

**International Petroleum Investment
Company PJSC and its subsidiaries**
CHAIRMAN'S REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS

31 DECEMBER 2012

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

CHAIRMAN'S REPORT

31 DECEMBER 2012



Chairman's Report to the Shareholder

The International Petroleum Investment Company (IPIC) was established in 1984 with a mandate to invest in energy and energy related industries across the globe. Over the nearly 30 years since, energy markets have changed in ways unimaginable at the time of IPIC's inception. Geopolitics, emerging markets, and emerging technologies have all transformed the manner in which we trade and consume energy, across all aspects of the hydrocarbon value chain.

IPIC is not daunted by these changes. We remain committed to fulfilling the responsibility charged to us by the Government of Abu Dhabi: to identify, acquire and grow a diversified portfolio of petroleum, petrochemical and related energy investments. In doing so, we create enduring business relationships with world-class partners, we enhance value for our shareholder, and we bring technology to Abu Dhabi and the United Arab Emirates for the benefit and prosperity of our people.

Throughout our history, IPIC has benefited from the vision and wisdom of the late President His Highness Sheikh Zayed Bin Sultan Al Nahyan the founding father and first President of our nation. That legacy of trust and support continues today through His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, and His Highness Sheikh Mohamed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces. Under the guidance and encouragement of our Leaders, we continue to prosper and create value for our nation.

Today, IPIC has an indelible global presence, with operations in five continents. After several years of rapid growth, 2012 provided an opportunity to focus on enhancing synergies across our portfolio. Those efforts continue, and as of December 31, 2012 our assets were \$65.1 billion. We believe our 2012 result reflects our progress in this regard:

- Profits from continuing operations increased by 199% to \$1.6 billion;
- Total equity grew by 9.4% to \$15.6 billion, while total borrowings only increased by 2.7%;
- Cash flow from operations grew by 59.1% to \$2.5 billion; and
- As of 31 December 2012, IPIC held \$4.9 billion in cash and short-term investments.

Change provides opportunity. We know the future will be exciting and full of possibilities as energy markets evolve. IPIC is ready for these challenges, and we are confident that our greatest achievements lie ahead.

The Global Economy & Energy Sector

2012 in Review

Macroeconomic issues in Europe dominated financial headlines in 2012. The worst fears (a financial default or exit from the euro by a member nation) thankfully failed to materialize so far. What we have witnessed is the limits of fiscal stimulus spending when it bumps up against budgetary constraints. Austerity measures and high unemployment in Greece, Ireland, Portugal and Spain have negatively impacted both consumer demand and industrial output as economies across the entire EU are contracting. Even in anchor economies like Germany, real GDP growth has declined for six consecutive quarters. These factors can have a knock-on effect on the Euro currency, as well as automobile use and factory production – which affects demand for petrochemical products and fuel.

In Japan, the economy was buffeted by the devastating Great East Japan earthquake and tsunami. Despite easy comparisons, the real economy slowed in the second half of 2012 as policy makers continue to battle with persistent deflation. With the expectations that prices will decline, consumers delay spending and travel – with direct implications for refining and retail gasoline profitability.

In the United States, economic growth has been somewhat stronger than the rest of the world, with real GDP growth during 2012 averaging about 2.2%. However, much of this growth has been sustained by record federal budget deficit spending, in addition to the Federal Reserve purchasing bonds to keep interest rates artificially low.

The BRIC economies, which have supplied much of the global economic growth in recent years, also experienced a slowdown in economic growth in 2012. While both India and China's real GDP growth is still very respectable, the deceleration in economic activity is still a negative factor for world growth.

Against this backdrop of slowing global economic growth, Brent crude averaged about \$113 per barrel during 2012 vs. \$112 in 2011, but saw volatile swings in both its year-high price of \$130 and year-low of \$88 during the first half of the year. We observe a shift in global oil demand away from Organization for Economic Cooperation and Development (OECD) markets; in 2012, the International Energy Agency estimated that daily OECD oil demand fell 1.3% to 45.9 million barrels per day vs. a 3.5% increase in daily demand in non-OECD markets to 43.9 million barrels per day.



Global refining margins in 2012, as calculated by the IEA and other sources, were generally up from 2011. Similar to the shift in crude consumption patterns noted above, we observe a shift in the refining market. According to the IEA, in 4Q2012 global refinery throughput increased by 1.5 million barrels per day, with approximately 90% of that increase coming from China and India, where approximately 700,000 barrels per day of new refining capacity was commissioned during the year. US refinery throughput in 4Q12 hit a record of 15.4 million barrels per day, spurred by strong Latin American demand, and the increasing production of crude from shale formations in the US. European refining activity remains depressed, and was down 140,000 barrels per day in 4Q12 vs. the year-prior quarter.

In the petrochemical sector, commodity prices were flat, but more volatile than 2011. Ethylene delivered to Northwest Europe averaged \$1,335 per metric ton in 2012 vs. \$1,375 in 2011; prices in 2012 as reported by Bloomberg ranged from \$1,715 per ton in early March to a low of \$1,005 per ton in late June. These moves largely mirrored activity in the crude market. Similarly, US polyethylene prices averaged about \$1,375 per metric ton in 2012 (peaking at \$1,525 in March and bottoming at \$1,145 in June) vs. the 2011 average of \$1,355 per ton.

Outlook for 2013

We continue to monitor global patterns of economic activity in 2013, as these are the primary drivers of energy and petrochemical end-product prices. GDP and employment figures for Europe, the US, and Japan will continue to be soft, while India and China post mid to upper single-digit GDP growth. This represents a deceleration from prior years, and is not enough to offset the economic drag in more developed economies. The US Congress is locked in debate regarding the trade-off between fiscal stimulus and deficit reduction, and the outcome will likely have an impact on US economic performance and consumer confidence. On the other hand, recent moves by the Bank of Japan to reflate the Japanese economy, and stimulate demand through monetary policy have encouraged investors.

Brent crude prices may be reflecting expectations for continued slow economic growth for 2013; since peaking in mid-February at around \$120 per barrel, prices have fallen to approximately \$100 per barrel in mid-April 2013. IPIC's diversified energy portfolio does provide a natural hedge should this trend continue; lower crude prices would likely negatively impact earnings at our upstream businesses, but we would likely see lower feedstock prices in our petrochemical businesses. Global refining margins may have peaked in 4Q2012, but the recent decline in crude oil prices may offer some cost input relief.



On the petrochemical side of our portfolio, US natural gas prices have risen off the lows of under \$2 per million Btu (mmbtu) in March 2012, but at the current price of approximately \$4, are still well below the ten-year average of almost \$6 per mmbtu. This continues to provide our North American petrochemicals operations a structural feedstock cost advantage which we believe will continue as shale gas development in the US expands.

We continue to monitor our major currency exposures, particularly US dollar/Japanese yen and US dollar/euro. The massive increase in liquidity by the Bank of Japan has affected the yen/US dollar cross rate, with the yen weakening from approximately ¥78 to \$1 in mid-October 2012 to almost ¥100 to \$1 in mid-April. At \$1.30/€1, the US dollar is now right at its 2012 average cross rate vs. the euro.

Our Subsidiaries

aabar Investments PJSC

During 2012, aabar was active in managing its portfolio of investments. In May 2012, aabar completed its investment in the Dubai based construction company Arabtec by acquiring 21.57% of the company. In June of 2012, aabar successfully executed a sale of its Tesla Motors investment and sold its entire 3.1% stake in Tesla Motors at \$32 per share for a profit.

aabar acquired a 20% shareholding in Al Izz Islamic Bank, one of Oman's first Islamic banks, and in October 2012, aabar with the other shareholders successfully completed the IPO of 40% of the shareholding of Al Izz Islamic Bank. 2012 was a successful year for aabar's real estate subsidiary aabar Properties when it handed over the completed IPIC Square, the headquarter building for our IPIC group. aabar Properties also completed the development of its first residential tower, Al Durrah Tower and has since leased most of its units. In December 2012, aabar sold its 40% interest in Mercedes GP. The company also reduced its shareholding in Daimler AG in September 2012 by monetizing and closing one of two collar structures related to Daimler. Thus, aabar effectively lowered its stake in the company from 9.1% to 3%; and reduced its assets and liabilities by nearly US\$ 3 billion.

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, S.A.U (“CEPSA”)

IPIC acquired a shareholding in CEPSA in 1988, and since then has completed a 100% acquisition of the company in August 2011. CEPSA has started out on a new road to achieve strong global growth, focusing primarily on its Exploration and Production and Petrochemical business units, and is expanding IPIC’s global footprint in Latin America and North Africa. In addition, CEPSA continues to pursue international expansion in petrochemicals, enhancing efficiency maximization in its production facilities, staying cost focused in its business units, and maintaining market share in its Spain-based downstream business.

Revenue for CEPSA increased +7.1% to €28.81 billion in 2012 from €27.2 billion in the prior year. Furthermore, total assets as of 31 December 2012 increased by +4.7% while the gearing ratio of 17.7% was up from 2011’s gearing ratio of 15.5%.

Nova Chemicals Corporation (“Nova”)

Nova Chemicals provides the IPIC portfolio with geographic diversification to growing North American demand, complementary product lines, valuable and proprietary technologies, and access to cost-competitive gas feedstock in Alberta as well as in Ontario, Canada. When acquired in late 2009, Nova was generating negative EBITDA, by the end of 2012, EBITDA cash flow was nearly \$1.2 billion.

For the 12 month period to 31 December 2012, NOVA reported from an all-time historical high revenue level, a slight 3.6% decline to US\$ 5.1 billion. During 2012, total assets decreased by 9.1%; however, NOVA repaid \$950 million of debt from internally generated cash, and its year-end gearing improved to 4.7% compared to 24.7% in 2011. NOVA has commenced an ambitious expansion plan of its Canadian operations to further capitalize on its prevailing feedstock advantage.

Borealis AG (“Borealis”)

Borealis provides a platform to expand Abu Dhabi’s reach into various polyolefin applications and consumer (packaging) and industrial uses (pipe systems, cabling). The company’s partnership with the Abu Dhabi National Oil Company, to develop the Borouge advanced petrochemical complex – one of the largest sites of its kind in the world, is an example of the synergies and technology transfer IPIC targets. The third phase of this project, the Borouge 3, is progressing according to plan and by mid-2014 will more than double total capacity to 4.5 million tonnes of polyolefin.



For the 12 month period to 31 December 2012, Borealis reported a +6.3% increase in revenue to €7.5 billion. Furthermore, total assets increased by 13.5% to €6.96 billion. In 2012 Borealis' net debt position increased by €403 million to €1.55 billion, due in part to the acquisition of French fertilizer producer PEC-Rhin and other investments. Despite the increase, Borealis' financial position remains strong with a gearing ratio of 30%.

Our Projects

Abu Dhabi Crude Oil Pipeline ("ADCOP")

The ADCOP is a 400 kilometre crude oil pipeline with a rated delivery capacity of 1.5 million barrels per day. It is of strategic importance to Abu Dhabi and the region as it runs from the crude collection point in Habshan to the seaport of Fujairah and bypasses the chokepoint of the Strait of Hormuz. The pipeline which was under commissioning in 2012 is currently capable of handling and exporting nearly 850,000 bpd of oil. ADCOP will be sold and transferred to the Abu Dhabi National Oil Company on the achievement of Provisional Acceptance Certificate during the 3rd quarter of 2013.

Emirates Liquefied Natural Gas (LNG) LLC ("ELNG")

Drawing on the technical and financial expertise of the Mubadala Development Company and IPIC, ELNG is a 50:50 joint venture established in mid-2012 to develop an LNG storage and regasification facility to help meet the growing energy demands of the UAE. The project is being implemented in close collaboration with the Abu Dhabi Water and Electricity Company as well as the Fujairah Municipality to ensure that economic as well as social benefits accrue to the people of the UAE.

Refinery Projects

Two strategic refinery projects, with significant regional benefits are progressing. The Fujairah Refinery project, located near the ADNOC main oil terminal in the Emirate of Fujairah possesses a design capacity of 200,000 barrels per day, producing mainly middle distillates and bunker fuel. The asset is strategically located near the deep-water oil export terminals in Fujairah – a major regional hub for bunkering. The front-end engineering and design phase (FEED) are on schedule, and are over 90% complete. Additionally, the Duqm Refinery Project in Oman is a 50:50 joint venture between IPIC and Oman Oil Company. The refinery complex is designed to process a mixture of crude from Abu Dhabi and Oman with a capacity of 230,000 barrels per day. The contract for the Project Management Consultant has been awarded in preparation for the FEED phase of this strategic government-to-government project.



Liquidity

Liquidity in today's market environment is one of IPIC's top priorities. IPIC, at the parent level, benefits from strong internally generated dividend inflows, access to our Shareholder, the Government of Abu Dhabi, and from a cultivated relationship with both the international banking and fixed income markets. It is our goal to continue to nurture these relationships; consequently, our 2012 re-entry to the Euro capital markets was met with great success. The USD 750 million 3yr, EUR 800 million 5yr, and EUR 850 million 10yr transaction provided the Company with an enhanced maturity profile, historically low coupons, and a broadened investor base, illustrating the demand for IPIC's quality Aa3/AA/AA rated credit. Complementing our access to the markets, the Company had approximately USD 1 billion cash on hand, and undrawn lines of nearly USD 1.3 billion. The liquidity on the balance sheet, and our unprecedented access to numerous funding sources, provides the company with tremendous financial flexibility in executing opportune investments.

Looking Forward

From such a solid foundation, I am confident that IPIC will continue its long-term growth into the future. I am equally positive that IPIC will continue to play a key role in Abu Dhabi's investment, growth and diversification plans. We will nurture and develop new sources of growth within the hydrocarbon value chain; whether through further expansion into the North American shale gas phenomenon, or through new petrochemical or oil field services technologies, IPIC will continue to be a key global player.

Appreciating Our Stakeholders

IPIC has leveraged off of the wisdom and experience of its board of directors in successfully guiding the organization to new levels of achievement. I am grateful for their advice and leadership.

I am equally thankful for the outstanding contributions and dedication of the IPIC leadership team, our dedicated staff, and the professionals who build and grow our valued portfolio companies. These partnerships are critical to our continued success.



Finally, I wish to express our gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, and His Highness Sheikh Mohamed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces, for their unfailing leadership, support and encouragement.

Abu Dhabi, April 2013

MANSOUR BIN ZAYED AL NAHYAN
CHAIRMAN OF THE BOARD OF DIRECTORS

**International Petroleum Investment
Company PJSC and its subsidiaries**
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2012

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 2012 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.

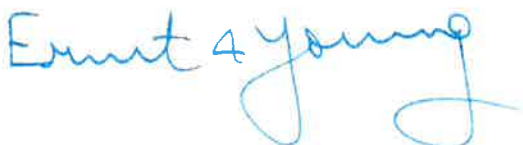
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012 and its financial performance and 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

30 April 2013
Abu Dhabi

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2012

	Notes	2012 US \$ '000	2011 US \$ '000
CONTINUING OPERATIONS			
Revenue	13	51,902,329	34,318,409
Cost of sales	14	(46,341,860)	(30,183,416)
Gross profit		5,560,469	4,134,993
Share of post tax profits of associates and jointly controlled entities	7	1,097,982	1,045,514
Selling and distribution costs	14	(2,274,186)	(1,591,167)
General and administrative expenses	14	(945,864)	(842,130)
Research and development expenses	14	(263,761)	(238,319)
Operating profit		3,174,640	2,508,891
Net foreign exchange gains		159,150	838,983
Finance income	8	723,001	765,109
Finance costs	9	(1,584,233)	(1,452,249)
Other income		107,172	76,745
Other expenses	14	(170,606)	(344,395)
Gains on acquisitions and disposals	10	194,695	50,139
Other losses on financial instruments	11	(316,598)	(1,490,426)
Profit before tax from continuing operations		2,287,221	952,797
Income tax expense	12	(671,029)	(412,232)
Profit for the year from continuing operations		<u>1,616,192</u>	<u>540,565</u>
DISCONTINUED OPERATIONS			
Profit (loss) after tax for the year from discontinued operations	15	<u>140,054</u>	<u>(495,873)</u>
PROFIT FOR THE YEAR		<u>1,756,246</u>	<u>44,692</u>
Profit for the year attributable to:			
Equity holder of the parent		1,511,965	(140,209)
Non-controlling interests		<u>244,281</u>	<u>184,901</u>
		<u>1,756,246</u>	<u>44,692</u>
		US \$	US \$
Basic and diluted earnings (loss) per share attributable to equity holder of the parent	16	<u>432</u>	<u>(40)</u>
Basic and diluted earnings per share from continuing operations attributable to equity holder of the parent	16	<u>394</u>	<u>101</u>

The attached notes 1 to 43 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	2012 US \$ '000	2011 US \$ '000
PROFIT FOR THE YEAR	<u>1,756,246</u>	<u>44,692</u>
Exchange loss on translation of foreign subsidiaries	<u>190,761</u>	(1,135,203)
Losses arising on hedge of net investment	(369,171)	(170,759)
Reclassification of gains on hedge of net investment included in the consolidated income statement	-	1,214
Deferred tax (expense) credit from hedge of net investment (note 12)	<u>(4,855)</u>	<u>3,636</u>
	<u>(374,026)</u>	(165,909)
Actuarial losses arising on defined benefit plans	(131,376)	(165,929)
Deferred tax credit from defined benefit plans (note 12)	<u>27,669</u>	<u>39,698</u>
	<u>(103,707)</u>	(126,231)
Losses arising on cash flow hedges	(45,853)	(185,201)
Reclassification of losses on cash flow hedges included in the consolidated income statement	62,220	6,243
Deferred tax (expense) credit from cash flow hedges (note 12)	<u>(5,280)</u>	<u>48,805</u>
	<u>11,087</u>	(130,153)
Losses arising on changes in fair value of available-for-sale financial assets	(134,801)	(349,077)
Reclassification of cumulative reserves on acquisition of subsidiary included in the consolidated income statement (note 10(i))	(153,467)	(782,651)
Impairment losses on available-for-sale investment reclassified to consolidated income statement (note 11)	392,053	-
Deferred tax credit (expense) from available-for-sale financial assets (note 12)	<u>182</u>	<u>(499)</u>
	<u>103,967</u>	(1,132,227)
Share of other comprehensive income of associates and jointly controlled entities	<u>44,483</u>	104,476
OTHER COMPREHENSIVE INCOME FOR THE YEAR	<u>(127,435)</u>	<u>(2,585,247)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>1,628,811</u>	<u>(2,540,555)</u>
Total comprehensive income for the year attributable to:		
Equity holder of the parent	1,357,899	(2,637,534)
Non-controlling interests	<u>270,912</u>	<u>96,979</u>
	<u>1,628,811</u>	<u>(2,540,555)</u>

The attached notes 1 to 43 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

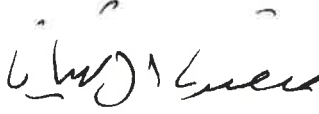
	<i>Notes</i>	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	17	17,780,031	17,282,471
Intangible assets	18	2,638,852	2,461,065
Investment properties	20	1,986,013	1,937,370
Investments in associates and jointly controlled entities	7	10,254,712	8,906,994
Deferred tax assets	12	390,618	365,573
Investments in financial instruments	21	3,158,072	2,650,288
Trade and other receivables	22	253,350	11,331
Other assets	23	<u>4,948,562</u>	<u>4,231,247</u>
		<u>41,410,210</u>	<u>37,846,339</u>
Current assets			
Inventories	24	5,496,191	5,125,543
Trade and other receivables	22	6,370,553	6,435,999
Investments in financial instruments	21	5,997,564	7,054,187
Other assets	23	973,210	1,038,874
Cash and short term deposits	25	<u>4,912,711</u>	<u>4,992,819</u>
		<u>23,750,229</u>	<u>24,647,422</u>
Assets included in disposal groups held for sale	15	<u>-</u>	<u>2,770,103</u>
TOTAL ASSETS		<u>65,160,439</u>	<u>65,263,864</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	1,000,000
Retained earnings		8,955,568	7,435,103
Other reserves	28	<u>324,956</u>	<u>523,341</u>
		13,780,524	12,458,444
Non-controlling interests		<u>1,783,487</u>	<u>1,764,714</u>
Total equity		<u>15,564,011</u>	<u>14,223,158</u>

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued

At 31 December 2012

	Notes	2012 US \$ '000	2011 US \$ '000
EQUITY AND LIABILITIES continued			
Non-current liabilities			
Borrowings	29	25,173,437	26,182,633
Defined benefit plan deficit	30	859,350	772,712
Deferred tax liabilities	12	2,285,436	2,424,042
Derivative financial liabilities	34	217,682	323,434
Provisions	31	426,942	376,447
Trade and other payables	32	45,284	46,295
Other liabilities	33	<u>624,598</u>	<u>278,223</u>
		<u>29,632,729</u>	<u>30,403,786</u>
Current liabilities			
Trade and other payables	32	5,872,859	6,048,608
Borrowings	29	11,573,217	9,597,178
Other liabilities	33	1,833,674	1,650,743
Derivative financial liabilities	34	637,844	935,088
Provisions	31	<u>46,105</u>	<u>121,236</u>
		<u>19,963,699</u>	<u>18,352,853</u>
Liabilities included in disposal groups held for sale	15	<u>-</u>	<u>2,284,067</u>
Total liabilities		<u>49,596,428</u>	<u>51,040,706</u>
TOTAL EQUITY AND LIABILITIES		<u>65,160,439</u>	<u>65,263,864</u>


CHAIRMAN


MANAGING DIRECTOR


CHIEF FINANCIAL OFFICER

The attached notes 1 to 43 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 2012

	<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 2011	<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	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,497,325)</u>	<u>(2,497,325)</u>	<u>(87,922)</u>	<u>(2,585,247)</u>
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	-	-	120,483	-	120,483	(101,141)	19,342
Reserves on disposal groups 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>-</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>-</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>
Profit for the year	-	-	1,511,965	-	1,511,965	244,281	1,756,246
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(154,066)</u>	<u>(154,066)</u>	<u>26,631</u>	<u>(127,435)</u>
Total comprehensive income for the year	-	-	1,511,965	(154,066)	1,357,899	270,912	1,628,811
Dividends paid to non-controlling shareholders	-	-	-	-	-	(79,167)	(79,167)
Acquisition of additional interest in a subsidiary	-	-	(7,456)	-	(7,456)	(7,683)	(15,139)
Recycle of reserves on disposal of interest in a subsidiary (Note 4.1)	-	-	16,295	(44,170)	(27,875)	(165,202)	(193,077)
Movement in other reserves	<u>-</u>	<u>-</u>	<u>(339)</u>	<u>(149)</u>	<u>(488)</u>	<u>(87)</u>	<u>(575)</u>
Balance at 31 December 2012	<u>3,500,000</u>	<u>1,000,000</u>	<u>8,955,568</u>	<u>324,956</u>	<u>13,780,524</u>	<u>1,783,487</u>	<u>15,564,011</u>

The attached notes 1 to 43 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Notes	2012 US \$ '000	2011 US \$ '000
OPERATING ACTIVITIES			
Profit before tax from continuing operations		2,287,221	952,797
Profit (loss) before tax from discontinued operations		<u>91,415</u>	<u>(483,110)</u>
Profit before tax		2,378,636	469,687
Adjustments for:			
Depreciation of property, plant and equipment	17	1,701,434	1,226,855
Depreciation of investment properties	20	2,051	230
Amortisation of intangible assets	18	125,814	138,994
Impairment of property, plant and equipment	17	23,129	42,358
Impairment of investment properties	20	-	155,096
Impairment of advances on investment properties		-	52,581
Impairment of intangible assets	18	15,586	103,197
Impairment of goodwill		-	50,611
Reversal of previously recognised impairment losses		(18,152)	-
Gains on disposals and acquisitions		(306,533)	(68,767)
Other losses on financial instruments		308,938	1,500,332
Finance income		(728,214)	(803,546)
Finance costs		1,590,092	1,475,154
Unrealised exchange difference		(213,436)	(787,088)
Share of post tax profits of associates and jointly controlled entities		(1,114,760)	(1,151,328)
Other non-cash adjustments		<u>277,487</u>	<u>84,753</u>
		4,042,072	2,489,119
Working capital changes:			
Inventories		(199,746)	(250,431)
Trade and other receivables		(109,482)	(454,219)
Trade and other payables		(323,855)	819,654
Other assets and liabilities		<u>(47,038)</u>	<u>(256,268)</u>
		3,361,951	2,347,855
Income tax paid		<u>(814,975)</u>	<u>(747,316)</u>
Net cash from operating activities		<u>2,546,976</u>	<u>1,600,539</u>
INVESTING ACTIVITIES			
Purchase of subsidiaries, net of cash acquired	3	(300,897)	(4,194,279)
Purchase of financial instruments		(1,668,365)	(1,103,393)
Acquisition of associates and jointly controlled entities		(139,291)	(2,881,529)
Purchase of property, plant and equipment		(1,846,994)	(1,479,114)
Purchase of intangible assets		(99,111)	(345,771)
Purchase of derivative financial instruments		(1,635,086)	(671,151)
Purchase of investment properties		(78,285)	(149,507)
Advances on investment properties		(88,564)	(519,412)
Acquisition of additional interest in a subsidiary		(15,392)	(141,476)
Advances on acquisition of subsidiaries		-	25,822
Proceeds on disposal of a subsidiary	4	193,155	-
Proceeds on sale of property, plant and equipment		50,334	40,465
Proceeds on sale of investment property		-	654
Proceeds on sale of financial instruments		3,276,758	235,107
Proceeds on disposal of associate		73,627	-
Interest received		241,073	230,318
Dividend received		507,359	660,637
Repayment of loan from associates		-	95,652
Repayment of capital contribution to associates		(88,362)	-
Payments on other assets		<u>(281,796)</u>	<u>(95,225)</u>
Net cash used in investing activities		<u>(1,899,837)</u>	<u>(10,292,202)</u>

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS continued

Year ended 31 December 2012

	<i>Notes</i>	2012 US \$ '000	2011 US \$ '000
FINANCING ACTIVITIES			
Proceeds from borrowings		10,376,828	18,364,941
Repayments of borrowings		(9,701,668)	(6,807,262)
Interest paid		(1,328,087)	(944,181)
Repayment of shareholder loan		-	(50,514)
Proceeds from shareholder loan	27	-	500,000
Dividends paid to non-controlling shareholders		(79,167)	(57,828)
Long term deposit		(160,721)	-
Accounts receivable securitisation		(182,000)	-
Other financing activities		(3,790)	14,730
Net cash (used in) from financing activities		<u>(1,078,605)</u>	<u>11,019,886</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(431,466)	2,328,223
Net foreign exchange difference		55,298	(189,363)
Cash and cash equivalents at 1 January		<u>5,288,879</u>	<u>3,150,019</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>4,912,711</u></u>	<u><u>5,288,879</u></u>
<i>Analysed as follows:</i>			
Bank balances from continuing operations	25	4,912,711	4,992,819
Bank balances from discontinued operations		<u>-</u>	<u>296,060</u>
		<u><u>4,912,711</u></u>	<u><u>5,288,879</u></u>

The attached notes 1 to 43 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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 Investments PJS (“Aabar”), undertakes other investing activities in various growth industries. The principal activities of the Company and its subsidiaries (the “Group”) are further described in note 6.

As of 31 December 2012, the Company had control over five 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); 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 consolidated financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 30 April 2013.

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 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise those of the Company and its subsidiaries as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group 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 amendments to IFRS as of 1 January 2012:

- IAS 12 *Income Taxes (amendment)* effective 1 January 2012
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (amendment)* effective 1 July 2011
- IFRS 7 *Financial Instruments : Disclosures (amendment)* effective 1 July 2011

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group. The adoption of these standards or interpretations is described below:

IAS 12 *Income Taxes (amendment)*

The amendment clarified the determination of deferred tax on investment property measured at fair value and 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

IFRS 1 First-Time Adoption of International Financial Reporting Standards (amendment)

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures (amendment)

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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment did not have a material impact on the presentation or disclosures of the consolidated financial statements.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards and interpretations 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 other comprehensive income. 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 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. These amendments become effective for annual periods beginning on or after 1 January 2013.

As stated in the Group's accounting policies, actuarial gains and losses for defined benefit plans are recognised in full in the period in which they occur in OCI and such actuarial gains and losses are immediately recognised in retained earnings and are not reclassified to profit and loss in subsequent periods. Therefore, the amendment which eliminates the "corridor method" will have no impact on the Group's consolidated financial position or performance. The Group, however expect net benefit expense to increase as a result of applying rate used to discount the benefit obligation as the rate used for calculating the expected return on plan assets. Any adjustment required to reflect the actual return on plan assets as compared to the expected return on plan assets will be recorded in OCI. The amended standard requires retrospective application. However the Group does not expect the impact to be material.

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 does expect the revised IAS 27 to have a material impact on the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

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

As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013. The Group does expect the revised IAS 28 to have a material impact on the consolidated financial statements.

IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (amendment)

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments become effective for annual periods beginning on or after 1 January 2014. The Group does expect the revised IAS 32 to have a material impact on the consolidated financial statements.

IFRS 1 *Government Loans* (amendment)

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*

These amendments require an entity to disclose information about rights to set-off and related arrangements (for example, collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments become effective for annual periods beginning on or after 1 January 2013. The amendments affect disclosure only and will not 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

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 Interests in 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 amendment affects disclosures only and has no impact on the Group's financial position or performance.

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.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have a material impact on the Group.

Improvements to IFRSs

In May 2012, the IASB issued improvements to IFRS standards. These improvements have not been adopted as they become effective for annual periods beginning on or after 1 January 2013. Management is currently assessing the impact of adoption of the following improvements on the consolidated financial position and performance of the Group.

- *IAS 1 Presentation of Financial Statements*: This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.
- *IAS 16 Property Plant and Equipment*: This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.
- *IAS 32 Financial Instruments: Presentation*: This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.
- *IAS 34 Interim Financial Reporting*: The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

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.

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 (GFA).

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 agreements

Throughout 2012, the Group entered into a number of key agreements for additional sources of ethane.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgments continued

Discontinued operations

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 Beteiligungs 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

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”).

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 the pattern of economic benefits that are expected from the use of such property, plant and equipment. 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, the growth rate used for extrapolation purposes and the terminal value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

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.

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.

Impairment of investments of quoted associates

The Group's investments in its associates are accounted for using the equity method of accounting. For quoted associates, the Group compares, at the reporting date, the carrying values of those associates to their market values for any indications of impairment to the carrying values. If any such indication exists, the Group estimates the recoverable amount of the associates through an estimation of their value in use. 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. The Group also reviews analysts' reports on the quoted associates to understand the market expectations and price consensus targets.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

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. A tax reserve is used to provide for uncertain tax provisions which consist of potential tax liabilities associated with possible disputes with tax authorities. Further details on taxes are disclosed in Note 12.

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.

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. Also, given the allocation of assets, the market value of the plans' assets are sensitive to changes in the capital markets. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the yields of high quality corporate bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables for the specific country. Future salary increases are based on the Group's long-term view of compensation trends and pension indexation is 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 commercial 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

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.

Legal claims

When assessing the possible outcomes of legal claims, the Group rely on the opinions of the legal counsel. The opinions of the Group's legal counsel are based on the best of their professional judgment and take into consideration the current stage of the proceedings and legal experience accumulated with respect to the various matters. As the results of the claims may ultimately be determined by courts, or otherwise settled, they may be different from such estimates.

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 Group 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 and any resulting gain or loss is recognised in 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 in accordance 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations and goodwill continued

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.

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 venturers for joint control over the economic activities 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 loss of joint control over jointly controlled entities, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates and jointly controlled entities upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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 rates of exchange on the reporting date.

All differences are taken to the consolidated income statement with the exception of all monetary items that are designated as and provide an effective hedge of a net investment in a foreign operation, translation of long-term receivables that are considered part of investments in subsidiaries or associated companies and employee benefit plan liabilities. Items designated as hedge of a net investment and the translation of long-term receivables that are considered part of investments are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Resulting gains and losses from the translation of employee benefit plan liabilities are reported in other comprehensive income with no recycling to 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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 recognised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

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 Group'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 is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Taxes continued

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 jointly controlled entities, 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.

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 jointly controlled entities, 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 profits 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 is incurred during the measurement period or recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Taxes continued

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;
- 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

The Group accounts for investment tax credits using the cost-reduction approach. Investment tax credits related to the acquisition of assets are deducted from the related assets with depreciation calculated on the net amount. Investment tax credits related to current expenses are included in the determination of income or loss for the period.

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	5 to 67 years
Machinery, tools, and technical equipment	3 to 20 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued

Assets under construction continued

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

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

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 or assets, 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 recognised 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.

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
Residential properties	25 to 40 years

Land is not depreciated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment properties continued

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 initially 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.

Properties under construction are recorded at cost, and upon completion are transferred to the appropriate category of investment property and thereafter depreciated.

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:

Concessions, patents and licences	10 to 20 years
Software	3 to 7 years
Development costs	3 to 10 years
Customer and flagging contracts	5 to 20 years
Other intangible assets	3 to 20 years

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets continued

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as a property, plant and equipment and 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 market price prevailing at the beginning of the year to which it relates and are recognised with a credit to a Grant item;
- emission rights acquired from the market are measured at acquisition cost;
- 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.

Emission rights are recognised as non-amortisable intangible assets and are derecognised when they are delivered, transferred to third parties or expire. At the end of the compliance period the Group delivers CO₂ emission rights equal to the volume of emissions made during the year. If the net realisable value of the emissions rights is less than their carrying amount, the value of the emission rights owned will be reduced to market value.

Inventories

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

- For plastics solutions, costs of all finished goods inventories are determined on first-in first-out (FIFO) basis, except for spare parts and raw materials which are parts determined based on average cost;
- For petroleum refinery, costs of all inventories are determined on weighted average costs; and
- For industrial engineering services, cost of inventories is determined based on FIFO.
- For integrated oil and gas, crude oil, oil derivatives and petrochemicals products, acquired as raw materials, are measured based on weighted average costs.

In case of refined products, the costs are allocated in proportion to the selling price of the related products (isomargin method) due to the complexity of allocating production costs to each item.

Cost includes purchase cost, freight, insurance and other related expenses incurred in bringing the inventories 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 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

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.

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, where these bank overdrafts form part of the Group's working capital management.

Amounts due from banks arising from banking activities maturing within three months or less are 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 and contingent liabilities

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. Refer to note 31 for further information about provisions.

Contingent liabilities are possible obligations, whose existence will only be confirmed by future events not wholly within the Group's control or present obligation where it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured with sufficient reliability.

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 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

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 and sponsors both defined benefit and defined contribution plans.

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 full in other comprehensive income. Such actuarial gains and losses are also immediately recognised in retained earnings and are not reclassified to profit or loss in subsequent periods.

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.

The cost of defined contribution benefit is expensed to the consolidated income statement as earned by employees.

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 financial assets 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 or 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 or repurchasing 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 or loss are carried in the consolidated statement of financial position at fair value with gains or losses recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

Financial assets at fair value through profit or loss continued

Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 *Financial Instruments: Recognition and Measurement* are satisfied.

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.

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 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. 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 EIR, 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 EIR. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued

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

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).

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 EIR method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the EIR amortisation process.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities continued

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.

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; and 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets continued

Loans, receivables and advances to customers continued

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 the consolidated income statement.

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 retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- 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.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derecognition of financial assets and liabilities continued

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, call and put options and commodity contracts to hedge its foreign exchange risks, interest rate risks, fair value risks and commodity price 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.

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. EIR 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting continued

Fair value hedges continued

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.

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 remains 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.

Derivative instruments that do not meet the IAS 39 criteria or are not designated as effective hedging instrument are classified as current or non-current or separated into current and non-current based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

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 cash flows are discounted to their present value using a pre-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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES continued

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets continued

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.

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

Goodwill

Goodwill is tested for impairment annually as at 31 December 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 fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are reported in the consolidated financial statements as off balance sheet items, as they are not the assets of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3 BUSINESS COMBINATIONS

3.1 2012 BUSINESS COMBINATIONS

The Group made several acquisitions during the year ended 31 December 2012, which are further described below:

From the date of acquisitions to 31 December 2012, the acquired entities (see note 3.1.1 and 3.1.2 below) have contributed US \$ 262,677 thousand to the revenue and US \$ 33,866 thousand to the net profit before tax of the Group. If the business combinations had taken place at 1 January 2012, the Group revenue would have been US \$ 51,971,810 thousand and the Group's profit for before tax from continuing operations for the year would have been US \$ 2,290,686 thousand.

3.1.1 Acquisition of Chevron España, S.A.

On 30 March 2012, CEPSA acquired the entire share capital of Chevron España, S.A. which operates in the distribution and marketing business of petroleum and lube products. Chevron España S.A.'s name was later changed to "Cepsa Carburantes y Lubricantes (S.L.U)".

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Chevron España, S.A for the nine-month period from the acquisition date.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Chevron España, S.A. as at the acquisition date was:

	<i>Fair value recognised on acquisition EUR '000</i>	<i>Fair value recognised on acquisition US \$ '000</i>
Assets		
Property, plant and equipment (Note 17)	20,345	27,124
Intangible assets (Note 18)	102,120	136,147
Inventories	15,256	20,339
Trade receivables	12,744	16,990
Other assets	237	316
Cash and cash equivalents	<u>33,552</u>	<u>44,732</u>
	<u>184,254</u>	<u>245,648</u>
Liabilities		
Trade payables	(26,881)	(35,838)
Other liabilities	<u>(985)</u>	<u>(1,313)</u>
	<u>(27,866)</u>	<u>(37,151)</u>
Total identifiable net assets at fair value	156,388	208,497
Goodwill arising on acquisition (Note 18 and 19)	<u>10,386</u>	<u>13,847</u>
Cost of business combination	<u>166,774</u>	<u>222,344</u>

The goodwill of US \$ 13,847 thousand (EUR 10,386 thousand) comprises the value of expected synergies and other benefits from combining the assets and activities of Chevron España S.A with those of CEPSA. None of the recognised goodwill is deductible for income tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3 BUSINESS COMBINATIONS continued

3.1 2012 BUSINESS COMBINATIONS continued

3.1.1 Acquisition of Chevron España, S.A. continued

Assets acquired and liabilities assumed continued

The fair value of trade receivables amounted to US \$ 16,990 thousand (EUR 12,744 thousand) on acquisition. The trade receivables acquired have been collected during the year.

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

	<i>US \$ 000</i>
Consideration paid	222,344
Cash acquired with Chevron España, S.A.	<u>(44,732)</u>
Net cash outflows	<u>177,612</u>

3.1.2 Acquisition of PEC-Rhin

On 31 January 2012, Borealis acquired the entire share capital of PEC-Rhin in Ottmarsheim, France from GPN in Nanterre, France, a 100% subsidiary of Total in Paris, France. PEC-Rhin is a producer of nitrate fertilisers as well as ammonia, ammonia water and nitric acid for industrial use. PEC-Rhin was renamed as Borealis PEC-Rhin SAS. The acquisition will complement Borealis' existing fertiliser business and will enable Borealis to grow further.

The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of PEC-Rhin for the eleven-month period from the acquisition date.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of PEC- Rhin as at the acquisition date was:

	<i>Fair value recognised on acquisition EUR '000</i>	<i>Fair value recognised on acquisition US \$ '000</i>
Assets		
Property, plant and equipment (Note 17)	52,581	68,729
Intangible assets (Note 18)	203	265
Inventories	23,626	30,882
Trade receivables	14,822	19,374
Other assets	2,112	2,761
Cash and cash equivalents	<u>14,951</u>	<u>19,542</u>
	<u>108,295</u>	<u>141,553</u>
Liabilities		
Deferred tax liabilities	(13,020)	(17,018)
Trade payables	(12,179)	(15,919)
Other liabilities	<u>(12,782)</u>	<u>(16,708)</u>
	<u>(37,981)</u>	<u>(49,645)</u>
Total identifiable net assets at fair value	70,314	91,908
Goodwill arising on acquisition (Note 18 and 19)	<u>38,956</u>	<u>50,919</u>
Cost of business combination	<u>109,270</u>	<u>142,827</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3 BUSINESS COMBINATIONS continued

3.1 2012 BUSINESS COMBINATIONS continued

3.1.2 Acquisition of PEC-Rhin continued

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

	<i>US \$ 000</i>
Consideration paid	142,827
Cash acquired with PEC-Rhin	<u>(19,542)</u>
Net cash outflows	<u>123,285</u>

The goodwill of US \$ 50,919 thousand (EUR 38,956 thousand) comprises the value of expected synergies and other benefits from combining the assets and activities of PEC-Rhin with those of Borealis. None of the recognised goodwill is deductible for income tax purposes.

The fair value of trade receivables amounted to US \$ 19,374 thousand (EUR 14,822 thousand) on acquisition. The trade receivables acquired have been collected in the first half of the year.

3.2 2011 BUSINESS COMBINATIONS

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

From the date of acquisitions to 31 December 2011, the acquired entities (see note 3.2.1 below) has contributed US \$ 19,102,970 thousand to the revenue and US \$ 315,586 thousand to the net profit before tax of the Group. If the business combinations had taken place at 1 January 2011, the Group revenue would have been US \$ 52,658,783 thousand and the Group's profit for before tax from continuing operations for the year would have been US \$ 1,911,910 thousand.

3.2.1 Acquisition of CEPSA

On 16 February 2011, the Company announced a voluntary offer to acquire the entire issued share capital of CEPSA not already owned by the Company, amounting to 141,648,565 shares or 52.9% of the share capital of CEPSA for the price of Euro 28 per share to all CEPSA 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 CEPSA.

CEPSA 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

3 BUSINESS COMBINATIONS continued

3.2 2011 BUSINESS COMBINATIONS continued

3.2.1 Acquisition of CEPSA continued

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of CEPSA 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 CEPSA	3,525,940	5,102,390
Purchase consideration of additional interest in CEPSA not previously owned	<u>3,966,160</u>	<u>5,739,430</u>
	<u>7,492,100</u>	<u>10,841,820</u>

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

4 DISPOSAL OF A SUBSIDIARY

4.1 Retransfer of Ferrostaal in 2012

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 Beteiligungs 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, 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..

The results of Ferrostaal for the period 1 January 2012 to 7 March 2012 and year ended 31 December 2011 are presented below:

	<i>Period from 1 January 2012 to 7 March 2012 US \$ '000</i>	<i>Year ended 31 December 2011 US \$ '000</i>
Revenues	170,429	1,176,970
Cost of sales	(150,893)	(1,113,229)
Gross profit	19,536	63,741
Share of post-tax profits of associates and jointly controlled entities	16,778	87,757
Selling and distribution costs	(20,908)	(143,593)
General and administrative expenses	(21,047)	(165,950)
Operating loss	(5,641)	(158,045)
Net foreign exchange losses	(3,812)	(4,904)
Finance income	5,213	38,437
Finance costs	(5,859)	(22,905)
Other income	8,701	93,751
Other expenses	(12,319)	(445,367)
Gains on acquisitions and disposals	338	18,628
Other gains on financial instruments	7,660	(9,906)
Loss before tax	(5,719)	(490,311)
Income tax credit	48,639	(12,763)
	42,920	(503,074)
Gain on disposal of discontinued operations	111,500	-
Profit (loss) for the period/year	154,420	(503,074)
Profit (loss) for the period/year attributable to:		
Equity holder of the parent	146,247	(500,533)
Non-controlling interest	8,173	(2,541)
	154,420	(503,074)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

4 DISPOSAL OF A SUBSIDIARY continued

4.1 Retransfer of Ferrostaal in 2012 continued

	<i>US \$ '000</i>
Total consideration received	459,130
Less: bank balances and cash disposed of	<u>(265,975)</u>

Net proceeds from retransfer of Ferrostaal **193,155**

Included in other comprehensive income

	<i>Period from 1 January 2012 to 7 March 2012 US \$ '000</i>	<i>31 December 2011 US \$ '000</i>
Foreign currency translation reserve	8,383	(7,406)
Reserve for actuarial losses on defined benefit plans	7,972	(349)
Reserve for cash flow hedges	<u>-</u>	<u>(4,258)</u>
Reserves of disposal group classified as held for sale	<u>16,355</u>	<u>(12,013)</u>

The net cash flows incurred by Ferrostaal are as follows:

Operating	(67,191)	(553,266)
Investing	25,626	124,614
Financing	<u>3,579</u>	<u>14,735</u>
Net cash outflows	<u>(37,986)</u>	<u>(413,917)</u>

4.2 Derecognition of options over non-controlling interests in Ferrostaal in 2011

As a result of the settlement agreement between IPIC, IPIC KG and MAN (see note 4.1), the put and call options over the 30% interest in Ferrostaal was terminated and therefore the Group, from this date, has derecognised its previous interest in Ferrostaal arising through the put and call options. The derecognition had been recorded within equity as transactions between owners.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

5 INTEREST IN JOINTLY CONTROLLED ASSETS

The Group has the following significant investments in certain oil and gas exploration and production assets, which are accounted for as interests in jointly controlled assets. The accompanying consolidated financial statements include the assets, liabilities, expenses and income in proportion to the Group's ownership interest. The breakdown of the main assets and operations are as follows:

Name	Country	Operator	Activity	% of Ownership	
				2012	2011
Ourhoud	Algeria	Sonatrach	Exploration and production	39.76%	39.76%
Timimoun	Algeria	Total Exploration & Production Algeria	Exploration and production	11.25%	11.25%
Tiple	Colombia	Cepsa Colombia	Exploration	70.00%	70.00%
Garlbay	Colombia	Cepsa Colombia	Exploration	50.00%	50.00%
Puntero	Colombia	Cepsa Colombia	Exploration	70.00%	70.00%
Cabrestero	Colombia	Cepsa Colombia	Exploration	100.00%	100.00%
Merecure	Colombia	Cepsa Colombia	Exploration	70.00%	70.00%
El Porton	Colombia	Cepsa Colombia	Exploration	50.00%	50.00%
Los Ocarros	Colombia	Cepsa Colombia	Exploration	50.00%	50.00%
Lianos 26	Colombia	Cepsa Colombia	Exploration	80.00%	80.00%
Lianos 22	Colombia	Cepsa Colombia	Exploration	55.00%	55.00%
Cebucan	Colombia	Petrobras	Exploration	30.00%	30.00%
Balay	Colombia	Petrobras	Exploration	30.00%	30.00%
Cpo 14	Colombia	Metapetroleum	Exploration	37.50%	37.50%
Cpo 12	Colombia	Metapetroleum	Exploration	30.00%	30.00%
SJ & RP	Colombia	Hocol	Exploration	33.33%	33.33%
PPN (30%)	Colombia	Gran Tierra	Exploration	30.00%	30.00%
Caracara	Colombia	Cepsa Colombia	Exploration and Production	70.00%	70.00%
CPR Espinal	Colombia	Petrobas	Exploration and Production	15.00%	15.00%
La Canada Norte	Colombia	Hocol	Exploration and Production	16.67%	16.67%
Block 127	Peru	Cepsa Peru SA	Exploration	80.00%	80.00%
Block 114	Peru	Cepsa Peru SA	Exploration	60.00%	60.00%
Block 131	Peru	Cepsa Peru SA	Exploration	70.00%	70.00%
Block 130	Peru	Cepsa Peru SA	Exploration	100.00%	100.00%
Rodaballo	Spain	Repsol	Exploration and Production	15.00%	15.00%
Casablanca	Spain	Repsol	Exploration and Production	7.40%	7.40%
Montanazo	Spain	Repsol	Exploration and Production	7.25%	7.25%
Boqueron	Spain	Repsol	Exploration and Production	4.50%	4.50%

At 31 December 2012 the Group also held a 50% (31 December 2011: 50%) interest in an ethylene plant and a 20% (31 December 2011: 20%) interest in a cogeneration facility located in Alberta, Canada.

The Group's share of the assets and liabilities as at 31 December 2012 and income and expenses of the jointly controlled assets for the year ended 31 December 2012, which are consolidated on a proportionate basis in the consolidated financial statements, are as follows:

	2012 US \$ '000	2011 US \$ '000
Share of the jointly controlled assets' assets and liabilities:		
Non-current assets	2,831,528	3,170,486
Current assets	388,554	394,992
Current liabilities	(365,318)	(86,870)
Non-current liabilities	<u>(352,710)</u>	<u>(256,915)</u>
Net assets	<u>2,502,054</u>	<u>3,221,693</u>
Share of capital commitments	254,770	344,687
Share of jointly incurred contingent liabilities	<u>2,988</u>	<u>2,871</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

5 INTEREST IN JOINTLY CONTROLLED ASSETS continued

Share of the jointly controlled assets' consolidated revenue and profit:

	2012 US \$ '000	2011 US \$ '000
Revenue	1,819,729	1,146,710
Cost of sales	(821,506)	(484,856)
Administrative expenses, net	<u>(303,179)</u>	<u>(280,708)</u>
Profit before income tax	695,044	381,146
Income tax expense	<u>(456,179)</u>	<u>(249,224)</u>
Profit for the year from continuing operations	<u>238,865</u>	<u>131,922</u>
Share of other comprehensive loss, net	<u><u>5,891</u></u>	<u><u>(488)</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 six 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.

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, asset management and private banking 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 results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss for the year and is measured consistently with profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

6 OPERATING SEGMENT REPORTING continued

The following table presents revenue and results' regarding the Group's operating segments:

	<i>Plastic solutions Europe US \$ '000</i>	<i>Plastic solutions North America 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 2012							
<i>Key components of the segments are</i>							
Revenue from external customers	<u>9,700,599</u>	<u>5,054,734</u>	<u>-</u>	<u>103,757</u>	<u>37,043,239</u>	<u>-</u>	<u>51,902,329</u>
Share of post-tax profits of associates and jointly controlled entities	502,825	-	-	106,743	56,900	431,514	1,097,982
Depreciation for the year	(313,166)	(263,562)	-	(4,752)	(1,122,005)	-	(1,703,485)
Amortisation for the year	(33,008)	(31,611)	-	(10,466)	(50,729)	-	(125,814)
Impairment for the year on long-lived assets	(5,661)	(24,634)	-	(377)	(8,043)	-	(38,715)
Finance income	9,968	5,148	-	392,833	81,490	233,562	723,001
Finance costs	(79,512)	(139,300)	-	(495,455)	(117,555)	(752,411)	(1,584,233)
Gains on acquisitions and disposals	-	8	-	167,959	19,424	7,304	194,695
Other losses on financial instruments	(10,287)	-	-	(316,289)	41,759	(31,781)	(316,598)
Tax expense	<u>(10,849)</u>	<u>(155,808)</u>	<u>-</u>	<u>73,993</u>	<u>(578,365)</u>	<u>-</u>	<u>(671,029)</u>
Profit (loss) for the year from continuing operations	617,346	558,081	-	(380,883)	640,683	180,965	1,616,192
Profit (loss) for the year from discontinuing operations	<u>-</u>	<u>(14,366)</u>	<u>154,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,054</u>
Profit (loss) for the year (segment results)	<u>617,346</u>	<u>543,715</u>	<u>154,420</u>	<u>(380,883)</u>	<u>640,683</u>	<u>180,965</u>	<u>1,756,246</u>
Year ended 31 December 2011							
<i>Key components of the segments are</i>							
Revenue from external customers	<u>9,881,120</u>	<u>5,241,163</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 on 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>95,628</u>	<u>(221,532)</u>	<u>-</u>	<u>(412,232)</u>
Profit (loss) for the year from continuing operations	705,272	607,982	-	(1,647,499)	90,683	784,127	540,565
Profit (loss) for the year from discontinuing operations	<u>-</u>	<u>7,201</u>	<u>(503,074)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(495,873)</u>
Profit (loss) for the year	<u>705,272</u>	<u>615,183</u>	<u>(503,074)</u>	<u>(1,647,499)</u>	<u>90,683</u>	<u>784,127</u>	<u>44,692</u>

International Petroleum Investment Company PJSC and its subsidiaries

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6 OPERATING SEGMENT REPORTING continued

The following table presents certain assets and liabilities information regarding the Group's operating segments:

	<i>Plastic solutions Europe US \$ '000</i>	<i>Plastic solutions North America 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>
At 31 December 2012							
Assets							
Investments in associates and jointly controlled entities	2,310,032	-	-	2,943,963	608,851	4,391,866	10,254,712
Other segment assets	<u>6,906,391</u>	<u>5,641,205</u>	<u>-</u>	<u>15,165,484</u>	<u>19,136,379</u>	<u>8,056,268</u>	<u>54,905,727</u>
Total assets	<u>9,216,423</u>	<u>5,641,205</u>	<u>-</u>	<u>18,109,447</u>	<u>19,745,230</u>	<u>12,448,134</u>	<u>65,160,439</u>
Total liabilities	<u>4,394,187</u>	<u>2,782,481</u>	<u>-</u>	<u>13,366,763</u>	<u>9,596,333</u>	<u>19,456,664</u>	<u>49,596,428</u>
Other segment information							
Additions during the year							
Property, plant and equipment	410,625	317,370	-	2,248	702,606	440,241	1,873,090
Investment properties*	-	-	-	113,829	-	-	113,829
Intangible assets	122,628	9,145	-	7,128	35,558	-	174,459

*At 31 December 2012 the balance of advances made on investment properties amounted to US \$947,937 thousand (31 December 2011: US \$869,281 thousand), which are reported under other assets as disclosed in Note 23.

At 31 December 2011

Assets							
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>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>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>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>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

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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 2012	<u>194,107</u>	<u>38,987,010</u>	<u>7,295,283</u>	<u>5,425,929</u>	<u>51,902,329</u>
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>
2012					
<i>Non-current assets</i>					
Property, plant and equipment	3,759,815	8,649,469	3,489,256	1,881,491	17,780,031
Intangible assets	673,503	1,319,434	386,442	259,473	2,638,852
Investment properties	1,986,013	-	-	-	1,986,013
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

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

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Share of net assets:		
Associates	10,017,969	8,738,387
Jointly controlled entities	<u>236,743</u>	<u>168,607</u>
	<u>10,254,712</u>	<u>8,906,994</u>
Share of post tax profits from continuing operations		
Associates	1,084,015	1,041,224
Jointly controlled entities	<u>13,967</u>	<u>4,290</u>
	<u>1,097,982</u>	<u>1,045,514</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

The Group has the following significant investments in associates:

Name of company	Country of incorporation	Percentage holding*	
		2012	2011
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	30.54%	30%
Oasis International Power LLC	UAE	36%	36%
Bank Zweiplus	Switzerland	42.50%	42.50%
Mercedes-Benz GP Ltd	England	**	40%
Abu Dhabi National Chemicals Company ("ChemaWEyaat")	UAE	40%	40%
OMV AG	Austria	24.90%	24.90%
Dead Sea Resorts PSC	Jordan	45%	45%
XO Jet Inc.	USA	46.09%	28.88%
RHB Capital Berhad	Malaysia	21.88%	24.75%
Galactic Ventures LLC ("Virgin Galactic")	British Virgin Islands	37.80%	37.80%
Compañia Logistica de Hidrocarburos CLH, S.A	Spain	14.15%	14.15%
Medgaz, S.A	Spain	20%	20%
Societat Catalana De Petrolis, S.A (Petrocat)	Spain	45%	45%
Arabtec Holding PJSC	UAE	21.57%	-
Al Izz Bank	Oman	20%	-
Falah Growth Fund (GP) Ltd	British Virgin Islands	50%	50%
Falah Growth Fund LP	British Virgin Islands	50%	50%

* Percentage holding represents the percentage of the results, assets and liabilities recognized in the consolidated financial statements. The effective percentage holding attributable to the equity holder of the parent company is different.

** In December 2012, Aabar sold its 40% stake in Mercedes GP Ltd.

	2012 US \$ '000	2011 US \$ '000
Share of the associates' consolidated statements of financial position		
Assets	31,878,397	28,229,922
Liabilities	(23,079,219)	(20,744,137)
	8,799,178	7,485,785
Goodwill	1,247,668	1,264,280
Impairment	(28,877)	(11,678)
Net assets	10,017,969	8,738,387

Certain of the Group's associates are listed on various stock exchanges. The fair value of these listed associates was US \$ 4,554,558 thousand at 31 December 2012 (31 December 2011: US \$ 3,760,158 thousand) while their carrying values were US \$ 6,591,441 thousand at 31 December 2012 (31 December 2011: US \$ 5,589,281 thousand). Although the market value of the publicly traded associates at the reporting date was lower than the carrying value, no impairment has been recorded as the long-term value represented by those investments is higher than the market value.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES continued

7.1 Investments in associates continued

	2012 US \$ '000	2011 US \$ '000
Share of the associates' revenues and profits from continuing operations		
Revenue	19,119,898	22,705,118
Net profit before impairment	1,098,688	1,054,390
Net other comprehensive income	46,290	101,917
Impairment recognised during the year	(14,673)	(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*	
		2012	2011
Qatar and Abu Dhabi Investment Company QSC ("QADIC")	Qatar	50%	50%
Emirates Liquefied Natural Gas (LNG) Limited	UAE	50%	-
Duqm Refinery and Petrochemical Industries Company LLC	Oman	50%	-
Aabar-SRC Strategic Resource Limited	British Virgin Islands	50%	50%
Petroport Holding AB	Sweden	50%	50%
Asfaltos Espanoles S.A. (Asesa)	Spain	50%	50%
CEPSA Gas Comercializadora S.A	Spain	35%	35%
CEPSA Chimie Montreal L.P.	Canada	51%	51%
CEPSA Chimie Becancour Inc.	Canada	51%	51%
Nueva Generadora Del Sur S.A	Spain	50%	50%

* Percentage holding represents the percentage of the results, assets and liabilities recognized in the consolidated financial statements. The effective percentage holding attributable to the equity holder of the parent company is different.

	2012 US \$ '000	2011 US \$ '000
Share of the jointly controlled entities' consolidated statements of financial position		
Current assets	332,827	288,804
Non-current assets	415,228	353,716
Current liabilities	(346,262)	(333,152)
Non-current liabilities	(165,050)	(140,761)
	<u>236,743</u>	<u>168,607</u>
Share of the jointly controlled entities' capital commitments	<u>10,840</u>	<u>10,207</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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**

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Revenue	1,090,636	675,400
Cost of sales	<u>(978,163)</u>	<u>(232,859)</u>
	112,473	442,541
General and administrative expenses	(89,049)	(31,891)
Other (expense) income	(10,136)	(426,612)
Impairment recognised during the year	-	30,494
Income tax credit (expense)	<u>679</u>	<u>(10,242)</u>
Net profit	<u><u>13,967</u></u>	<u><u>4,290</u></u>
Share of the jointly controlled entities' consolidated other comprehensive income	<u><u>(1,807)</u></u>	<u><u>2,559</u></u>

8 FINANCE INCOME

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Dividend income	337,646	359,207
Interest and other income	<u>385,355</u>	<u>405,902</u>
	<u><u>723,001</u></u>	<u><u>765,109</u></u>

9 FINANCE COSTS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Interest expense on borrowings and derivatives	(1,462,366)	(1,315,830)
Other interest costs	<u>(121,867)</u>	<u>(136,419)</u>
	<u><u>(1,584,233)</u></u>	<u><u>(1,452,249)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 GAINS ON ACQUISITIONS AND DISPOSALS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Gain on disposal of associates	14,491	-
Gain on disposal of property, plant and equipment	15,266	18,835
Gain on disposal of financial instruments (i)	154,840	-
Fair value adjustments on acquisition of subsidiary	-	35,033
Other gains/(losses)	<u>10,098</u>	<u>(3,729)</u>
	<u>194,695</u>	<u>50,139</u>

- (i) Gain on disposal of financial instruments during the year relates mainly to the recycling of cumulative fair value gain on Arabtec Holding PJSC held by Aabar, on the change in accounting from available-for-sale to investment in associate and gain on disposal of Tesla Motors Inc.

11 OTHER LOSSES ON FINANCIAL INSTRUMENTS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Impairment loss on available-for-sale financial instruments (i)	(392,053)	-
Fair value gain (loss) on non-derivative financial instruments at fair value through profit or loss (ii)	487,258	(3,440,993)
Fair value (loss) gain on derivative financial instruments (iii)	(411,577)	1,951,174
Other gains on financial instruments	<u>(226)</u>	<u>(607)</u>
	<u>(316,598)</u>	<u>(1,490,426)</u>

- (i) At 30 June 2012, the Group recognised an impairment loss of US \$ 392,053 thousand (2011: Nil) on one of its quoted investments. From July to December 2012, unrealised gains on changes in fair value of the investment amounting to US \$ 105,343 thousand were recognised directly in other comprehensive income.

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

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Fair value gain (loss) on Daimler AG shares	683,607	(2,249,459)
Fair value loss on Unicredit SpA shares	(210,621)	(1,174,529)

- (iii) Fair value (loss) gain on derivative financial instruments during the year includes the following:

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Call and put options and related call spread on Daimler AG shares (note a)	(600,491)	1,858,171
Call and put options on Unicredit SpA (note a)	126,505	953,697
Call spreads on Daimler AG shares (note b)	26,325	(920,998)
Call option on equity (note c)	171,603	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 OTHER LOSSES ON FINANCIAL INSTRUMENTS continued

- (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. The accounting for these call and put options and related equity instruments are recognised separately on gross basis in the consolidated financial statements and accordingly Aabar still maintains significant exposure to the share price on both the investments. See note 36 for details of the Group's exposure at 31 December 2012.
- (b) Aabar holds long-term derivative contracts in Daimler AG tied to the exchangeable bonds.
- (c) Aabar has signed call option agreements to acquire a 49% equity stake in two Malaysian companies engaged in power generation and related services (see note 33(iii)).

12 TAX EXPENSE

The major components of tax expense for the years ended 31 December 2012 and 2011 are:

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Consolidated income statement		
Current income tax expense:		
Corporation tax	(921,508)	(572,112)
Prior year credit (charge)	<u>40,378</u>	<u>(2,742)</u>
Total current income tax expense	<u>(881,130)</u>	<u>(574,854)</u>
Deferred tax:		
Origination and reversal of temporary differences*	194,135	155,649
Impact of change in tax laws	39,636	6,973
Write-down of deferred tax assets	<u>(23,670)</u>	<u>-</u>
Total deferred tax credit	<u>210,101</u>	<u>162,622</u>
Tax expense reported in the consolidated income statement relating to continuing operations	<u>(671,029)</u>	<u>(412,232)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 TAX EXPENSE continued

*Included in deferred tax charge for the year is a credit amount of US \$ 70,890 thousand (2011: credit of US \$ 88,357 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>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Accounting profit before tax from continuing operations	<u>2,287,221</u>	<u>952,797</u>
At average income tax rate of 30% (2011: 30%)	(686,167)	(285,840)
Expenses not deductible for tax purposes	(47,508)	(18,307)
Effect of share from the profit of investment accounted under equity method	329,395	313,655
Non-taxable net loss	(153,377)	(349,356)
Higher taxes on overseas earnings	(181,572)	(116,838)
Unrecognised tax losses	(2,616)	(3,968)
Write-down of deferred tax assets	(23,670)	-
Impact of changes in tax laws	39,636	6,973
Prior year credit (charge)	40,378	(2,742)
Difference in tax rates	44,928	23,024
Others	<u>(30,456)</u>	<u>21,167</u>
Income tax charge for the year	<u>(671,029)</u>	<u>(412,232)</u>
Consolidated statement of other comprehensive income		
Deferred tax related to items charged or credited directly to equity during the year:		
Cash flow hedges	(5,280)	48,805
Defined benefit pension scheme	27,669	39,698
Available-for-sale investments	182	(499)
Net (gains) loss on hedge of net investments	<u>(4,855)</u>	<u>3,636</u>
Income tax credit directly to equity	<u>17,716</u>	<u>91,640</u>

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12 TAX EXPENSE continued

Deferred tax

Deferred tax assets relate to the following:

	<i>1 January 2011 US \$ '000</i>	<i>Recognised in profit or loss US \$ '000</i>	<i>Recognised in other comprehensive income US \$ '000</i>	<i>Acquisitions and disposals US \$ '000</i>	<i>Transfers US \$ '000</i>	<i>Exchange differences US \$ '000</i>	<i>31 December 2011 US \$ '000</i>	<i>Recognised in profit or loss US \$ '000</i>	<i>Recognised in other comprehensive income US \$ '000</i>	<i>Acquisitions and disposals US \$ '000</i>	<i>Transfers US \$ '000</i>	<i>Exchange differences US \$ '000</i>	<i>31 December 2012 US \$ '000</i>
Derivative contracts	(24,690)	29,472	24,825	579	3,031	(13,115)	20,102	(10,562)	(4,761)	-	-	(189)	4,590
Impairment	16,643	(12,480)	-	13,853	29,507	(35,768)	11,755	(978)	-	8	-	190	10,975
Other timing differences	(14,577)	(26,996)	3,638	970	1,200	1,680	(34,085)	4,043	2,505	-	-	(6,047)	(33,584)
Pension and post-employment medical benefits	66,373	(4,374)	(1,002)	5,314	27,306	(55,522)	38,095	(8,933)	6,956	962	-	11,252	48,332
Tax losses carried forward	226,724	(1,555)	-	23,433	(1,813)	(10,621)	236,168	14,852	-	-	-	4,755	255,775
Provisions	(9,182)	28,377	-	25,398	5,189	(24,848)	24,934	2,263	-	3	-	515	27,715
Others	74,100	3,658	(2)	36,344	(28,977)	(16,519)	68,604	33,203	-	(4,165)	(21,928)	1,101	76,815
	<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>	<u>33,888</u>	<u>4,700</u>	<u>(3,192)</u>	<u>(21,928)</u>	<u>11,577</u>	<u>390,618</u>

Deferred tax liabilities relate to the following:

Accelerated capital allowances	(1,123,295)	17,499	-	(426,786)	-	54,676	(1,477,906)	3,475	-	(7,221)	-	(22,639)	(1,504,291)
Acquisition fair value adjustment on intangibles	(149,072)	54,100	-	(237,882)	(12,774)	59,753	(285,875)	18,916	-	-	-	(3,096)	(270,055)
Acquisition fair value adjustment on property, plant and equipment	(29,574)	38,727	-	(518,290)	-	68,189	(440,948)	41,847	-	(6,444)	-	(5,591)	(411,136)
Gain (loss) on revaluation of - other assets	(12,434)	65,318	-	(92,707)	5,565	5,935	(28,323)	14,307	-	-	-	(140)	(14,156)
Gain (loss) on revaluation of non-derivative financial instruments	(156,245)	88,357	-	-	-	-	(67,888)	70,890	-	-	-	1	3,003
Inventories	(19,545)	(13,310)	-	(5,869)	31,340	2,127	(5,257)	-	-	-	-	(96)	(5,353)
Other timing differences	(36,682)	4,739	(415)	(19,364)	(1,200)	1,760	(51,162)	37,520	-	726	-	100	(12,816)
Temporary differences on accrued expenses	69,458	(28,127)	-	-	-	-	41,331	1,074	-	-	-	-	42,405
Uncertain tax provisions	(40,843)	(6,328)	-	-	-	-	(47,171)	9,910	-	-	798	-	(36,463)
Pension and post-employment benefits	19,295	(1,234)	40,699	-	3,321	155	62,236	(1,840)	15,767	-	-	-	76,163
Acquisition fair value adjustment on associates	-	-	-	(87,612)	-	9,148	(78,464)	(31,076)	-	-	-	(2,254)	(111,794)
Others	(46,731)	(57,834)	23,897	(11,258)	41,556	5,755	(44,615)	11,190	(2,751)	(2,981)	-	(1,786)	(40,943)
	<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>	<u>176,213</u>	<u>13,016</u>	<u>(15,920)</u>	<u>798</u>	<u>(35,501)</u>	<u>(2,285,436)</u>

Note: Recognised in profit or loss during 2012 is a net amount of US \$ Nil (2011: US \$ 15,387 thousand) relating to deferred tax charge for the year on disposal group held for sale. Additionally, transfers in 2012 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 \$ 139,286 thousand (31 December 2011: US \$ 196,858 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 \$1,911,918 thousand (31 December 2011: US \$ 1,419,867 thousand).

13 REVENUE

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Polyolefins	8,393,609	8,830,790
Base chemicals	3,251,712	3,088,665
Olefins	2,593,555	2,691,068
Performance styrenics	356,953	310,002
Financial services	103,757	93,156
Exploration and production	1,047,162	631,392
Refining and distribution	27,669,899	14,035,418
Petrochemicals	4,244,738	2,096,414
Gas and power	<u>1,506,496</u>	<u>813,324</u>
	49,167,881	32,590,229
Excise tax on oil and gas	2,574,945	1,526,421
Others	<u>159,503</u>	<u>201,759</u>
	<u>51,902,329</u>	<u>34,318,409</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2012	2011
	US \$ '000	US \$ '000
Included in cost of sales		
Costs of inventories recognised as an expense	39,401,364	25,206,527
Staff costs	957,111	784,383
Depreciation of property, plant and equipment	1,417,583	999,167
Impairment of property, plant and equipment	10,351	39,022
Amortisation of intangible assets	39,915	34,234
Impairment of intangible assets	12,259	83,046
Excise tax on oil and gas	2,573,768	1,528,122
Included in selling and distribution costs		
Staff costs	362,457	267,681
Distribution and transportation costs	871,299	669,963
Rent	114,279	89,526
Commission and fees	304,330	158,057
Packaging	63,429	68,511
Depreciation of property, plant and equipment	159,661	91,393
Impairment of property, plant and equipment	9,300	1,295
Amortisation of intangible assets	25,399	12,186
Impairment of intangible assets	4	1,785
Included in general and administrative expenses		
Staff costs	545,402	421,228
Consultancy and advisory costs	86,798	104,526
Rent	38,412	37,404
Depreciation of property, plant and equipment	27,548	24,720
Amortisation of intangible assets	53,054	45,871
Impairment of property, plant and equipment	323	375
Impairment of intangible assets	84	10,873
Included in research and development expenses		
Staff costs	108,450	99,924
Depreciation of property, plant and equipment	96,642	70,454
Amortisation of intangible assets	7,446	5,609
Impairment of intangible assets	3,238	7,493
Included in other expenses		
Impairment of investment properties	-	155,814
Impairment of advances on investment properties	71,265	52,581
Impairment of goodwill	-	50,611
Net provisions	18,397	16,168
Taxes	51,317	53,434

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15 DISCONTINUED OPERATIONS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Included in the consolidated statement of financial position:		
Nova's building and construction business- Syntheon		
Total assets	-	22,167
Total liabilities	<u>-</u>	<u>(7,281)</u>
Ferrostaal (note 4.1)		
Total assets	-	2,747,936
Total liabilities	<u>-</u>	<u>(2,276,786)</u>
Classified as:		
Assets included in disposal groups held for sale	-	2,770,103
Liabilities included in disposal groups held for sale	<u>-</u>	<u>(2,284,067)</u>
Included in the consolidated income statement:		
Profit (loss) from Ferrostaal operations (note 4.1)	42,920	(503,074)
Gain on disposal of Ferrostaal (note 4.1)	111,500	-
Loss on Syntheon	<u>(14,366)</u>	<u>(10,856)</u>
	140,054	(513,930)
Share of profit of INEOS Nova Joint Venture	<u>-</u>	<u>18,057</u>
	<u>140,054</u>	<u>(495,873)</u>

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:

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Net profit attributable to ordinary equity holders of the parent from continuing operations	1,380,084	353,123
Profit (loss) attributable to ordinary equity holders of the parent from discontinued operations	<u>131,881</u>	<u>(493,332)</u>
Net profit (loss) attributable to ordinary equity holders of the parent for basic earnings	<u>1,511,965</u>	<u>(140,209)</u>
Weighted average number of ordinary shares for basic earnings per share (in thousands)	<u>3,500</u>	<u>3,500</u>
	<i>US \$</i>	<i>US \$</i>
Basic and diluted earnings (loss) per share	<u>432</u>	<u>(40)</u>
Basic and diluted earnings per share from continuing operations	<u>394</u>	<u>101</u>

International Petroleum Investment Company PJSC and its subsidiaries

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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>
2012									
Cost:									
At 1 January 2012	986,326	14,815,208	265,645	58,161	358,276	35,071	3,948,968	2,139,737	22,607,392
Additions	2,632	130,745	5,425	5,036	5,074	4,944	1,472,090	247,144	1,873,090
Acquired through business combination	31,475	58,754	2,300	311	-	6	3,007	-	95,853
Disposals	(1,134)	(122,004)	(5,675)	(198)	(471)	(1,156)	(5,453)	(8,668)	(144,759)
Transfers	28,316	1,047,276	7,160	4,563	(110,376)	4,900	(932,384)	31,113	80,568
Exchange adjustments	<u>33,610</u>	<u>318,796</u>	<u>1,016</u>	<u>1,003</u>	<u>3,537</u>	<u>522</u>	<u>12,684</u>	<u>26,838</u>	<u>398,006</u>
At 31 December 2012	<u>1,081,225</u>	<u>16,248,775</u>	<u>275,871</u>	<u>68,876</u>	<u>256,040</u>	<u>44,287</u>	<u>4,498,912</u>	<u>2,436,164</u>	<u>24,910,150</u>
Depreciation and impairment:									
At 1 January 2012	202,438	4,646,093	136,556	13,694	13,167	7,638	-	305,335	5,324,921
Charge for the year	15,251	1,045,212	30,148	12,884	22,357	5,203	-	570,379	1,701,434
Impairment	-	18,933	-	294	-	-	3,902	-	23,129
Reversal of impairment	-	(3,154)	-	-	-	-	-	-	(3,154)
Disposals	(330)	(93,250)	(5,207)	(109)	(99)	(1,049)	-	(458)	(100,502)
Transfers	-	70	(1,617)	(63)	-	(147)	-	1,757	-
Exchange adjustments	<u>11,358</u>	<u>151,339</u>	<u>1,454</u>	<u>764</u>	<u>4,654</u>	<u>310</u>	<u>-</u>	<u>14,412</u>	<u>184,291</u>
At 31 December 2012	<u>228,717</u>	<u>5,765,243</u>	<u>161,334</u>	<u>27,464</u>	<u>40,079</u>	<u>11,955</u>	<u>3,902</u>	<u>891,425</u>	<u>7,130,119</u>
Net carrying amount:									
At 31 December 2012	<u>852,508</u>	<u>10,483,532</u>	<u>114,537</u>	<u>41,412</u>	<u>215,961</u>	<u>32,332</u>	<u>4,495,010</u>	<u>1,544,739</u>	<u>17,780,031</u>

International Petroleum Investment Company PJSC and its subsidiaries

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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>
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	(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 and impairment:									
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>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

17 PROPERTY, PLANT AND EQUIPMENT continued

- a) Additions in assets under construction during 2012 include an amount of US \$ 330,323 thousand (2011: US \$ 471,288 thousand) relating to the construction of an oil pipeline (ADCOP project).
- b) The amount of borrowing costs capitalised during the year ended 31 December 2012 was US \$59,530 thousand (2011: US \$ 49,981 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was 2.0% (2011: 2.0%).
- c) The carrying value of plant and equipment held under finance leases at 31 December 2012 was Nil (31 December 2011: US \$ 48,111 thousand). Leased assets are pledged as security for the related finance lease liabilities.
- d) Property, plant and equipment with a book value of US \$ 2,323,506 thousand (31 December 2011: US \$ 2,242,312 thousand) have been pledged as security for related borrowings and mortgages.
- e) Depreciation charge for the year is reflected in the consolidated income statement as follows:

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Continuing operations	1,701,434	1,185,734
Discontinued operations	<u>-</u>	<u>41,121</u>
	<u>1,701,434</u>	<u>1,226,855</u>

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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>Goodwill</i> <i>US \$ '000</i>	<i>Other</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
2012								
Cost:								
At 1 January 2012	126,969	322,431	267,986	495,331	98,512	732,468	870,152	2,913,849
Additions	25,513	44,073	34,968	-	3,722	-	15,264	123,540
Acquisitions through business combination	238	28,624	-	-	50,910	64,766	56,640	201,178
Disposals	(157)	(21,952)	-	-	(211)	-	(41,951)	(64,271)
Transfers	(221)	1,030	(967)	-	-	-	877	719
Exchange adjustments	<u>2,237</u>	<u>5,103</u>	<u>6,295</u>	<u>9,058</u>	<u>2,147</u>	<u>13,996</u>	<u>2,993</u>	<u>41,829</u>
At 31 December 2012	<u>154,579</u>	<u>379,309</u>	<u>308,282</u>	<u>504,389</u>	<u>155,080</u>	<u>811,230</u>	<u>903,975</u>	<u>3,216,844</u>
Amortisation and impairment:								
At 1 January 2012	51,777	120,668	122,280	-	10,975	-	147,084	452,784
Charge for the year	26,625	17,282	15,104	-	13,855	-	52,948	125,814
Impairment	24	12,259	3,298	-	-	-	5	15,586
Disposals	(80)	(3,366)	-	-	-	-	(22,710)	(26,156)
Exchange adjustments	<u>1,517</u>	<u>1,653</u>	<u>4,004</u>	<u>-</u>	<u>359</u>	<u>-</u>	<u>2,431</u>	<u>9,964</u>
At 31 December 2012	<u>79,863</u>	<u>148,496</u>	<u>144,686</u>	<u>-</u>	<u>25,189</u>	<u>-</u>	<u>179,758</u>	<u>577,992</u>
Net carrying amount:								
At 31 December 2012	<u>74,716</u>	<u>230,813</u>	<u>163,596</u>	<u>504,389</u>	<u>129,891</u>	<u>811,230</u>	<u>724,217</u>	<u>2,638,852</u>

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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>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>(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>732,468</u>	<u>870,152</u>	<u>2,913,849</u>
Amortisation and impairment:								
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>(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>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>732,468</u>	<u>723,068</u>	<u>2,461,065</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

18 INTANGIBLE ASSETS continued

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

	2012 US \$ '000	2011 US \$ '000
Continuing operations	125,814	97,900
Discontinued operations	<u>-</u>	<u>41,094</u>
	<u>125,814</u>	<u>138,994</u>

Impairment testing of intangible assets with an indefinite useful life

Brands relate to trade names within the Group and have been assigned an indefinite useful life because of the businesses' long history and strong market position. The brand values are tested for impairment annually, at 31 December.

The fair value of the trade name was estimated using a relief from royalty approach. In applying this methodology, the value of the trade name was estimated by capitalising the royalties saved due to the Group owning the trade name. The trade name is being used in various businesses in the Group. An appropriate trade name royalty rate was identified as a percentage of revenue or for certain businesses as a percentage of gross margin over variable costs level which translated into approximately 4.0% to 8.0% of gross margin over variable costs depending on the location of the use of the brand, the significance of its presence in the specific country, and the focus on marketing and advertising of the brand. A discount rate for the trade name was calculated and ranged from 11.5% to 13.0%. Terminal value was calculated with a long-term growth rate of 2.0%. A tax amortisation benefit was applied for the trade name as the value will be amortisable for tax purposes.

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 the brand to materiality exceed its recoverable amount.

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 US \$ '000</i>	<i>Diversified investments US \$ '000</i>	<i>Private banking US \$ '000</i>	<i>Integrated oil and gas US \$ '000</i>	<i>Total US \$ '000</i>
Goodwill					
Carrying amount at 31 December 2011	73,134	326,554	27,052	305,728	732,468
Additions during the year from business combinations	50,919	-	-	13,847	64,766
Exchange difference	<u>1,260</u>	<u>-</u>	<u>3,101</u>	<u>9,635</u>	<u>13,996</u>
Carrying amount at 31 December 2012	<u>125,313</u>	<u>326,554</u>	<u>30,153</u>	<u>329,210</u>	<u>811,230</u>

The Group performed its annual impairment test at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

19 IMPAIRMENT TESTING OF GOODWILL continued

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 determined using cash flow projections from financial budgets approved by senior management covering a five-year period. Borouge, a significant associate of Borealis was valued separately for this purpose.

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% (2011: 2%) 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 weighted-average cost of capital ("WACC"). The post-tax discount rate applied to cash flow projections ranged from 9.1% to 10.5% (2011: from 9.2% to 10.6%) using an average growth rate of 2% (2011: between 2% and 2.5%).

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 materially 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.

At 31 December 2012, the recoverable amount of Aabar has been determined based on a fair value less costs to sell approach. Fair value has been estimated following a sum of the parts approach, which consists on adding-up the estimated fair values of each of the company's assets. The main methodology used for the estimation of the referred fair values has been discounted cash flows ("DCF") for unlisted companies and market prices for listed companies adjusted where appropriate based on broker estimates and price forecast consensus. The properties were also adjusted to their fair values (see note 20). At 31 December 2011, 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.

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 Aabar to materially exceed its recoverable amount.

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 2012, 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 post-tax discount rate applied to cash flow projections is 10% (2011: 10%). There was no impairment recognised in 2012 (2011: impairment of US \$ 37,169 thousand).

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31 December 2012

19 IMPAIRMENT TESTING OF GOODWILL continued

Private banking continued

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% (2011: 8%) for the years 2012 to 2016 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.

Integrated oil and gas

Goodwill within the integrated oil and gas operating segment has been allocated to CEPSPA, which constitutes the lowest aggregation of assets that generate largely independent cash inflows.

At 31 December 2012, the recoverable amount of CEPSPA has been determined based on a fair value less costs to sell approach, derived from financial projections covering a 5 year period. CEPSPA's fair value has been estimated following a sum of the parts approach, which consists on adding-up the estimated fair values of each of the company's businesses. The main methodology used for the estimation of the referred fair values has been discounted cash flows ("DCF"). In addition, market multiples were also used as a secondary method and to cross check to the fair value determined under the DCF method.. For each of the company's businesses, the DCF methodology considered financial projections for 5 years plus a terminal value thereafter, except for the Exploration & Production ("E&P") business, where the remaining useful life of each of the producing fields/ assets was considered.

Key assumptions used in fair value calculation

- Financial projections: The financial projections for each of the company's businesses were obtained from the company's 5 year business plan based on management expectations and industry research.
- Crude oil prices: The referred financial projections are built upon the below assumption on future crude oil prices with an annual growth rate of 1.5% as from year 2015.
- Terminal value: Except for the Exploration and Production division terminal values have been estimated following two different methodologies according to its adequacy to each of the company's businesses. The two methodologies used have been perpetual growth rate and an exit multiple.
- Growth rate: Except for the E&P business, growth rates have been estimated for each of the company's businesses based on industry research. Growth rates considered ranges from 1.3% to 1.5%
- Discount rate: The discount rate represents the current market assessment of the risks specific to CEPSPA. The discount rate has been estimated according to the WACC calculated for each of the company's businesses and countries in which the company operates, and ranges from 7.2% to 13.7% depending on the business segment.

Sensitivity to changes in assumptions

With regards to the estimated FVLCTS, management assessed that no reasonably possible change in any of the above key assumptions would cause the carrying value of CEPSPA to materiality exceed its recoverable amount.

International Petroleum Investment Company PJSC and its subsidiaries

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20 INVESTMENT PROPERTIES

	<i>Land US \$ '000</i>	<i>Commercial US \$ '000</i>	<i>Under development US \$ '000</i>	<i>Total US \$ '000</i>
2012				
Cost:				
At 1 January 2012	2,158,119	-	449,875	2,607,994
Additions	14,285	-	99,544	113,829
Transfers	-	<u>223,654</u>	<u>(304,941)</u>	<u>(81,287)</u>
At 31 December 2012	<u>2,172,404</u>	<u>223,654</u>	<u>244,478</u>	<u>2,640,536</u>
Accumulated depreciation and impairment:				
At 1 January 2012	570,064	-	100,560	670,624
Charge for the year	-	2,051	-	2,051
(Reversal) Impairment	<u>(39,420)</u>	<u>21,268</u>	-	<u>(18,152)</u>
Transfers	-	<u>100,560</u>	<u>(100,560)</u>	-
At 31 December 2012	<u>530,644</u>	<u>123,879</u>	<u>-</u>	<u>654,523</u>
Net carrying amount:				
At 31 December 2012	<u>1,641,760</u>	<u>99,775</u>	<u>244,478</u>	<u>1,986,013</u>
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	<u>(1,143)</u>	-	-	<u>(1,143)</u>
Transfers	293,343	-	356,583	649,926
Exchange adjustments	<u>(3,191)</u>	<u>3,037</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 and impairment:				
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	<u>(893)</u>	-	-	<u>(893)</u>
Exchange adjustments	<u>1,611</u>	<u>2,027</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>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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, plant 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 2011: 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 valuers as at 31 December 2012. The fair value of the property has not been determined based 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 2012 amounted to US \$ 1,951,346 thousand (31 December 2011: US \$ 1,542,250 thousand).

Key assumptions used for value in use assessments:

- Inflation during the development period - assumed as running at 5% (2011: 5%) per annum during the development period
- Discount rates used ranges from 11% to 12.5%
- Developers profit margin ranges from 15% to 17%
- 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% (2011: 5%) per annum during the development period
- Discount rates used ranges from 10.5% to 12.5%
- Construction costs - based upon management's estimations for the development of the projects.
- Developers profit margin ranges from 15 % to 17% (2011: 15%)
- Rental incomes - based upon current rental rates being experienced for properties of a similar nature within the local market.

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21 INVESTMENTS IN FINANCIAL INSTRUMENTS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Non-derivative financial instruments:		
Financial assets at fair value through profit or loss (note 21.1)	4,091,564	5,366,287
Available-for-sale financial assets (note 21.2)	<u>1,844,802</u>	<u>2,208,057</u>
	5,936,366	7,574,344
Derivative financial instruments (note 34)	<u>3,219,270</u>	<u>2,130,131</u>
	<u>9,155,636</u>	<u>9,704,475</u>
Non-current	3,158,072	2,650,288
Current	<u>5,997,564</u>	<u>7,054,187</u>
	<u>9,155,636</u>	<u>9,704,475</u>

21.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Daimler AG shares (i)	1,788,480	4,234,333
Unicredit SpA (ii)	1,914,210	799,698
Others	<u>388,874</u>	<u>332,256</u>
	<u>4,091,564</u>	<u>5,366,287</u>
Non-current	42,742	43,455
Current	<u>4,048,822</u>	<u>5,322,832</u>
	<u>4,091,564</u>	<u>5,366,287</u>

- i) During the year 2012, the Group disposed of approximately 6% stake in Daimler AG by unwinding the underlying collar positions. The Group had taken collar and put options to fix the floor and cap price for movements in the share price of Daimler AG and to finance the acquisitions of shares. . Remaining shares in Daimler AG are pledged as collateral against certain term loans.
- ii) This represents an investment in UniCredit SpA. The Group acquired a 4.99% stake in UniCredit SpA in 2010 and an additional 1.76% stake in 2012 by subscribing in a rights issue. The Group's holding is 6.75% at 31 December 2012. The Group has taken collar and put options to fix the floor and cap price for movements in the share price of UniCredit SpA and to finance the acquisitions of shares. Shares in UniCredit SpA are pledged as collateral against a term loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

21 INVESTMENTS IN FINANCIAL INSTRUMENTS continued

21.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Quoted investments	1,499,622	1,771,562
Unquoted investments at fair value	308,475	399,790
Unquoted investments carried at cost	<u>36,705</u>	<u>36,705</u>
	<u>1,844,802</u>	<u>2,208,057</u>

Quoted investments

The fair value of the quoted investments is determined by reference to published price quotations in an active market.

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.

22 TRADE AND OTHER RECEIVABLES

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Trade receivables	4,540,634	4,088,219
Loans and other amounts due from banking customers	1,375,972	1,335,335
Due from banks	247,748	405,335
Balance due from related parties (note 42)	459,549	617,374
Other receivables	<u>-</u>	<u>1,067</u>
	<u>6,623,903</u>	<u>6,447,330</u>
Non-current	253,350	11,331
Current	<u>6,370,553</u>	<u>6,435,999</u>
	<u>6,623,903</u>	<u>6,447,330</u>

At 31 December 2012, trade and other receivables amounting to US \$ 232,882 thousand (31 December 2011: US \$ 209,406 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.

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23 OTHER ASSETS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Long term receivable (i)	1,855,563	1,768,869
Taxes receivable	469,572	439,210
Loans to related parties (note 42)	1,386,304	1,253,814
Other assets receivable from related parties (note 42)	422,042	118,714
Restricted cash	-	85,000
Loans and notes receivable	183,443	207,966
Advances made on investment properties	947,937	869,281
Advances made on investments	11,036	80,926
Other advances and deposits paid (ii)	150,204	238,930
Prepaid expense	45,476	37,967
Accrued interest receivable (iii)	70,056	49,918
Other assets and receivables	<u>380,139</u>	<u>119,526</u>
	<u>5,921,772</u>	<u>5,270,121</u>
Non-current	4,948,562	4,231,247
Current	<u>973,210</u>	<u>1,038,874</u>
	<u>5,921,772</u>	<u>5,270,121</u>

- (i) In 2009, the Company acquired an investment in mandatorily exchangeable bonds (the "IPBC Bonds") of Independent Public Business Corporation of Papua New Guinea. Upon maturity in March 2014, the IPBC 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 IPBC Bonds contain embedded derivatives and accordingly, the derivative components, amounting to US \$ 62,936 thousand as at 31 December 2012 (31 December 2011: US \$ 87,528 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 2012, and is carried at amortised cost.

- (ii) Includes an amount of US \$135,404 thousand (31 December 2011: US \$ 135,478 thousand), relating to Fujairah land reclamation. This cost is expected to be set off against future rent payments of the land up to 2022, which will be leased for the Fujairah Refinery project.
- (iii) Included in other current assets is an amount of US \$ 46,067 thousand (31 December 2011: US \$ 47,566 thousand) relating to interest receivable in respect of GBP/EUR cross currency swaps which the Company undertook in March 2011, and an amount of US \$ 20,633 thousand (31 December 2011: US \$ 18,996 thousand) relating to interest receivable on IPBC Bonds.

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24 INVENTORIES

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Raw materials	1,830,366	1,769,860
Spare parts	204,711	185,600
Consumables	332,910	258,699
Work in progress	16,163	11,395
Finished goods	3,085,083	2,779,732
Consignments	29,846	41,293
In transit	<u>63,955</u>	<u>105,479</u>
	5,563,034	5,152,058
Allowance for obsolescence	<u>(66,843)</u>	<u>(26,515)</u>
	<u>5,496,191</u>	<u>5,125,543</u>

An amount of Nil (31 December 2011: US \$ 461 thousand) represents write-down of inventories recognised as an expense in the period and is included in cost of sales.

25 CASH AND CASH EQUIVALENTS

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Cash and short term deposits	<u>4,912,711</u>	<u>4,992,819</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. Cash and cash equivalents include deposit placed with related party of US \$ 43,715 thousand.

26 SHARE CAPITAL

	<i>2012</i> <i>US \$ '000</i>	<i>Authorised</i> <i>2011</i> <i>US \$ '000</i>	<i>Issued and fully paid</i> <i>2012</i> <i>US \$ '000</i>	<i>2011</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 were provided 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 provided to QADIC in July 2010, based on a cash call.

The US \$ 1 billion received is interest-free with no repayment terms and are repayable at the discretion of the Board of Directors of the Company. Accordingly, management has classified the US \$ 1 billion as a shareholder loan within equity.

International Petroleum Investment Company PJSC and its subsidiaries

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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 2011	3,341,996	58,908	14,369	(124,612)	-	(416,058)	98,760	2,973,363
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>
Other comprehensive income for the year	90,489	(262,422)	63,958	(90,574)	-	44,483	-	(154,066)
Recycle of reserves on disposal of interest in a subsidiary	-	(9,304)	-	(7,971)	(26,895)	-	-	(44,170)
Movements in other reserves	1	(17)	(1)	(132)	-	-	-	(149)
Balance at 31 December 2012	<u>2,312,383</u>	<u>(1,453,790)</u>	<u>(28,285)</u>	<u>(337,013)</u>	<u>-</u>	<u>(267,099)</u>	<u>98,760</u>	<u>324,956</u>

29 BORROWINGS

	2012 US \$ '000	2011 US \$ '000
Overdrafts	758,451	433,750
Obligations under finance leases and hire purchase contracts	5,847	8,541
Listed notes and other borrowing instruments	16,017,602	13,546,976
Unlisted borrowings	<u>19,964,754</u>	<u>21,790,544</u>
	<u>36,746,654</u>	<u>35,779,811</u>
Non-current	25,173,437	26,182,633
Current	<u>11,573,217</u>	<u>9,597,178</u>
	<u>36,746,654</u>	<u>35,779,811</u>

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

The Company	18,708,350	19,198,777
Aabar	10,621,128	9,733,156
Nova	793,393	1,741,109
Borealis	2,125,317	1,604,564
CEPSA	<u>4,498,466</u>	<u>3,502,205</u>
	<u>36,746,654</u>	<u>35,779,811</u>

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29 BORROWINGS continued

Borrowings as at the reporting date, analysed by currency, are as follows:

	2012 US \$ '000	2011 US \$ '000
EUR	19,013,533	14,762,393
USD	12,967,664	13,103,214
AED	2,720,189	5,884,478
JPY	778,544	874,600
GBP	302,553	1,071,766
Others	964,171	83,360
	36,746,654	35,779,811

As of 31 December 2012 and 2011, the Company has not guaranteed the borrowings of any of the Group companies. However, the Company has provided a joint guarantee with 1Malaysia Development Berhad ("1MDB"), a strategic development company wholly-owned by the Government of Malaysia, amounting to US \$ 3.5 billion (see note 33(iii) for further details) in relation to certain obligations of subsidiaries of 1MDB.

Details of the Group borrowings are as follows:

Listed notes and other borrowing instruments

	Maturity	Currency	Coupon rate	2012 US \$ '000	2011 US \$ '000
IPIC - Bond 1	2020	US \$	5.000%	1,484,283	1,482,717
IPIC - Bond 2	2015	US \$	3.125%	995,565	994,084
IPIC - Bond 3	2021	EUR	5.875%	1,622,086	1,587,890
IPIC - Bond 4	2016	EUR	4.875%	1,635,860	1,600,849
IPIC - Bond 5	2026	GBP	6.875%	884,845	844,285
IPIC - Bond 6	2022	US \$	5.500%	1,491,572	1,489,948
IPIC - Bond 7	2017	US \$	3.750%	1,491,679	1,490,935
IPIC - Bond 8	2041	US \$	6.875%	740,466	740,471
IPIC - Bond 9	2015	US \$	1.750%	745,334	-
IPIC - Bond 10	2018	EUR	2.375%	1,047,240	-
IPIC - Bond 11	2023	EUR	3.625%	1,106,374	-
Aabar - Exchangeable bond (see note below)	2016	EUR	4.000%	1,579,466	1,527,110
Borealis - Bond 1	2017	EUR	5.375%	263,940	259,200
Borealis - Bond 2	2019	EUR	4.000%	164,962	-
Nova - Bond 1	2012	US \$	6.50%	-	399,532
Nova - Bond 2*	2013	US \$	6m LIBOR + 3.13%	-	369,345
Nova - Bond 3	2016	US \$	8.38%	343,957	342,156
Nova - Bond 4	2019	US \$	8.63%	342,198	341,433
Nova - Bond 5	2025	US \$	7.88%	77,775	77,021
				16,017,602	13,546,976

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.

* Nova - Bond 2 has been repaid in full in October 2012.

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29 BORROWINGS continued

Unlisted borrowings

	<i>Maturity (Year)</i>	<i>Currency</i>	<i>Interest rate</i>	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
IPIC - Loan 1	2013	EUR	EURIBOR + Margin	97,328	191,160
IPIC - Loan 2*	2013	GBP	LIBOR + Margin	-	227,481
IPIC - Loan 3	2013	JPY	LIBOR + Margin	778,544	874,600
IPIC - Loan 4*	2012	US \$ & AED	LIBOR/EIBOR+Margin	-	849,232
IPIC - Loan 6*	2013	AED	EIBOR+Margin	-	268,784
IPIC - Loan 8	2026	AED	EIBOR + Margin	272,294	272,294
IPIC - Loan 9	2012	US \$	LIBOR + Margin	-	1,497,805
IPIC - Loan 10	2014	US \$	LIBOR + Margin	1,394,654	1,390,527
IPIC - Loan 11	2013	AED	EIBOR + Margin	1,994,156	1,994,661
IPIC - Loan 12	On demand	US \$	LIBOR + Margin	90,318	1,401,054
IPIC - Loan 13	2014	US \$	LIBOR + Margin	169,788	-
IPIC - Loan 14	2014	EUR	EURIBOR+Margin	665,891	-
Aabar - Loan 1	2012	AED	EIBOR + Margin	-	204,221
Aabar - Loan 2	2015	EUR	Fixed rate	-	1,608,697
Aabar - Loan 3	2013	US \$	LIBOR + Margin	1,446,229	1,321,971
Aabar - Loan 4	2013	EUR	EURIBOR + Margin	306,710	208,096
Aabar - Loan 5	2013	AED	EIBOR + Margin	249,518	103,162
Aabar - Loan 6	2013	EUR	Fixed rate	1,547,327	1,498,512
Aabar - Loan 7	2013	EUR	Fixed rate	2,347,220	2,256,290
Aabar - Loan 9	2014	EUR	EURIBOR + Margin	262,157	254,873
Aabar - Loan 10	2012	US \$	LIBOR + Margin	-	750,225
Aabar - Loan 11	2014	EUR	Fixed rate	1,626,746	-
Aabar - Loan 12	2015	AED	EIBOR + Margin	204,221	-
Aabar - Loan 13	2013	US \$	LIBOR + Margin	448,988	-
Aabar - Loan 14	2013	GBP	LIBOR + Margin	302,554	-
Aabar - Loan 15	2013	US \$	LIBOR + Margin	299,992	-
Borealis- Loan 1	2019	EUR	Fixed rate	211,152	207,360
Borealis- Loan 2	2019 - 2027	EUR/ US \$	Fixed rate	135,000	-
Borealis- Loan 3	2016 - 2028	EUR/ US \$	EURIBOR/LIBOR+Margin	154,605	-
CEPSA- Loan 1	2018	US \$	LIBOR+Margin	350,080	350,568
CEPSA- Loan 2	2013	EUR	EURIBOR+Margin	263,940	259,200
CEPSA- Loan 3	2015	EUR	EURIBOR+Margin	263,940	259,200
CEPSA- Loan 4	2016	EUR	EURIBOR+Margin	237,546	233,280
CEPSA- Loan 5	2017	US \$	LIBOR+Margin	200,791	-
CEPSA- Loan 6	2016	US \$	LIBOR+Margin	200,045	-
CEPSA- Loan 7	2022	EUR	EURIBOR+Margin	197,955	194,400
CEPSA- Loan 8	2015	EUR	EURIBOR+Margin	197,955	-
CEPSA- Loan 9	2016	EUR	EURIBOR+Margin	191,357	187,920
CEPSA- Loan 10	2013	EUR	EURIBOR+Margin	131,970	126,900
CEPSA- Loan 11	2013	EUR	EURIBOR+Margin	131,970	126,900
CEPSA- Loan 12	2014	EUR	EURIBOR+Margin	131,970	126,900
CEPSA- Loan 13	2015	EUR	EURIBOR+Margin	131,970	126,900
CEPSA- Loan 14	2017	EUR	EURIBOR+Margin	112,175	101,160
CEPSA- Loan 15	2016	EUR	EURIBOR+Margin	105,576	129,600
CEPSA- Loan 16	2016	US \$	LIBOR+Margin	100,023	-
CEPSA- Loan 17	2014	EUR	EURIBOR+Margin	211,152	-
CEPSA- Loan 18	2015	EUR	EURIBOR+Margin	118,773	-
CEPSA- Loan 19	2012	EUR	EURIBOR+Margin	-	204,768
Others -Fixed	2013 - 2030	Various	Fixed rate	693,034	708,408
Others - Floating	2012 - 2022	Various	Base rate + Margin	987,140	1,273,435
				19,964,754	21,790,544

* IPIC - Loan (4) has been refinanced in March 2012 with IPIC - Loans (13) and (14), with a new maturity date of March 2014 and IPIC - Loans (2) and (6) have been repaid in full in April 2012.

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

All of IPIC loans are unsecured. Aabar loans are unsecured, except for Aabar – Loan 1, 2, 6, 7, 11, 12 and 14, which are secured through pledges on land mortgage and certain securities..

All loans within Others – Fixed are unsecured except for an amount of US \$ 19,412 thousand (31 December 2011: US \$ 19,789 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

30 EMPLOYEES' BENEFIT LIABILITIES

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

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Wages and salaries	1,596,924	1,263,039
Defined contribution plans	54,481	49,312
Defined benefit plans	58,588	62,631
Bonuses	132,059	120,008
Others	<u>131,368</u>	<u>78,226</u>
	<u>1,973,420</u>	<u>1,573,216</u>

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

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Employee end of service benefits	3,834	3,661
Pensions	<u>855,516</u>	<u>769,051</u>
	<u>859,350</u>	<u>772,712</u>

Most companies within the Group 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>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Current service cost	41,206	38,667
Interest cost on benefit obligation	64,020	65,579
Expected return on plan assets	(49,951)	(48,718)
Past service cost	(23)	(25)
Others	<u>3,336</u>	<u>7,128</u>
Net defined benefit expense	<u>58,588</u>	<u>62,631</u>

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

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Defined benefit obligation	(1,766,927)	(1,530,734)
Fair value of plan assets	<u>911,734</u>	<u>762,025</u>
	(855,193)	(768,709)
Unrecognised past service costs	<u>(323)</u>	<u>(342)</u>
Benefit liability	<u>(855,516)</u>	<u>(769,051)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

30 EMPLOYEES' BENEFIT LIABILITIES continued

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

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Benefit obligation at beginning of year	(1,530,734)	(1,812,568)
Benefit obligation of disposal group classified as held for sale	-	373,498
Current service costs	(41,206)	(38,667)
Current interest costs	(64,020)	(65,579)
Contributions by employees	(4,693)	(5,103)
Actuarial losses on obligation	(175,885)	(95,612)
Disposal of business	-	(645)
Acquisition of business	(2,534)	-
Benefits paid from plan	86,471	84,159
Liabilities extinguished on settlements	3,523	1,480
Foreign exchange differences	<u>(37,849)</u>	<u>28,303</u>
Benefit obligation at end of the year	<u>(1,766,927)</u>	<u>(1,530,734)</u>

The defined benefit obligation is analysed as follows:

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Unfunded	135,536	125,834
Partly funded	<u>723,814</u>	<u>646,878</u>
Total benefit obligation	<u>859,350</u>	<u>772,712</u>

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

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Fair value of plan assets at beginning of year	762,024	1,042,620
Fair value of plan assets of disposal group classified as held for sale	-	(293,373)
Expected return on plan assets	49,951	48,718
Contributions by employees	5,049	5,103
Employer contribution	132,921	89,331
Actuarial gains (losses)	31,669	(41,518)
Benefits paid from plan	(86,471)	(84,159)
Assets distributed on settlement	(374)	-
Foreign exchange differences	<u>16,965</u>	<u>(4,697)</u>
Fair value of plan assets at end of year	<u>911,734</u>	<u>762,025</u>

The Group expect to contribute approximately US \$108 million to defined benefit plans in 2013.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

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:

	2012 %	2011 %
Equities	48.6%	49.3%
Fixed income securities (inc. bonds)	40.2%	41.0%
Insurance contracts	8.8%	8.0%
Others	2.5%	1.7%

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:

	2012 %	2011 %
Rate of salary increases	2.5% - 4.0%	2.5% - 4.0%
Rate of increase in pensions payments	0.1% - 2.1%	0.3% - 2.1%
Discount rate	2% - 3.9%	2.8% - 4.4%
Expected rate of return on plan assets*	3.8% - 8.2%	3.4% - 6.9%

* 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:

	2012 US \$ '000	2011 US \$ '000	2010 US \$ '000	2009 US \$ '000	2008 US \$ '000
Fair value of scheme assets	911,734	762,025	1,042,620	986,139	121,589
Present value of defined benefit obligation	(1,766,927)	(1,530,734)	(1,812,568)	(1,628,107)	(353,062)
Deficit in the scheme	(855,193)	(768,709)	(769,948)	(641,968)	(231,473)
Experience adjustments arising on plan liabilities	86,732	610	(136,547)	(6,488)	581
Experience adjustments arising on plan assets	146	46,398	23,578	(10,141)	6,014

31 PROVISIONS

	Restructuring US \$ '000	Decommissioning US \$ '000	Legal disputes US \$ '000	Environmental US \$ '000	Other US \$ '000	Total US \$ '000
At 1 January 2012	8,548	162,264	153,755	25,793	147,323	497,683
Additions	6,425	2,805	26,293	3,637	57,472	96,632
Through business combinations	-	1,225	26	-	135	1,386
Accretion expense	-	6,070	27,545	-	(1,569)	32,046
Utilised	(6,791)	(9,199)	(84,572)	(3,607)	(18,759)	(122,928)
Reversed	(1,162)	(5,505)	(23,214)	(75)	(10,260)	(40,216)
Exchange adjustments	223	3,045	1,457	392	3,327	8,444
Balance at 31 December 2012	7,243	160,705	101,290	26,140	177,669	473,047

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

31 PROVISIONS continued

	<i>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Classified as:		
Non-current	426,942	376,447
Current	<u>46,105</u>	<u>121,236</u>
	<u>473,047</u>	<u>497,683</u>
(i)	Provision for restructuring relates mainly to on-going 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, the closure of active manufacturing plant facilities and the abandonment of crude oil production fields.	
(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. (see note 40 for further information on the status of the litigations).	
(v)	Others cover mainly warranty provisions 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>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Trade payables	3,656,016	3,716,559
Customer deposits and other amounts		
due to banking customers	1,559,016	1,452,438
Balance due to related parties	500,985	552,523
Due to banks	130,416	307,411
Other payables	<u>71,710</u>	<u>65,972</u>
	<u>5,918,143</u>	<u>6,094,903</u>
Non-current	45,284	46,295
Current	<u>5,872,859</u>	<u>6,048,608</u>
	<u>5,918,143</u>	<u>6,094,903</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

33 OTHER LIABILITIES

	2012 US \$ '000	2011 US \$ '000
Advances received	24,970	21,715
Income tax and other taxes payable	603,838	539,526
Interest and other accruals (i)	803,701	741,039
Loan from related parties (note 42)	63,661	50,298
Other payable to related parties (note 42)	143,837	279,832
Government grants (ii)	42,373	34,034
Payables on investments	-	16,812
Financial guarantee contracts (iii)	347,421	-
Other liabilities and payables	<u>428,471</u>	<u>245,710</u>
	<u>2,458,272</u>	<u>1,928,966</u>
Classified as:		
Non- current	624,598	278,223
Current	<u>1,833,674</u>	<u>1,650,743</u>
	<u>2,458,272</u>	<u>1,928,966</u>

- (i) Includes an amount of US \$ 46,067 thousand (31 December 2011: US \$ 47,566 thousand) interest payable in respect of GBP/EUR cross currency swaps which the Group undertook in March 2011.
- (ii) 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.
- (iii) As part of the state-to-state relationship between the Emirate of Abu Dhabi and Malaysia, the Company agreed in 2012 to guarantee the obligations of certain subsidiaries of 1MDB in respect of two financings in the energy and power sector amounting to US \$ 3.5 billion in total. In respect of these financings, the Company benefits from co-guarantees and support from 1MDB and has secured for its Group the right to acquire up to a 49 % stake in 1MDBEnergy Sdn Bhd, a company which holds a stake in Tanjong Energy Holdings Sdn Bhd, and the right to acquire up to a 49 % stake in the shares of 1MDB Energy (Langat) Sdn Bhd which ultimately owns a stake in Genting Sanyen Power Sdn Bhd.

The guarantees 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 initially recognised less cumulative amortisation.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

34 DERIVATIVE FINANCIAL INSTRUMENTS continued

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.

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

	<i>Assets</i> <i>2012</i> <i>US \$'000</i>	<i>Liabilities</i> <i>2012</i> <i>US \$'000</i>	<i>Assets</i> <i>2011</i> <i>US \$'000</i>	<i>Liabilities</i> <i>2011</i> <i>US \$'000</i>
Derivatives held-for-trading				
Interest rate swaps	100	300,427	898	444,019
Currency forwards	23,585	67,643	30,567	29,897
Currency swaps	23,392	-	30,581	-
Currency futures	267	266	705	703
Currency options	14	14	1,129	1,129
Equity options (see Note 11 (iii))	3,068,075	299,154	1,954,900	710,638
Commodity swaps	6,423	1,451	6,793	786
Commodity futures	-	692	1,855	-
Embedded derivative (see Note 23 (i))	62,936	23	87,528	30
	<u>3,184,792</u>	<u>669,670</u>	<u>2,114,956</u>	<u>1,187,202</u>
Derivatives used as hedge of net investments				
Currency forwards (see note below)	-	114,649	-	-
Derivatives used as fair value hedges				
Commodity swaps	225	-	-	-
Derivatives used as cash flow hedges				
Interest rate swaps	-	5,849	-	14,168
Currency forwards	11,480	5,848	2,571	16,849
Commodity swaps	15,159	10,397	10,045	6,491
Other swap arrangements	7,614	49,113	2,559	33,812
	<u>34,253</u>	<u>71,207</u>	<u>15,175</u>	<u>71,320</u>
	<u>3,219,270</u>	<u>855,526</u>	<u>2,130,131</u>	<u>1,258,522</u>
Non-current	1,270,528	217,682	398,776	323,434
Current	<u>1,948,742</u>	<u>637,844</u>	<u>1,731,355</u>	<u>935,088</u>
	<u>3,219,270</u>	<u>855,526</u>	<u>2,130,131</u>	<u>1,258,522</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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

34 DERIVATIVE FINANCIAL INSTRUMENTS continued

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.

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.

Hedge of net investments in foreign operations:

Included in derivatives at 31 December 2012, is a foreign currency forward with a notional amount of MYR 5,894,501 thousand, which has been designated as a hedge of the net investment in RHB. This foreign currency forward is being used to hedge the Group's exposure to MYR foreign exchange risk on RHB. Gains or losses on the fair valuation of this foreign currency forward are transferred to other comprehensive income to the extent the hedge is effective in order to offset any gains or losses on translation of the net investment in RHB. The ineffective portion of the hedge has been recognized in the consolidated income statement. The Group has settled these forward contracts in first quarter of 2013.

Included in borrowings at 31 December 2012 was a borrowing of EUR 4,655,000 thousand (2011: EUR 2,500,000 thousand) which has been designated as a hedge of the net investment in CEPSA. This borrowing is being used to hedge the Group's exposure to EUR foreign exchange risk on these investments. Gains or losses on the retranslation of this borrowing are transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries. There is no ineffectiveness in the years ended 31 December 2012 and 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

34 DERIVATIVE FINANCIAL INSTRUMENTS continued

Hedge of net investments in foreign operations: continued

The table below summarises the maturity profile of the Group's derivatives.

	<i>0-3 months US \$ '000</i>	<i>3-12 months US \$ '000</i>	<i>1-3 years US \$ '000</i>	<i>3-5 years US \$ '000</i>	<i>>5 years US \$ '000</i>	<i>Total US \$ '000</i>
2012						
Cash outflow						
Trading derivatives and economic hedges	(716,257)	(147,427)	(135,705)	(56,500)	-	(1,055,889)
Derivatives for cash flow hedges	(100,430)	(460,149)	(342,374)	(237,278)	-	(1,140,231)
Derivatives for fair value hedges	(114,649)	-	-	-	-	(114,649)
	<u>(931,336)</u>	<u>(607,576)</u>	<u>(478,079)</u>	<u>(293,778)</u>	<u>-</u>	<u>(2,310,769)</u>
Cash inflow						
Trading derivatives and economic hedges	413,274	1,890,662	409,204	306,128	551,767	3,571,035
Derivatives for cash flow hedges	95,863	447,587	320,168	238,838	-	1,102,456
Derivatives for fair value hedges	226	-	-	-	-	226
	<u>509,363</u>	<u>2,338,249</u>	<u>729,372</u>	<u>544,966</u>	<u>551,767</u>	<u>4,673,717</u>
	<u>(421,973)</u>	<u>1,730,673</u>	<u>251,293</u>	<u>251,188</u>	<u>551,767</u>	<u>2,362,948</u>
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>

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 \$ 38,726,609 thousand compared to a carrying amount of US \$36,746,654 thousand as of 31 December 2012 (31 December 2011: fair value of US \$ 35,937,974 thousand and carrying amount of US \$ 35,779,811 thousand), whereas other assets had a fair value of US \$ 6,181,502 thousand compared to a carrying amount of US \$ 5,921,772 thousand as of 31 December 2012 (31 December 2011: fair value of US \$ 5,291,826 thousand and carrying amount of US \$ 5,270,121 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

35 FINANCIAL INSTRUMENTS continued

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 2012 and 2011, the Group held the following financial instruments measured at fair value:

	<i>31 December 2012 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	1,808,097	1,499,622	29,522	278,953
Derivative financial assets	3,219,270	-	2,667,501	551,769
Financial assets at fair value through profit or loss	<u>4,091,564</u>	<u>4,034,953</u>	<u>28,818</u>	<u>27,793</u>
	<u>9,118,931</u>	<u>5,534,575</u>	<u>2,725,841</u>	<u>858,515</u>
Liabilities measured at fair value				
Derivative financial liabilities	<u>855,526</u>	-	<u>855,526</u>	-
	<u>855,526</u>	-	<u>855,526</u>	-
	<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>	-	<u>1,258,522</u>	-
	<u>1,258,522</u>	-	<u>1,258,522</u>	-

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2012

35 FINANCIAL INSTRUMENTS continued

Fair value hierarchy 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
2012								
Available-for-sale investments	367,989			449	(6,590)	(86,000)	3,105	278,953
Financial assets at fair value through profit or loss	13,716	-	-	11,960	-	2,117	-	27,793
Derivative financial instruments	30,581	-	-	356,774	-	164,414	-	551,769
31 December 2012	412,286	-	-	369,183	(6,590)	80,531	3,105	858,515
2011								
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

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 2012 and 2011.

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

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 2012.

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.

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>
2012			
US \$	50 bps	14,398	(82)
AED	50 bps	14,493	-
EUR	50 bps	11,966	(630)
JPY	50 bps	3,896	-
Others	50 bps	<u>3,211</u>	<u>-</u>
		<u>47,964</u>	<u>(712)</u>
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>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

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.

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>
2012			
CHF	+10%	16,413	4,713
EUR	+10%	(207,774)	(14,636)
JPY	+10%	(72,474)	44,858
CAD	+10%	(70,017)	(28,152)
GBP	+10%	(118,017)	56,355
Others	+10%	<u>162,990</u>	<u>147,303</u>
		<u>(288,879)</u>	<u>210,441</u>
2011			
CHF	+10%	7,723	7,302
EUR	+10%	(268,230)	104,309
JPY	+10%	(80,814)	49,207
CAD	+10%	(64,269)	(27,947)
GBP	+10%	(107,165)	60,151
Others	+10%	<u>(47,879)</u>	<u>(6,055)</u>
		<u>(560,634)</u>	<u>186,967</u>

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

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the on-going 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>2012 Effect on profit before tax US \$ '000</i>	<i>Effect on equity US \$ '000</i>	<i>2011 Effect on profit before tax US \$ '000</i>	<i>Effect on equity US \$ '000</i>
Crude oil	+10%	(16,109)	-	(5,155)	-
Natural gas	+10%	(16,600)	3,700	(16,237)	(2,360)
Electricity	+10%	-	33,184	(2,095)	(27,490)
Propylene	+10%	32,170	-	(24,748)	-
Polyethylene	+10%	156,259	-	806,040	-
Other petrochemical feedstock*	+10%	85,455	-	(211,383)	-

*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.

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:

	<i>Change</i>	<i>2012 Effect on profit before tax US \$ '000</i>	<i>Effect on equity US \$ '000</i>	<i>2011 Effect on profit before tax US \$ '000</i>	<i>Effect on equity US \$ '000</i>
Europe	+10%	51,888	101,225	94,565	106,157
Middle East (excluding UAE)	+10%	-	25,000	-	33,600
North America	+10%	586	-	-	9,271
Asia and Pacific	+10%	6,294	42,528	8,753	51,580
Africa	+10%	-	3,671	-	3,670

The effect of decrease in equity prices is expected to be equal and opposite to the effect of increases shown, except for certain investments in Europe where there are economic hedges in place. In this case a decrease of 10% in equity price will result in negative effect of US \$ 43,820 thousand on profit before tax (2011: negative effect of US \$ 98,895 thousand).

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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 except for loans and other banking receivables due from banking customers.

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.

Risk concentrations: maximum exposure to credit risk

	2012		2011	
	<i>Carrying value</i>	<i>Maximum credit exposure</i>	<i>Carrying value</i>	<i>Maximum credit exposure</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
<i>On balance sheet</i>				
Loans and other amounts due from banking customers	1,375,972	2,333,131	1,335,335	2,330,455
Derivative financial assets	3,219,270	3,219,270	2,130,131	2,130,131
Trade and other receivables	5,000,183	5,001,860	4,706,660	4,643,507
Other assets	5,921,772	5,922,882	5,270,121	5,059,577
Due from banks	247,748	247,748	405,335	432,405
Cash and short-term deposits	<u>4,912,711</u>	<u>4,912,711</u>	<u>4,992,819</u>	<u>4,992,819</u>
	<u>20,677,656</u>	<u>21,637,602</u>	<u>18,840,401</u>	<u>19,588,894</u>

International Petroleum Investment Company PJSC and its subsidiaries

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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>North</i> <i>America</i> <i>US \$ '000</i>	<i>South</i> <i>America</i> <i>US \$ '000</i>	<i>Asia</i> <i>US \$ '000</i>	<i>Australia</i> <i>New Zealand</i> <i>US \$ '000</i>	<i>Others</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
2012								
Loans and other amounts due from banking customers	489,517	306,339	217,844	30,900	319,541	1	11,830	1,375,972
Derivative financial instruments	23,392	2,600,919	3,648	-	528,375	62,936	-	3,219,270
Trade and other receivables	1,462	4,175,330	527,524	115,280	60,469	1,783	118,335	5,000,183
Other assets	1,362,730	1,289,170	1,385,460	59,581	6,301	1,739,414	79,116	5,921,772
Due from banks	124,997	122,751	-	-	-	-	-	247,748
Cash and short-term deposits	<u>1,306,612</u>	<u>2,737,550</u>	<u>600,378</u>	<u>141,718</u>	<u>74,992</u>	<u>-</u>	<u>51,461</u>	<u>4,912,711</u>
	<u>3,308,710</u>	<u>11,232,059</u>	<u>2,734,854</u>	<u>347,479</u>	<u>989,678</u>	<u>1,804,134</u>	<u>260,742</u>	<u>20,677,656</u>
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>

International Petroleum Investment Company PJSC and its subsidiaries

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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</i> <i>US \$ '000</i>	<i>Government</i> <i>US \$ '000</i>	<i>Banking</i> <i>US \$ '000</i>	<i>Energy</i> <i>US \$ '000</i>	<i>Chemicals</i> <i>US \$ '000</i>	<i>Real Estate</i> <i>US \$ '000</i>	<i>Other</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
2012								
Loans and other amounts due from banking customers	1,375,972	-	-	-	-	-	-	1,375,972
Derivative financial instruments	-	69,511	2,277,253	528,375	38,003	-	306,128	3,219,270
Trade and other receivables	-	24,033	611	2,221,937	2,165,008	-	588,594	5,000,183
Other assets	-	2,074,936	214,742	409,587	545,117	1,688,943	988,447	5,921,772
Due from banks	-	-	247,748	-	-	-	-	247,748
Cash and short-term deposits	-	119,142	4,030,006	-	738,336	-	25,227	4,912,711
	<u>1,375,972</u>	<u>2,287,622</u>	<u>6,770,360</u>	<u>3,159,899</u>	<u>3,486,464</u>	<u>1,688,943</u>	<u>1,908,396</u>	<u>20,677,656</u>
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>

International Petroleum Investment Company PJSC and its subsidiaries

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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:

	High US \$ '000	Medium US \$ '000	Low US \$ '000	Non classified US \$ '000	Total US \$ '000
31 December 2012					
Loans and other amounts due from banking customers	1,375,972	-	-	-	1,375,972
Derivative financial instruments	3,098,587	-	-	120,683	3,219,270
Trade and other receivables	2,688,470	631,081	491,253	1,189,379	5,000,183
Other assets	3,174,702	114	-	2,746,956	5,921,772
Due from banks	247,748	-	-	-	247,748
Cash and short-term deposits	4,894,092	583	-	18,036	4,912,711
	<u>15,479,571</u>	<u>631,778</u>	<u>491,253</u>	<u>4,075,054</u>	<u>20,677,656</u>
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	4,913,091	585	-	79,143	4,992,819
	<u>14,285,255</u>	<u>695,879</u>	<u>293,111</u>	<u>3,566,156</u>	<u>18,840,401</u>

Credit quality levels are defined based on estimated default probabilities.

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

	Neither past due nor impaired US \$ '000	Past due up to 1 month US \$ '000	Past due 1-3 months US \$ '000	Past due 3-6 months US \$ '000	Past due longer than 6 months US \$ '000	Total US \$ '000
2012						
Loans and other amounts due from banking customers	1,375,972	-	-	-	-	1,375,972
Derivative financial instruments	3,219,270	-	-	-	-	3,219,270
Trade and other receivables	4,547,825	325,848	61,444	23,875	41,191	5,000,183
Other assets	5,920,729	26	-	-	1,017	5,921,772
Due from banks	247,748	-	-	-	-	247,748
Cash and short-term deposits	4,912,711	-	-	-	-	4,912,711
	<u>20,224,255</u>	<u>325,874</u>	<u>61,444</u>	<u>23,875</u>	<u>42,208</u>	<u>20,677,656</u>
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>

International Petroleum Investment Company PJSC and its subsidiaries

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36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk continued

Movements in allowance for impairment are as follows:

	Opening US \$ '000	Additions/ acquired US \$ '000	Transfers US \$ '000	Interest US \$ '000	Written- off US \$ '000	Recoveries US \$ '000	Exchange difference US \$ '000	Total US \$ '000
On balance sheet								
2012								
Loans and other banking receivables	23,506	9,979	-	2,356	(11,956)	(6,347)	167	17,705
Trade and other receivables	209,406	36,225	1,996	-	1,440	(18,854)	2,669	232,882
Other assets	27,438	423	-	-	-	(513)	166	27,514
	<u>260,350</u>	<u>46,627</u>	<u>1,996</u>	<u>2,356</u>	<u>(10,516)</u>	<u>(25,714)</u>	<u>3,002</u>	<u>278,101</u>
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>

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.

Undiscounted contractual basis	On demand US \$ '000	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
2012							
Other liabilities	41,461	1,072,900	729,059	177,984	19,125	448,567	2,489,096
Trade and other payables	238,041	3,959,622	11,640	4,188	952	14,268	4,228,711
Borrowings	90,318	2,551,062	9,876,645	9,846,705	8,132,241	12,742,907	43,239,878
Customer deposits and other amounts due to banking customers	1,090,184	350,039	118,793	-	-	-	1,559,016
Due to banks	74,171	10,962	-	45,283	-	-	130,416
	<u>1,534,175</u>	<u>7,944,585</u>	<u>10,736,137</u>	<u>10,074,160</u>	<u>8,152,318</u>	<u>13,205,742</u>	<u>51,647,117</u>

In 2012, the Company agreed to guarantee the obligations of certain subsidiaries of IMDB in respect of two financings amounting to US \$ 3.5 billion in total (see note 33(iii)). The obligations to which these guarantees relate mature in 2022.

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>

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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 2012 and 2011.

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>2012</i> <i>US \$ '000</i>	<i>2011</i> <i>US \$ '000</i>
Interest bearing loans and borrowings (Note 29)	36,746,654	35,779,811
Less cash and short term deposits	<u>(4,912,711)</u>	<u>(4,992,819)</u>
Net debt	<u>31,833,943</u>	<u>30,786,992</u>
Total equity	<u>15,564,011</u>	<u>14,223,158</u>
Equity and net debt	<u>47,397,954</u>	<u>45,010,150</u>
Gearing ratio	<u>67%</u>	<u>68%</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 legislations. 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.

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37 OTHER RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Environmental risks

Certain activities of companies within the Group, for instance CEPESA, 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 CEPESA 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 CEPESA 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 CEPESA 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 CEPESA 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 CEPESA 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 CEPESA 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 CEPESA plants which were adapted to UNE 150008:2009 standard on Analysis and Assessment of Environmental Risks, a benchmark standard in Spain.

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37 OTHER RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Environmental risks continued

Also, all of the 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

	2012 US \$ '000	2011 US \$ '000
Real estate (including mutual funds)	1,827,694	2,559,021
Cash and cash equivalents	2,413,933	2,077,125
Fixed income instruments (bonds, loans and mutual funds)	1,865,686	1,263,508
Equities (stocks and mutual funds)	<u>4,913,534</u>	<u>3,810,726</u>
Assets under management and custody by the Group	11,020,847	9,710,380
Assets not in the custody of the Group	<u>2,251,446</u>	<u>2,373,023</u>
	<u>13,272,293</u>	<u>12,083,403</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 \$ 2,141 million (31 December 2011: US \$ 2,255 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% (2011: 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

	2012 US \$ '000	2011 US \$ '000
Guarantees		
Financial guarantees (see note 33(iii))	3,500,000	-
Guarantees and letters of credit	2,108,734	1,622,700
Guarantees in favour of associated companies	<u>27,248</u>	<u>112,226</u>
	<u>5,635,982</u>	<u>1,734,926</u>
Feedstock purchase commitments		
Up to 1 year	2,139,627	1,997,625
1 to 5 years	6,628,547	7,045,151
Beyond 5 years	<u>10,500,556</u>	<u>10,935,404</u>
	<u>19,268,730</u>	<u>19,978,180</u>
Operating lease commitments		
Up to 1 year	247,504	289,030
1 to 5 years	565,144	721,542
Beyond 5 years	<u>510,144</u>	<u>516,323</u>
	<u>1,322,792</u>	<u>1,526,895</u>
Capital commitments		
Property, plant and equipment	1,156,776	1,631,705
Investment property	786,427	522,904
Investments in equity instruments	119,428	280,831
Intangible assets	4,482	6,665
Fiduciary assets	<u>993,629</u>	<u>697,141</u>
	<u>3,060,742</u>	<u>3,139,246</u>

40 LITIGATION

Nova and Dow Chemical Canada ULC (“Dow Canada”) are involved in litigation concerning the third ethylene plant at Nova’s Joffre, Alberta site. Dow Canada has claimed approximately US \$ 300 million plus further losses and damages in an amount to be proven at trial of this action, therefore the amount claimed will increase. Nova’s counterclaim is for approximately US \$700 million.

In 2005, Dow Chemical Company (“Dow”) filed a claim in the Federal District Court in Delaware alleging certain grades of Nova’s polyethylene resin infringed Dow patents. In 2010 Dow was awarded damages and pre-judgment interest totaling approximately US \$76 million. Nova appealed the verdict to the Court of Appeals for the Federal Circuit (the “CAFC”), which affirmed the District Court ruling. To stay execution of the money judgment, pending the outcome of any appeal, Nova posted a bond which was secured by cash collateral in the amount of US \$85 million. Nova’s appeal for a review by the full panel of the CAFC was denied, and in August 2012 Nova filed a petition for review with the U.S. Supreme Court, which was denied in October 2012. As a result, Nova paid Dow approximately US \$77 million, the bond was terminated and the US \$85 million of cash collateral was released. A Supplemental Damages Bench Trial is scheduled to begin on April 30, 2013 to determine any additional damages that should be awarded to Dow based on sales of certain grades of polyethylene resin during the post judgment period through expiration of the patents on October 15, 2011. Dow has also filed a Statement of Claim in the Federal Court in Canada alleging patent infringement, and Nova has filed a counterclaim. A trial on the infringement issue is scheduled to commence in September 2013, and if necessary, a subsequent trial to determine damages will be held at a future date.

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41 EVENTS AFTER THE REPORTING PERIOD

- a) Borealis has made a firm offer to TOTAL to purchase its entire interest in GPN. The latter is France's leading manufacturer of nitrogen fertilizers. Furthermore, Borealis has made another firm offer to TOTAL for its entire majority interest of 56.86% in Rosier S.A listed on NYSE Euronext Brussels. The acquisition of Rosier shares will only be completed if Borealis simultaneously acquires the interest in GPN from TOTAL.
- b) In January 2013 Aabar signed a loan agreement for US \$ 295.1 million. The loan carries a fixed interest rate and will be utilized to fund the on-going projects.
- c) In February 2013, Nova called its US \$ 100 million 7.875% debentures due 2025 early. Nova paid these debentures using cash-on-hand on 15 March 2013.
- d) In February 2013, CEPSA opted to exercise the right to purchase the available Endesa (12%) and Iberdola (21%) shares in MEDGAZ, S.A. As another shareholder is exercising the same right, the distribution principle will be applied, as stipulated in the bylaws. Following this distribution, CEPSA would increase its shares by 15.04% to reach a total of 35.04% of the shares.
- e) In February 2013, Aabar has repaid in full a short term bridge loan amounting to US \$ 300 million. The loan carried an interest rate of LIBOR plus a margin.
- f) Aabar has extended the maturity of one of its collar loan and related derivatives from February 2013 to June 2013.
- g) In March 2013 Aabar signed a short term loan agreement for US \$ 250 million. The loan carries an interest of LIBOR plus a margin and is repayable in full within three months or can be extended for another three months. The loan has been fully withdrawn.
- h) Falcon Private Bank has completed the acquisition of Clariden Leu (Europe) LTD, a London based asset manager effective 31st March 2013. Clariden Leu (Europe) LTD will conduct the business under new name as Falcon Private Wealth Ltd.
- i) In April 2013, Aabar signed a multi-currency term loan facilities agreement equivalent to US \$ 2.5 billion. The loan is divided into two tranches carrying an interest rate equal to the relevant reference rate plus a margin. The first tranche is repayable in three years and the second tranche is repayable in five years. The two tranches are repayable in full on maturity. The loan will be used to refinance existing indebtedness and general corporate purposes, including the refinancing of US \$ 2 billion (equivalent) loan which is due to mature in May 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by each Company's management and are made on the terms agreed by the Board of Directors or management.

Pursuant to the 29 May 1984 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 Group, in the ordinary course of business, enter into various transactions including borrowings and bank deposits with financial institutions which may be majority-owned by the Government of Abu Dhabi. The effect of these transactions is included in the consolidated financial statements. These transactions are made at terms equivalent to those that prevail in arm's length transactions. There are no collaterals provided against borrowings from related parties.

Cash and cash equivalents and borrowings include USD 622,231 thousand (2011: USD 1,127,441 thousand) and USD 4,352,324 thousand (2011: USD 5,975,828 thousand), respectively, with/from entities in which the Government of Abu Dhabi has an equity stake. Interest income and finance cost include USD 9,745 thousand (2011: USD 18,418 thousand) and USD 129,498 thousand (2011: USD 90,220 thousand), respectively, relating to balances with these entities.

Compensation of the Company's key management personnel and Board of Directors

The remuneration of senior key management personnel and the Board of Directors of the Company during the year was as follows:

	<i>2012</i>	<i>2011</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Short-term benefits	5,630	5,288
Board of directors' remuneration	<u>1,144</u>	<u>1,307</u>
	<u>6,774</u>	<u>6,595</u>

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 RELATED PARTY TRANSACTIONS continued

<i>Business relationship</i>	<i>Goods and services</i>					<i>Financing</i>				
	<i>Purchases from</i>	<i>Sales to</i>	<i>Receivables from</i>	<i>Payables to</i>	<i>Other assets</i>	<i>Other payables</i>	<i>Loans</i>	<i>Borrowings</i>	<i>Interest received</i>	<i>Interest paid</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>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
2012										
Associates	2,668,244	1,744,740	256,468	454,065	-	-	30,452	1,457	1,090	15
Joint ventures	375,030	1,144,614	115,397	36,742	-	-	269,539	52,618	5,490	393
Other related parties	<u>111,142</u>	<u>952,690</u>	<u>87,684</u>	<u>10,178</u>	<u>422,042</u>	<u>143,837</u>	<u>1,086,313</u>	<u>9,586</u>	<u>119,867</u>	<u>140</u>
	<u>3,154,416</u>	<u>3,842,044</u>	<u>459,549</u>	<u>500,985</u>	<u>422,042</u>	<u>143,837</u>	<u>1,386,304</u>	<u>63,661</u>	<u>126,447</u>	<u>548</u>
<i>Business relationship</i>	<i>Goods and services</i>					<i>Financing</i>				
	<i>Purchases from</i>	<i>Sales to</i>	<i>Receivables from</i>	<i>Payables to</i>	<i>Other assets</i>	<i>Other payables</i>	<i>Loans</i>	<i>Borrowings</i>	<i>Interest received</i>	<i>Interest paid</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>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
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>

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 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: 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.

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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 2012. The significant subsidiaries of the Company are listed in the following table:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Percentage holding</i>	
		2012	2011
Aabar	UAE	95.71%	95.35%
CEPSA	Spain	100%	100%
Nova	Canada	100%	100%
Borealis	Austria	64%	64%
Ferrostaal AG*	Germany	-	70%

*On 7 March 2012, the Company re-transferred all of its 70% interest in Ferrostaal AG to MAN AG (note 4.1).