows:

| | | |
|------------|-------------------|-------------------|
| The Parent | 19,198,777 | 10,040,024 |
| Aabar | 9,733,156 | 7,772,109 |
| Nova | 1,741,109 | 1,695,277 |
| Borealis | 1,604,564 | 1,497,186 |
| Ferrostaal | - | 36,645 |
| CEPSA | <u>3,502,205</u> | - |
| | <u>35,779,811</u> | <u>21,041,241</u> |

As of 31 December 2011 and 2010, the Company has not guaranteed the borrowings of any of the Group companies.

Details of the group borrowings are as follows:

Listed notes and other borrowing instruments

| | Maturity | Currency | Interest rate | 2011 US \$ '000 | 2010 US \$ '000 |
|---|----------|----------|------------------|--------------------|--------------------|
| IPIC - Bond 1 | 2020 | US \$ | 5.000% | 1,482,717 | 1,480,728 |
| IPIC - Bond 2 | 2015 | US \$ | 3.125% | 994,084 | 992,524 |
| IPIC - Bond 3 | 2021 | EUR | 5.875% | 1,587,890 | - |
| IPIC - Bond 4 | 2016 | EUR | 4.875% | 1,600,849 | - |
| IPIC - Bond 5 | 2026 | GBP | 6.875% | 844,285 | - |
| IPIC - Bond 6 | 2022 | US \$ | 5.500% | 1,489,948 | - |
| IPIC - Bond 7 | 2017 | US \$ | 3.750% | 1,490,935 | - |
| IPIC - Bond 8 | 2041 | US \$ | 6.875% | 740,471 | - |
| Aabar - Exchangeable bond (see note below) | 2016 | EUR | Fixed rate | 1,527,110 | - |
| Borealis - Bond 1 | 2017 | EUR | Fixed rate | 259,200 | 267,320 |
| Nova - Bond 1 | 2012 | US \$ | 6.50% | 399,532 | 388,495 |
| Nova - Bond 2 | 2013 | US \$ | 6m LIBOR + 3.13% | 369,345 | 354,988 |
| Nova - Bond 3 | 2016 | US \$ | 8.38% | 342,156 | 340,867 |
| Nova - Bond 4 | 2019 | US \$ | 8.63% | 341,433 | 340,201 |
| Nova - Bond 5 | 2025 | US \$ | 7.88% | <u>77,021</u> | <u>76,347</u> |
| | | | | <u>13,546,976</u> | <u>4,241,470</u> |

Aabar – Exchangeable bond

On 27 May 2011, Aabar issued EUR 1,250,000 thousand 4% 5 year senior unsecured exchangeable bonds, which are exchangeable into Daimler AG shares (the “exchangeable bonds”). The exchangeable bonds are hybrid securities consisting of a straight bond and an embedded call option with a fixed strike price to exchange the bond for either shares in Daimler AG or cash of an equivalent value at the option of Aabar.

All bonds of the Group are unsecured, and repayable as bullet payment on maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 BORROWINGS continued

Unlisted borrowings

| | <i>Maturity (Year)</i> | <i>Currency</i> | <i>Interest rate</i> | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|-------------------|------------------------|--------------------|-------------------------------------|----------------------------------|----------------------------------|
| IPIC - Loan 1 | 2013 | Euro | EURIBOR + Margin | 191,160 | 295,723 |
| IPIC - Loan 2* | 2013 | GBP | LIBOR + Margin | 227,481 | 226,689 |
| IPIC - Loan 3 | 2013 | JPY | LIBOR + Margin | 874,600 | 827,729 |
| IPIC - Loan 4* | 2012 | US \$ & AED | LIBOR + Margin | 849,232 | 844,925 |
| IPIC - Loan 5 | 2013 | US \$, Euro & AED | LIBOR / EURIBOR / EIBOR + Margin | - | 3,541,405 |
| IPIC - Loan 6* | 2013 | AED | EIBOR + Margin | 268,784 | 266,436 |
| IPIC - Loan 7 | 2011 | US \$ | LIBOR + Margin | - | 147,724 |
| IPIC - Loan 8 | 2026 | AED | EIBOR + Margin | 272,294 | - |
| IPIC - Loan 9 | 2012 | US \$ | LIBOR + Margin | 1,497,805 | - |
| IPIC - Loan 10 | 2014 | US \$ | LIBOR + Margin | 1,390,527 | - |
| IPIC - Loan 11 | 2013 | AED | EIBOR + Margin | 1,994,661 | - |
| IPIC - Loan 12 | On demand | US \$ | LIBOR + Margin | 1,401,054 | 1,415,229 |
| Aabar - Loan 1 | 2012 | AED | EIBOR + Margin | 204,221 | 204,221 |
| Aabar - Loan 2 | 2012 | EUR | Fixed rate | 1,608,697 | 1,608,599 |
| Aabar - Loan 3 | 2013 | US \$ | LIBOR + Margin | 1,321,971 | 1,427,437 |
| Aabar - Loan 4 | 2013 | EUR | EURIBOR + Margin | 208,096 | 304,305 |
| Aabar - Loan 5 | 2013 | AED | EIBOR + Margin | 103,162 | 246,867 |
| Aabar - Loan 6 | 2012 | EUR | Fixed rate | 1,498,512 | 1,510,830 |
| Aabar - Loan 7 | 2013 | EUR | Fixed rate | 2,256,290 | 2,266,672 |
| Aabar - Loan 8 | 2011 | EUR | EURIBOR + Margin | - | 203,179 |
| Aabar - Loan 9 | 2014 | EUR | EURIBOR + Margin | 254,873 | - |
| Aabar - Loan 10 | 2012 | US \$ | LIBOR + Margin | 750,225 | - |
| Others -Fixed | 2019 - 2025 | Various | Fixed rate | 915,768 | 783,555 |
| Others - Floating | 2012 - 2022 | Various | Base rate + Margin | 3,701,131 | 626,870 |
| | | | | 21,790,544 | 16,748,395 |

*Term loan (4) has been refinanced in March 2012, with new maturity date of March 2014 and Term loans (2) and (6) have been repaid in full in April 2012 (see Note 41)

Others – Fixed include approximately 15 individual loans and Others – Floating include approximately 50 individual loans.

All IPIC loans and Aabar loans are unsecured, except for Aabar – Loan 1, 2, 6 and 7 which are secured through pledges on land mortgage, Daimler AG shares and UniCredit SpA shares respectively. All loans within Others – Fixed are unsecured except for an amount of US \$ 19,789 thousand (31 December 2010: US \$ 20,403 thousand) which is secured on property, plant and equipment. All loans within Others – Floating are unsecured.

See Note 36 for the maturity analysis of borrowings (under liquidity risk disclosure).

Included in borrowings are obligations under finance leases as follows:

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|--------------------------------------|----------------------------------|----------------------------------|
| Payable in one year | 7,544 | 10,224 |
| Payable between 1 to 5 years | 1,018 | 1,346 |
| Payable beyond 5 years | <u>12</u> | <u>21</u> |
| | 8,574 | 11,591 |
| Amounts representing finance charges | <u>(33)</u> | <u>(156)</u> |
| | 8,541 | 11,435 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

30 EMPLOYEES' BENEFIT LIABILITIES

The following table summarises the component of employees' related expense recognised in the consolidated income statement under continuing operations:

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> <i>Reclassified</i> |
|----------------------------|----------------------------------|---|
| Wages and salaries | 1,263,039 | 870,741 |
| Defined contribution plans | 49,312 | 26,223 |
| Defined benefit plans | 62,631 | 53,739 |
| Bonuses | 120,008 | 92,891 |
| Others | <u>78,226</u> | <u>49,087</u> |
| | <u>1,573,216</u> | <u>1,092,681</u> |

Employees' benefit liabilities recognised in the consolidated statement of financial position are as follows:

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|----------------------------------|----------------------------------|----------------------------------|
| Employee end of service benefits | 3,661 | 2,084 |
| Pensions | <u>769,051</u> | <u>721,515</u> |
| | <u>772,712</u> | <u>723,599</u> |

Most group companies have benefit plans. The forms and benefits vary with conditions and practices in the countries concerned. The plans include both defined contribution plans and plans that provide defined benefits based on years of service and estimated salary at retirement.

The following table summarises the components of net defined benefit expense recognised in the consolidated income statement:

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> <i>Reclassified</i> |
|-------------------------------------|----------------------------------|---|
| Current service cost | 38,667 | 36,375 |
| Interest cost on benefit obligation | 65,579 | 66,439 |
| Expected return on plan assets | (48,718) | (46,478) |
| Past service cost | (25) | 1,307 |
| Others | <u>7,128</u> | <u>(3,904)</u> |
| Net defined benefit expense | <u>62,631</u> | <u>53,739</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

30 EMPLOYEES' BENEFIT LIABILITIES continued

The following table summarises the amounts recognised in the consolidated statement of financial position:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|--------------------------------|--------------------|--------------------|
| Defined benefit obligation | (1,530,734) | (1,812,568) |
| Fair value of plan assets | <u>762,025</u> | <u>1,042,620</u> |
| | (768,709) | (769,948) |
| Unrecognised past service cost | <u>(342)</u> | <u>48,433</u> |
| Benefit liability | <u>(769,051)</u> | <u>(721,515)</u> |

Changes in the present value of the defined benefit obligation are as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|--|--------------------|--------------------|
| Benefit obligation at beginning of year | (1,812,568) | (1,628,107) |
| Benefit obligation of disposal group classified as held for sale | 373,498 | - |
| Current service costs* | (38,667) | (41,125) |
| Current interest costs* | (65,579) | (82,759) |
| Contributions by employees | (5,103) | (3,300) |
| Past service cost-vested immediately | - | 1,392 |
| Actuarial gains on obligation | (95,612) | (185,013) |
| Disposal of business | (645) | 114 |
| Reduction in liabilities resulting from curtailments | - | 208 |
| Benefits paid from plan | 84,159 | 118,039 |
| Liabilities extinguished on settlements | 1,480 | 9,148 |
| Foreign exchange differences | <u>28,303</u> | <u>(1,165)</u> |
| Benefit obligation at end of the year | (1,530,734) | (1,812,568) |

* Included in current service costs and current interest costs in 2010 is an amount of US \$ 4,750 thousand and US \$ 16,320 thousand relating to disposal group classified as held for sale.

Changes in the fair value of plan assets are as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|---|-----------------------|-------------------------|
| Fair value of plan assets at beginning of year | 1,042,620 | 986,139 |
| Fair value of plan assets of disposal group classified as held for sale | (293,373) | - |
| Expected return on plan assets* | 48,718 | 60,559 |
| Contributions by employees | 5,103 | 7,945 |
| Employer contribution | 89,331 | 84,916 |
| Actuarial (losses) gains | (41,518) | 25,623 |
| Benefits paid from plan | (84,159) | (118,039) |
| Assets distributed on settlement | - | (6,211) |
| Foreign exchange differences | <u>(4,697)</u> | <u>1,688</u> |
| Fair value of plan assets at end of year | <u>762,025</u> | <u>1,042,620</u> |

* Included in expected return on plan assets in 2010 is an amount of US \$ 14,081 relating to disposal group classified as held for sale.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30 EMPLOYEES' BENEFIT LIABILITIES continued

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

| | 2011 % | 2010 % |
|--------------------------------------|-----------|-----------|
| Equities | 49.3% | 41.0% |
| Fixed income securities (inc. bonds) | 41.0% | 52.0% |
| Insurance contracts | 8.0% | 7.0% |
| Others | 1.7% | 0.0% |

The overall expected return on assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled. These are reflected below in the principal assumptions used in determining pension and post-employment medical obligations for the Group's plans are shown below:

| | 2011 % | 2010 % |
|---|-------------|-------------|
| Rate of salary increases | 2.5% - 4.0% | 2.5% - 3.5% |
| Rate of increase in pensions payments | 0.3% - 2.1% | 0.3% - 2.1% |
| Discount rate | 2.8% - 4.4% | 3.3% - 5.1% |
| Expected rate of return on plan assets* | 3.4% - 6.9% | 3.4% - 7.4% |

* The Group established an appropriate long-term rate of return of each plan's assets which reflects asset allocations within each plan as well as independent views of long-term rate of return expectations for each asset class.

Amounts for the current and previous periods are as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 | 2009 US \$ '000 | 2008 US \$ '000 | 2007 US \$ '000 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Fair value of scheme assets | 762,025 | 1,042,620 | 986,139 | 121,589 | 110,349 |
| Present value of defined benefit obligation | (1,530,734) | (1,812,568) | (1,628,107) | (353,062) | (381,720) |
| Deficit in the scheme | (768,709) | (769,948) | (641,968) | (231,473) | (271,371) |
| Experience adjustments arising on plan liabilities | 610 | (136,547) | (6,488) | 581 | 12,190 |
| Experience adjustments arising on plan assets | 46,398 | 23,578 | (10,141) | 6,014 | (13,394) |

31 PROVISIONS

| | Restructuring US \$ '000 | Decommissioning US \$ '000 | Legal disputes US \$ '000 | Environmental US \$ '000 | Other US \$ '000 | Total US \$ '000 |
|-------------------------------|-----------------------------|-------------------------------|---------------------------------|-----------------------------|---------------------|---------------------|
| At 1 January 2011 | 55,539 | 78,780 | 168,045 | 6,412 | 290,322 | 599,098 |
| Additions | 26,376 | (3,849) | 26,908 | 5,262 | 162,537 | 217,234 |
| Transferred to disposal group | (47,341) | - | (29,402) | 506 | (209,199) | (285,436) |
| Through business combinations | - | - | - | - | 1,226 | 1,226 |
| Interest expenses | - | 4,628 | (178) | - | 454 | 4,904 |
| Utilised | (22,443) | (5,175) | (23,910) | (2,070) | (109,730) | (163,328) |
| Reversed | (2,969) | (2,334) | (8,259) | (3,272) | (84,937) | (101,771) |
| Exchange adjustments | (614) | 90,214 | 20,551 | 18,955 | 96,650 | 225,756 |
| Balance at 31 December 2011 | 8,548 | 162,264 | 153,755 | 25,793 | 147,323 | 497,683 |

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31 December 2011

31 PROVISIONS continued

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|----------------|--|----------------------------------|
| Classified as: | | |
| Non-current | 376,447 | 321,527 |
| Current | <u>121,236</u> | <u>277,571</u> |
| | <u>497,683</u> | <u>599,098</u> |
| (i) | Provision for restructuring relates mainly to ongoing restructuring programmes of the Group companies. | |
| (ii) | Provision for decommissioning mainly relates to asset retirement obligations of the Group and expected costs to be incurred upon termination of operations and the closure of active manufacturing plant facilities. | |
| (iii) | Environmental provision includes the estimated amounts relating to legal or contractual liabilities or commitments acquired by the Group to prevent, reduce or repair damage to the environment. It also includes the estimated amounts for environmental action to remedy the risk of gradual soil pollution. | |
| (iv) | Provision for legal disputes covers the best estimate of the Group exposure to the outcome of several litigations from the area of product liability, patent infringement, tax lawsuits, etc. The majority of the legal provision relates to Nova litigation cases (note 40). | |
| (v) | Other provisions mainly cover risk and warranty provisions under construction contracts and contingencies for the abandonment of crude oil production fields once the recoverable reserves have been extracted. The amounts also cover contingencies arising from the Group's ordinary operations that might give rise to actual liabilities with their dealings with third parties. | |

The timing of the cash outflows cannot be determined with certainty.

32 TRADE AND OTHER PAYABLES

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|-------------------------------------|----------------------------------|----------------------------------|
| Trade payables | 3,716,559 | 1,676,006 |
| Customer deposits and other amounts | | |
| due to banking customers | 1,452,438 | 1,201,420 |
| Balance due to related parties | 552,523 | 184,027 |
| Due to banks | 307,411 | 258,616 |
| Other payables | <u>65,972</u> | <u>42,320</u> |
| | <u>6,094,903</u> | <u>3,362,389</u> |
| Non-current | 46,295 | 48,249 |
| Current | <u>6,048,608</u> | <u>3,314,140</u> |
| | <u>6,094,903</u> | <u>3,362,389</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

33 OTHER LIABILITIES

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---------------------------------------|----------------------------------|----------------------------------|
| Advances received (i) | 21,715 | 507,972 |
| Advances due on investment properties | - | 118,695 |
| Income tax and other taxes payable | 539,526 | 256,694 |
| Interest and other accruals (ii) | 741,039 | 615,489 |
| Loan from related parties | 50,298 | 70,290 |
| Other payable to related parties | 279,832 | - |
| Government grant (iii) | 34,034 | 46,399 |
| Payables on investments | 16,812 | 140,745 |
| Other liabilities and payables | <u>245,710</u> | <u>113,336</u> |
| | <u>1,928,966</u> | <u>1,869,620</u> |
| Classified as: | | |
| Non- current | 278,223 | 148,940 |
| Current | <u>1,650,743</u> | <u>1,720,680</u> |
| | <u>1,928,966</u> | <u>1,869,620</u> |

- (i) Advances received mainly relate to advances received on construction contracts.
- (ii) Includes amount of US \$ 47,566 thousand interest payable in respect of GBP/EUR cross currency swaps which the Company undertook in March 2011.
- (iii) The Group received government grants for the investment in new production plants, CO₂ emission allowances and research and development which are being deferred and recognised in the consolidated income statement.

34 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group does not operate a centralised treasury and funding department. Each company within the Group has its own financial risk management function, which aims to minimise the effects related to foreign exchange, interest rate, liquidity, credit, commodity price and refinancing risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

34 DERIVATIVE FINANCIAL INSTRUMENTS continued

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities as of 31 December:

| | <i>Assets 2011 US \$'000</i> | <i>Liabilities 2011 US \$'000</i> | <i>Assets 2010 US \$'000</i> | <i>Liabilities 2010 US \$'000</i> |
|--|--------------------------------------|---|--------------------------------------|---|
| Derivatives held-for-trading | | | | |
| Interest rate swaps | 898 | 444,019 | - | 3,104 |
| Currency forwards | 30,567 | 29,897 | 68,668 | 70,053 |
| Currency swaps | 30,581 | - | - | - |
| Currency futures | 705 | 703 | 65 | 68 |
| Currency options | 1,129 | 1,129 | 421 | 421 |
| Equity options (see Note 11 (ii)) | 1,954,900 | 710,638 | 547,346 | 2,605,099 |
| Commodity swaps | 6,793 | 786 | 19,214 | 26,210 |
| Commodity futures | 1,855 | - | - | - |
| Embedded derivative (see Note 23 (i)) | 87,528 | 30 | 106,059 | - |
| | <u>2,114,956</u> | <u>1,187,202</u> | <u>741,773</u> | <u>2,704,955</u> |
| Derivatives used as fair value hedges | | | | |
| Currency forwards | - | - | 544 | 10,732 |
| Commodity swaps | - | - | - | 3,837 |
| | <u>-</u> | <u>-</u> | <u>544</u> | <u>14,569</u> |
| Derivatives used as cash flow hedges | | | | |
| Interest rate swaps | - | 14,168 | - | 25,856 |
| Currency forwards | 2,571 | 16,849 | 6,199 | - |
| Commodity swaps | 10,045 | 6,491 | 1,257 | 5,451 |
| Other swap arrangements | 2,559 | 33,812 | 55,402 | 253 |
| | <u>15,175</u> | <u>71,320</u> | <u>62,858</u> | <u>31,560</u> |
| | <u>2,130,131</u> | <u>1,258,522</u> | <u>805,175</u> | <u>2,751,084</u> |
| Non-current | 398,776 | 323,434 | 653,079 | 2,377,638 |
| Current | <u>1,731,355</u> | <u>935,088</u> | <u>152,096</u> | <u>373,446</u> |
| | <u>2,130,131</u> | <u>1,258,522</u> | <u>805,175</u> | <u>2,751,084</u> |

Derivative financial instruments held or issued for trading purposes

Some of the Group's derivative trading activities relate to deals with customers which are normally offset by transactions with other counterparties. The Group may also take positions with the expectation of profiting from favourable movements in prices, rates or indices. Also included under this heading are any derivatives entered into for economic hedging purposes which do not meet hedge accounting criteria.

Forwards and futures

Forward and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

The main differences in the risk associated with forward and futures contracts are credit risk and liquidity risk. The Group has credit exposure to the counterparties of forward contracts. The credit risk related to future contracts is considered minimal because the cash margin requirements of the exchanges help ensure that these contracts are honoured. Forward contracts are settled gross and are therefore considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Both types of contracts result in market risk exposure.

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34 DERIVATIVE FINANCIAL INSTRUMENTS continued

Swaps

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Group with other financial institutions in which the Group either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases and sells options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) or sell (put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Options written by the Group provide the purchaser the opportunity to purchase from, or sell to, the Group, the underlying asset at an agreed-upon value either on or before the expiration of the option.

The table below summarises the maturity profile of the Group's derivatives based on contractual undiscounted payments.

| | 0-3 months US \$ '000 | 3-12 months US \$ '000 | 1-3 years US \$ '000 | 3-5 years US \$ '000 | >5 years US \$ '000 | Total US \$ '000 |
|---|-----------------------------|------------------------------|----------------------------|----------------------------|---------------------------|---------------------|
| 2011 | | | | | | |
| Cash outflow | | | | | | |
| Trading derivatives and economic hedges | (373,307) | (842,990) | (280,133) | (15,238) | - | (1,511,668) |
| Derivatives for cash flow hedges | (333,018) | (433,619) | (431,977) | (240,365) | - | (1,438,979) |
| Derivatives for fair value hedges | - | - | - | - | - | - |
| | <u>(706,325)</u> | <u>(1,276,609)</u> | <u>(712,110)</u> | <u>(255,603)</u> | <u>-</u> | <u>(2,950,647)</u> |
| Cash inflow | | | | | | |
| Trading derivatives and economic hedges | 363,800 | 179,603 | 1,585,734 | 279,803 | 30,581 | 2,439,521 |
| Derivatives for cash flow hedges | 324,687 | 407,861 | 408,755 | 238,076 | - | 1,379,379 |
| Derivatives for fair value hedges | - | - | - | - | - | - |
| | <u>688,487</u> | <u>587,464</u> | <u>1,994,489</u> | <u>517,879</u> | <u>30,581</u> | <u>3,818,900</u> |
| | <u>(17,838)</u> | <u>(689,145)</u> | <u>1,282,379</u> | <u>262,276</u> | <u>30,581</u> | <u>868,253</u> |
| 2010 | | | | | | |
| Cash outflow | | | | | | |
| Trading derivatives and economic hedges | (596,428) | (278,339) | (2,380,227) | (54,350) | - | (3,309,344) |
| Derivatives for cash flow hedges | (96,102) | (386,195) | (660,316) | (423,330) | (54,832) | (1,620,775) |
| Derivatives for fair value hedges | (13,770) | (17,726) | (50,927) | (6,941) | (883) | (90,247) |
| | <u>(706,300)</u> | <u>(682,260)</u> | <u>(3,091,470)</u> | <u>(484,621)</u> | <u>(55,715)</u> | <u>(5,020,366)</u> |
| Cash inflow | | | | | | |
| Trading derivatives and economic hedges | 569,676 | 24,880 | 546,997 | 159,578 | - | 1,301,131 |
| Derivatives for cash flow hedges | 113,980 | 397,474 | 651,519 | 421,540 | 51,650 | 1,636,163 |
| Derivatives for fair value hedges | 6,229 | 2,596 | 4,574 | - | - | 13,399 |
| | <u>689,885</u> | <u>424,950</u> | <u>1,203,090</u> | <u>581,118</u> | <u>51,650</u> | <u>2,950,693</u> |
| | <u>(16,415)</u> | <u>(257,310)</u> | <u>(1,888,380)</u> | <u>96,497</u> | <u>(4,065)</u> | <u>(2,069,673)</u> |

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35 FINANCIAL INSTRUMENTS

Fair values

The fair values of the financial assets and liabilities of the Group are not materially different from their carrying amounts at the reporting date. Borrowings had a fair value of US \$ 35,937,974 thousand compared to a carrying amount of US \$35,779,811 thousand as 31 December 2011 (31 December 2010: fair value of US \$ 20,913,746 thousand and carrying amount of US \$ 21,041,241 thousand).

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2011 and 2010, the Group held the following financial instruments measured at fair value:

| | <i>31 December 2011 US \$ '000</i> | <i>Level 1 US \$ '000</i> | <i>Level 2 US \$ '000</i> | <i>Level 3 US \$ '000</i> |
|---|--|-------------------------------|-------------------------------|-------------------------------|
| Assets measured at fair value | | | | |
| Available-for-sale financial assets | 2,171,352 | 1,771,562 | 31,801 | 367,989 |
| Derivative financial assets | 2,130,131 | 1,825 | 2,097,725 | 30,581 |
| Financial assets at fair value through profit or loss | <u>5,366,287</u> | <u>5,322,832</u> | <u>29,739</u> | <u>13,716</u> |
| | <u>9,667,770</u> | <u>7,096,219</u> | <u>2,159,265</u> | <u>412,286</u> |
| Liabilities measured at fair value | | | | |
| Derivative financial liabilities | <u>1,258,522</u> | - | 1,258,522 | - |
| | <u>1,258,522</u> | - | 1,258,522 | - |
| | | | | |
| | <i>31 December 2010 US \$ '000</i> | <i>Level 1 US \$ '000</i> | <i>Level 2 US \$ '000</i> | <i>Level 3 US \$ '000</i> |
| Assets measured at fair value | | | | |
| Available-for-sale financial assets | 1,526,183 | 1,163,503 | 19,978 | 342,702 |
| Derivative financial assets | 805,175 | - | 805,175 | - |
| Financial assets at fair value through profit or loss | <u>8,673,887</u> | <u>8,614,707</u> | <u>59,180</u> | - |
| | <u>11,005,245</u> | <u>9,778,210</u> | <u>884,333</u> | <u>342,702</u> |
| Liabilities measured at fair value | | | | |
| Derivative financial liabilities | <u>2,751,084</u> | - | 2,751,084 | - |
| | <u>2,751,084</u> | - | 2,751,084 | - |

Management reconsidered the classification of investments in micro-funds and transferred them from level 2 to level 3 of the fair value hierarchy effective 31 December 2011.

There were no transfers between level 1 and 2.

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31 December 2011

35 FINANCIAL INSTRUMENTS continued

Reconciliation of fair value measurements of Level 3 financial instruments

The Group carries unquoted equity shares as available-for-sale financial instruments classified as Level 3 within the fair value hierarchy. For fair value measurements in Level 3 of the fair value hierarchy, reconciliation from beginning balances to ending balances, disclosing separately changes during the year attributable, is as follows:

| | Opening balance US \$ '000 | Transfers from Level 2 US \$ '000 | Transfers to assets held-for- sale US \$ '000 | Additions US \$ '000 | Disposals US \$ '000 | Fair value gain (loss) US \$ '000 | Exchange difference US \$ '000 | Total US \$ '000 |
|--|----------------------------------|---|---|-------------------------|-------------------------|---|--------------------------------------|---------------------|
| Available-for-sale investments | 342,702 | - | (42,702) | 440 | (20,598) | 36,000 | 52,147 | 367,989 |
| Financial assets at fair value through profit or loss | - | 18,599 | - | 4,081 | - | (8,964) | - | 13,716 |
| Derivative financial instruments | - | - | - | 30,581 | - | - | - | 30,581 |
| 31 December 2011 | 342,702 | 18,599 | (42,702) | 35,102 | (20,598) | 27,036 | 52,147 | 412,286 |
| Available-for-sale investments | 408,872 | - | - | 22,443 | (23,593) | (4,594) | (60,426) | 342,702 |
| 31 December 2010 | 408,872 | - | - | 22,443 | (23,593) | (4,594) | (60,426) | 342,702 |

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise borrowings, trade and other payables and certain other financial liabilities. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial assets, trade and other receivables, cash and short-term deposits and certain other financial assets, which arise directly from its operations.

The Group enters into derivative transactions including equity derivatives, interest rate swap and forward currency contracts. The purpose is to manage the equity price, interest rate and currency risks arising from the Group's operations and sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, commodity price risk, equity price risk, liquidity risk and credit risk. The Board of Directors of each company within the Group reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: interest rate risk, foreign currency risk, commodity price risk, equity price risk and other price risk. Financial instruments affected by market risk include financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, short-term deposits, borrowings and certain other financial instruments.

The sensitivity analyses in the following sections relate to the positions as at 31 December 2011 and 2010.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2011.

The analyses exclude the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and non-financial assets and liabilities of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

To manage this, the Group sometimes enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts, calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit (through the impact on all floating rate borrowings).

The sensitivity analysis excludes all fixed rate financial instruments carried at amortised cost. Currency and commodity based derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

| | <i>Decrease in basis points</i> | <i>Effect on profit before tax US \$ '000</i> | <i>Effect on equity US \$ '000</i> |
|-------------|-------------------------------------|---|--|
| 2011 | | | |
| US \$ | 50 bps | 35,774 | 143 |
| AED | 50 bps | 15,368 | - |
| EUR | 50 bps | 12,763 | (422) |
| JPY | 50 bps | 4,384 | - |
| Others | 50 bps | <u>3,416</u> | <u>-</u> |
| | | <u>71,705</u> | <u>(279)</u> |
| 2010 | | | |
| US \$ | 50 bps | 28,863 | 340 |
| AED | 50 bps | 8,663 | - |
| EUR | 50 bps | 123 | 2,214 |
| JPY | 50 bps | 4,157 | - |
| Other | 50 bps | <u>2,774</u> | <u>-</u> |
| | | <u>44,580</u> | <u>2,554</u> |

The effect of increases in interest rates is expected to be equal and opposite to the effect of the decreases shown.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

Foreign currency risk continued

The following table demonstrates the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, on the Group's profit and equity. The impact of translating the net assets of foreign operations into US \$ is excluded from the sensitivity analysis.

| | <i>Change %</i> | <i>Effect on profit before tax US \$ '000</i> | <i>Effect on equity US \$ '000</i> |
|-------------|---------------------|---|--|
| 2011 | | | |
| CHF | +10% | 7,723 | 7,302 |
| EUR | +10% | (268,230) | 1,504,156 |
| JPY | +10% | (80,814) | 49,207 |
| CAD | +10% | (64,269) | (27,947) |
| GBP | +10% | (107,165) | 60,151 |
| Others | +10% | (47,879) | (6,055) |
| | | <u>(560,634)</u> | <u>1,586,814</u> |
| 2010 | | | |
| CHF | +10% | (5,890) | - |
| EUR | +10% | 112,866 | 49,420 |
| JPY | +10% | (83,367) | (52,420) |
| CAD | +10% | (53,111) | (16,125) |
| Others | +10% | 119,205 | (7) |
| | | <u>89,703</u> | <u>(19,132)</u> |

The effect of decreases in foreign currency rates is expected to be equal and opposite to the effect of the increases shown.

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase and manufacturing of mainly petrochemical feedstock. Due to the significant volatility of the price of the underlying, the Group's management has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

The following table shows the effect of price changes after the impact of hedge accounting:

| | <i>Change</i> | <i>2011 Effect on profit before tax US \$ '000</i> | <i>Effect on equity US \$ '000</i> | <i>2010 Effect on profit before tax US \$ '000</i> | <i>Effect on equity US \$ '000</i> |
|--------------------------------|---------------|--|--|--|--|
| Crude oil | +10% | (5,155) | - | (59,824) | - |
| Natural gas | +10% | (16,237) | (2,360) | (22,190) | (1,334) |
| Electricity | +10% | (2,095) | (27,490) | (2,330) | (15,103) |
| Propylene | +10% | (24,748) | - | (119,038) | - |
| Polyethylene | +10% | 806,040 | - | 687,289 | - |
| Other petrochemical feedstock* | +10% | (211,383) | - | (294,240) | - |

*Other petrochemical feedstock includes products such as ethane, naphtha, ethylene, propane butane and others.

The effect of decreases in commodity prices is expected to be equal and opposite to the effect of the increases shown.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

Equity price risk

Equity price risk is the risk that changes in equity prices will affect future cash flows or the fair values of financial instruments. The Group's exposure to the risk of changes in equity prices relates primarily to the Group's listed and unlisted equity securities. The Group's board of directors reviews and approves all significant investment decisions and the Group's management monitors positions on a regular basis. Economic hedging strategies are sometimes used to ensure positions are maintained within acceptable limits.

The following table demonstrates the sensitivity to reasonably possible changes in equity prices, with all other variables held constant, on the Group's income statement and equity:

| | | 2011 | | 2010 | |
|-----------------------------|--------|---|-----------------------------------|---|-----------------------------------|
| | Change | Effect on profit before tax US \$ '000 | Effect on equity US \$ '000 | Effect on profit before tax US \$ '000 | Effect on equity US \$ '000 |
| Europe | +10% | 507,749 | 106,157 | 162,058 | 49,435 |
| Middle East (excluding UAE) | +10% | - | 33,600 | - | 30,000 |
| North America | +10% | - | 9,271 | - | 7,964 |
| Asia and Pacific | +10% | 17,875 | 51,580 | 17,726 | 57,662 |
| Africa | +10% | - | 3,670 | - | - |

The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown, except for certain investments in Europe where there are economic hedges in place (see notes 11 and 21). In this case a decrease of 10% in equity price will result in apposite effect of US \$ 65,584 on profit before tax (2010: negative effect of US \$ 7,030 thousand).

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group's exposure to credit risk relates primarily to its operating and investing activities. The Group companies trade only with recognised, creditworthy third parties. There are no significant concentrations of credit risk within the Group unless otherwise disclosed. The maximum credit risk exposure relating to financial assets is represented by their carrying values as at the reporting date.

Trade and other receivables

The Group has established procedures to minimise the risk of default by trade debtors by using credit verification in order to be able to trade on credit terms and set mandatory credit limits for each customer. Furthermore, receivable balances are monitored on an aged basis which helps mitigate the exposure to bad debts.

Financial instruments and cash deposits

The Group's exposure to credit risk arises from defaults of counterparties, with maximum exposure equal to carrying amounts of these instruments. The Group seeks to limit its counterparty credit risk by dealing with only reputable banks and financial institutions.

The following tables show the maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, by geography and by industry. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

Risk concentrations: maximum exposure to credit risk

| | <i>2011</i> | | <i>2010</i> | |
|--|--|---|--|---|
| | <i>Carrying value US \$ '000</i> | <i>Maximum credit exposure US \$ '000</i> | <i>Carrying value US \$ '000</i> | <i>Maximum credit exposure US \$ '000</i> |
| <i>On balance sheet</i> | | | | |
| Held-to-maturity financial assets | - | - | 240,256 | 240,256 |
| Loans and other amounts due from banking customers | 1,335,335 | 2,330,455 | 1,083,184 | 1,887,341 |
| Derivative financial assets | 2,130,131 | 2,130,131 | 805,175 | 805,175 |
| Trade and other receivables | 4,706,660 | 4,643,507 | 1,676,410 | 1,676,410 |
| Other assets | 5,270,121 | 5,059,577 | 4,724,951 | 4,724,951 |
| Due from banks | 405,335 | 432,405 | 161,636 | 252,075 |
| Cash and short-term deposits | <u>4,992,819</u> | <u>4,992,819</u> | <u>3,150,931</u> | <u>3,150,931</u> |
| | <u>18,840,401</u> | <u>19,588,894</u> | <u>11,842,543</u> | <u>12,737,139</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

The following table shows concentrations of credit risk by geographical region:

| | <i>UAE</i> <i>US \$ '000</i> | <i>Europe</i> <i>US \$ '000</i> | <i>America</i> <i>US \$ '000</i> | <i>America</i> <i>US \$ '000</i> | <i>North</i> <i>Asia</i> <i>US \$ '000</i> | <i>South</i> <i>New Zealand</i> <i>US \$ '000</i> | <i>Others</i> <i>US \$ '000</i> | <i>Australia</i> <i>Total</i> <i>US \$ '000</i> |
|--|---------------------------------|------------------------------------|-------------------------------------|-------------------------------------|--|---|------------------------------------|---|
| 2011 | | | | | | | | |
| Loans and other amounts due from banking customers | 382,277 | 289,652 | 253,371 | 13,167 | 387,759 | 3 | 9,106 | 1,335,335 |
| Derivative financial instruments | - | 2,037,646 | 4,957 | - | - | 87,528 | - | 2,130,131 |
| Trade and other receivables | 2,157 | 3,811,263 | 596,989 | 151,684 | 67,263 | 1,530 | 75,774 | 4,706,660 |
| Other assets | 1,025,705 | 931,609 | 1,422,113 | 95,349 | 4,436 | 1,719,010 | 71,899 | 5,270,121 |
| Due from banks | 137,090 | 255,475 | 1 | - | 9,397 | 3,290 | 82 | 405,335 |
| Cash and short-term deposits | <u>1,723,136</u> | <u>2,148,730</u> | <u>954,489</u> | <u>97,668</u> | <u>67,525</u> | <u>-</u> | <u>1,271</u> | <u>4,992,819</u> |
| | <u>3,270,365</u> | <u>9,474,375</u> | <u>3,231,920</u> | <u>357,868</u> | <u>536,380</u> | <u>1,811,361</u> | <u>158,132</u> | <u>18,840,401</u> |
| 2010 | | | | | | | | |
| Held-to-maturity financial assets | - | 174,002 | - | - | 66,254 | - | - | 240,256 |
| Loans and other amounts due from banking customers | 278,367 | 340,244 | 175,687 | 3,043 | 276,836 | - | 9,007 | 1,083,184 |
| Derivative financial instruments | - | 692,348 | 6,768 | - | - | 106,059 | - | 805,175 |
| Trade and other receivables | 1,068 | 1,077,937 | 475,997 | 99,321 | 9,551 | 8,511 | 4,025 | 1,676,410 |
| Other assets | 1,098,606 | 1,040,972 | 734,207 | 54,517 | 18,232 | 1,726,940 | 51,477 | 4,724,951 |
| Due from banks | 2,707 | 120,988 | 34,222 | - | - | 3,625 | 94 | 161,636 |
| Cash and short-term deposits | <u>484,026</u> | <u>1,779,381</u> | <u>298,058</u> | <u>103,413</u> | <u>478,197</u> | <u>3,189</u> | <u>4,667</u> | <u>3,150,931</u> |
| | <u>1,864,774</u> | <u>5,225,872</u> | <u>1,724,939</u> | <u>260,294</u> | <u>849,070</u> | <u>1,848,324</u> | <u>69,270</u> | <u>11,842,543</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

The following table shows concentrations of credit risk by industry sector:

| | <i>Consumer US \$ '000</i> | <i>Government US \$ '000</i> | <i>Banking US \$ '000</i> | <i>Energy US \$ '000</i> | <i>Chemicals US \$ '000</i> | <i>Real Estate US \$ '000</i> | <i>Other US \$ '000</i> | <i>Total US \$ '000</i> |
|-----------------------------------|--------------------------------|----------------------------------|-------------------------------|------------------------------|---------------------------------|-----------------------------------|-----------------------------|-----------------------------|
| 2011 | | | | | | | | |
| Loans and other amounts due | | | | | | | | |
| from banking customers | 1,335,335 | - | - | - | - | - | - | 1,335,335 |
| Derivative financial instruments | - | 87,528 | 1,564,732 | 1,570 | 20,660 | - | 455,641 | 2,130,131 |
| Trade and other receivables | - | 20,633 | 240 | 1,862,496 | 1,961,100 | - | 862,191 | 4,706,660 |
| Other assets | - | 2,113,929 | 1,002 | 201,636 | 713,620 | 1,506,698 | 733,236 | 5,270,121 |
| Due from banks | - | - | 405,335 | - | - | - | - | 405,335 |
| Cash and short-term deposits | - | 180,011 | 3,701,674 | - | 1,083,798 | - | 27,336 | 4,992,819 |
| | <u>1,335,335</u> | <u>2,402,101</u> | <u>5,672,983</u> | <u>2,065,702</u> | <u>3,779,178</u> | <u>1,506,698</u> | <u>2,078,404</u> | <u>18,840,401</u> |
| 2010 | | | | | | | | |
| Held-to-maturity financial assets | 23,756 | 64,036 | 115,759 | - | 24,733 | - | 11,972 | 240,256 |
| Loans and other amounts due | | | | | | | | |
| from banking customers | 1,083,184 | - | - | - | - | - | - | 1,083,184 |
| Derivative financial instruments | - | 106,059 | 615,896 | - | 82,072 | - | 1,148 | 805,175 |
| Trade and other receivables | - | - | - | 59,945 | 1,292,552 | - | 323,913 | 1,676,410 |
| Other assets | - | 1,726,359 | - | 32,709 | 721,946 | 1,649,585 | 594,352 | 4,724,951 |
| Due from banks | - | - | 161,636 | - | - | - | - | 161,636 |
| Cash and short-term deposits | - | <u>91,028</u> | <u>1,894,503</u> | <u>50,360</u> | <u>515,722</u> | - | <u>599,318</u> | <u>3,150,931</u> |
| | <u>1,106,940</u> | <u>1,987,482</u> | <u>2,787,794</u> | <u>143,014</u> | <u>2,637,025</u> | <u>1,649,585</u> | <u>1,530,703</u> | <u>11,842,543</u> |

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are net of impairment allowances:

| | <i>High</i> <i>US \$ '000</i> | <i>Medium</i> <i>US \$ '000</i> | <i>Low</i> <i>US \$ '000</i> | <i>Non</i> <i>classified</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|--|----------------------------------|------------------------------------|---------------------------------|--|-----------------------------------|
| 31 December 2011 | | | | | |
| Loans and other amounts due from banking customers | 1,311,829 | - | 23,506 | - | 1,335,335 |
| Derivative financial instruments | 1,996,319 | - | - | 133,812 | 2,130,131 |
| Trade and other receivables | 3,006,255 | 693,721 | 268,170 | 738,514 | 4,706,660 |
| Other assets | 2,652,521 | 1,478 | 1,435 | 2,614,687 | 5,270,121 |
| Due from banks | 405,240 | 95 | - | - | 405,335 |
| Cash and short-term deposits | 3,379,777 | 585 | - | 1,612,457 | 4,992,819 |
| | <u>12,751,941</u> | <u>695,879</u> | <u>293,111</u> | <u>5,099,470</u> | <u>18,840,401</u> |
| 31 December 2010 | | | | | |
| Held-to-maturity financial assets | 237,583 | - | - | 2,673 | 240,256 |
| Loans and other amounts due from banking customers | 1,079,471 | - | 3,713 | - | 1,083,184 |
| Derivative financial instruments | 622,663 | - | - | 182,512 | 805,175 |
| Trade and other receivables | 452,947 | 333,464 | 260,537 | 629,462 | 1,676,410 |
| Other assets | 1,903,378 | - | - | 2,821,573 | 4,724,951 |
| Due from banks | 161,542 | 94 | - | - | 161,636 |
| Cash and short-term deposits | 703,768 | - | - | 2,447,163 | 3,150,931 |
| | <u>5,161,352</u> | <u>333,558</u> | <u>264,250</u> | <u>6,083,383</u> | <u>11,842,543</u> |

Credit quality levels are defined based on estimated default probabilities.

As at 31 December, the ageing of unimpaired financial assets is as follows

| | <i>Neither past</i> <i>due nor</i> <i>impaired</i> <i>US \$ '000</i> | <i>Past due</i> <i>up to</i> <i>1 month</i> <i>US \$ '000</i> | <i>Past due</i> <i>1-3 months</i> <i>US \$ '000</i> | <i>Past due</i> <i>3-6 months</i> <i>US \$ '000</i> | <i>Past due</i> <i>longer than</i> <i>6 months</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|--|---|--|---|---|---|-----------------------------------|
| 2011 | | | | | | |
| Loans and other amounts due from banking customers | 1,335,335 | - | - | - | - | 1,335,335 |
| Derivative financial instruments | 2,130,131 | - | - | - | - | 2,130,131 |
| Trade and other receivables | 3,906,573 | 378,865 | 336,021 | 63,222 | 21,979 | 4,706,660 |
| Other assets | 5,264,131 | 517 | 3,689 | 1,030 | 754 | 5,270,121 |
| Due from banks | 405,335 | - | - | - | - | 405,335 |
| Cash and short-term deposits | 4,992,819 | - | - | - | - | 4,992,819 |
| | <u>18,034,324</u> | <u>379,382</u> | <u>339,710</u> | <u>64,252</u> | <u>22,733</u> | <u>18,840,401</u> |
| 2010 | | | | | | |
| Held-to-maturity financial assets | 240,256 | - | - | - | - | 240,256 |
| Loans and other amounts due from banking customers | 1,083,184 | - | - | - | - | 1,083,184 |
| Derivative financial instruments | 805,175 | - | - | - | - | 805,175 |
| Trade and other receivables | 1,371,540 | 109,985 | 29,418 | 19,554 | 145,913 | 1,676,410 |
| Other assets | 4,449,425 | 153,729 | 160 | 143 | 121,494 | 4,724,951 |
| Due from banks | 161,636 | - | - | - | - | 161,636 |
| Cash and short-term deposits | 3,150,931 | - | - | - | - | 3,150,931 |
| | <u>11,262,147</u> | <u>263,714</u> | <u>29,578</u> | <u>19,697</u> | <u>267,407</u> | <u>11,842,543</u> |

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

Movements in allowance for impairment are as follows:

| | <i>Opening</i> <i>US \$ '000</i> | <i>Additions/ acquired</i> <i>US \$ '000</i> | <i>Transfers</i> <i>US \$ '000</i> | <i>Interest</i> <i>US \$ '000</i> | <i>Written- off</i> <i>US \$ '000</i> | <i>Recoveries</i> <i>US \$ '000</i> | <i>Exchange difference</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|-------------------------------------|-------------------------------------|---|---------------------------------------|--------------------------------------|--|--|---|-----------------------------------|
| On balance sheet | | | | | | | | |
| 2011 | | | | | | | | |
| Loans and other banking receivables | 13,905 | 12,884 | - | 1,396 | (3,710) | - | (969) | 23,506 |
| Trade and other receivables | 133,170 | 283,693 | (114,376) | - | (939) | (47,390) | (44,752) | 209,406 |
| Other assets | 107,877 | 70,039 | (115,255) | - | (8,027) | (19,308) | (7,888) | 27,438 |
| | <u>254,952</u> | <u>366,616</u> | <u>(229,631)</u> | <u>1,396</u> | <u>(12,676)</u> | <u>(66,698)</u> | <u>(53,609)</u> | <u>260,350</u> |
| 2010 | | | | | | | | |
| Loans and other banking receivables | 129 | 10,193 | 3,939 | - | (1,001) | - | 645 | 13,905 |
| Trade and other receivables | 14,497 | 35,562 | 116,424 | - | (20,851) | (4,916) | (7,546) | 133,170 |
| Other assets | - | 9,534 | 111,305 | - | (6,232) | (2,138) | (4,592) | 107,877 |
| | <u>14,626</u> | <u>55,289</u> | <u>231,668</u> | <u>-</u> | <u>(28,084)</u> | <u>(7,054)</u> | <u>(11,493)</u> | <u>254,952</u> |

Collateral and other credit enhancements

Falcon Bank, the Company's private banking subsidiary, actively uses collateral to reduce its credit risk.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained include cash, securities, mortgages over real estate and other. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other borrowings. The Group's policy is that the amount of borrowings that mature in the next 12 month period should not result in the current ratio falling below 100%.

The table below summarises the maturity profile of the Group's financial liabilities excluding derivative financial instruments at 31 December, on a **contractual undiscounted basis**. The maturity profile of derivatives financial instruments are disclosed in Note 34. In the table below, interest rates on variable rate loans have been based on rates prevailing at the reporting dates.

| <i>Undiscounted contractual basis</i> | <i>On demand</i> <i>US \$ '000</i> | <i>0 - 3 months</i> <i>US \$ '000</i> | <i>3 - 12 months</i> <i>US \$ '000</i> | <i>1 - 3 years</i> <i>US \$ '000</i> | <i>3 - 5 years</i> <i>US \$ '000</i> | <i>>5 years</i> <i>US \$ '000</i> | <i>Total</i> <i>US \$ '000</i> |
|--|---------------------------------------|--|---|---|---|---|-----------------------------------|
| 2011 | | | | | | | |
| Other liabilities | 107,595 | 1,046,794 | 477,526 | 197,010 | 1,410 | 86,982 | 1,917,317 |
| Trade and other payables | 179,062 | 4,134,650 | 2,875 | 642 | 3,709 | 2,255 | 4,323,193 |
| Borrowings | 1,415,229 | 1,728,367 | 7,372,687 | 12,377,525 | 7,173,556 | 12,602,154 | 42,669,518 |
| Customer deposits and other amounts due to banking customers | 1,009,928 | 355,060 | 87,450 | - | - | - | 1,452,438 |
| Due to banks | 94,374 | 105,062 | 61,679 | - | 43,013 | - | 304,128 |
| | <u>2,806,188</u> | <u>7,369,933</u> | <u>8,002,217</u> | <u>12,575,177</u> | <u>7,221,688</u> | <u>12,691,391</u> | <u>50,666,594</u> |
| Off balance sheet items | - | 32,775 | 134,716 | 63 | - | - | 167,554 |
| 2010 | | | | | | | |
| Other liabilities | 170,842 | 966,874 | 537,291 | 78,643 | 253 | 115,717 | 1,869,620 |
| Trade and other payables | 192,584 | 1,383,108 | 336,017 | 22,590 | - | 4,368 | 1,938,667 |
| Borrowings | 1,416,140 | 98,121 | 752,612 | 15,344,329 | 1,969,633 | 3,661,661 | 23,242,496 |
| Customer deposits and other amounts due to banking customers | 736,982 | 286,163 | 277,858 | 459 | - | - | 1,301,462 |
| Due to banks | 79,150 | 111,678 | 19,998 | - | 43,013 | - | 253,839 |
| | <u>2,595,698</u> | <u>2,845,944</u> | <u>1,923,776</u> | <u>15,446,021</u> | <u>2,012,899</u> | <u>3,781,746</u> | <u>28,606,084</u> |
| Off balance sheet items | - | 9,141 | 28,608 | 35,790 | - | - | 73,539 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. There are no regulatory imposed requirements on the level of share capital which the Group has not met. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio within a range to meet the business needs of the Group. The Group includes within net debt, interest bearing loans and borrowings, less cash and cash equivalents. Capital includes total equity including non-controlling interest.

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|----------------------------------|----------------------------------|
| Interest bearing loans and borrowings (Note 29) | 35,779,811 | 21,041,241 |
| Less cash and short term deposits | <u>(4,992,819)</u> | <u>(3,150,931)</u> |
| Net debt | <u>30,786,992</u> | <u>17,890,310</u> |
| Total equity | <u>14,223,158</u> | <u>16,005,578</u> |
| Equity and net debt | <u>45,010,150</u> | <u>33,895,888</u> |
| Gearing ratio | <u>68%</u> | <u>53%</u> |

37 OTHER RISK MANAGEMENT OBJECTIVES AND POLICIES

Risks relating to changes in the legislation applicable to activities and/or the industry

The activities carried on by the Group are subject to various legislation. The changes that might arise could affect the structure under which activities are performed and the results generated by operations.

Industrial risks, prevention and safety

The safety control system applied is in accordance with international specifications. Also in place are action procedures that reflect the standards developed in accordance with best practices, which ensure the maximum possible level of safety, paying special attention to the elimination of risk at source. The objective of this system is ongoing improvement in risk reduction, focused on various activities, such as work planning, the analysis and monitoring of corrective actions derived from incidents and accidents, internal audits, periodic inspections of the facilities and supervision of maintenance work and operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37 OTHER RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Environmental risks

Certain activities of companies within the Group, for instance CEP SA, have identified the environmental matters that may give rise to an impact on the environment through emissions into the air, water, soil and ground water and also through the handling and treatment of waste. In this connection, the Group ensures that all its industrial plants are awarded their Integrated Environmental Permits, which involve rigorous control over their processes with the aim of minimising impact on the environment. Nevertheless, one of Group longstanding primary objectives has been to minimise the impact of its activities on the environment in which it operates its industrial plants, which is reflected in its internal environmental protection policies and is regulated by the Basic Environmental Standards.

A summary of the measures adopted by the Group in order to minimise impacts, by area, is as follows, by vectors:

Atmosphere – The best available techniques are used in order to obtain optimal energy efficiency in the functioning of processes which, in turn, lead to a decrease in fuel consumption and, consequently, a decrease in atmospheric emissions. One such example is the adaptation of the furnaces to switch over to fuels that have a low sulphur content, the installation of low NO_x burners and the initiatives taken to eliminate atmospheric emissions of volatile organic compounds (VOCs).

For instance, the combustion facilities housed in the extension of the La Rábida refinery and of the new combined heat and power plant which entered service in 2010, were designed to operate using natural gas, a fuel producing scant or no CO₂ atmospheric emissions. Additionally, internal procedures for the management and control of the impacts are implemented, and measuring devices have been established, both for emission and immission. Data is sent in real time to the competent authorities.

Discharges into waterways – the CEP SA Group has industrial waste treatment plants at all of its facilities which allow waste discharged into waterways to be rigorously controlled and minimizes the impact on the environment. As in the case of air emissions, the data relating to the parameters of industrial waste are sent in real time to the competent authority and environmental controls are also performed on both the waterways and sediments.

Soil/ground water – All the facilities are equipped with piezometric control networks which show the state of the soil and groundwater at any given time and allow prompt measures to be taken in the event of an incident, thus minimising the impact on this area.

Waste – In its activities, the CEP SA Group has established a preventative policy regarding the production of waste, encouraging its reduction, reuse, recycling and recovery with the aim of protecting the environment and human health.

Protection against Accidental Marine Pollution – The CEP SA Group carries out all the actions geared towards compliance with the provisions of the Domestic Contingency Plan for Accidental Marine Pollution and those specified in internal procedures for the prevention and solution of this type of pollution. The CEP SA Group carries out all the actions required to improve the operations of the maritime terminals or facilities, minimising the risk arising from activities.

Exploration and crude oil production - In its operations in Algeria, Colombia, Egypt and Peru, the CEP SA Group applies strict environmental criteria in order to minimise the impact of its activities with the utmost respect for the natural environments in which it operates and the indigenous communities in these areas.

The CEP SA Group carries out analyses and assessments of the environmental risks of its activities with the aim of managing and controlling them in order to reduce possible incidents which could lead to significant impacts on the environment or biodiversity. In this connection, the aforementioned analyses were carried out at various CEP SA plants which were adapted to UNE 150008:2009 standard on Analysis and Assessment of Environmental Risks, a benchmark standard in Spain.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

37 OTHER RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Environmental risks continued

Also, all of Group's large industrial plants are equipped with environmental management systems certified by external entities. The primary objective is to obtain certification for the few activities which are still uncertified.

In this connection, claims may be filed against the Group by affected parties for environmental damage caused by its operations inside or outside of its facilities. As far as it is currently aware, management considers that the accounting provisions recognised in this connection and the insurance policies arranged will cover all possible outcomes. Management has yet to determine, on the basis of the related legislation to be enacted, the amount of the financial guarantees that could be required as a result of the application of the regulation partially implementing the Environmental Liability Law at certain of the Group's plants.

The amounts of the financial guarantees will be determined as soon as the regulations implementing the law and the environmental liability regulations are enacted.

Additionally, certain of CEPESA's production facilities must comply with the requirements of the regulations affecting greenhouse gas emissions. In last few years, the emissions from the plants affected by this regulation, verified by AENOR, were, overall, slightly less than the allowances granted under the National Allocation Plan, due mainly to the implementation of the energy efficiency and savings' projects.

38 ASSETS UNDER MANAGEMENT

| | <i>2011</i> | <i>2010</i> |
|--|--------------------------|-------------------|
| | <i>US \$ '000</i> | <i>US \$ '000</i> |
| Real estate (including mutual funds) | 2,559,021 | 2,840,760 |
| Cash and cash equivalents | 2,077,125 | 2,113,153 |
| Fixed income instruments (bonds, loans and mutual funds) | 1,263,508 | 1,094,987 |
| Equities (stocks and mutual funds) | <u>3,810,726</u> | <u>3,597,425</u> |
| Assets under management and custody by the Group | 9,710,380 | 9,646,325 |
| Assets not in the custody of the Group | <u>2,373,023</u> | <u>3,076,185</u> |
| | <u>12,083,403</u> | <u>12,722,510</u> |

These amounts are not reported in the consolidated financial statements, as they are not assets of the Group. The Group has no client assets which are held for custody only. For all of the assets listed above, additional services are provided, which go beyond pure custody services.

Of the assets not within the custody of the Group, US \$ 2,255 million (31 December 2010: US \$ 2,605 million) are related to client assets held by Bank Zweiplus, which is an associate of the Group. The client assets considered in this note equal 42.5% (the Group's share) of the total client assets reported by Bank Zweiplus. Earnings from managing or custody services with respect to these client assets are not included in the revenue of the Group but are captured in the share of profit of associate in the consolidated income statement.

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39 COMMITMENTS AND CONTINGENCIES

| | <i>2011</i> <i>US \$ '000</i> | <i>2010</i> <i>US \$ '000</i> |
|---|---|----------------------------------|
| Guarantees | | |
| Guarantees and letters of credit | 1,622,700 | 357,701 |
| Guarantees in favour of associated companies | <u>112,226</u> | <u>88,379</u> |
| | <u>1,734,926</u> | <u>446,080</u> |
| Feedstock purchase commitments | | |
| Up to 1 year | 1,997,625 | 1,294,000 |
| 1 to 5 years | 7,045,151 | 2,242,000 |
| Beyond 5 years | <u>10,935,404</u> | <u>1,669,992</u> |
| | <u>19,978,180</u> | <u>5,205,992</u> |
| Operating lease commitments | | |
| Up to 1 year | 289,030 | 74,513 |
| 1 to 5 years | 721,542 | 201,195 |
| Beyond 5 years | <u>516,323</u> | <u>177,107</u> |
| | <u>1,526,895</u> | <u>452,815</u> |
| Capital commitments | | |
| Property, plant and equipment | 1,331,615 | 1,262,478 |
| Investment property | 522,904 | 1,907,297 |
| Investments in equity instruments (see below) | 1,668,473 | 138,948 |
| Intangible assets | <u>6,665</u> | <u>-</u> |
| | <u>3,529,657</u> | <u>3,308,723</u> |
| Investment commitments | | |
| a) | In July 2010, Aabar committed to invest US\$ 54.2 million into two global base pyramid investment funds, Blue Orchard Private Equity Funds SCA and Oasis Fund SCA. As of 31 December 2011, Aabar has contributed US \$ 23.0 million. The remaining US \$ 31 million will be paid upon subsequent capital calls. | |
| b) | On 3 March 2010, pursuant to an announcement on 10 August 2009, Aabar signed a shareholders' agreement and articles of association in relation to the creation of a joint venture with the Government of Algeria and others to build the first of three vehicle and engine manufacturing plants in Algeria. Aabar's stake in the joint venture is 24.5% of the share capital for which it plans to make an initial capital contribution of approximately EUR 4 million. | |
| c) | On 21 June 2011, Aabar entered into a sale and purchase agreement to acquire property, plant and equipment for consideration of US\$ 400 million from which a deposit of US\$ 100 million has been paid as at 31 December 2011. | |
| d) | Aabar has entered into joint venture agreement with SRC International (Malaysia) Limited whereby it agreed to commit US\$ 500 million in total from time to time with the primary objective of investing in projects associated with the exploration, extraction, processing, logistics and trading of conventional and renewable energy resources, natural resources and minerals and other related activities and other investments. As of 31 December 2011, Aabar has funded US\$ 60 million. The remaining US\$ 440 million will be paid upon each subsequent capital call. | |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 COMMITMENTS AND CONTINGENCIES continued

Investment commitments- continued

- e) Aabar is a member of a joint venture along with other investors and the Ministry of Tourism of the Kingdom of Morocco whereby it has a framework commitment of EUR 500 million. Precise commitments will be determined on a project by project basis and only upon acceptance of particular projects within the framework. The joint venture is dedicated to invest in the growing tourism sector in the Kingdom of Morocco.
- f) Aabar has provided a credit facility to XO Jet Inc. for US\$ 500 million. The Group holds 28.88% equity stake in XOJET Inc. As of 31 December 2011, Aabar has funded US \$ 410 million. The remaining US\$ 90 million will be paid upon each subsequent capital call.

40 LITIGATIONS

Nova litigations

Nova and Dow Chemical Canada ULC ("Dow Canada") are involved in litigation in relation to the third ethylene plant at Joffre, Alberta. Dow Canada's claim is for approximately US \$ 300 million, and Nova's counterclaim is for approximately US \$ 700 million. In addition, in 2005 Dow Chemical Company ("Dow") filed a statement of claim in the Federal District Court in Delaware alleging certain grades of Nova's polyethylene film infringed Dow patents. In 2010, Dow was awarded damages totaling approximately US \$ 107 million for alleged patent infringement. Nova's appeal to the Court of Appeals for the Federal Circuit ("CAFC") was rejected in a 2-1 decision, and Nova's appeal for a review by the full panel of the CAFC was rejected on 27 March 2012. Nova intends to appeal the decision of the CAFC to the US Supreme Court. Dow has also filed a statement of claim in the Federal Court in Canada alleging patent infringement, and Nova has filed a counterclaim. It is expected that the trial will commence in January 2013.

41 EVENTS AFTER THE REPORTING PERIOD

- i) In January 2012, Nova Chemicals ("Nova") amended its Canadian accounts receivable securitisation program to extend the expiration date from February 2012 to February 2015. In February 2012, Nova amended its U.S accounts receivable securitisation program to extend the expiration date from February 2012 to January 2014 and increase its maximum funding from US \$ 100 million to US \$ 125 million.
- ii) On 17 January 2012, Nova repaid its \$400 million 6.5% notes using cash-on-hand.
- iii) On 31 January 2012, Borealis has acquired PEC-Rhin in Ottmarsheim, France from GPN in Nanterre, France, a 100% subsidiary of Total in Paris, France.
- iv) In January 2012, Aabar restructured the maturity of collar for 63.6 million shares tied to Daimler AG shares. This extends the maturity of the collar to January 2015.
- v) In 2005, Dow Chemical filed a complaint against Nova for alleged patent infringement in the U.S. In January 2012, a panel of three United States Court of Appeals Circuit ("CAFC") judges affirmed the District Court ruling in a 2-1 non-precedential disposition in favor of Dow Chemical. In February 2012, Nova petitioned CAFC for an *en banc* (all members of CAFC) review of the panel decision and have not yet received a response.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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41 EVENTS AFTER THE REPORTING PERIOD continued

- vi) Aabar and its special purpose vehicles have entered into a series of transactions for the acquisition of subscription rights in additional shares in UniCredit SpA which would lead to Aabar's interest in UniCredit SpA reaching approximately 6.5% on a fully diluted basis.
- vii) Aabar has bought a 21.57% stake in Arabtec Holding PJSC which is a leading construction company in the UAE for a total consideration of AED 827.6 million.
- viii) Aabar has signed a non-binding agreement with China State Construction Engineering Corporation to develop property projects worth US\$ 2 billion and identify potential joint projects including those in which Arabtec Holding PJSC may be involved. The funding for this agreement will be provided by Industrial and Commercial Bank of China.
- ix) On 1 March 2012, the Company entered into a two year dual currency facility of US \$ 170 million and EUR 505 million with an interest rate of Libor/Euribor + Margin respectively. The new facility repaid US \$ 600 million and AED 917 million under the Company's dual currency facility dated 27 February 2009.
- x) On 7 March 2012, the Company and MAN completed the transfer of Ferrostaal and jointly instructed the arbitral tribunal to terminate the arbitration proceedings between them.
- xi) On 30 April 2012, the Company has made an early repayment of its AED 1,000 million existing facility which would have matured on July 2013.
- xii) On April 30, 2012, the Company made an early repayment of its GBP 150 million existing facility which would have matured on November 2013.
- xiii) The Company has provided an unconditional and irrevocable guarantee on a joint and several basis together with 1Malaysia Development Berhad, a company wholly owned by the Government of Malaysia, of U.S.\$1.75 billion guaranteed notes due 2022 issued by 1MDB Energy Limited.

International Petroleum Investment Company PJSC and its subsidiaries

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42 RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of senior key management personnel of the Group during the year was as follows:

| | 2011 US \$ '000 | 2010 US \$ '000 |
|----------------------------------|--------------------|--------------------|
| Short-term benefits | 5,288 | 5,938 |
| Board of directors' remuneration | <u>1,307</u> | <u>1,471</u> |
| | <u>6,595</u> | <u>7,409</u> |

| Business relationship | Goods and services | | | | | Financing | | | | |
|-----------------------------|---------------------------------|------------------------|-----------------------------------|---------------------------|-------------------------------|---------------------------------|---------------------|--------------------------|------------------------------------|--------------------------------|
| | Purchases from US \$ '000 | Sales to US \$ '000 | Receivables from US \$ '000 | Payables to US \$ '000 | Other assets US \$ '000 | Other payables US \$ '000 | Loans US \$ '000 | Borrowings US \$ '000 | Interest received US \$ '000 | Interest paid US \$ '000 |
| 2011 | | | | | | | | | | |
| Associates | 2,592,623 | 1,762,271 | 420,660 | 488,447 | - | - | 443,618 | 1,594 | 9,692 | 862 |
| Joint ventures | 389,401 | 872,293 | 67,275 | 47,935 | - | - | 262,857 | 30,780 | 4,340 | 1,232 |
| Other related parties | <u>67,911</u> | <u>1,219,637</u> | <u>129,439</u> | <u>16,141</u> | <u>118,714</u> | <u>279,832</u> | <u>547,339</u> | <u>17,924</u> | <u>145,883</u> | <u>311</u> |
| | <u>3,049,935</u> | <u>3,854,201</u> | <u>617,374</u> | <u>552,523</u> | <u>118,714</u> | <u>279,832</u> | <u>1,253,814</u> | <u>50,298</u> | <u>159,915</u> | <u>2,405</u> |
| 2010 | | | | | | | | | | |
| Jointly controlled entities | 140,190 | 356,005 | 48,905 | 2,076 | - | - | 48,963 | 22,028 | 2,481 | - |
| Associates | <u>1,981,150</u> | <u>861,698</u> | <u>311,754</u> | <u>181,951</u> | - | - | - | <u>48,262</u> | - | <u>789</u> |
| | <u>2,121,340</u> | <u>1,217,703</u> | <u>360,659</u> | <u>184,027</u> | - | - | <u>48,963</u> | <u>70,290</u> | <u>2,481</u> | <u>789</u> |

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: US \$ nil). This assessment is undertaken at the end of each financial year through examining the financial position of the related party and the market in which the related party operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 SUBSIDIARIES

The consolidated financial statements include financial statements of the Company and each of its subsidiaries as at 31 December 2011. The significant subsidiaries are listed in the following table:

| <i>Name of company</i> | <i>Country of incorporation</i> | <i>Percentage holding</i> | |
|------------------------|---------------------------------|---------------------------|-------------|
| | | 2011 | 2010 |
| Aabar | UAE | 95.35% | 86.17% |
| CEPSA (note a) | Spain | 100% | 47.06% |
| Nova | Canada | 100% | 100% |
| Borealis | Austria | 64% | 64% |
| Ferrostaal (Note 15) | Germany | 70% | 70% |

Note a

In July 2011, the Company finalised its acquisition of 100% of CEPSA by successfully completing its public offer and subsequent squeeze out and delisting of CEPSA. As a result the Company's stake has increased from 47.1% to 100%.

44 COMPARATIVE FIGURES

In accordance with IFRS 5, the 2010 numbers of Ferrostaal for the consolidated income statement have been reclassified as discontinued operations. Accordingly, the comparative figures for the related disclosure notes have also been reclassified. Certain figures will therefore not agree with the 2010 consolidated financial statements. The reclassification did not have any impact on the equity or the profit for the year.