

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

CHAIRMAN'S REPORT, MANAGING DIRECTOR'S  
MESSAGE AND CONSOLIDATED  
FINANCIAL STATEMENTS

31 DECEMBER 2014

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

CHAIRMAN'S REPORT

31 DECEMBER 2014



## Chairman's Report

The International Petroleum Investment Company (IPIC) was founded in 1984 by the late HH Sheikh Zayed Bin Sultan Al Nahyan, the founder and father of the UAE, to advance his vision of using Abu Dhabi's natural petroleum wealth to build a modern, diversified economy for the benefit of future generations. Since its establishment, IPIC has developed a strong portfolio of upstream, downstream, energy-related and diversified investments. IPIC continues to follow a long-term investment strategy, which is based on identifying world-class partners, creating synergies within our portfolio, and value creation for Abu Dhabi and the United Arab Emirates.

Concerns over economic growth, coupled with a supply glut, led to a sharp decline in crude oil prices during the second half of 2014. Despite short-term price volatility, IPIC and its portfolio companies delivered strong operational and financial results and continued to invest on a long-term basis in the core areas. Key highlights of 2014 include:

- NOVA Chemicals continued to progress towards its NOVA 2020 strategy with the conversion of its Corunna, Ontario, cracker to 100% natural gas liquid feedstock consumption and the advancement of construction of a new polyethylene plant at its Joffre, Alberta, site.
- Borouge, Borealis's jointly owned petrochemical company in Abu Dhabi, continued to deliver on its expansion strategy through the start-up of its third ethylene cracker in Ruwais, with the accompanying downstream units moving into start-up phase.
- aabar's publicly-listed investments benefited from the strong tailwinds in the global equity markets during 2014, and its real estate portfolio continued to show progress. aabar continues to advance the strategic initiatives of the Government through investments in key jurisdictions. aabar also benefited from a repositioning of its capital structure.
- The acquisition of Coastal Energy, with assets in Thailand and Malaysia, has given CEPSA an increase of more than 150% in hydrocarbon reserves. Moreover, the creation of Cosmo Abu Dhabi Exploration & Production Co. Ltd., in which CEPSA has a 20% stake, marked CEPSA's entry into Exploration and Production in Abu Dhabi and will enable the company to participate in four offshore production fields.
- 2014 was a transformational year for Oil Search with the successful delivery of the landmark PNG LNG Project. Oil Search also acquired an interest in the Elk/Antelope gas fields in Papua New Guinea which are expected to underwrite a second major LNG project in the country.



- IPIC's income generation ability remained strong in a tough year like 2014, owing to our well-diversified portfolio with its many cost advantages. IPIC's plans address the current challenging environment while continuing to invest in high-quality assets. IPIC remains committed to its priorities of profitable growth, increased efficiency and shareholder value creation.

The combination of IPIC's world-class portfolio, strong relationships, access to international banking and capital markets, and the continued support of our shareholder, the Government of the Emirate of Abu Dhabi, provide a solid platform to pursue our growth strategy.

IPIC remains fully committed to support and create jobs for Emiratis, which we believe, can play a vital role in strengthening the national workforce. We are also committed to supporting a variety of educational, institutional and sporting events to nurture talent among the local community. During 2014, IPIC undertook a number of community-focused initiatives, including sponsorship of Jiu Jitsu World Championship and the Women's Ramadan Football Tournament, and we hosted students from Zayed Higher Organization for Humanitarian Care and Special Needs. IPIC was also extremely proud to sponsor the 2014 Dubai World Cup event and enter a landmark long-term strategic partnership with Real Madrid.

As we close another successful year for IPIC, I would like to extend my thanks and appreciation to our board of directors and our dedicated leadership team for their efforts in making IPIC the pioneering institution that it is today. I also want to thank our hard-working staff across the portfolio for their commitment throughout the past year. I would particularly like to extend a warm expression of gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, the President of the UAE and Ruler of Abu Dhabi, and His Highness General Sheikh Mohamed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi and Deputy Supreme Commander of the UAE Armed Forces. IPIC's success is a direct testament to their continued leadership, support and encouragement.

Abu Dhabi, June 2015

**Mansour bin Zayed Al Nahyan**  
**Chairman of the Board of Directors**

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

MANAGING DIRECTOR'S MESSAGE

31 DECEMBER 2014



## Managing Director's Message

Evolution consists of three components measured in time: the past, the present, and the future. IPIC, established in 1984, was created with a vision towards the future in creating value through investments and development intertwined with our natural economy, energy. Over the course of our 30 year history, four separate Managing Directors grew the group's total assets to the USD 66.3 billion we are today, successfully navigating both the highs and lows of the world economy, to whom much gratitude and admiration should be received. As the company's fifth Managing Director, I look to build upon the foundations set by my predecessors and to continue to enhance and improve the value proposition set by our late beloved President and Ruler, HH Sheikh Zayed Bin Sultan Al Nahyan and championed by his sons HH Sheikh Khalifa Bin Zayed Al Nahyan, President and Ruler of the UAE; HH General Sheikh Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi; and HH Sheikh Mansour Bin Zayed al Nahyan, Deputy Prime Minister of the UAE and Chairman of the IPIC Board of Directors.

2014 was a year defined by moderate volatility due to macro-economic and political uncertainty affecting commodity, currency, and rates markets alike, all of which IPIC has direct participation in. These factors, along with prudent operational management, resulted in:

- revenues of USD 51.2 billion in 2014 compared to USD 52.8 billion in 2013 largely due to the fall in crude oil prices offset by new acquisitions made throughout the year;
- profits of USD 1.5 billion in 2014 compared to USD 2.2 billion in 2013 as a result of the decrease in revenues, yet, buoyed by exchange gains on Euro-denominated financial liabilities;
- total assets of USD 66.3 billion in 2014 compared to USD 68.4 billion in 2013 as a result of utilization of cash to pay down certain liabilities and derecognition of certain assets offset with business acquisitions made in the group and;
- total equity of USD 16.3 billion in 2014 compared to USD 17.5 billion in 2013 as a result of adverse movements in foreign currency translation reserves attributable to the larger Euro asset exposures held throughout the group and other certain mark-to-market adjustments that flowed to equity from other comprehensive income; and
- total borrowings of USD 29.9 billion in 2014 compared to USD 33.5 billion in 2013.

The results were in line with the environment in which we operate. As we look to the future, improving efficiencies and developing enhanced synergies across the group to achieve consistent, resilient, and strong results in any environment, is priority.



IPIC's results are the sum of its parts. Driving much of the group's total assets of USD 66.3 billion are our subsidiaries and associates. Each serving as IPIC's and Abu Dhabi's flagship ambassadors in the multiple jurisdictions and sectors they operate in. Each equally important and supported by the IPIC. Their contribution to the groups' results are as follows:

- CEPSA and OMV drive the upstream and integrated segments. CEPSA reported revenues of USD 34.8 billion versus USD 36.6 billion in 2013. This was attributable to a fall in crude prices, where in December of 2013, Brent was USD 102.04 and by the time the August to December 2014 slide finished, prices were at USD 62.86. This segment constitutes 38.9% of group assets and 25.2% of group liabilities. This segment reported a loss for 2014.
- Nova and Borealis which drive the downstream segments reported combined revenues of USD 16.2 billion versus USD 16.1 billion in 2013. Falling input costs over the second half of 2014 along with higher demand for product lead to enhanced margins. This segment constitutes 25.7% of group assets and 15.2% of group liabilities. Profit attributable to group profit from this segment was 85.4%
- Aabar and other non-energy related investments drive the diversified segment which reported combined revenues of USD 146 million versus USD 119 million in 2013. This segment constitutes 25.8% of group assets and 22.1% of group liabilities. Profit attributable to group profit from this segment was 25.2%.

For the purposes of differentiating the components of the group, I would like to further highlight certain key metrics of IPIC unconsolidated, headquartered in Abu Dhabi, UAE.

- Total Assets to Net Debt in 2014, improved to 2.95x from 2.56x in 2013. Debt decreased 16% in 2014 settling at USD 14.2 billion from USD 16.9 billion the previous year. Gearing improved to 40% in 2014 from 43% the previous year. Dividend and interest income for 2014, which included an extraordinary dividend, improved 51% from the previous year.

At IPIC, we prioritize the management of liquidity as of paramount importance. Across the group, at 31 December 2014, IPIC held approximately USD 5.3 billion in cash and short term deposits. The group's solvency measured by current assets against current liabilities was at 1.13x. Further enhancing the groups' liquidity, were committed undrawn lines of nearly USD 2.4bn at year end.

IPIC prides itself and values transparency, weighing this factor quite heavily when dealing with shareholders, stakeholders, financiers, ratings agencies, partners, and vendors alike. It is because of this principle that we are able to access markets, both in the context of M&A and financing, and be a preferred partner. These partners are key in the realized and continued success of IPIC. As a reflection of both our shareholder, the Government of Abu Dhabi, and the company, IPIC is rated Aa2/AA/AA by Moody's, Standard & Poor's, and Fitch respectively.



Though I have only recently been appointed as the IPIC's Managing Director, I would like to take the opportunity to convey that in my short tenure thus far, my interactions with all levels of management across the group instills a level of confidence that together, with our nearly 20,000 employees, we will be able to continue to build upon our solid foundation, achieving new landmark successes in the future.

Abu Dhabi, June 2015

**Suhail Mohamed Al Mazrouei**  
**Managing Director**

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

## **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 2014 and the consolidated statement of profit or loss, consolidated statement of other 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 at 31 December 2014 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.



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

29 June 2015  
Abu Dhabi

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
<b>CONTINUING OPERATIONS</b>			
Revenue	13	<b>51,183,650</b>	52,834,762
Cost of sales	14	<b>(46,638,636)</b>	<b>(47,617,357)</b>
<b>Gross profit</b>		<b>4,545,014</b>	5,217,405
Share of post tax profits of associates and joint ventures	7	<b>588,395</b>	964,668
Selling and distribution costs	14	<b>(2,334,373)</b>	(2,317,339)
General and administrative expenses	14	<b>(1,441,398)</b>	(1,107,543)
Research and development expenses	14	<b>(428,982)</b>	(253,987)
<b>Operating profit</b>		<b>928,656</b>	2,503,204
Net foreign exchange gains (losses)		<b>1,387,884</b>	(131,127)
Finance income	8	<b>353,290</b>	637,074
Finance costs	9	<b>(1,223,762)</b>	(1,349,570)
Other income	14	<b>373,305</b>	255,003
Other expenses	14	<b>(176,486)</b>	(142,826)
Gains on acquisitions and disposals	10	<b>128,241</b>	283,440
Other (losses) gains on financial instruments	11	<b>(244,773)</b>	527,234
Profit before tax from continuing operations		<b>1,526,355</b>	2,582,432
Income tax expense	12	<b>(7,086)</b>	(421,087)
<b>Profit for the year from continuing operations</b>		<b><u>1,519,269</u></b>	<b><u>2,161,345</u></b>
<b>PROFIT FOR THE YEAR</b>		<b><u>1,519,269</u></b>	<b><u>2,161,345</u></b>
<b>Profit for the year attributable to:</b>			
Equity holder of the parent		<b>1,205,724</b>	1,917,576
Non-controlling interests		<b>313,545</b>	243,769
		<b><u>1,519,269</u></b>	<b><u>2,161,345</u></b>
		<i>US \$</i>	<i>US \$</i>
Basic and diluted earnings per share attributable to equity holder of the parent	16	<b><u>345</u></b>	<b><u>548</u></b>
Basic and diluted earnings per share from continuing operations attributable to equity holder of the parent	16	<b><u>345</u></b>	<b><u>548</u></b>

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

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Year ended 31 December 2014

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
<b>PROFIT FOR THE YEAR</b>	<b><u>1,519,269</u></b>	<b><u>2,161,345</u></b>
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>		
Exchange (losses) gains on translation of foreign subsidiaries	(1,147,436)	269,689
Net losses arising on hedge of net investments	(349,923)	(420,023)
Net losses arising on cash flow hedges	(84,217)	(4,571)
Net (losses) gains arising on changes in fair value of available-for-sale financial assets	(282,660)	1,100
Share of other comprehensive loss of associates and joint ventures	<u>(434,982)</u>	<u>(193,723)</u>
<b>Net other comprehensive loss to be reclassified to profit or loss in subsequent periods</b>	<b><u>(2,299,218)</u></b>	<b><u>(347,528)</u></b>
<i>Other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods:</i>		
Impact of changes in tax rates on deferred income tax	-	(1,163)
Actuarial (losses) gains arising on defined benefit plans	<u>(118,099)</u>	<u>183,485</u>
<b>Net other comprehensive (loss) income not to be reclassified to profit or loss in subsequent periods</b>	<b><u>(118,099)</u></b>	<b><u>182,322</u></b>
<b>OTHER COMPREHENSIVE LOSS FOR THE YEAR</b>	<b><u>(2,417,317)</u></b>	<b><u>(165,206)</u></b>
<b>TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR</b>	<b><u>(898,048)</u></b>	<b><u>1,996,139</u></b>
<b>Total comprehensive (loss) income for the year attributable to:</b>		
Equity holder of the parent	(1,023,708)	1,719,221
Non-controlling interests	<u>125,660</u>	<u>276,918</u>
	<b><u>(898,048)</u></b>	<b><u>1,996,139</u></b>

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

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>US \$ '000</i>	<i>Reclassified</i> <i>2013</i> <i>US \$ '000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	<b>17,514,642</b>	15,047,083
Intangible assets	18	<b>3,450,007</b>	2,734,359
Investment properties	20	<b>2,558,958</b>	2,196,063
Investments in associates and joint ventures	7	<b>11,880,759</b>	11,026,029
Deferred tax assets	12	<b>896,501</b>	625,202
Investments in financial instruments	21	<b>3,294,132</b>	2,689,647
Trade and other receivables	22	<b>128,138</b>	256,106
Other assets	23	<b><u>3,247,219</u></b>	<u>4,672,507</u>
		<b><u>42,970,356</u></b>	<u>39,246,996</u>
<b>Current assets</b>			
Inventories	24	<b>3,999,581</b>	4,759,166
Trade and other receivables	22	<b>5,576,807</b>	7,135,027
Investments in financial instruments	21	<b>2,859,394</b>	5,545,077
Other assets	23	<b>1,829,666</b>	1,202,463
Cash and short term deposits	25	<b><u>5,303,258</u></b>	<u>6,818,844</u>
		<b>19,568,706</b>	25,460,577
Assets classified as held for sale	15	<b><u>3,753,034</u></b>	<u>3,679,268</u>
		<b><u>23,321,740</u></b>	<u>29,139,845</u>
<b>TOTAL ASSETS</b>		<b><u>66,292,096</u></b>	<u>68,386,841</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holder of the parent</b>			
Share capital	26	<b>3,500,000</b>	3,500,000
Shareholder loan	27	<b>1,000,000</b>	1,000,000
Retained earnings		<b>11,486,811</b>	10,632,997
Other reserves	28	<b><u>(2,094,645)</u></b>	<u>127,838</u>
		<b>13,892,166</b>	15,260,835
Non-controlling interests	5	<b><u>2,358,299</u></b>	<u>2,276,176</u>
<b>Total equity</b>		<b><u>16,250,465</u></b>	<u>17,537,011</u>

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

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued

At 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>US \$ '000</i>	<i>Reclassified</i> <i>2013</i> <i>US \$ '000</i>
<b>EQUITY AND LIABILITIES</b> continued			
<b>Non-current liabilities</b>			
Borrowings	29	24,006,113	26,116,428
Defined benefit plan deficit	30	648,318	621,300
Deferred tax liabilities	12	3,689,859	2,173,750
Derivative financial liabilities	34	19,491	330,302
Provisions	31	582,178	479,034
Trade and other payables	32	24,044	51,032
Other liabilities	33	<u>427,355</u>	<u>545,658</u>
		<b><u>29,397,358</u></b>	<b><u>30,317,504</u></b>
<b>Current liabilities</b>			
Trade and other payables	32	7,888,581	7,379,566
Borrowings	29	5,943,450	7,387,486
Other liabilities	33	2,214,331	2,095,262
Advances received against assets held for sale	15	4,000,000	2,000,000
Derivative financial liabilities	34	505,984	1,577,293
Provisions	31	<u>91,927</u>	<u>92,719</u>
		<b><u>20,644,273</u></b>	<b><u>20,532,326</u></b>
<b>Total liabilities</b>		<b><u>50,041,631</u></b>	<b><u>50,849,830</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>66,292,096</u></b>	<b><u>68,386,841</u></b>

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

## International Petroleum Investment Company PJSC and its subsidiaries

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	<i>Attributable to equity holder of the parent</i>					<i>Non-controlling interests</i> US \$ '000	<i>Total equity</i> US \$ '000
	<i>Share capital</i> US \$ '000	<i>Shareholder loan</i> US \$ '000	<i>Retained earnings</i> US \$ '000	<i>Other reserves</i> US \$ '000	<i>Total</i> US \$ '000		
Balance at 1 January 2013	<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>
Profit for the year	-	-	1,917,576	-	1,917,576	243,769	2,161,345
Other comprehensive income for the year	-	-	-	(198,355)	(198,355)	33,149	(165,206)
Total comprehensive income for the year	-	-	1,917,576	(198,355)	1,719,221	276,918	1,996,139
Dividends paid to non-controlling shareholders	-	-	-	-	-	(49,869)	(49,869)
Acquisition of additional interest in a subsidiary (note 4.1)	-	-	(239,946)	-	(239,946)	249,160	9,214
Reserves for disposal group held for sale	-	-	-	-	-	16,472	16,472
Movement in other reserves	-	-	(201)	1,237	1,036	8	1,044
Balance at 31 December 2013	3,500,000	1,000,000	10,632,997	127,838	15,260,835	2,276,176	17,537,011
Profit for the year	-	-	1,205,724	-	1,205,724	313,545	1,519,269
Other comprehensive income for the year	-	-	-	(2,229,432)	(2,229,432)	(187,885)	(2,417,317)
Total comprehensive income for the year	-	-	1,205,724	(2,229,432)	(1,023,708)	125,660	(898,048)
Dividends paid to non-controlling shareholders	-	-	-	-	-	(59,523)	(59,523)
Acquisition of additional interest in a subsidiary (note 4.1)	-	-	(53,157)	-	(53,157)	(25,567)	(78,724)
Acquisition of preference shares of a subsidiary	-	-	(291,870)	-	(291,870)	-	(291,870)
Disposal of interest in a subsidiary	-	-	-	-	-	41,552	41,552
Movement in other reserves	-	-	(6,883)	6,949	66	1	67
Balance at 31 December 2014	<u>3,500,000</u>	<u>1,000,000</u>	<u>11,486,811</u>	<u>(2,094,645)</u>	<u>13,892,166</u>	<u>2,358,299</u>	<u>16,250,465</u>

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

# International Petroleum Investment Company PJSC and its subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
<b>OPERATING ACTIVITIES</b>			
Profit before tax		1,526,355	2,582,432
Adjustments for:			
Depreciation and amortisation of fixed assets	14	2,358,462	1,884,383
Net impairment of fixed assets	14	(98,258)	(98,130)
Gains on acquisitions and disposals	10	(128,241)	(283,440)
Other losses (gains) on financial instruments	11	244,773	(527,234)
Finance income	8	(353,290)	(637,074)
Finance costs	9	1,223,762	1,349,570
Unrealised foreign exchange difference		(1,492,131)	140,422
Share of post tax profits of associates and joint ventures	7	(588,395)	(964,668)
Movements in pensions, provisions and other liabilities		180,250	130,150
Inventories written down to net realisable value	14	649,570	19,733
Other non-cash adjustments		<u>(25,102)</u>	<u>(120,562)</u>
		3,497,755	3,475,582
Working capital changes:			
Inventories		(341,801)	1,140,497
Trade and other receivables		971,474	(463,724)
Trade and other payables		836,039	1,135,778
Other assets and liabilities		<u>(320,419)</u>	<u>(350,284)</u>
		4,643,048	4,937,849
Income tax paid		<u>(810,692)</u>	<u>(582,251)</u>
Net cash from operating activities		<b><u>3,832,356</u></b>	<b><u>4,355,598</u></b>
<b>INVESTING ACTIVITIES</b>			
Purchase of subsidiaries, net of cash acquired		(1,988,134)	(531,060)
Purchase of financial instruments		(589,964)	(220,059)
Acquisition of associates and joint ventures		(341,941)	(455,319)
Acquisition of interest in existing subsidiaries		(503,985)	(6,156)
Purchase of fixed assets		(2,726,471)	(2,093,153)
Proceeds from sale of fixed assets		85,930	47,516
Movement in derivative financial instruments		(983,088)	2,292,780
Advance received against asset held for sale	15	2,000,000	2,000,000
Movement in advances on investment properties		(81,171)	(296)
Movement in financial instruments		991,659	885,638
Short-term deposits		-	165,996
Interest received		103,848	166,439
Dividends received		413,522	497,187
Payments on other assets		<u>(78,062)</u>	<u>(42,313)</u>
Net cash (used in) from investing activities		<b><u>(3,697,857)</u></b>	<b><u>2,707,200</u></b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from borrowings		9,115,716	6,749,151
Repayments of borrowings		(9,191,167)	(10,719,568)
Interest paid		(1,099,863)	(1,238,877)
Dividends paid to non-controlling shareholders		<u>(59,523)</u>	<u>(49,869)</u>
Net cash used in financing activities		<b><u>(1,234,837)</u></b>	<b><u>(5,259,163)</u></b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,100,338)</b>	<b>1,803,635</b>
Net foreign exchange difference		(415,248)	102,498
Cash and cash equivalents at 1 January		<u>6,818,844</u>	<u>4,912,711</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	25	<b><u>5,303,258</u></b>	<b><u>6,818,844</u></b>

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

# International Petroleum Investment Company PJSC and its subsidiaries

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 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 the Emirate 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. The principal activities of the Company and its subsidiaries (the “Group”) are further described in note 4.

The consolidated financial statements for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Board of Directors on 29 June 2015.

### 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 presentation currency of the Group. 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).

#### 2.3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise those of the Company and its subsidiaries as at 31 December. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group’s voting rights and potential voting rights

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.3 BASIS OF CONSOLIDATION** continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (“OCI”) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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, as would be required if the Group had directly disposed of the related assets or liabilities.

**2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES**

**New and amended standards and interpretations**

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014. The nature and the impact of each new standard and amendment is described below:

**Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)**

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES** continued

**Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32**

These amendments clarify the meaning of ‘currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

**Novation of Derivative and Continuation of Hedge Accounting – Amendments to IAS 39**

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

**IFRIC 21 Levies**

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

**Annual Improvements 2010-2012 Cycle**

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

**Annual Improvement 2011-2013 Cycle**

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity’s first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

**Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 *Impairment of Assets***

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets. These amendments would continue to be considered for future disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**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 consolidated financial statements are listed below. The Group intends to adopt these standards when they become effective.

**Annual Improvements to IFRSs: 2012 - 2014 Cycle**

The Annual Improvements to IFRSs: 2012 - 2014 Cycle were issued as a result of the IASB's annual improvement process which incorporates amendments to various standards. These improvements amend IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* regarding changes in methods of disposal; IFRS 7 *Financial Instruments: Disclosures* on the subjects of servicing contracts and the applicability of the amendments to IFRS 7 to condensed interim financial statements; IAS 19 *Employee Benefits* on the subject of discount rate and regional market issues; and IAS 34 *Interim Financial Reporting* to clarify the meaning of disclosure of information "elsewhere in the interim financial report." The amendments are effective for annual periods beginning on or after 1 January 2016 and should be applied prospectively. The Group is currently evaluating the impacts of the amendments.

**Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture - Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for transactions occurring in annual periods beginning on or after 1 January 2016. Early application is permitted. The Group is currently evaluating the impacts of the amendments.

**IAS 1 Presentation of Financial Statements - Amendments to IAS 1**

The amendments to IAS 1 are designed to further encourage the application of professional judgment in determining which information is disclosed in financial statements. The amendments clarify that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial statement disclosures. The amendments are effective for annual periods beginning on or after 1 January 2016. Early application is permitted. The Group is currently evaluating the impacts of the amendments.

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently evaluating the impact of this new IFRS and it is more likely than not that the adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures**

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments must be applied retrospectively. Early application is permitted and must be disclosed. These amendments are effective for annual periods beginning on or after 1 January 2016. The Group is currently evaluating the impacts of the amendments.

**IFRS 14 Regulatory Deferral Accounts**

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

**Amendments to IAS 19 Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is expected that this amendment would be relevant to the Group, since some of the entities within the Group have defined benefit plans with contributions from employees or third parties.

**Annual improvements 2010-2012 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

**IFRS 2 Share-based Payment**

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**Annual improvements 2010-2012 Cycle** continued

*IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

*IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

*IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

*IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

**Annual improvements 2011-2013 Cycle**

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

*IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

*IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

*IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

**Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests**

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

**Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation**

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

**Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants**

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE** continued

**Amendments to IAS 27: *Equity Method in Separate Financial Statements***

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

**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.

*Joint operations*

The Group reports interests in jointly controlled entities as joint operations which management considers appropriately recognises the substance of the business arrangements.

*Operating lease commitments- Group as a lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on the evaluation of the terms and conditions of the arrangements, such as the lease term not consisting a substantial portion of the economic life of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Other significant judgements that the Group made, are disclosed within specific notes to the consolidated financial statements, including but not limited to note 4.3 accounting for CLH as an associate, note 7.1 disclosures of material associates, note 21.2 accounting of Cosmo as an available-for-sale investments and note 27 shareholder loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS** continued

**Estimates and assumptions**

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

*Business combinations*

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

*Reserves base*

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

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

*Carrying value of oil and gas assets*

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

The calculation of the UOP rate of amortization 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS** continued

**Estimates and assumptions** continued

*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.

*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 statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS** continued

**Estimates and assumptions** continued

*Impairment of inventories*

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

*Impairment of trade and other receivables*

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

*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 2014

**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 the assumptions made, or future changes to such assumptions, could necessitate future 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. The uncertain tax positions, for example tax disputes, are accounted for by applying the most likely amount. The most likely amount is the single most likely amount in a range of realistically possible options. The Group evaluates the unit of account related to the uncertain tax positions on a case-by-case basis. 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, their fair value is determined using quoted prices in active markets adjusted for factors specific to the asset or liability, such as basis and location differentials. This includes over-the-counter derivatives with values based upon observable commodity futures curves and derivatives with input validated by broker quotes or other publicly available market data providers. This also includes fair values determined using valuation techniques, such as regression or extrapolation formulas, where the inputs are readily observable, including commodity prices for similar assets or liabilities in active markets. The key inputs to valuation models and regression or extrapolation formulas include interest rate yield curves, currency rates, credit spreads, implied volatilities, and commodity prices for similar assets or liabilities in active markets, as applicable. 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 indexation 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 significant assumptions and assets are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the yields of high quality corporate bonds in the respective country, with terms to maturity that approximate the duration or match the projected cash flows to the Group's pension obligations. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.6 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS** continued

**Estimates and assumptions** continued

*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.

*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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Investment in associates and joint ventures**

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group, except for Galactic Venture LLC ("Virgin Galactic") 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.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of associates and joint ventures in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture 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 statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Interests in joint operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liabilities incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the consolidated financial statements only to the extent of the other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

**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 statement of profit or loss 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 statement of profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Foreign currency translation**

The Group's consolidated financial statements are presented in US \$, which is the Company's functional and presentation currency of the Group. 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 statement of profit or loss 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 certain 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 statement of profit or loss. Resulting gains and losses from the translation of certain employee benefit plan liabilities are reported in other comprehensive income with no recycling to the consolidated statement of profit or loss. 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 recognized in other comprehensive income or profit or loss is also recognized 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 statements of profit or loss 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 statement of profit or loss.

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 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Fair value measurement**

The Group measures financial instruments such as financial assets at fair value through profit or loss, available for sale investments and derivative financial instruments at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties, are disclosed in note 20 and note 35.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Revenue recognition**

Revenue is recognized 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 recognized.

*Sale of goods*

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Revenue recognition** continued

*Production of oil*

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

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

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

*Rendering of services*

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

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

*Commission and fee income*

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

*Dividend income*

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Revenue recognition** continued

*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 statement of profit or loss.

*Rental income*

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

*Construction contracts*

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.

The Group uses the percentage-of-completion method in accounting for its construction contracts. At each reporting date, the Group is required to estimate stage of completion and costs to complete on its construction contracts. These estimates require the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claim by subcontractors and the cost of meeting other contractual obligations to the customers. Effects of any revision to these estimates are reflected in the year in which the estimates are revised.

The Group uses internal quantity surveyors together with project managers to estimate the costs to complete of construction contracts. Factors such as changes in the scope of work, changes in material prices, labour costs and other costs are included in the construction cost estimates based on best estimates updated on a regular basis.

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.

Contract claims are recognised as revenue only when management believes that an advanced stage of negotiation has been reached and the revenue can be estimated with reasonable certainty. Management reviews these contract claims periodically and adjustments are made in the future periods, if assessments indicates that such adjustments are appropriate.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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 statement of profit or loss. 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. These provisions are included in deferred tax liabilities.

*Deferred income tax*

Deferred income tax is provided using the liability method. Under liability method, deferred tax is calculated based on the differences between assets and liabilities reported for financial accounting purposes and those reported for income tax purposes.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Taxes** continued

*Deferred income tax* continued

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.

*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 statement of profit or loss; 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 recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized 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 statement of profit or loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Property, plant and equipment** continued

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.

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted prospectively as a change in accounting estimate, 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 statement of profit or loss 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 recognized 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 capitalized 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 amortized over a period not exceeding the term of contract.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Oil and Gas properties** continued

*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 capitalized 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 Group taking account of the estimates based on the contractual clauses.

Impairment tests are performed periodically for each field and any impairment losses are recognized in the consolidated 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 amortization of field development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure.

**Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset 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 statement of profit or loss.

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 statement of profit or loss on a straight line basis over the lease term.

*Group as a lessor*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized 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 statement of profit or loss 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.

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 statement of profit or loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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 statement of profit or loss 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	3 to 20 years
Software	3 to 7 years
Development costs	3 to 10 years
Customer 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 statement of profit or loss 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 statement of profit or loss when the asset is derecognised.

*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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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 recognized with a credit to other liabilities;
- 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 CO<sub>2</sub> 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 or net realizable value taking into account future price developments. Cost is determined on first-in first-out basis (FIFO method), except for spare parts and supplies which are determined based on weighted average cost.

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 production costs and a proportionate share of fixed and variable overhead production costs. Allocated overhead costs are primarily calculated based on normal capacity utilisation. Financing costs are not included in production costs.

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.

The Company assesses the net realizable value of the inventories at the end of each year and recognizes 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 realizable 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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 statement of profit or loss 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. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed unless the possibility of an outflow of economic resources is considered remote.

**Legal provisions and contingent liabilities**

The Group is involved in litigation from time-to-time in the ordinary course of business. At each reporting date, the Group evaluates litigation matters and review with the Group's legal department and external counsel, the status of various outstanding legal cases and, where appropriate, establish provisions and disclose any contingent liabilities as required by IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. In order to make an assessment for legal provisions and contingent liabilities, the Group considers various factors including, but not limited to, reviewing, on a case-by-case basis, the underlying facts of pending or threatened litigation, the Group's history with prior claims, the actual or possible claim assessment by internal and external counsel and the status of negotiations.

Based on the Group's overall assessment of the case, if the Group believe it is probable that an outflow of resources will be required to settle the obligation, the Group then determines whether a reliable estimate can be made. If so, the Group makes an estimate of the provision under various scenarios, ranging from best case to worst case. The Group uses the "best estimate" outcome and record a provision in the consolidated financial statements.

The Group does not recognize contingent liabilities, but disclose contingent liabilities, unless the possibility of an outflow of resources is remote. Also, to the extent any information required is not disclosed because it is not practicable to do so, that fact is stated.

If disclosure of some or all of the information is expected to prejudice seriously the Group's position in a dispute with other parties on the subject matter of a provision or contingent liability, the Group do not disclose such information, but do disclose the general nature of the dispute, together with the fact that, and the reason why, the information has not been disclosed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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.

The cost of defined contribution benefits is expensed as earned by employees. Certain group companies also provide medical care and life insurance to eligible retirees and their dependents. These benefits are unfunded and are expensed as the employees provide service.

*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 the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'cost of sales', 'general and administrative expenses' and 'selling and distribution costs' in consolidated statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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 statement of profit or loss.

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 statement of profit or loss. 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. Amortized 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 statement of profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**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 receivables due from banking customers*

Due from banks and loans and other 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 receivables due from banking customers are subsequently measured at amortised cost using the effective interest rate, 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 effective interest rate. The effective interest rate amortisation is included in revenue from banking activities in the consolidated statement of profit or loss. The losses arising from impairment are recognised in the consolidated statement of profit or loss.

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).

*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. Amortized 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 statement of profit or loss 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 statement of profit or loss, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Financial liabilities**

*Initial recognition and measurement*

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

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings net of 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 statement of profit or loss.

*Loans, borrowings, customer deposits and other amounts due to banking customers*

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the consolidated statement of profit or loss.

*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 recognized 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 recognized less cumulative amortization.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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 loans, receivables and advances to customers carried at amortised cost, the Group first assesses whether 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.

The amount of any impairment 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.

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 statement of profit or loss. Interest income (recorded as finance income in the consolidated statement of profit or loss) 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. 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 statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Impairment of financial assets** continued

*Available-for-sale investments*

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

In case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss, is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; 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 recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes 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 2014

**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 statement of profit or loss.

**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 statement of profit or loss, 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**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*

The change in the fair value of a hedging derivative is recognised in the consolidated statement of profit or loss. 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 statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated statement of profit or loss 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.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated statement of profit or loss.

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 statement of profit or loss.

*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 statement of profit or loss.

Amounts taken to other comprehensive income are transferred to the consolidated statement of profit or loss when the hedged transaction affects the consolidated statement of profit or loss, 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 statement of profit or loss. 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 statement of profit or loss. 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 statement of profit or loss.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**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, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses on continuing operations are recognised in the consolidated statement of profit or loss 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 statement of profit or loss 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 joint ventures*

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 joint ventures. The Group determines at each reporting date whether there is any objective evidence that investments in associates and joint ventures 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 joint ventures and their carrying values and recognises the amount in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES** continued

**2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** continued

**Impairment of non-financial assets** continued

*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 a subsidiary of the Group, 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.

**3 BUSINESS COMBINATIONS**

**3.1 2014 BUSINESS COMBINATIONS**

The Group made two acquisitions during the year ended 31 December 2014, which are further described below.

From the date of acquisitions to 31 December 2014 the acquired entities (see notes 3.1.1 to 3.1.2 below) have contributed US \$ 484,532 thousand to the revenue and profit of US \$ 90,179 thousand to the profit for the year before tax of the Group. If the business combinations had taken place at 1 January 2014, the Group’s revenue would have been US \$ 51,305,861 thousand and the Group’s net profit for the year would have been US \$ 1,306,068 thousand.

**3.1.1 Acquisition of Coastal Energy Company**

On 17 January 2014 the acquisition of Coastal Energy Company (“Coastal”) by Condor Acquisition (Cayman) Limited (“CACL”), a subsidiary of Compañía Española de Petróleos, SAU (“CEPSA”), was completed through a merger between Coastal and a subsidiary of CACL.

The procedure began on 18 November 2013 with the signing of the merger agreement, regulating the acquisition by CACL of Coastal shares issued and in circulation at a price of CAD 19.00 per share.

On 6 January 2014, Coastal shareholders approved the merger and Coastal shares were subsequently delisted from the Toronto stock exchange index and the London stock exchange alternative investment market (“AIM”). The merger was completed on 17 January 2014 after meeting all the conditions of the transactions.

Coastal is an oil and gas group, which carries out exploration activities for natural gas and oil, with most of its assets located in Thailand and Malaysia..

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**3 BUSINESS COMBINATIONS** continued

**3.1 2014 BUSINESS COMBINATIONS** continued

**3.1.1 Acquisition of Coastal Energy Company** continued

**Assets acquired and liabilities assumed**

The fair value of the identifiable assets and liabilities of Coastal Energy Company as at the acquisition date was:

	<i>Fair value recognised on acquisition Euro '000</i>	<i>Fair value recognised on acquisition US \$ '000</i>
<b>Assets</b>		
Property, plant and equipment	2,549,703	3,452,553
Investments in associates	163,576	221,498
Inventories	17,062	23,104
Trade receivables	50,371	68,207
Other assets	4,546	6,156
Cash and cash equivalents	<u>70,549</u>	<u>95,530</u>
	<b><u>2,855,807</u></b>	<b><u>3,867,048</u></b>
<b>Liabilities</b>		
Borrowings	(178,487)	(241,689)
Provisions	(2,893)	(3,917)
Deferred tax liabilities	(1,525,445)	(2,065,605)
Trade payables	(296,439)	(401,408)
Other liabilities	<u>(5,267)</u>	<u>(7,132)</u>
	<b><u>(2,008,531)</u></b>	<b><u>(2,719,751)</u></b>
Total identifiable net assets at fair value	847,276	1,147,297
Goodwill arising from business combination	<u>669,106</u>	<u>906,036</u>
Cost of business combination	<b><u>1,516,382</u></b>	<b><u>2,053,333</u></b>

Cash outflow on the acquisition is as follows:

	<i>US \$ '000</i>
Consideration paid	2,053,333
Cash acquired with Coastal Energy Company	<u>(95,530)</u>
<b>Net cash outflows from investing activities</b>	<b><u>1,957,803</u></b>

Goodwill recognized mainly arises from recognition of deferred tax liabilities resulting from the measurement of Coastal's assets at fair value, as a result of the purchase price allocation. The purchase price allocation has been completed as of 31 December 2014.

# International Petroleum Investment Company PJSC and its subsidiaries

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### **3 BUSINESS COMBINATIONS** continued

#### **3.1 2014 BUSINESS COMBINATIONS** continued

##### **3.1.2 Acquisition of Speciality Polymers Antwerp, N.V.**

On 1 September 2014, Borealis (via Borealis Polymers, N.V., in Beringen, Belgium, a 100% subsidiary of Borealis AG, Vienna, Austria) acquired 670 shares of Speciality Polymers Antwerp N.V., Zwijndrecht, Belgium (hereafter 'SPA'), from DuPont Holding Netherlands B.V. (the Seller).

Together with 330 shares (33%) already owned before the acquisition by Borealis Polymers N.V., Belgium, and Borealis Kallo N.V., Belgium (directly or indirectly) 100% subsidiaries of Borealis AG, Vienna, Austria, Borealis became 100% owner of SPA. SPA is a producer of acrylate based co- and ter-polymers and ethylene vinyl acetate.

The fair value of the net assets acquired amounted to Euro 29,201 thousand (US \$ 38,348 thousand) based on preliminary assessment. Goodwill arising on acquisition amounted to Euro 2,953 thousand (US \$ 3,878 thousand). The acquisition has been accounted for using the acquisition method. The acquisition date fair value of the acquired assets and liabilities is preliminary and may be adjusted as additional information is obtained. The cost of business combination was Euro 24,000 thousand (US \$ 31,517 thousand). The cash acquired with the business was Euro 903 thousand (US \$ 1,186 thousand).

#### **3.2 2013 BUSINESS COMBINATIONS**

##### **3.2.1 Acquisition of Clariden Leu (Europe) Ltd.**

On 31 March 2013, Falcon Private Bank Ltd., a wholly owned subsidiary of Aabar acquired the entire share capital of Clariden Leu (Europe) Ltd., a wholly owned subsidiary of Credit Suisse Group AG based in London, United Kingdom. Clariden Leu (Europe) Ltd. offers wealth and asset management services to private clients in the key markets: Eastern Europe, Middle East and Africa and other emerging markets. Clariden Leu (Europe) Ltd. was later renamed to "Falcon Private Wealth Ltd.". The cost of business combination was US \$ 43,634 thousand which includes a contingent consideration of US \$ 3,960 thousand as earn-out payments. There was no goodwill recorded on the acquisition. The cash acquired with the business was US \$ 30,775 thousand.

##### **3.2.2 Acquisition of Hess Rhourde el Rouni Ltd.**

On 10 June 2013, CEPESA acquired the entire share capital of Hess Rhourde el Rouni Ltd., a company engaged in exploration and production. The cost of business combination was US \$ 75,221 thousand. The cash acquired with the business was Euro 414 thousand (US \$ 548 thousand). There was no goodwill recorded on the acquisition.

##### **3.2.3 Acquisition of DEX Plastomers**

On 1 March, 2013, Borealis acquired the entire share capital of DSM Plastomers B.V. and Exxon Chemical Holland Ventures B.V., each holding a 50% interest in DEX Plastomers V.O.F. in Heerlen, The Netherlands. All three entities are referred herein as DEX Plastomers.

DEX Plastomers is one of the Netherland's leading producers of C8 plastomers and linear low density polyethylene products which uses LldPE Compact Solution Technology. The acquisition underpins Borealis' commitment to its innovation strategy, as Borealis believes there is significant potential in DEX Plastomers' technology.

The business combination has been accounted for using the acquisition. The purchase price allocation has been completed in 31 December 2013. The cost of business combination was Euro 122,059 thousand (US \$ 159,190 thousand) and includes a contingent consideration liability of US \$ 4,582 thousand as earn-out payments. The goodwill of Euro 48,791 thousand (US \$ 63,633 thousand) recognised in the consolidated financial statements comprises the value of expected synergies and other benefits from combining the assets and activities of DEX Plastomers with those of Borealis. The cash acquired with the business was Euro 7,387 thousand (US \$ 9,634 thousand).

# International Petroleum Investment Company PJSC and its subsidiaries

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### **3 BUSINESS COMBINATIONS** continued

#### **3.2 2013 BUSINESS COMBINATIONS** continued

##### **3.2.4 Acquisition of GPN S.A.**

On 28 June 2013, Borealis acquired the entire share capital of GPN S.A. in Nanterre, France, from Elf Aquitaine Fertilisants S.A., Nanterre France (the Seller, a 100% subsidiary of TOTAL S.A., Paris, France). GPN S.A. was renamed to Borealis Chimie S.A.S., referred herein as Borealis Chimie.

Borealis Chimie is France's largest manufacturer of nitrogen fertilizers and nitrogen oxide reducers. The acquisition is in line with Borealis' strategy to grow the fertilizer business and to become a leading producer in Europe.

The acquisition has been accounted for using acquisition method. The purchase price allocation was completed in June 2014. The fair value of the net assets acquired amounted to US \$ 269,674 thousand (Euro 207,362 thousand), (31 December 2013 previously reported: US \$ 273,473 thousand (Euro 210,283 thousand)). The cost of business combination was US \$ 278,798 thousand (Euro 214,738 thousand), (31 December 2013 previously reported: US \$ 280,760 thousand (Euro 215,886 thousand)). The cash acquired with the business was Euro 2,366 thousand (US \$ 3,077 thousand).

The goodwill recorded was US \$ 9,124 thousand (Euro 7,016 thousand) comprises the value of expected synergies and other benefits from combining the assets and activities of Borealis Chimie with those of Borealis.

The cost of business combination of Borealis Chimie included a contingent consideration liability of US \$ 74,446 thousand (Euro 57,244 thousand) at the acquisition date representing earn-out payments to be partially paid.

As of 31 December 2014, the key performance indicators of Borealis Chimie show that it is highly probable that the earnings assumed as of 28 June 2013 have to be revised due to a lower than expected performance during the 18-month period from the acquisition date. Considering the impact and discount rate effect of the preceding information, the fair value of the contingent consideration at 31 December 2014 amounts to US \$ nil (Euro nil thousand) (2013: US \$ 42,647 thousand (Euro 31,032 thousand)). A re-measurement income of US \$ 37,869 thousand (Euro 31,032 thousand) has been recognised through consolidated statement of profit or loss.

##### **3.2.5 Acquisition of Rosier S.A. ("Rosier")**

On 28 June 2013, Borealis acquired from Elf Aquitaine Fertilisants S.A., Nanterre, France (the Seller, a 100% subsidiary of TOTAL S.A., Paris, France) its controlling interest of 56.86% in Rosier S.A., Moustier, Belgium listed on NYSE Euronext Brussels. As Borealis acquired a controlling interest in Rosier S.A. it was required to launch a mandatory takeover bid for the remaining outstanding shares, where Borealis tendered for an additional 18.19% shares, thereby holding 75.05% shares issued by Rosier S.A. by the end of the acceptance period on 9 October 2013.

Rosier is a mineral fertilizer manufacturer and markets its products in more than 80 countries worldwide. The acquisition is in line with Borealis' strategy to grow the fertilizer business and to become the leading producer in Europe.

The business combination has been accounted for using the acquisition method and measuring the non-controlling interest at fair value. The purchase price allocation has been completed in June 2014. The fair value of the non-controlling interest has been determined in line with the stock share price value on the day of acquisition. The cost of business combination was Euro 59,786 thousand (US \$ 77,751 thousand). Goodwill of Euro 1,400 thousand (US \$ 1,694 thousand) was recognised in the consolidated financial statements. The cash acquired with the business was Euro 2,284 thousand (US \$ 2,970 thousand).

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 4 GROUP INFORMATION

#### 4.1 Interests in subsidiaries

The consolidated financial statements include the financial statements of the Company and each of its subsidiaries as at 31 December 2014. The significant subsidiaries of the Company are listed in the following table:

Name of company	Country of incorporation	Percentage holding	
		31 December 2014	31 December 2013
Borealis AG ("Borealis")	Austria	64%	64%
NOVA Chemicals Corporation ("NOVA")	New Brunswick, Canada	100%	100%
Compañía Española de Petróleos, S.A.U. ("CEPSA")	Spain	100%	100%
Aabar Investments PJS ("Aabar")	United Arab Emirates	98.32%	97.83%
Falcon Private Bank Ltd. ("Falcon Private Bank")	Switzerland	100%	100%

#### *Borealis*

Borealis is domiciled in Austria, and is a leading provider of chemical and innovative plastic solutions. Borealis has two main areas of operations: Polyolefins and Base Chemicals. Within Polyolefins Borealis focuses on three specific market sectors infrastructure, automotive and advanced packaging. Base Chemicals includes the product range phenol and aromatics, feedstock and olefins, melamine and fertiliser.

#### *NOVA*

NOVA is registered in New Brunswick, Canada and operates in the chemical sector. It has two main areas of operations: Olefins/Polyolefins and Performance Styrenics. NOVA's polyethylene and styrenic polymer resins are used in a wide range of applications including rigid and flexible packaging, containers, plastic bags, plastic pipe, consumer electronics, building and construction materials, housewares and other industrial and consumer goods. In addition to NOVA's principal business of producing and selling plastics and chemicals, NOVA offers some proprietary technologies for licensing.

#### *CEPSA*

CEPSA is registered in Madrid, Spain. CEPSA and its affiliated companies form an integrated business group which operate in the oil and gas industry, both within Spain and abroad, and engages in business activities related to the exploration and extraction of crude oil, the production of petrochemical and energy products, asphalts, lubricants and polymers, their distribution and marketing, as well as gas distribution and electricity generation.

#### *Aabar*

Aabar is a private joint stock company registered and incorporated in Abu Dhabi, United Arab Emirates ("UAE") and is engaged in investing activities in various growth industries. During 2014, the Company acquired additional 0.49% interest in Aabar (2013: 2.12% interest acquired) for a price of AED 1.95 per share (2013: AED 1.95 per share).

#### *Falcon Private Bank*

Falcon Private Bank is wholly owned by Aabar and registered in Zurich, Switzerland and operates in the private banking sector. Its main activities comprise the provision of investment advisory services, asset and fund management for private clients as well as the trading and lending activities associated with these activities. Falcon Private Bank also conducts proprietary trading activities, mainly in foreign exchange and exchange-quoted debt instruments.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 4 GROUP INFORMATION continued

#### 4.2 Interests in joint operations

The Group has the following significant investments in certain oil and gas exploration and production assets, which are accounted for as interests in joint operations. 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	
				31 December 2014 %	31 December 2013 %
Ourhoud	Algeria	Sonatrach	Research and Production	39.76%	39.76%
Timimoun	Algeria	Total Exploration & Production Algeria	Research and Production	11.25%	11.25%
BMS	Algeria	Hess ReR	Research and Production	45.00%	45.00%
Block CE-M-717	Brazil	Premier Oil	Exploration	50.00%	50.00%
Block CE-M-665	Brazil	Premier Oil	Exploration	50.00%	50.00%
Tiple	Colombia	Cepsa Colombia	Exploration	70.00%	70.00%
Garibay	Colombia	Cepsa Colombia	Exploration	50.00%	50.00%
Puntero	Colombia	Cepsa Colombia	Exploration	70.00%	70.00%
Merecure	Colombia	Cepsa Colombia	Exploration	70.00%	70.00%
El Porton	Colombia	Cepsa Colombia	Exploration	50.00%	50.00%
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	38.00%	38.00%
Cpo 12	Colombia	Metapetroleum	Exploration	30.00%	30.00%
Rio Paez	Colombia	Hocol	Exploration	17.00%	17.00%
San Jacinto	Colombia	Hocol	Exploration	17.00%	17.00%
PPN (30%)	Colombia	Gran Tierra	Exploration	30.00%	30.00%
Caracara	Colombia	Cepsa Colombia	Research and Production	70.00%	70.00%
CPR Espinal	Colombia	Petrobas	Research and Production	17.00%	17.00%
KBM (Offshore Malaysia)	Malaysia	Coastal Energy Company	Production	70.00%	-
PM-316 (Offshore Malaysia)	Malaysia	Coastal Energy Company	Exploration	80.00%	-
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%
Rodaballo	Spain	Repsol	Research and Production	15.00%	15.00%
Casablanca	Spain	Repsol	Research and Production	7.40%	7.40%
Montanazo	Spain	Repsol	Research and Production	7.25%	7.25%
Boqueron	Spain	Repsol	Research and Production	4.50%	4.50%
Sinphuhorn (E5/EU1)	Thailand	Hes	Production	13.65%	-
Block L15/43	Thailand	Apico	Exploration	38.99%	-
Block L27/43	Thailand	Apico	Development	38.99%	-
Cabrestero	Colombia	Parex	Exploration	-	50.00%
Lianos 26	Colombia	Cepsa Colombia	Exploration	-	80.00%
La Canada Norte	Colombia	Hocol	Research and Production	-	16.67%
Eden	Colombia	Parex	Exploration	-	15.00%

At 31 December 2014 the Group also held a 50% (31 December 2013: 50%) interest in an ethylene plant and a 20% (31 December 2013: 20%) interest in a cogeneration facility located in Alberta, Canada.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 4 GROUP INFORMATION continued

#### 4.3 Investments in associates

The Group has the following significant investments in associates:

Name of company	Country of incorporation	Percentage holding*	
		31 December 2014	31 December 2013
Abu Dhabi Polymers Company Limited ("Borouge")	United Arab Emirates	40.00%	40.00%
Pak-Arab Refinery Limited ("PARCO")	Pakistan	40.00%	40.00%
OMV AG ("OMV")	Austria	24.90%	24.90%
RHB Capital Berhad ("RHB Capital")	Malaysia	21.22%	21.43%
Galactic Ventures LLC ("Virgin Galactic")	British Virgin Islands	37.80%	37.80%
Arabtec Holding PJSC ("Arabtec")	United Arab Emirates	35.27%	21.57%
Compañía Logística de Hidrocarburos CLH, S.A	Spain	9.15%	9.15%
APICO LLC ("APICO")	USA	39.00%	-

\* 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 may be different.

#### *Borouge*

Borouge is headquartered in Abu Dhabi, United Arab Emirates ("UAE"). It is jointly owned by Abu Dhabi National Oil Company ("ADNOC") (60%) and Borealis (40%), and its main operation is production of innovative, value creating plastic solutions.

#### *PARCO*

PARCO is based in Pakistan, and is an energy supplier whose primary activities include oil refining, oil and products pipeline systems, storage and allied facilities and marketing. PARCO owns a refinery in Multan, Pakistan, a crude oil pipeline running from Karachi to Multan and two refined products pipelines.

#### *OMV*

OMV is based in Vienna, Austria, and is listed on the Vienna Stock Exchange. It is one of the largest listed industrial companies in Austria by market capitalisation and is one of the leading integrated oil and gas companies in Central Europe. OMV has three integrated business units: exploration and production; refining and marketing; and petrochemicals. OMV operates across the entire gas value chain, including operating the gas logistics centre through which one-third of all natural gas exports from the Commonwealth of Independent States to Western Europe flow.

#### *RHB*

RHB Capital is incorporated in Kuala Lumpur, Malaysia. The principal activity of RHB is investment holding. It is involved in commercial banking, Islamic banking, investment banking, stock broking, leasing, offshore banking, offshore trust services, general insurance, unit trust management, asset management and nominee and custodian services. RHB is the holding company of RHB Banking Group, one of the largest fully integrated financial products and services providers in Malaysia.

#### *Virgin Galactic*

Galactic Ventures LLC is based in California, United States of America. It develops passenger-carrying suborbital space vehicles which will provide commercial spaceflight services.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 4 GROUP INFORMATION continued

#### 4.3 Investments in associates continued

##### *Arabtec*

Arabtec is a public joint stock company registered and incorporated in Dubai, United Arab Emirates ("UAE"). Its shares are listed on the Dubai Financial Market ("DFM"). Arabtec is engaged in construction of high-rise towers, buildings and residential units, in addition to the execution of related services such as drainage, electrical and mechanical works, provision of ready mix concrete and construction equipment supply and rental.

During first half of 2014, Aabar disposed of 2.7% ownership stake in Arabtec for a profit (note 10 (ii)). On 11 November 2014, Aabar conducted an off-market trade that enabled it to acquire approximately 707 million shares at a price of AED 5 per share. The transaction was settled through a cash payment of AED 1.3 billion and an asset (advances on investment properties) swap for the remainder of the consideration (note 23).

##### *Compañía Logística de Hidrocarburos CLH, S.A.*

The CLH group was formed by the Company Logistics of Hydrocarbons CLH, S.A. and its subsidiary company, CLH Aviation, S.A. and it is the leading company in transport and storage of petroleum products in the Spanish market. The main activity of CLH is the storage, transport and distribution of petroleum products throughout the Iberian Peninsula and the Balearic Islands. On 20 December 2013, CEPSA sold a 5% holding in Compañía Logística de Hidrocarburos CLH, S.A. which brought its interest in the company to 9.15%.

Compañía Logística de Hidrocarburos CLH, S.A. is an associate of CEPSA despite CEPSA's ownership of only 9.15%. Significant influence is generally deemed to be exercised over companies which are more than 20% owned. Although the ownership interest in CLH is lower than 20%, significant influence is exercised because, among other factors, CEPSA is represented in CLH's board of directors and there is a high volume of commercial operations between these two companies.

##### *APICO LLC*

APICO was incorporated in Delaware, United States of America and is a privately owned company. The principal activities of APICO are exploration and production of gas and power in North Eastern Thailand. The company was acquired as part of the acquisition of Coastal in 2014 (note 3.1.1).

#### 4.4 Investments in joint ventures

The Group has the following significant investment in a joint venture:

<i>Name of company</i>	<i>Country of incorporation</i>	<i>Percentage holding*</i>	
		<b>2014</b>	2013
Medgaz, S.A.	Spain	<b>42.09%</b>	42.09%

\* 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 may be different.

Medgaz, S.A. is a key strategic project for CEPSA, providing the most direct and cost-effective way of supplying natural gas to Southern Europe. The gas that is transported through the pipeline is used in CEPSA's refining and petrochemical processes, as well as in its cogeneration and combined-cycle plants, which in turn provide steam and electrical power to its main facilities. In 2013, CEPSA exercised its right of first refusal on the sale of the previous shareholders' interests in the consortium which brought its total shareholding in Medgaz, S.A. to 42.09% as of 31 December 2013.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 5 MATERIAL PARTLY-OWNED SUBSIDIARY

Financial information of subsidiaries that have material non-controlling interest (“NCI”) are provided below:

Subsidiary:	Country of incorporation and operations	Percentage holding 2014	Profit allocated to NCI		Percentage holding 2013	Profit allocated to NCI	
			Accumulated NCI	US \$ '000		Accumulated NCI	US \$ '000
Borealis	Austria	36%	272,124	1,978,350	36%	202,491	1,932,926
Others	-	-	<u>41,421</u>	<u>379,949</u>	-	<u>41,278</u>	<u>343,250</u>
			<u>313,545</u>	<u>2,358,299</u>		<u>243,769</u>	<u>2,276,176</u>

The non-controlling interest of 36% in Borealis is owned by OMV AG, which in turn is owned 24.9% by the Company.

The summarised financial information (before consolidation adjustments) of Borealis is provided below:

	2014 US \$ '000	2013 US \$ '000
<b>Summarised statement of profit or loss:</b>		
<b>Revenue</b>	<u>11,070,397</u>	10,815,289
<b>Profit for the year</b>	<u>759,082</u>	561,308
Other comprehensive (losses) income	<u>(547,759)</u>	<u>77,555</u>
<b>Total comprehensive income</b>	<u>211,323</u>	<u>638,863</u>
<b>Dividend paid by Borealis to non-controlling interests</b>	<u>34,655</u>	<u>27,689</u>
<b>Summarised statement of financial position:</b>		
	2014 US \$ '000	2013 US \$ '000
Non-current assets	7,357,482	7,383,775
Current assets	2,747,509	3,203,107
Non-current liabilities	(2,759,339)	(3,272,675)
Current liabilities	(1,863,364)	(1,951,284)
Non-controlling interests	(27,120)	(25,971)
<b>Summarised cash flow information:</b>		
	2014 US \$ '000	2013 US \$ '000
Operating cash flows	647,601	742,753
Investing cash flows	(462,631)	(876,908)
Financing cash flows	<u>(209,162)</u>	<u>133,401</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(24,192)</u>	<u>(754)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**6 OPERATING SEGMENT REPORTING**

For management purposes, the Group has been re-organised in 2014 into new business units based on their industry classification and has five reportable operating segments in 2014. The operating segments have been re-grouped to align with the change in the organisational structure and operating decision-making process in the Company.

*Upstream and Integrated Investments*

This segment is engaged in hydrocarbon exploration and production. The activities involve searching for potential underground or underwater crude oil and natural gas fields, drilling of exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil and/or raw natural gas to the surface. 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. It includes the Company's investment in Compañía Española de Petróleos SA ("CEPSA"), OMV Aktiengesellschaft ("OMV") and Oil Search Limited ("OSH").

*Midstream, Power & Utilities Investments*

This segment is engaged in the transportation (by pipeline, oil tanker or truck), storage, and wholesale marketing of crude or refined petroleum products. This segment is also engaged in vertically integrated electric power generation, distribution of electricity and water, operation and maintenance of electricity and water plants and involved in renewable energy and environmental projects. It includes the Company's investment in Gulf Energy Maritime PJSC ("GEM"), Arab Petroleum Pipelines Company ("SUMED"), Energias de Portugal ("EDP"), Oasis International Power LLC ("Oasis") and Al Yasat Shipping Company ("Yasat").

*Downstream operations*

This segment is engaged in the refining of petroleum crude oil and the processing and purifying of raw natural gas as well as the marketing and distribution of products derived from crude oil and natural gas. This segment is also engaged in polyethylene, polypropylene, olefins, polyolefins (ethylene and polyethylene), chemical and energy co-products, expandable polystyrene and performance styrenic polymers. It includes the Company's investment in Nova Chemicals Corporation ("Nova"), Borealis AG ("Borealis"), Pak-Arab Refinery Limited ("PARCO") and Cosmo Oil Company ("Cosmo").

*Diversified investments*

This segment is engaged in investment advisory, asset management, private banking services, real estate and investment in growth industries. It includes the Company's investment in Aabar Investments PJS ("Aabar"), Abu Dhabi Pakistan Holding Company ("ADPHL"), Qatar and Abu Dhabi Investment Company QSC ("QADIC"), Xojet, Inc. and Falah Growth Fund ("Falah").

*Projects*

This segment is engaged in strategic initiatives undertaken by Government of Emirate of Abu Dhabi through IPIC to construct, operate and maintain a refinery complex, construction and installation of oil pipelines, pumping stations and oil terminal storages in UAE, development of a new LNG regasification facility and a series of world-class petrochemicals complexes with access to Abu Dhabi's gas and liquid petroleum feedstock. These projects are not yet operational and are in construction phase. It includes the Company's investment in Emirates LNG LLC ("ELNG"), Abu Dhabi Crude Oil Pipeline ("ADCOP"), Abu Dhabi National Chemicals Company ("ChemaWEyaat"), Duqm Refinery and Petrochemical Industries LLC ("DRIPC"), Fujairah refinery and IPIC Refining Holdings LLC ("IRH").

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.

## International Petroleum Investment Company PJSC and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

#### 6 OPERATING SEGMENT REPORTING continued

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

	<i>Upstream and integrated investments US \$ '000</i>	<i>Midstream, power and utilities investments US \$ '000</i>	<i>Downstream operations US \$ '000</i>	<i>Diversified investments US \$ '000</i>	<i>Projects US \$ '000</i>	<i>Corporate and others US \$ '000</i>	<i>Total US \$ '000</i>
<b>Year ended 31 December 2014</b>							
<i>Key components of the segments are</i>							
Revenue from external customers	<b><u>34,789,933</u></b>	<b><u>-</u></b>	<b><u>16,229,770</u></b>	<b><u>146,468</u></b>	<b><u>-</u></b>	<b><u>17,479</u></b>	<b><u>51,183,650</u></b>
Share of post-tax profits of associates and joint ventures	89,082	817	584,392	(68,958)	(16,938)	-	588,395
Depreciation and amortization of fixed assets, net	(1,573,305)	-	(755,939)	(14,350)	-	(14,868)	(2,358,462)
Net impairment of fixed assets	(56,187)	-	(36,807)	191,252	-	-	98,258
Finance income	83,943	40,298	13,186	206,909	-	8,954	353,290
Finance costs	(135,295)	-	(184,710)	(239,810)	-	(663,947)	(1,223,762)
Gains on acquisitions and disposals	10,680	-	392	117,169	-	-	128,241
Other gains (losses) on financial instruments	31,281	-	(121,326)	(221,394)	-	66,666	(244,773)
Tax expense	<u>248,248</u>	<u>-</u>	<u>(262,134)</u>	<u>6,800</u>	<u>-</u>	<u>-</u>	<u>(7,086)</u>
Profit (loss) for the year (segment results)	<b><u>(369,124)</u></b>	<b><u>71,619</u></b>	<b><u>1,296,771</u></b>	<b><u>382,850</u></b>	<b><u>(32,523)</u></b>	<b><u>169,676</u></b>	<b><u>1,519,269</u></b>
<b>Year ended 31 December 2013</b>							
<i>Key components of the segments are</i>							
Revenue from external customers	<u>36,621,892</u>	<u>-</u>	<u>16,093,414</u>	<u>119,456</u>	<u>-</u>	<u>-</u>	<u>52,834,762</u>
Share of post-tax profits of associates and joint ventures	401,454	-	511,474	69,392	(17,652)	-	964,668
Depreciation and amortization of fixed assets, net	(1,137,159)	-	(715,452)	(15,986)	-	(15,786)	(1,884,383)
Net impairment of fixed assets	(7,987)	-	(28,590)	134,707	-	-	98,130
Finance income	176,174	55,196	8,372	327,749	-	69,583	637,074
Finance costs	(103,688)	-	(215,801)	(331,570)	-	(698,511)	(1,349,570)
Gains on acquisitions and disposals	283,170	-	270	-	-	-	283,440
Other losses on financial instruments	(77,617)	-	(5,615)	689,116	-	(78,650)	527,234
Tax expense	<u>(259,738)</u>	<u>-</u>	<u>(173,232)</u>	<u>11,883</u>	<u>-</u>	<u>-</u>	<u>(421,087)</u>
Profit (loss) for the year (segment results)	<b><u>954,456</u></b>	<b><u>55,196</u></b>	<b><u>1,235,876</u></b>	<b><u>622,960</u></b>	<b><u>(17,652)</u></b>	<b><u>(689,491)</u></b>	<b><u>2,161,345</u></b>

## International Petroleum Investment Company PJSC and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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>Upstream and integrated investments US \$ '000</i>	<i>Midstream, power and utilities investments US \$ '000</i>	<i>Downstream operations US \$ '000</i>	<i>Diversified investments US \$ '000</i>	<i>Projects US \$ '000</i>	<i>Corporate and others US \$ '000</i>	<i>Total US \$ '000</i>
<b>At 31 December 2014</b>							
<b>Assets</b>							
Investments in associates and joint ventures	4,223,909	71,573	3,497,744	4,009,252	78,281	-	11,880,759
Asset classified as held for sale	-	-	-	-	3,753,034	-	3,753,034
Other segment assets	<u>21,579,323</u>	<u>727,866</u>	<u>13,553,930</u>	<u>13,066,955</u>	<u>205,016</u>	<u>1,525,213</u>	<u>50,658,303</u>
<b>Total assets</b>	<b><u>25,803,232</u></b>	<b><u>799,439</u></b>	<b><u>17,051,674</u></b>	<b><u>17,076,207</u></b>	<b><u>4,036,331</u></b>	<b><u>1,525,213</u></b>	<b><u>66,292,096</u></b>
<b>Liabilities</b>							
<b>Total liabilities</b>	<b><u>12,631,758</u></b>	<b><u>-</u></b>	<b><u>7,606,228</u></b>	<b><u>11,068,083</u></b>	<b><u>4,000,044</u></b>	<b><u>14,735,518</u></b>	<b><u>50,041,631</u></b>
<b>Other segment information</b>							
Additions during the year							
Property, plant and equipment	1,298,147	-	1,124,337	1,088	7,137	25,810	2,456,519
Investment properties	-	-	-	154,276	-	10,234	164,510
Intangible assets	177,967	-	132,938	5,103	-	-	316,008
<b>At 31 December 2013</b>							
<b>Assets</b>							
Investments in associates and joint ventures	4,603,999	132,024	3,063,423	3,172,573	54,010	-	11,026,029
Asset classified as held for sale	-	-	-	-	3,679,268	-	3,679,268
Other segment assets	<u>20,872,037</u>	<u>794,654</u>	<u>14,414,572</u>	<u>15,950,198</u>	<u>213,611</u>	<u>1,436,472</u>	<u>53,681,544</u>
<b>Total assets</b>	<b><u>25,476,036</u></b>	<b><u>926,678</u></b>	<b><u>17,477,995</u></b>	<b><u>19,122,771</u></b>	<b><u>3,946,889</u></b>	<b><u>1,436,472</u></b>	<b><u>68,386,841</u></b>
<b>Total liabilities</b>							
<b>Total liabilities</b>	<b><u>9,477,563</u></b>	<b><u>61,573</u></b>	<b><u>7,908,092</u></b>	<b><u>13,810,355</u></b>	<b><u>2,000,017</u></b>	<b><u>17,592,230</u></b>	<b><u>50,849,830</u></b>
<b>Other segment information</b>							
Additions during the year							
Property, plant and equipment	942,523	-	916,962	4,776	19,959	150,909	2,035,129
Investment properties	-	-	-	88,318	-	6,020	94,338
Intangible assets	28,193	-	67,359	24,396	-	-	119,948

## International Petroleum Investment Company PJSC and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

#### 6 OPERATING SEGMENT REPORTING continued

##### Geographical information

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

	<i>UAE</i> US \$ '000	<i>Austria</i> US \$ '000	<i>USA</i> US \$ '000	<i>Canada</i> US \$ '000	<i>Spain</i> US \$ '000	<i>Others</i> US \$ '000	<i>Total</i> US \$ '000
<i>Revenue from external customers</i>							
<b>Year ended 31 December 2014</b>	<b><u>189,847</u></b>	<b><u>481,864</u></b>	<b><u>3,980,259</u></b>	<b><u>2,507,001</u></b>	<b><u>22,535,379</u></b>	<b><u>21,489,300</u></b>	<b><u>51,183,650</u></b>
Year ended 31 December 2013	<u>168,274</u>	<u>412,230</u>	<u>3,967,582</u>	<u>2,463,039</u>	<u>24,350,472</u>	<u>21,473,165</u>	<u>52,834,762</u>

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

##### 2014

###### *Non-current assets*

Property, plant and equipment	326,664	960,276	16,739	3,917,723	4,167,576	8,125,664	17,514,642
Intangible assets	326,554	260,213	4,928	340,216	981,804	1,536,292	3,450,007
Investment properties	2,558,958	-	-	-	-	-	2,558,958

##### 2013

###### *Non-current assets*

Property, plant and equipment	307,063	1,168,671	17,203	3,646,053	5,265,386	4,642,707	15,047,083
Intangible assets	326,334	254,214	6,460	351,606	1,160,018	635,727	2,734,359
Investment properties	2,196,063	-	-	-	-	-	2,196,063

International Petroleum Investment Company PJSC and its subsidiaries

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7 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	<i>31 December 2014 US \$ '000</i>	<i>31 December 2013 US \$ '000</i>
<b>Share of net assets:</b>		
Associates	<b>11,157,729</b>	10,253,902
Joint ventures	<u>723,030</u>	<u>772,127</u>
	<b><u>11,880,759</u></b>	<b><u>11,026,029</u></b>
	<i>2014 US \$ '000</i>	<i>2013 US \$ '000</i>
<b>Share of post-tax profits from continuing operations</b>		
Associates	<b>639,422</b>	936,165
Joint ventures	<u>(51,027)</u>	<u>28,503</u>
	<b><u>588,395</u></b>	<b><u>964,668</u></b>

7.1 Investments in associates

A list of significant associates is provided in note 4.3.

The following tables illustrate the summarized financial information of the Group's investment in material associates. The summarized financial information represent the unadjusted IFRS financial statements of the associates.

Summarised statement of profit or loss of material associates

	<u>2014</u>			<u>2013</u>		
	<i>OMV US \$ '000</i>	<i>Other associates US \$ '000</i>	<i>Total US \$ '000</i>	<i>OMV US \$ '000</i>	<i>Other associates US \$ '000</i>	<i>Total US \$ '000</i>
Revenue	<u>47,726,994</u>	<u>17,551,039</u>	<u>65,278,033</u>	<u>56,325,448</u>	<u>15,907,898</u>	<u>72,233,346</u>
Profit from continuing operations	<u>815,236</u>	<u>2,302,713</u>	<u>3,117,949</u>	<u>2,295,484</u>	<u>2,100,941</u>	<u>4,396,425</u>
Profit for the year	815,236	2,335,481	3,150,717	2,295,484	2,100,941	4,396,425
Other comprehensive income (losses)	<u>155,531</u>	<u>66,264</u>	<u>221,795</u>	<u>(1,330,990)</u>	<u>29,502</u>	<u>(1,301,488)</u>
Total comprehensive income	<u>970,767</u>	<u>2,401,745</u>	<u>3,372,512</u>	<u>964,494</u>	<u>2,130,443</u>	<u>3,094,937</u>
The Group's share of post-tax profit from associates	<u>86,011</u>	<u>553,411</u>	<u>639,422</u>	<u>339,536</u>	<u>596,629</u>	<u>936,165</u>
Dividends received from associates during the year	<u>139,424</u>	<u>69,777</u>	<u>209,201</u>	<u>126,334</u>	<u>142,202</u>	<u>268,536</u>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 7 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

#### 7.1 Investments in associates continued

##### Summarised statement of financial position of OMV (unadjusted)

	<i>31 December 2014 US \$ '000</i>	<i>31 December 2013 US \$ '000</i>
Current assets	<b>10,151,275</b>	11,194,004
Non - current assets	<b>30,907,402</b>	32,489,837
Current liabilities	<b>(10,757,033)</b>	(11,470,906)
Non - current liabilities	<b>(12,636,422)</b>	(12,223,277)
Hybrid capital	<b>(896,208)</b>	(1,018,068)
Non-controlling interests	<b><u>(3,546,771)</u></b>	<u>(4,028,664)</u>
<b>Net assets</b>	<b><u>13,222,243</u></b>	<u>14,942,926</u>
<b>Fair value of OMV at 31 December</b>	<b><u>8,714,518</u></b>	<u>15,597,882</u>

A reconciliation of the summarised financial information to the carrying amount of OMV is as follows:

	<i>31 December 2014 US \$ '000</i>	<i>31 December 2013 US \$ '000</i>
Share of net assets	<b>3,292,338</b>	3,720,789
Purchase price allocation adjustments on acquisition, net	<b><u>134,244</u></b>	<u>196,432</u>
<b>Carrying amount of OMV</b>	<b>3,426,582</b>	3,917,221
Carrying amount of other listed associates	<b><u>3,436,582</u></b>	<u>2,524,467</u>
Carrying amount of listed associates	<b>6,863,164</b>	6,441,688
Carrying amount of other unlisted associates	<b><u>4,294,565</u></b>	<u>3,812,214</u>
<b>Total carrying amount of associates</b>	<b><u>11,157,729</u></b>	<u>10,253,902</u>
<b>Fair value of the Group's share in other listed associates</b>	<b><u>2,470,606</u></b>	<u>1,902,904</u>

Certain of the Group's associates are listed on various stock exchanges. The fair value of these listed associates was US \$ 4,640,521 thousand at 31 December 2014 (31 December 2013: US \$ 5,799,139 thousand) while their carrying values were US \$ 6,863,164 thousand at 31 December 2014 (31 December 2013: US \$ 6,441,689 thousand). Although the market value of these 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, in management's view, higher than the market value. The recoverable amount was determined using the higher of fair value less costs to sell and value-in-use approach as per IAS 36 *Impairment of assets*. The difference between market value and carrying value of these investments was largely due to short-term market developments towards end of year 2014, particularly in relation to the sharp decline in global oil prices and drop in EUR/USD exchange rate.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 8 FINANCE INCOME

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Dividend income	<b>66,873</b>	227,198
Interest and other income	<b><u>286,417</u></b>	<u>409,876</u>
	<b><u>353,290</u></b>	<u>637,074</u>

Dividend income relates to the dividend received from the Group's available-for-sale and FVTPL investments. In 2013, dividend income included dividend received from UniCredit and Daimler amounting to US \$33,690 thousand and US \$91,469 thousand respectively. No such dividends were recognised in 2014.

### 9 FINANCE COSTS

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Interest expense on borrowings and derivatives	<b>(1,143,061)</b>	(1,127,820)
Other interest costs	<b><u>(80,701)</u></b>	<u>(221,750)</u>
	<b><u>(1,223,762)</u></b>	<u>(1,349,570)</u>

### 10 GAINS ON ACQUISITIONS AND DISPOSALS

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
(Loss) gain on disposal of financial instruments – net (i)	<b>(348)</b>	235,751
Gain on disposal of associates (ii)	<b>130,704</b>	52,046
Loss on disposal of property, plant and equipment - net	<b>(16,878)</b>	(5,310)
Other gains - net	<b><u>14,763</u></b>	<u>953</u>
	<b><u>128,241</u></b>	<u>283,440</u>

(i) In 2013, gain on disposal of financial instruments includes the sale of CEPESA's 5% stake in Oleoducto Central S.A. ("Ocesa").

(ii) In 2014, Aabar disposed 2.73% ownership stake in Arabtec Holding PJSC at a gain amounting to US \$ 130,704 thousand. As at 31 December 2014, Aabar owned 35.27% stake in Arabtec Holding PJSC.

In 2013, gain on disposal of associates includes the sale of 5% of CEPESA's stake in Compañía Logística de Hidrocarburos CLH, S.A (note 4.3).

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**11 OTHER (LOSSES) GAINS ON FINANCIAL INSTRUMENTS**

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Impairment loss on available-for-sale financial instruments (i)	<b>(120,249)</b>	(30,230)
Impairment loss on financial instruments at amortised cost	<b>(29,810)</b>	(48,638)
Fair value (loss) gain on non-derivative financial instruments at fair value through profit or loss (ii)	<b>(283,562)</b>	1,739,673
Fair value gain (loss) on derivative financial instruments (iii)	<b>164,114</b>	(1,134,891)
Other gains on financial instruments	<b><u>24,734</u></b>	<u>1,320</u>
	<b><u>(244,773)</u></b>	<u>527,234</u>

(i) Impairment loss on available-for-sale financial investments in 2014 mainly represents mark-to-market losses on the Group's investment in Cosmo.

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

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Fair value (loss) gain on Daimler AG shares	<b>(22,335)</b>	1,047,255
Fair value (loss) gain on Unicredit SpA shares	<b>(259,896)</b>	685,279

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

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Call and put options and related call spread on Daimler AG shares (note a)	<b>10,860</b>	(992,079)
Call and put options on Unicredit SpA (note a)	<b>(5,654)</b>	(502,701)
Call spreads on Daimler AG shares (note b)	<b>23,896</b>	599,944
Embedded derivatives on exchangeable bonds of Daimler AG shares (note c)	<b>30,828</b>	(201,609)

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11 OTHER (LOSSES) GAINS ON FINANCIAL INSTRUMENTS continued

- (a) Aabar entered into funded collar transactions upon the 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 restricted the revaluation gains and losses on the Daimler AG and Unicredit SpA shares within a certain range. Daimler shares were derecognised in 2014. During 2014, the collar structure on UniCredit SpA shares was restructured and accordingly only approximately 25% (2013: 100%) of the total holding in Unicredit SpA are subject to collar arrangement. The Group still maintains significant exposure to the share price on UniCredit SpA.
- (b) Aabar held long-term derivative contracts to further participate in the upside of Daimler AG share which were terminated in 2013. This amount also includes fair value changes of the purchased call spread entered into to offset fair value changes in the call options embedded in the exchangeable bonds.
- (c) Aabar has recognised the derivative embedded in its exchangeable bonds. The holders of the bonds have the option to exchange their bonds into Daimler AG shares on exercise of exchange rights, however the Aabar has the option to deliver either shares or cash. In March 2015, Aabar repaid majority of the portion of the exchangeable bonds which led to the derecognition of its embedded derivatives. The rest of the exchangeable bonds will be repaid in June 2015.

### 12 INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
<b>Consolidated statement of profit or loss</b>		
Current income tax expense:		
Corporation tax	(493,673)	(836,307)
Prior year charge	<u>(4,755)</u>	<u>(6,564)</u>
Total current income tax expense	<b>(498,428)</b>	<b>(842,871)</b>
Deferred tax:		
Origination and reversal of temporary differences	335,423	373,552
Impact of change in tax laws	121,881	20,164
Reversal of previous write-down / (write-down) of deferred tax assets	34,038	(50,109)
Previously unrecognised tax credits	<u>-</u>	<u>78,177</u>
Total deferred tax credit	<b>491,342</b>	<b>421,784</b>
<b>Tax expense reported in the consolidated statement of profit or loss relating to continuing operations</b>	<b><u>(7,086)</u></b>	<b><u>(421,087)</u></b>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 12 INCOME TAX EXPENSE continued

The Company is not subject to income tax in the United Arab Emirates (UAE) as the domestic Income Tax Decrees are not enforced on the Company in the UAE. The total tax expense primarily relates to the tax payable on the profits earned by the overseas subsidiaries and is therefore calculated at tax rates prevailing in the respective jurisdictions, in accordance with the taxation laws and regulations of the countries in which they operate. Compared to the previous year, the total tax expense was lower in 2014 due to availability and use of tax losses and the effect on deferred tax balances due to the change (decrease) in corporate income tax rates.

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
<b>Consolidated statement of other comprehensive income</b>		
Deferred tax related to items charged or credited directly to equity during the year:		
Cash flow hedges	32,824	3,073
Defined benefit pension scheme	39,573	(44,324)
Available-for-sale investments	83	268
Net gain (loss) on hedge of net investments	116,642	(8,297)
Changes in tax rates	<u>-</u>	<u>(1,163)</u>
<b>Income tax credit (charge) directly to equity</b>	<b><u>189,122</u></b>	<b><u>(50,443)</u></b>

The reconciliation of income tax expense and accounting profit multiplied by the Group's average income tax rate for 2014 and 2013 is as follows:

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
<b>Accounting profit before tax from continuing operations</b>	<b><u>1,526,355</u></b>	<b><u>2,582,432</u></b>
At average income tax rate of 30% (2013: 30%)	(457,907)	(774,730)
Expenses not deductible for tax purposes	(18,048)	120,718
Effect of share from the profit of associates and joint ventures	176,519	289,400
Non-taxable income	179,545	14,326
Higher taxes on overseas earnings	(78,696)	(171,487)
Reversal of previous write-down / (write-down) of deferred tax assets	34,038	(50,109)
Tax credit previously not recognised	-	78,177
Impact of changes in tax laws	121,881	20,164
Prior year charge	(4,755)	(6,564)
Difference in tax rates	18,898	14,466
Others	<u>21,439</u>	<u>44,552</u>
<b>Income tax charge for the year</b>	<b><u>(7,086)</u></b>	<b><u>(421,087)</u></b>

## International Petroleum Investment Company PJSC and its subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

#### 12 INCOME TAX EXPENSE continued

Deferred tax movement for the years ended 31 December 2013 and 2014 is as follows:

Deferred tax assets relate to the following:

	<i>1 January</i>	<i>Recognised</i>	<i>in other</i>	<i>Acquisitions</i>	<i>Transfers</i>	<i>Exchange</i>	<i>31 December</i>	<i>Recognised</i>	<i>in other</i>	<i>Acquisitions</i>	<i>Transfers</i>	<i>Exchange</i>	<i>31 December</i>
	<i>2013</i>	<i>in profit or</i>	<i>comprehensive</i>	<i>and</i>		<i>differences</i>	<i>2013</i>	<i>in profit or</i>	<i>comprehensive</i>	<i>and</i>		<i>differences</i>	<i>2014</i>
	<i>US \$ '000</i>	<i>loss</i>	<i>income</i>	<i>disposals</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>loss</i>	<i>income</i>	<i>disposals</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Derivative contracts	4,590	7,954	(309)	-	732	483	13,450	(2,804)	136,758	(3,690)	10,894	(13,812)	140,796
Impairment	10,975	11,431	-	-	-	721	23,127	13,836	-	-	-	(4,003)	32,960
Other timing differences	(33,584)	(70,681)	(2,714)	-	-	(3,509)	(110,488)	(27,141)	12,464	154	-	13,893	(111,118)
Pension and post-employment medical benefits	48,332	55,900	(1,816)	-	13,452	2,027	117,895	165	39,573	3,735	(948)	(12,811)	147,609
Tax losses carried forward	255,775	43,576	-	15,383	-	10,598	325,332	30,474	-	-	-	(36,425)	319,381
Provisions	27,715	21,571	-	157	(13,490)	1,418	37,371	4,877	-	(2,540)	(93)	(4,630)	34,985
Accelerated capital allowances	37,206	115,341	-	1,885	12,402	6,063	172,897	41,878	-	867	488	(24,589)	191,541
Others	39,609	10,007	-	130	(5,283)	1,155	45,618	80,979	(1)	667	26,033	(12,949)	140,347
	<u>390,618</u>	<u>195,099</u>	<u>(4,839)</u>	<u>17,555</u>	<u>7,813</u>	<u>18,956</u>	<u>625,202</u>	<u>142,264</u>	<u>188,794</u>	<u>(807)</u>	<u>36,374</u>	<u>(95,326)</u>	<u>896,501</u>

Deferred tax liabilities relate to the following:

Accelerated capital allowances	(1,504,291)	72,966	-	1,727	(12,402)	(23,213)	(1,465,213)	48,780	-	(28)	1,740	87,369	(1,327,352)
Acquisition fair value adjustment on intangibles	(270,055)	(1,683)	(2,080)	158	-	(25,057)	(298,717)	17,309	-	-	14,175	22,352	(244,881)
Acquisition fair value adjustment on property, plant and equipment and other non-current assets	(411,136)	32,018	-	-	-	(12,757)	(391,875)	137,271	-	(2,063,114)	-	46,429	(2,271,289)
(Loss) gain on revaluation of other assets	(14,156)	2,108	-	-	-	(513)	(12,561)	4,341	-	-	(2,553)	1,405	(9,368)
Gain (loss) on revaluation of non-derivative financial instruments	3,003	-	-	-	-	-	3,003	6,196	-	-	(17,110)	(13,076)	(20,987)
Inventories	(5,353)	(4,109)	-	-	(9,946)	(712)	(20,120)	(10,948)	-	(1,812)	-	3,584	(29,296)
Other timing differences	(12,816)	61,907	-	22	-	1,497	50,610	50,607	-	(3,838)	43,217	(14,031)	126,565
Temporary differences on accrued expenses	42,405	80,589	-	-	(12,925)	-	110,069	95,886	-	-	11,973	-	217,928
Uncertain tax provisions	(36,463)	4,634	-	-	798	-	(31,031)	1,218	-	-	-	-	(29,813)
Pension and post-employment benefits	76,163	(35,487)	(44,424)	-	(1,154)	(172)	(5,074)	(2,497)	-	-	-	831	(6,740)
Acquisition fair value adjustment on associates	(111,794)	28,809	-	-	-	(3,621)	(86,606)	-	-	-	690	9,677	(76,239)
Others	(40,943)	(15,067)	900	142	12,758	15,975	(26,235)	915	328	(42)	3,201	3,446	(18,387)
	<u>(2,285,436)</u>	<u>226,685</u>	<u>(45,604)</u>	<u>2,049</u>	<u>(22,871)</u>	<u>(48,573)</u>	<u>(2,173,750)</u>	<u>349,078</u>	<u>328</u>	<u>(2,068,834)</u>	<u>55,333</u>	<u>147,986</u>	<u>(3,689,859)</u>

# International Petroleum Investment Company PJSC and its subsidiaries

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 12 INCOME 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 \$195,378 thousand (31 December 2013: US \$ 282,488 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 \$ 316,744 thousand (31 December 2013: US \$ 189,169 thousand).

### 13 REVENUE

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Banking and financial services	<b>134,103</b>	119,456
Exploration and production	<b>1,416,919</b>	667,790
Gas and power	<b>1,096,860</b>	1,535,811
Petrochemicals	<b>20,283,926</b>	20,423,117
Refining and distribution	<b><u>28,251,842</u></b>	<u>30,088,588</u>
	<b><u>51,183,650</u></b>	<u>52,834,762</u>

# International Petroleum Investment Company PJSC and its subsidiaries

## 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:

	<i>Cost of sales</i> US \$ '000	<i>Selling and distribution costs</i> US \$ '000	<i>General and administrative expenses</i> US \$ '000	<i>Research and development expenses</i> US \$ '000	<i>Other income/expenses</i> US \$ '000	<i>Total</i> US \$ '000
<b>For the year ended 31 December 2014:</b>						
Cost of raw materials consumed	(37,379,737)	-	-	-	-	(37,379,737)
Excise tax on oil and gas	(3,053,694)	-	-	-	-	(3,053,694)
Staff costs	(1,185,790)	(331,960)	(709,835)	(121,348)	-	(2,348,933)
Inventories write-down to NRV	(649,570)	-	-	-	-	(649,570)
Distribution costs	(758,336)	(1,055,141)	(1,889)	(276)	-	(1,815,642)
Rent and maintenance costs	(702,756)	(162,116)	(94,209)	(13,228)	-	(972,309)
Depreciation of property, plant and equipment	(1,813,875)	(147,308)	(48,736)	(209,186)	-	(2,219,105)
Amortization of intangible assets	(64,771)	(21,760)	(23,132)	(20,890)	-	(130,553)
Depreciation of investment properties	(8,804)	-	-	-	-	(8,804)
	<u>(1,887,450)</u>	<u>(169,068)</u>	<u>(71,868)</u>	<u>(230,076)</u>	<u>-</u>	<u>(2,358,462)</u>
Impairment of property, plant and equipment	(69,278)	-	(222)	-	-	(69,500)
Impairment of intangible assets	(285)	(133)	(504)	(23,814)	-	(24,736)
Reversal of impairment of non-financial assets	-	-	-	-	192,494	192,494
	<u>(69,563)</u>	<u>(133)</u>	<u>(726)</u>	<u>(23,814)</u>	<u>192,494</u>	<u>98,258</u>
<b>For the year ended 31 December 2013:</b>						
Cost of raw materials consumed	(38,394,236)	-	-	-	-	(38,394,236)
Excise tax on oil and gas	(3,120,070)	-	-	-	-	(3,120,070)
Staff costs	(1,106,879)	(353,784)	(613,305)	(114,661)	-	(2,188,629)
Inventories write-down to NRV	(19,733)	-	-	-	-	(19,733)
Distribution costs	(723,210)	(1,028,084)	(898)	(132)	-	(1,752,324)
Rent and maintenance costs	(448,982)	(168,164)	(71,844)	(13,534)	-	(702,524)
Depreciation of property, plant and equipment	(1,479,319)	(154,431)	(43,259)	(68,234)	-	(1,745,243)
Amortization of intangible assets	(64,604)	(25,308)	(32,491)	(7,998)	-	(130,401)
Depreciation of investment properties	-	-	-	-	(8,739)	(8,739)
	<u>(1,543,923)</u>	<u>(179,739)</u>	<u>(75,750)</u>	<u>(76,232)</u>	<u>(8,739)</u>	<u>(1,884,383)</u>
Impairment of property, plant and equipment	(10,900)	(9,706)	(9)	(64)	-	(20,679)
Impairment of intangible assets	(1,215)	(3)	(7,146)	(14,794)	-	(23,158)
Reversal of impairment of non-financial assets	-	-	-	-	141,967	141,967
	<u>(12,115)</u>	<u>(9,709)</u>	<u>(7,155)</u>	<u>(14,858)</u>	<u>141,967</u>	<u>98,130</u>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 15 ASSET CLASSIFIED AS HELD FOR SALE

#### *Abu Dhabi Crude Oil Pipeline (“ADCOP”)*

At 30 June 2013, the Company transferred the cost of construction of ADCOP from property, plant and equipment to asset held for sale because it met the requirements under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. During 2014, additional cost of US \$ 73,766 thousand (2013: US \$ 61,045 thousand) has been incurred on ADCOP, which includes capitalised borrowing cost of US \$ nil (2013: US \$ 44,926 thousand). The effective interest rate was nil (2013:1.41%). The total cost of the ADCOP project was US \$ 3,753,034 thousand at 31 December 2014 (31 December 2013: US \$ 3,679,268 thousand)

The Company has been in discussion with the Government of the Emirate of Abu Dhabi and Abu Dhabi National Oil Company (ADNOC) for the transfer of ADCOP to the latter. The pricing and other aspects of the transaction have been agreed by the parties in early 2014. On 19 September 2013 and 17 April 2014 the Company received US \$ 2 billion respectively on each date from the Government of the Emirate of Abu Dhabi, as down-payment for the consideration of ADCOP which was used to pay down debt. The US \$ 4 billion down-payment has been recorded as advances received against asset held for sale.

### 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 Company does not have any instrument which will have a dilutive impact at the balance sheet date.

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

	<i>2014</i> <i>US \$ ‘000</i>	<i>2013</i> <i>US \$ ‘000</i>
Net profit attributable to ordinary equity holders of the parent for basic earnings	<b><u>1,205,724</u></b>	<b><u>1,917,576</u></b>
Weighted average number of ordinary shares for basic earnings per share (in thousands)	<b><u>3,500</u></b>	<b><u>3,500</u></b>
	<i>US \$</i>	<i>US \$</i>
Basic and diluted earnings per share	<b><u>345</u></b>	<b><u>548</u></b>
Basic and diluted earnings per share from continuing operations	<b><u>345</u></b>	<b><u>548</u></b>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 17 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and land improvements US \$ '000</i>	<i>Buildings, structures and production plants US \$ '000</i>	<i>Assets under construction US \$ '000</i>	<i>Oil and gas properties US \$ '000</i>	<i>Others* US \$ '000</i>	<i>Total US \$ '000</i>
<b>2014</b>						
Cost:						
At 1 January 2014	1,171,980	17,793,488	1,560,815	2,792,841	824,408	24,143,532
Additions	10,027	325,743	1,592,688	484,249	43,812	2,456,519
Acquired through business combination	24,565	126,036	4,330	3,285,678	63,763	3,504,372
Disposals	(19,599)	(244,269)	(2,901)	(146)	(120,723)	(387,638)
Transfers	14,726	688,580	(779,156)	194,626	(70,706)	48,070
Exchange adjustments	<u>(148,477)</u>	<u>(1,779,380)</u>	<u>(179,594)</u>	<u>(230,696)</u>	<u>(87,569)</u>	<u>(2,425,716)</u>
At 31 December 2014	<b><u>1,053,222</u></b>	<b><u>16,910,198</u></b>	<b><u>2,196,182</u></b>	<b><u>6,526,552</u></b>	<b><u>652,985</u></b>	<b><u>27,339,139</u></b>
Depreciation and impairment:						
At 1 January 2014	252,787	6,957,958	7,259	1,515,362	363,083	9,096,449
Charge for the year	23,317	1,147,158	-	942,110	106,520	2,219,105
Impairment	-	56,735	12,765	-	-	69,500
Reversal of impairment	-	(2,277)	-	-	(26,580)	(28,857)
Disposals	(14,887)	(198,036)	-	(130)	(56,467)	(269,520)
Transfers	(99)	123,692	(2,253)	(1)	(78,719)	42,620
Exchange adjustments	<u>(35,928)</u>	<u>(843,399)</u>	<u>(10)</u>	<u>(389,443)</u>	<u>(36,020)</u>	<u>(1,304,800)</u>
At 31 December 2014	<b><u>225,190</u></b>	<b><u>7,241,831</u></b>	<b><u>17,761</u></b>	<b><u>2,067,898</u></b>	<b><u>271,817</u></b>	<b><u>9,824,497</u></b>
Net carrying amount:						
At 31 December 2014	<b><u>828,032</u></b>	<b><u>9,668,367</u></b>	<b><u>2,178,421</u></b>	<b><u>4,458,654</u></b>	<b><u>381,168</u></b>	<b><u>17,514,642</u></b>
<b>2013</b>						
Cost:						
At 1 January 2013	1,081,225	16,248,775	4,498,912	2,436,164	645,074	24,910,150
Additions	10,443	427,799	1,279,615	270,617	46,655	2,035,129
Acquired through business combination	41,578	229,000	73,007	-	5,683	349,268
Disposals	(1,380)	(203,810)	(32,398)	(25,761)	(33,430)	(296,779)
Transfers	3,622	621,707	(676,892)	(63,630)	116,604	1,411
Reclassified as held for sale (note 15)	-	-	(3,618,223)	-	-	(3,618,223)
Exchange adjustments	<u>36,492</u>	<u>470,017</u>	<u>36,794</u>	<u>175,451</u>	<u>43,822</u>	<u>762,576</u>
At 31 December 2013	<b><u>1,171,980</u></b>	<b><u>17,793,488</u></b>	<b><u>1,560,815</u></b>	<b><u>2,792,841</u></b>	<b><u>824,408</u></b>	<b><u>24,143,532</u></b>
Depreciation and impairment:						
At 1 January 2013	228,717	5,765,243	3,902	891,425	240,832	7,130,119
Charge for the year	18,130	1,142,992	-	486,258	97,863	1,745,243
Impairment	-	16,447	4,232	-	-	20,679
Reversal of impairment	-	(2,779)	-	-	-	(2,779)
Disposals	(326)	(178,065)	-	(16,330)	(5,303)	(200,024)
Transfers	-	(43)	(288)	-	331	-
Exchange adjustments	<u>6,266</u>	<u>214,163</u>	<u>(587)</u>	<u>154,009</u>	<u>29,360</u>	<u>403,211</u>
At 31 December 2013	<b><u>252,787</u></b>	<b><u>6,957,958</u></b>	<b><u>7,259</u></b>	<b><u>1,515,362</u></b>	<b><u>363,083</u></b>	<b><u>9,096,449</u></b>
Net carrying amount:						
At 31 December 2013	<b><u>919,193</u></b>	<b><u>10,835,530</u></b>	<b><u>1,553,556</u></b>	<b><u>1,277,479</u></b>	<b><u>461,325</u></b>	<b><u>15,047,083</u></b>

\* Others include machinery, tools and technical equipment, information system hardware, motor vehicles, and office furniture and fittings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**17 PROPERTY, PLANT AND EQUIPMENT** continued

- a) Additions in assets under construction during 2014 include an amount of US \$ nil (2013: US \$ 134,659 thousand) relating to the construction of an oil pipeline (ADCOP project). As of 30 June 2013, the Company has transferred the ADCOP project to assets held for sale (see note 15).
- b) The amount of borrowing costs capitalised during the year ended 31 December 2014 was nil (2013: US \$ 71,831 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was nil (2013: 2.0%).
- c) Property, plant and equipment with a book value of US \$ 2,021,375 thousand (31 December 2013: US \$ 2,105,757 thousand) have been pledged as security for related borrowings and mortgages.
- d) The figures for buildings, structures and production plants include capitalised finance lease with a net value of US \$ 1,839 thousand (31 December 2013: US \$ 3,971 thousand). The lease obligations are included in borrowings (see note 29).

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 INTANGIBLE ASSETS

	<i>Software</i> US \$ '000	<i>Concessions patents and licenses</i> US \$ '000	<i>Developments costs</i> US \$ '000	<i>Brands</i> US \$ '000	<i>Customer contracts</i> US \$ '000	<i>Goodwill</i> US \$ '000	<i>Others</i> US \$ '000	<i>Total</i> US \$ '000
<b>2014</b>								
Cost:								
At 1 January 2014	239,418	429,807	351,556	525,257	228,902	904,230	761,182	3,440,352
Additions	32,683	89,177	35,366	-	1,765	-	157,017	316,008
Acquisitions through business combination (note 3.1)	-	267	-	-	-	909,914	-	910,181
Disposals	(1,106)	(53,101)	-	-	-	-	(86,234)	(140,441)
Transfers	5,679	2,540	-	-	-	-	(36,086)	(27,867)
Exchange adjustments	<u>(21,637)</u>	<u>(39,890)</u>	<u>(42,589)</u>	<u>(62,872)</u>	<u>(27,961)</u>	<u>(29,942)</u>	<u>(70,906)</u>	<u>(295,797)</u>
At 31 December 2014	<b><u>255,037</u></b>	<b><u>428,800</u></b>	<b><u>344,333</u></b>	<b><u>462,385</u></b>	<b><u>202,706</u></b>	<b><u>1,784,202</u></b>	<b><u>724,973</u></b>	<b><u>4,202,436</u></b>
Amortization and impairment:								
At January 2014	147,666	176,213	185,467	-	76,577	-	120,070	705,993
Charge for the year	28,631	22,734	22,412	-	20,623	-	36,153	130,553
Impairment	429	-	23,814	-	-	-	493	24,736
Reversal of impairment	-	-	-	-	-	-	(1,675)	(1,675)
Disposals	(887)	(4,777)	-	-	-	-	(17,683)	(23,347)
Transfers	(1,035)	2,143	-	-	-	-	(15,034)	(13,926)
Exchange adjustments	<u>(10,894)</u>	<u>(17,777)</u>	<u>(27,412)</u>	<u>-</u>	<u>(24,483)</u>	<u>-</u>	<u>10,661</u>	<u>(69,905)</u>
At 31 December 2014	<b><u>163,910</u></b>	<b><u>178,536</u></b>	<b><u>204,281</u></b>	<b><u>-</u></b>	<b><u>72,717</u></b>	<b><u>-</u></b>	<b><u>132,985</u></b>	<b><u>752,429</u></b>
Net carrying amount:								
At 31 December 2014	<b><u>91,127</u></b>	<b><u>250,264</u></b>	<b><u>140,052</u></b>	<b><u>462,385</u></b>	<b><u>129,989</u></b>	<b><u>1,784,202</u></b>	<b><u>591,988</u></b>	<b><u>3,450,007</u></b>

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

18 INTANGIBLE ASSETS continued

	<i>Software</i> US \$ '000	<i>Concessions patents and licenses</i> US \$ '000	<i>Developments costs</i> US \$ '000	<i>Brands</i> US \$ '000	<i>Customer contracts</i> US \$ '000	<i>Goodwill</i> US \$ '000	<i>Other</i> US \$ '000	<i>Total</i> US \$ '000
<b>2013</b>								
Cost:								
At 1 January 2013	154,579	379,936	308,282	504,389	155,080	811,230	903,348	3,216,844
Additions	36,208	24,833	34,154	-	18,941	-	5,812	119,948
Acquisitions through business combination (note 3.2)	2,530	27,673	-	-	13,092	72,234	-	115,529
Disposals	(366)	(16,380)	(3,734)	-	(308)	-	(84,145)	(104,933)
Transfers	38,459	3,222	(29)	-	33,430	-	(74,333)	749
Exchange adjustments	<u>8,008</u>	<u>10,523</u>	<u>12,883</u>	<u>20,868</u>	<u>8,667</u>	<u>20,766</u>	<u>10,500</u>	<u>92,215</u>
At 31 December 2013	<u>239,418</u>	<u>429,807</u>	<u>351,556</u>	<u>525,257</u>	<u>228,902</u>	<u>904,230</u>	<u>761,182</u>	<u>3,440,352</u>
Amortization and impairment:								
At 1 January 2013	79,863	148,496	144,686	-	25,189	-	179,758	577,992
Charge for the year	28,483	23,698	20,000	-	11,225	-	46,995	130,401
Impairment	-	1,158	14,794	-	7,146	-	60	23,158
Disposals	(342)	(1,985)	(3,734)	-	-	-	(41,266)	(47,327)
Transfers	34,880	89	-	-	30,833	-	(65,740)	62
Exchange adjustments	<u>4,782</u>	<u>4,757</u>	<u>9,721</u>	<u>-</u>	<u>2,184</u>	<u>-</u>	<u>263</u>	<u>21,707</u>
At 31 December 2013	<u>147,666</u>	<u>176,213</u>	<u>185,467</u>	<u>-</u>	<u>76,577</u>	<u>-</u>	<u>120,070</u>	<u>705,993</u>
Net carrying amount:								
At 31 December 2013	<u>91,752</u>	<u>253,594</u>	<u>166,089</u>	<u>525,257</u>	<u>152,325</u>	<u>904,230</u>	<u>641,112</u>	<u>2,734,359</u>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 18 INTANGIBLE ASSETS continued

#### Impairment testing of intangible assets with an indefinite useful life

Brands relate to trade names within the Group that 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% (2013: 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 9.4% to 11.0% (2013: 9.4% to 11.0%). Terminal value was calculated with a long-term growth rate of 1.5% (2013:1.5%). 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>Borealis</i> US \$ '000	<i>Aabar</i> US \$ '000	<i>Falcon</i> US \$ '000	<i>CEPSA</i> US \$ '000	<i>Total</i> US \$ '000
<b>Goodwill</b>					
Carrying amount at 1 January 2014	204,673	326,554	31,599	341,404	904,230
Additions during the year from business combinations	3,878	-	-	906,036	909,914
Exchange difference	(21,399)	-	-	(8,543)	(29,942)
Carrying amount at 31 December 2014	<b>187,152</b>	<b>326,554</b>	<b>31,599</b>	<b>1,238,897</b>	<b>1,784,202</b>

The Group performed its annual impairment test at 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**19 IMPAIRMENT TESTING OF GOODWILL** continued

**Borealis**

Borealis constitutes the lowest level at which the goodwill is monitored for internal management purposes. 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.

*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 between 1.5% and 2.5% for Borealis (2013: 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. Terminal values have been estimated with the perpetual growth rate methodology.
- 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 7.9% to 11.3% (2013: from 9.2% to 10.6%).

*Sensitivity to changes in assumptions*

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

**Aabar**

Aabar constitutes the lowest aggregation of assets that generate largely independent cash inflows. At 31 December 2014, the recoverable amount of Aabar's assets has been determined based on the higher of its fair value less costs to sell and its value in use approach. Recoverable amount has been estimated following a sum of the parts approach, which consists of adding-up the estimated recoverable amounts of each of the company's assets and subtracting the fair values of each of the Company's liabilities. The main methodology used for the estimation of the referred 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. Each of the properties was also adjusted to the higher of their fair values less cost to sell and value in use

*Sensitivity to changes in assumptions*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**19 IMPAIRMENT TESTING OF GOODWILL** continued

**Falcon**

The Group performed its annual impairment test as at 31 December 2014. No additional impairment was identified. The recoverable amount of Falcon Private Bank at 31 December 2014 was determined based on fair valuation performed by management using a range of valuation methodologies relevant for private banking.

*Sensitivity to changes in assumptions*

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

**CEPSA**

CEPSA constitutes the lowest aggregation of assets that generate largely independent cash inflows. At 31 December 2014, the recoverable amount of CEPSA has been determined based on a fair value less cost to sell approach, derived from financial projections covering a five year period. 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 five 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 five year business plan based on management expectations and industry research.
- Terminal value: Except for the Exploration and Production division terminal values have been estimated following the perpetual growth rate methodology or by using an exit multiple for Gas & Power.
- 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 rate considered is in a range from 1.3% to 2% (2013: 1.5%).
- Discount rate: The discount rate represents the current market assessment of the risks specific to CEPSA. 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 7.7% to 12.2% (2013: from 5.7% to 11.3%).

*Sensitivity to changes in assumptions*

With regards to the estimated 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 CEPSA to materiality exceed its recoverable amount.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 20 INVESTMENT PROPERTIES

	<i>Land</i> <i>US \$ '000</i>	<i>Residential and commercial</i> <i>US \$ '000</i>	<i>Under development</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
<b>2014</b>				
Cost:				
At 1 January 2014	2,186,688	363,639	178,235	2,728,562
Additions	-	10,324	154,186	164,510
Transfers	<u>68,073</u>	<u>-</u>	<u>47,832</u>	<u>115,905</u>
At 31 December 2014	<b><u>2,254,761</u></b>	<b><u>373,963</u></b>	<b><u>380,253</u></b>	<b><u>3,008,977</u></b>
Accumulated depreciation and impairment:				
At 1 January 2014	435,907	96,592	-	532,499
Charge for the year	-	8,804	-	8,804
Reversal of impairment charge	<u>(82,389)</u>	<u>(8,895)</u>	<u>-</u>	<u>(91,284)</u>
At 31 December 2014	<b><u>353,518</u></b>	<b><u>96,501</u></b>	<b><u>-</u></b>	<b><u>450,019</u></b>
Net carrying amount:				
At 31 December 2014	<b><u>1,901,243</u></b>	<b><u>277,462</u></b>	<b><u>380,253</u></b>	<b><u>2,558,958</u></b>
<b>2013</b>				
Cost:				
At 1 January 2013	2,172,404	223,654	244,478	2,640,536
Additions	14,284	6,021	74,033	94,338
Transfers	<u>-</u>	<u>133,964</u>	<u>(140,276)</u>	<u>(6,312)</u>
At 31 December 2013	<b><u>2,186,688</u></b>	<b><u>363,639</u></b>	<b><u>178,235</u></b>	<b><u>2,728,562</u></b>
Accumulated depreciation and impairment:				
At 1 January 2013	530,644	123,879	-	654,523
Charge for the year	-	8,739	-	8,739
Reversal of impairment charge	<u>(76,960)</u>	<u>(53,803)</u>	<u>-</u>	<u>(130,763)</u>
Transfers	<u>(17,777)</u>	<u>17,777</u>	<u>-</u>	<u>-</u>
At 31 December 2013	<b><u>435,907</u></b>	<b><u>96,592</u></b>	<b><u>-</u></b>	<b><u>532,499</u></b>
Net carrying amount:				
At 31 December 2013	<b><u>1,750,781</u></b>	<b><u>267,047</u></b>	<b><u>178,235</u></b>	<b><u>2,196,063</u></b>

Investment properties with a book value of US \$ 241,570 thousand (31 December 2013: US \$ 307,692 thousand) have been pledged as security for related borrowings and mortgages.

The Group's investment properties include land, buildings and properties under development mainly in Abu Dhabi and Dubai. Management determined that these investment properties consist of five classes of asset categories i.e. residential, hotel (including serviced apartments), offices, retail and mixed use, based on the nature, characteristics and risks of each property.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 20 INVESTMENT PROPERTIES continued

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/or value in use.

The impairment reversal comprises of the net of aggregate reversals of impairment losses of US \$148,605 thousand (2013: US \$ 190,323 thousand) and the aggregate impairment losses of US \$ 57,321 thousand (2013: US \$ 59,560 thousand). Accumulated impairment losses at 31 December 2014 amounted to US \$ 430,424 thousand (31 December 2013: US \$ 521,708 thousand). Recoverable amount of investment properties amounts to US \$ 2,799,356 thousand (2013: US \$ 2,260,054 thousand).

Fair value and value in use assessments have been performed based on varying valuation models depending on the intended use of the investment properties which is the current assessment of the highest and best use of these investment properties. The combined fair value of investment properties at 31 December 2014 amounted to US \$ 2,587,289 thousand (2013: US \$ 2,272,349 thousand). Investment properties include properties with a carrying value of US \$ 1,405,441 thousand (2013: US \$ 1,166,028 thousand) which were valued by management. For the balance of the investment properties, valuations were performed by independent professional valuers. The valuers are accredited with recognized and relevant professional qualifications and with recent experience in the location and category of investment properties being valued. The fair values have been determined in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards and are considered to approximate those in accordance with IFRS for the Group's properties.

	<i>Valuation technique</i>	<i>Significant inputs</i>
Buildings	Investment method	Yield, rental rates, operational and maintenance costs
	Comparable method	Comparable transactions/sales rates
Land	Residual method	Developer's profit, discount rate, yields,
	Discounted cash flows method	See above
Properties under development	Residual method	See above
	Investment method	See above

Both the contracted and market rental rates as well as comparable transactions were used in fair valuations. Operational and maintenance costs were assumed at 10%. Other inputs included, as applicable:

- Investment method: yield of 7.75% to 8.25% (2013: 8% to 8.25%),
- Discounted cash flow method: inflation rate of 5% (2013: 5%), discount rate of 11% (2013: 10.5% to 11%), terminal growth rate of 3.5% (2013 : 3.5%),
- Residual method: developer's profit of 15% (2013: 15% to 17%), yield of 9.25% to 9.5% (2013: 8.25% to 10.5%) and finance rate in the range of 4.6% to 6.5% (2013: 3% to 5%).

When performing fair valuations of land, management assumed the plots will be generally developed based on highest and best use.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 21 INVESTMENTS IN FINANCIAL INSTRUMENTS

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Non-derivative financial instruments:		
Financial assets at fair value through profit or loss (note 21.1)		
Held-for-trading	<b>390,230</b>	482,798
Designated on initial recognition	<b><u>1,980,037</u></b>	<u>5,067,979</u>
	<b>2,370,267</b>	5,550,777
Held to maturity investments	<b>23,207</b>	18,318
Available-for-sale financial assets (note 21.2)	<b><u>3,185,458</u></b>	<u>1,818,240</u>
	<b>5,578,932</b>	7,387,335
Derivative financial instruments (note 34)	<b><u>574,594</u></b>	<u>847,389</u>
	<b><u>6,153,526</u></b>	<u>8,234,724</u>
Non-current	<b>3,294,132</b>	2,689,647
Current	<b><u>2,859,394</u></b>	<u>5,545,077</u>
	<b><u>6,153,526</u></b>	<u>8,234,724</u>

#### 21.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Percentage holding</i>		<i>Carrying value</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
			<i>US \$ '000</i>	<i>US \$ '000</i>
Daimler AG shares (i)	-	3.1%	-	2,835,735
Unicredit SpA shares (ii)	<b>5.1%</b>	5.1%	<b>1,922,039</b>	2,181,935
Others			<b><u>448,228</u></b>	<u>533,107</u>
			<b><u>2,370,267</u></b>	<u>5,550,777</u>
Non - current			<b>46,276</b>	50,310
Current			<b><u>2,323,991</u></b>	<u>5,500,467</u>
			<b><u>2,370,267</u></b>	<u>5,550,777</u>

- i) Aabar 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. The shares in Daimler AG were pledged as collateral against certain term loans. In 2014, Aabar entered into a series of transactions relating to Daimler AG and the related derivatives. Accordingly the exposure to the variability in the present value of the future net cash flows from the equity position in Daimler AG, the underlying derivatives and related loans were extinguished. This has led to the derecognition of the derivatives and the equity position.
- ii) This represents an investment in UniCredit SpA. 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. In 2014, the Group refinanced and restructured the collar position as per note 11 (iii) (a).

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 21 INVESTMENTS IN FINANCIAL INSTRUMENTS continued

#### 21.2 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Percentage holding		Carrying value	
	2014	2013	2014 US \$ '000	2013 US \$ '000
Quoted investments:				
Glencore Xstrata Plc	0.75%	0.75%	460,825	511,956
Energias de Portugal	4.06%	4.06%	577,866	544,654
Cosmo Oil Company Limited *	20.76%	20.76%	251,261	335,923
Oil Search Limited ("OSH") (note 23)	12.89%	-	1,268,112	-
Others			<u>209,476</u>	<u>78,058</u>
			<b>2,767,540</b>	1,470,591
Unquoted investments carried at fair value			<b>380,476</b>	280,634
Unquoted investments carried at cost			<u>37,442</u>	<u>67,015</u>
			<b>3,185,458</b>	<u>1,818,240</u>

\*Although the Company owns 20.76% of the equity of Cosmo, the Company has concluded that it does not have the ability to exert significant influence over Cosmo. Accordingly, Cosmo is accounted for as an available-for-sale investment marked to market.

#### *Quoted investments*

The fair value of the quoted investments is determined by reference to published price quotations in an active market. During 2014, the Group recognized an impairment charge of US \$ 120,249 thousand (2013: US \$ 30,230 thousand) on its quoted investments.

#### *Unquoted investments*

The fair value of the majority of unquoted investments has been estimated using valuation techniques 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).

### 22 TRADE AND OTHER RECEIVABLES

	2014 US \$ '000	2013 US \$ '000
Trade receivables	3,871,060	5,313,305
Loans and other amounts due from banking customers	1,653,575	1,671,498
Due from banks	124,997	252,856
Balance due from related parties (note 42)	<u>281,574</u>	<u>432,146</u>
	<b>5,931,206</b>	7,669,805
Allowances for doubtful debts	<u>(226,261)</u>	<u>(278,672)</u>
	<b>5,704,945</b>	<u>7,391,133</u>
Non-current	128,138	256,106
Current	<u>5,576,807</u>	<u>7,135,027</u>
	<b>5,704,945</b>	<u>7,391,133</u>

Due from banks includes restricted account balances of US \$ 124,997 thousand (31 December 2013: US \$ 252,857 thousand) held as collateral for loans and letters of credit in respect of the Group's investments and projects.

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

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 23 OTHER ASSETS

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Prepayments	<b>71,044</b>	61,251
Taxes receivable	<b>815,032</b>	543,012
Advances paid	<b>729,632</b>	1,139,142
Accrued income	<b>69,367</b>	85,411
Receivable from related parties (note 42)	<b>2,276,847</b>	1,993,449
Loans receivable (i)	<b>317,453</b>	1,750,390
Receivable on assets disposed (note 41)	<b>486,664</b>	18,886
Deferred expenditures	<b>156,918</b>	53,616
Other receivables	<b>20,713</b>	107,177
Other assets	<b><u>133,215</u></b>	<u>122,636</u>
	<b><u>5,076,885</u></b>	<u>5,874,970</u>
Non-current	<b>3,247,219</b>	4,672,507
Current	<b><u>1,829,666</u></b>	<u>1,202,463</u>
	<b><u>5,076,885</u></b>	<u>5,874,970</u>

- (i) Included in loans receivable in 2013 was an amount of US \$ 1,474,780 thousand relating to the Company's investment in mandatorily exchangeable bonds (the "IPBC Bonds") of Independent Public Business Corporation of the Government of Papua New Guinea. The derivative component amounting to US \$ 33,603 thousand was separately recognised under derivative financial assets (see note 34).

In March 2014, the IPBC Bonds were exchanged into 196,604,177 shares of Oil Search Limited ("OSH"), an exploration and production company listed on the Australian Stock Exchange. The Company's shareholding in OSH is approximately 13% as at 31 December 2014 (see note 21.2).

### 24 INVENTORIES

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Raw materials	<b>1,451,800</b>	1,043,072
Spare parts	<b>190,551</b>	213,605
Consumables	<b>198,448</b>	217,379
Work in progress	<b>6,488</b>	97,529
Finished goods	<b>2,673,910</b>	3,101,802
Consignments	<b>2,155</b>	15,359
In transit	<b><u>112,837</u></b>	<u>117,049</u>
	<b>4,636,189</b>	4,805,795
Allowance for obsolescence / net realisable value adjustments	<b><u>(636,608)</u></b>	<u>(46,629)</u>
	<b><u>3,999,581</u></b>	<u>4,759,166</u>

In 2014, CEPESA recognised impairment losses of US \$ 649,570 thousand on its inventories of raw materials and finished goods. The impairment losses were mainly due to the sharp drop in prices of crude oil and other petroleum products during the second half of 2014.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 25 CASH AND CASH EQUIVALENTS

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Bank balances:		
deposit accounts	<b>2,270,534</b>	2,476,793
call and current accounts	<b>2,860,518</b>	4,216,205
Cash in hand	<b><u>172,206</u></b>	<u>125,846</u>
Cash and short term deposits	<b><u>5,303,258</u></b>	<u>6,818,844</u>

Deposit and call accounts are placed with commercial banks and are short-term in nature. Deposit and call accounts earn interest at prevailing market rates. Bank balances include US \$ 936,964 thousand (2013: US \$ 610,678 thousand) held with entities under common control (see note 42). The Group's exposure to credit, currency and interest rate risk related to cash and short term deposits is disclosed in note 36.

### 26 SHARE CAPITAL

	<i>Authorised</i>		<i>Issued and fully paid</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>	<i>US \$ '000</i>
Ordinary shares of US \$ 1,000 each	<b><u>5,000,000</u></b>	<u>5,000,000</u>	<b><u>3,500,000</u></b>	<u>3,500,000</u>

### 27 SHAREHOLDER LOAN

In June 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.

### 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>Share of reserves of associates US \$ '000</i>	<i>Total US \$ '000</i>
Balance at 1 January 2013	2,312,383	(1,453,790)	(28,285)	(337,013)	(168,339)	324,956
Other comprehensive income (loss) for the year	2,080	(181,768)	(8,779)	183,779	(193,667)	(198,355)
Movements in other reserves	<u>-</u>	<u>226</u>	<u>-</u>	<u>1,011</u>	<u>-</u>	<u>1,237</u>
Balance at 31 December 2013	<b><u>2,314,463</u></b>	<b><u>(1,635,332)</u></b>	<b><u>(37,064)</u></b>	<b><u>(152,223)</u></b>	<b><u>(362,006)</u></b>	<b><u>127,838</u></b>
Other comprehensive loss for the year	(282,754)	(1,358,808)	(62,655)	(90,102)	(435,113)	(2,229,432)
Movements in other reserves	<u>-</u>	<u>6,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,949</u>
Balance at 31 December 2014	<b><u>2,031,709</u></b>	<b><u>(2,987,191)</u></b>	<b><u>(97,719)</u></b>	<b><u>(242,325)</u></b>	<b><u>(797,119)</u></b>	<b><u>(2,094,645)</u></b>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 29 BORROWINGS

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Overdrafts	<b>316,556</b>	384,881
Listed notes and other borrowing instruments	<b>15,661,801</b>	16,450,701
Unlisted borrowings	<b>13,969,766</b>	16,661,617
Others	<b><u>1,440</u></b>	<u>6,715</u>
	<b><u>29,949,563</u></b>	<u>33,503,914</u>
Non-current	<b>24,006,113</b>	26,116,428
Current	<b><u>5,943,450</u></b>	<u>7,387,486</u>
	<b><u>29,949,563</u></b>	<u>33,503,914</u>

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
The Company	<b>14,165,619</b>	16,865,808
Aabar	<b>7,253,872</b>	9,007,087
NOVA	<b>1,000,284</b>	861,899
Borealis	<b>2,226,991</b>	2,515,798
CEPSA	<b><u>5,302,797</u></b>	<u>4,253,322</u>
	<b><u>29,949,563</u></b>	<u>33,503,914</u>

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
EUR	<b>13,303,966</b>	17,677,596
USD	<b>13,550,934</b>	12,636,282
AED	<b>810,627</b>	1,038,199
JPY	<b>561,561</b>	638,092
GBP	<b>1,415,192</b>	1,498,041
Others	<b><u>307,283</u></b>	<u>15,704</u>
	<b><u>29,949,563</u></b>	<u>33,503,914</u>

As of 31 December 2014 and 2013, the Company has not guaranteed the borrowings of any of the Group companies. However, the Company has provided joint guarantees with 1Malaysia Development Berhad (“1MDB”), a strategic development company wholly-owned by the Government of Malaysia (see note 41 for further details) in relation to certain obligations (principal and associated interests) of subsidiaries of 1MDB. The principal amount of the obligations is US \$ 3.5 billion.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 29 BORROWINGS continued

#### Listed notes and other borrowing instruments

	<i>Maturity (year)</i>	<i>Currency</i>	<i>Coupon rate</i>	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
IPIC - Bond 1	2020	US \$	5.000%	1,487,091	1,485,361
IPIC - Bond 2	2015	US \$	3.125%	998,522	996,944
IPIC - Bond 3	2021	EUR	5.875%	1,489,203	1,688,583
IPIC - Bond 4	2016	EUR	4.875%	1,505,810	1,705,780
IPIC - Bond 5	2026	GBP	6.875%	849,109	902,158
IPIC - Bond 6	2022	US \$	5.500%	1,493,142	1,492,432
IPIC - Bond 7	2017	US \$	3.750%	1,495,590	1,493,719
IPIC - Bond 8	2041	US \$	6.875%	743,118	743,028
IPIC - Bond 9	2015	US \$	1.750%	748,493	746,896
IPIC - Bond 10	2018	EUR	2.375%	962,774	1,092,105
IPIC - Bond 11	2023	EUR	3.625%	1,016,462	1,153,376
Aabar - Exchangeable bond (see note below)	2016	EUR	4.000%	1,491,355	1,666,981
Borealis - Bond 1	2017	EUR	5.375%	241,960	274,860
Borealis - Bond 2	2019	EUR	4.000%	151,225	171,788
NOVA - Bond 4	2016	US \$	8.625%	-	343,279
NOVA - Bond 6	2023	US \$	5.250%	494,099	493,411
NOVA - Bond 7 (note i)	2025	US \$	5.000%	493,848	-
				<b>15,661,801</b>	<b>16,450,701</b>

(note i) – On 28 October 2014, NOVA issued US \$ 500,000 thousand 5.000% senior notes due 2025 (callable at Nova's option at any time). The net proceeds of the offering were used primarily to redeem Nova - Bond 4 and pay related transaction fees and expenses.

#### *Aabar – Exchangeable bond*

On 27 May 2011, Aabar issued EUR 1,250,000 thousand 4% 5 year senior unsecured exchangeable bonds, which may be exchangeable into Daimler AG shares (the “exchangeable bonds”). The exchangeable bonds are quoted 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. The balance does not include embedded call options. In March 2015, Aabar repaid majority of the portion of the exchangeable bonds which led to the derecognition in its embedded derivatives. The remaining portion of the bonds will be completely repaid in June 2015.

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

The fair values of the listed notes were US \$ 17,592,716 thousand at 31 December 2014 (31 December 2013: US \$ 18,027,199 thousand).

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 29 BORROWINGS continued

#### Unlisted borrowings

	<i>Maturity (Year)</i>	<i>Currency</i>	<i>Interest rate</i>	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
IPIC - Loan 8	2026	AED	EIBOR + Margin	-	252,124
IPIC - Loan 10	2014	US \$	LIBOR + Margin	-	1,398,884
IPIC - Loan 12 (note i)	On demand	US \$	LIBOR + Margin	25,053	237,086
IPIC - Loan 13	2014	US \$	LIBOR + Margin	-	169,969
IPIC - Loan 14	2014	EUR	EURIBOR+Margin	-	693,935
IPIC - Loan 15	2018	JPY	LIBOR + Margin	561,561	638,092
IPIC - Loan 16 (note ii)	2016	EUR / US \$	EURIBOR/LIBOR + Margin	800,256	-
Aabar - Loan 6	2014	EUR	Fixed rate	-	1,611,682
Aabar - Loan 9	2014	EUR	EURIBOR + Margin	-	275,161
Aabar - Loan 11	2014	EUR	Fixed rate	-	1,704,012
Aabar - Loan 12 (note 43)	2015	AED	EIBOR + Margin	204,221	204,221
Aabar - Loan 16	2016	US \$	LIBOR + Margin	488,379	484,279
Aabar - Loan 17	2016	AED	EIBOR + Margin	353,037	350,073
Aabar - Loan 18	2016	EUR	EURIBOR + Margin	610,987	686,197
Aabar - Loan 19	2018	US \$	LIBOR + Margin	284,724	282,996
Aabar - Loan 20	2018	AED	EIBOR + Margin	233,197	231,782
Aabar - Loan 21	2018	EUR	EURIBOR + Margin	430,371	484,482
Aabar - Loan 22 (note 43)	2015	US \$	LIBOR + Margin	172,986	171,335
Aabar - Loan 23	2016	GBP	LIBOR + Margin	519,580	548,245
Aabar - Loan 24 (note 43)	2017	US \$	LIBOR + Margin	299,992	-
Aabar - Loan 25	2017	EUR	Fixed rate	519,406	-
Aabar - Loan 26	2019	EUR	EURIBOR + Margin	820,403	-
Aabar - Loan 27	2017	EUR	EURIBOR + Margin	418,056	-
Borealis- Loan 1	2018	EUR	Fixed rate	173,001	196,525
Borealis- Loan 3	2016 - 2028	EUR / US \$	EURIBOR/LIBOR + Margin	181,470	158,071
Borealis- Loan 4	2019	EUR	Fixed rate	-	206,145
CEPSA- Loan 1	2018	US \$	LIBOR+Margin	279,008	348,782
CEPSA- Loan 3	2015	EUR	EURIBOR+Margin	241,960	274,860
CEPSA- Loan 4	2016	EUR	EURIBOR+Margin	-	247,374
CEPSA- Loan 5	2016	US \$	LIBOR+Margin	-	170,832
CEPSA- Loan 6	2016	US \$	LIBOR+Margin	-	199,304
CEPSA- Loan 7	2022	EUR	EURIBOR+Margin	181,470	206,145
CEPSA- Loan 8	2015	EUR	EURIBOR+Margin	-	206,145
CEPSA- Loan 9	2016	EUR	EURIBOR+Margin	-	199,274
CEPSA- Loan 18	2019	US \$	Fixed rate	269,044	-
CEPSA- Loan 19	2020	US \$	Fixed rate	274,026	-
CEPSA- Loan 20	2017	EUR	EURIBOR+Margin	222,833	-
CEPSA- Loan 21	2017	US \$	LIBOR+Margin	398,583	-
CEPSA- Loan 22	2024	CNY	Fixed rate	247,377	-
CEPSA- Loan 23	2019	US \$	Fixed rate	199,292	-
CEPSA- Loan 24	2015	EUR	EURIBOR+Margin	151,225	-
CEPSA- Loan 25	2021	US \$	LIBOR+Margin	149,469	-
CEPSA- Loan 26	2015	US \$	LIBOR+Margin	182,352	-
CEPSA- Loan 27	2019	US \$	LIBOR+Margin	509,190	-
CEPSA- Loan 28	On demand	US \$	LIBOR+Margin	197,266	119,589
Others				<u>3,369,991</u>	<u>3,704,016</u>
				<b>13,969,766</b>	<b>16,661,617</b>

(note i) – IPIC loan (12) has an undrawn amount of US \$ 1,402,947 thousand at 31 December 2014 (31 December 2013: US \$ 1,190,914 thousand)

(note ii) - On 19 December 2013, the Company entered into a multicurrency revolving facilities agreement (equivalent to US \$ 2 billion) with an interest rate at a margin over, in relation to any loan in US \$, LIBOR or, in relation to any loan in euro, EURIBOR. On 27 February 2014, facilities were partially drawn with an undrawn amount of US \$ 979,234 thousand at 31 December 2014 (31 December 2013: undrawn amount of US \$ 2,067,038 thousand).

(note iii) - All of IPIC loans are unsecured as of 31 December 2014. Aabar loans are unsecured, except for Aabar – Loan 12, 23, 25 and 26 which are secured through pledges on land mortgage and certain securities as of 31 December 2014.

(note iv) - All loans within Others are individually less than US \$ 150,000 thousand and are unsecured except for an amount of US \$ 12,337 thousand (31 December 2013: US \$ 15,807 thousand) which is secured on property, plant and equipment.

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

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 30 EMPLOYEES' BENEFIT LIABILITIES

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Wages and salaries	<b>1,714,741</b>	1,593,158
Defined contribution plans	<b>55,349</b>	57,144
Defined benefit plans	<b>71,267</b>	112,798
Bonuses	<b>141,156</b>	136,077
Others	<b><u>366,420</u></b>	<u>289,452</u>
	<b><u>2,348,933</u></b>	<u>2,188,629</u>

The number of employees of the Group at 31 December 2014 was 19,892 (31 December 2013: 20,078).

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Employee end of service benefits	<b>4,985</b>	4,173
Pensions	<b><u>643,333</u></b>	<u>617,127</u>
	<b><u>648,318</u></b>	<u>621,300</u>
Unfunded	<b>128,686</b>	74,538
Partly funded	<b>488,003</b>	528,455
Wholly funded	<b><u>31,629</u></b>	<u>18,307</u>
	<b><u>648,318</u></b>	<u>621,300</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 statement of profit or loss:

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Current service cost	<b>45,466</b>	48,341
Interest cost on benefit obligation	<b>67,836</b>	61,753
Interest (income) expense on plan assets	<b>(48,604)</b>	4,208
Past service cost	-	(2,090)
Others	<b><u>6,569</u></b>	<u>586</u>
<b>Net defined benefit expense</b>	<b><u>71,267</u></b>	<u>112,798</u>

International Petroleum Investment Company PJSC and its subsidiaries

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**30 EMPLOYEES' BENEFIT LIABILITIES** continued

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Defined benefit obligations	<b>(1,848,151)</b>	(1,669,110)
Fair value of plan assets	<b><u>1,203,896</u></b>	<u>1,051,060</u>
	<b>(644,255)</b>	(618,050)
Unrecognized past service costs	<b><u>922</u></b>	<u>923</u>
<b>Benefit liabilities</b>	<b><u>(643,333)</u></b>	<u>(617,127)</u>

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Benefit obligations at beginning of year	<b>(1,669,110)</b>	(1,766,927)
Current service costs	<b>(45,466)</b>	(48,341)
Current interest costs	<b>(67,836)</b>	(61,753)
Contributions by employees	<b>(4,806)</b>	(5,124)
Past service cost	-	2,090
Actuarial (losses) gains on obligation due to:		
Changes in demographic assumptions	<b>(12,878)</b>	(23,822)
Changes in financial assumptions	<b>(253,012)</b>	169,574
Experienced losses	<b>(10,648)</b>	(20,419)
Acquisition of business	<b>(21,435)</b>	(33,576)
Benefits paid from plan	<b>90,406</b>	81,298
Liabilities extinguished on settlements	<b>7,309</b>	8,673
Foreign exchange differences	<b><u>139,325</u></b>	<u>29,217</u>
<b>Benefit obligations at end of the year</b>	<b><u>(1,848,151)</u></b>	<u>(1,669,110)</u>

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

	<i>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Fair value of plan assets at beginning of year	<b>1,051,060</b>	911,734
Interest income (expense) on plan assets	<b>48,604</b>	(4,208)
Contributions by employees	<b>4,806</b>	5,214
Employer contribution	<b>143,021</b>	136,067
Actuarial gains on obligation due to		
changes in demographic assumptions	<b>69,517</b>	92,755
Experienced gains (losses)	<b>31,033</b>	(8,472)
Acquisition of business	<b>10,323</b>	9,511
Benefits paid from plan	<b>(90,406)</b>	(81,298)
Assets distributed on settlement	<b>(2,878)</b>	(2,894)
Foreign exchange differences	<b><u>(61,184)</u></b>	<u>(7,349)</u>
<b>Fair value of plan assets at end of year</b>	<b><u>1,203,896</u></b>	<u>1,051,060</u>

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**30 EMPLOYEES' BENEFIT LIABILITIES** continued

The major categories of plan assets are as follows:

	2014 US \$ '000	*Reclassified 2013 US \$ '000
<b>Investments quoted in active markets</b>		
Cash and cash equivalents	13,725	10,725
Equity instruments	20,294	101,153
Fixed income securities	23,956	317
Real estate	6,130	4,851
Investment funds	5,086	8,549
Others	2,370	91,950
<b>Unquoted investments</b>		
Cash and cash equivalents	9,380	195
Equity instruments	266,823	269,656
Fixed income securities	709,015	495,712
Others	<u>147,117</u>	<u>67,952</u>
<b>Fair value of plan assets at end of year</b>	<b><u>1,203,896</u></b>	<b><u>1,051,060</u></b>

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 as shown below:

	2014 %	2013 %
Rate of salary increases	3.3% - 4.2%	3.4% - 4.2%
Rate of increase in pensions payments	0.5% - 1.7%	0.5% - 2.1%
Discount rate	2.0% - 3.9%	3.4% - 4.7%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2014 is shown below:

	Change %	Impact on defined benefit obligation US \$ '000	Change %	Impact on defined benefit obligation US \$ '000
Rate of salary increases	+1.0%	(64,788)	-1.0%	70,113
Rate of increase in pensions payments	+1.0%	(34,135)	-1.0%	39,508
Discount rate	+0.5%	107,739	-0.5%	(123,152)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in the key assumptions occurred as at 31 December 2014.

The Group's expected payment contributions to defined benefit obligations within the next 12 months amounts to US \$137,267 thousand (2013: US \$ 131,136 thousand).

The average duration of the defined benefit obligations at 31 December 2014 is 14 years (31 December 2013: 14 years).

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 31 PROVISIONS

	<i>Decommissioning</i> US \$ '000	<i>Legal disputes</i> US \$ '000	<i>Others</i> US \$ '000	<i>Total</i> US \$ '000
At 1 January 2014	168,818	113,161	289,774	571,753
Additions	13,518	80,317	271,545	365,380
On business combinations	3,917	-	184	4,101
Accretion expenses	1,288	13,092	3,035	17,415
Utilised	(7,704)	(7,345)	(125,338)	(140,387)
Transferred to disposal group	-	-	(1,807)	(1,807)
Reversed	-	(36,842)	(35,078)	(71,920)
Exchange adjustments	<u>(13,364)</u>	<u>(16,371)</u>	<u>(40,695)</u>	<u>(70,430)</u>
Balance at 31 December 2014	<b><u>166,473</u></b>	<b><u>146,012</u></b>	<b><u>361,620</u></b>	<b><u>674,105</u></b>
		<b>2014</b>		<b>2013</b>
		<b>US \$ '000</b>		<b>US \$ '000</b>
Classified as:				
Non-current		<b>582,178</b>		479,034
Current		<b><u>91,927</u></b>		<u>92,719</u>
		<b><u>674,105</u></b>		<b><u>571,753</u></b>

- (i) 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.
- (ii) 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. Refer to note 40 for litigations and contingencies.
- (iii) Others cover mainly provision for restructuring, warranty provisions arising from the Group's ordinary operations that might give rise to actual liabilities with their dealings with third parties, and environmental provisions 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.

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

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**32 TRADE AND OTHER PAYABLES**

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Trade payables	<b>4,357,837</b>	3,964,883
Customer deposits and other amounts due to banking customers	<b>2,906,901</b>	2,551,407
Balance due to related parties (note 42)	<b>480,878</b>	624,393
Due to banks	<b>163,092</b>	285,011
Other payables	<b><u>3,917</u></b>	<u>4,904</u>
	<b><u>7,912,625</u></b>	<u>7,430,598</u>
Non-current	<b>24,044</b>	51,032
Current	<b><u>7,888,581</u></b>	<u>7,379,566</u>
	<b><u>7,912,625</u></b>	<u>7,430,598</u>

**33 OTHER LIABILITIES**

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Accruals	<b>987,674</b>	1,074,543
Taxes payable	<b>584,549</b>	663,750
Advances and deposits received	<b>31,216</b>	39,155
Payable to related parties (note 42)	<b>392,292</b>	113,749
Payable on assets acquisition	<b>10,001</b>	65,777
Deferred income (note 41)	<b>279,751</b>	311,721
Other payables	<b>120,160</b>	139,929
Other liabilities	<b><u>236,043</u></b>	<u>232,296</u>
	<b><u>2,641,686</u></b>	<u>2,640,920</u>
Classified as:		
Non- current	<b>427,355</b>	545,658
Current	<b><u>2,214,331</u></b>	<u>2,095,262</u>
	<b><u>2,641,686</u></b>	<u>2,640,920</u>

Included within payable to related parties is an amount of US \$222 million due to an associate. Subsequent to the year end the Group has entered into discussions with the associate to renegotiate the payment terms in order to reschedule the payment of the payable over a period of several years. These discussions are still ongoing at the date of approval of these consolidated financial statements.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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 volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

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

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

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

	<i>Assets</i> 2014 US \$'000	<i>Liabilities</i> 2014 US \$'000	<i>Assets</i> 2013 US \$'000	<i>Liabilities</i> 2013 US \$'000
<b>Derivatives held-for-trading</b>				
Interest rate swaps	11,407	3,850	-	132,829
Currency forwards	8,206	470	8,071	9,964
Currency swaps	-	-	-	55,258
Currency futures	28,075	12,475	-	-
Currency options	68	2,663	85	85
Equity options	346,701	228,339	761,229	1,629,683
Commodity swaps	52,190	56,278	5,950	2,915
Commodity forwards	-	-	491	-
Commodity futures	29,550	30,705	1,516	-
Embedded derivative (see note 23 (i))	-	-	33,603	84
	<u>476,197</u>	<u>334,780</u>	<u>810,945</u>	<u>1,830,818</u>
<b>Derivatives used as hedge of net investments</b>				
Currency forwards	-	4,487	-	-
<b>Derivatives used as fair value hedges</b>				
Commodity swaps	898	-	-	146
<b>Derivatives used as cash flow hedges</b>				
Interest rate swaps	-	4,509	392	1,247
Currency forwards	-	29,029	17,133	14,879
Commodity swaps	92,745	95,760	7,887	4,540
Other swap arrangements	4,754	56,910	11,032	55,965
	<u>97,499</u>	<u>186,208</u>	<u>36,444</u>	<u>76,631</u>
	<u>574,594</u>	<u>525,475</u>	<u>847,389</u>	<u>1,907,595</u>
Non-current	103,272	19,491	802,779	330,302
Current	471,322	505,984	44,610	1,577,293
	<u>574,594</u>	<u>525,475</u>	<u>847,389</u>	<u>1,907,595</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**34 DERIVATIVE FINANCIAL INSTRUMENTS** continued

**Derivative financial instruments held or issued for trading purposes**

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

**Forwards and futures**

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

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

**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.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 34 DERIVATIVE FINANCIAL INSTRUMENTS continued

#### Hedge of net investments in foreign operations:

The Group entered into a foreign currency forward contract with a notional amount of Malaysian Ringgit (“MYR”) 5,894,501 thousand (equal to the Group’s initial investment in RHB) and designated it as of 1 January 2012 as a hedging instrument to hedge against the foreign currency risk on its net investment in RHB. Spot price/intrinsic value changes of both hedged item and hedging instrument representing the effective portion of the hedge are recorded in other comprehensive income. The difference between fair value change and spot price/intrinsic value change of the hedging instrument representing the ineffective portion is recognised in the consolidated statement of profit or loss. The Group settled the foreign exchange forward contract during 2013 and discontinued hedge accounting accordingly.

Included in borrowings at 31 December 2013 were borrowings of EUR 4,591,403 thousand which had been designated as a hedge of the net investment in CEPESA. This borrowing was used to hedge the Group’s exposure to EUR foreign exchange risk on this investment. Gains or losses on the retranslation of this borrowing were transferred to other comprehensive income to offset any gains or losses on translation of the net investments in the subsidiaries. The Group has revoked the hedge relationship during 2014 and discontinued hedge accounting accordingly. There was no ineffectiveness recorded during the year ended 31 December 2013.

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

	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
<b>2014</b>						
<b>Cash outflow</b>						
Trading derivatives and economic hedges	(516,370)	(38,653)	(4,529)	-	-	(559,552)
Derivatives for cash flow hedges	(168,773)	(648,927)	(121,846)	(28,578)	(42,286)	(1,010,410)
Derivatives for fair value hedges	-	-	(1,983)	(2,504)	-	(4,487)
	<u>(685,143)</u>	<u>(687,580)</u>	<u>(128,358)</u>	<u>(31,082)</u>	<u>(42,286)</u>	<u>(1,574,449)</u>
<b>Cash inflow</b>						
Trading derivatives and economic hedges	546,742	51,568	91,156	-	11,407	700,873
Derivatives for cash flow hedges	162,023	580,708	108,257	28,184	42,374	921,546
Derivatives for fair value hedges	898	-	-	-	-	898
	<u>709,663</u>	<u>632,276</u>	<u>199,413</u>	<u>28,184</u>	<u>53,781</u>	<u>1,623,317</u>
	<u>24,520</u>	<u>(55,304)</u>	<u>71,055</u>	<u>(2,898)</u>	<u>11,495</u>	<u>48,868</u>
<b>2013</b>						
<b>Cash outflow</b>						
Trading derivatives and economic hedges	(1,696,825)	(258,390)	(258,736)	-	(55,258)	(2,269,209)
Derivatives for cash flow hedges	(138,252)	(592,005)	(302,273)	-	-	(1,032,530)
Derivatives for fair value hedges	(146)	-	-	-	-	(146)
	<u>(1,835,223)</u>	<u>(850,395)</u>	<u>(561,009)</u>	<u>-</u>	<u>(55,258)</u>	<u>(3,301,885)</u>
<b>Cash inflow</b>						
Trading derivatives and economic hedges	452,962	37,204	230,825	-	528,375	1,249,366
Derivatives for cash flow hedges	122,936	573,257	296,062	-	-	992,255
Derivatives for fair value hedges	-	-	-	-	-	-
	<u>575,898</u>	<u>610,461</u>	<u>526,887</u>	<u>-</u>	<u>528,375</u>	<u>2,241,621</u>
	<u>(1,259,325)</u>	<u>(239,934)</u>	<u>(34,122)</u>	<u>-</u>	<u>473,117</u>	<u>(1,060,264)</u>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 35 FAIR VALUE MEASUREMENT

#### Fair values

Financial assets include portfolio investments, derivative financial instruments, bank balances and cash, and certain other assets. Financial liabilities consist of interest bearing loans and borrowings and certain other liabilities.

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's financial assets and financial liabilities:

	Carrying amount		Fair value	
	2014 US \$ '000	2013 US \$ '000	2014 US \$ '000	2013 US \$ '000
<b>Financial assets</b>				
Derivative financial assets	574,594	847,389	574,594	847,389
Portfolio investments				
Held to maturity investments	23,207	18,318	23,207	18,318
Investments at fair value through profit or loss				
Held for trading	390,230	482,798	390,230	482,798
Designated on initial recognition	1,980,037	5,067,979	1,980,037	5,067,979
Available-for-sale investments (including investment carried at cost)	3,185,458	1,818,240	3,185,458	1,818,240
Trade receivables	5,704,945	7,391,133	5,704,945	7,391,133
Other assets	5,076,885	5,874,970	5,121,687	6,053,289
Cash and short-term deposits	5,303,258	6,818,844	5,303,258	6,818,844
	<u>22,238,614</u>	<u>28,319,671</u>	<u>22,283,416</u>	<u>28,497,990</u>
<b>Financial liabilities</b>				
Trade payables	7,912,625	7,430,598	7,912,625	7,430,598
Borrowings	29,949,563	33,503,914	32,063,855	35,097,524
Derivative financial liabilities	525,475	1,907,595	525,475	1,907,595
Other financial liabilities	2,641,686	2,640,920	2,641,686	2,658,518
	<u>41,029,349</u>	<u>45,483,027</u>	<u>43,143,641</u>	<u>47,094,235</u>

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair values:

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.

As at 31 December 2014, the marked to market value of derivative asset positions is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognised at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

**35 FAIR VALUE MEASUREMENT** continued

**Fair values** continued

- Fair value of portfolio investments is derived from quoted market prices in active markets, if available. Fair value of unquoted portfolio investments is estimated using appropriate valuation techniques including discounted cash flow (DCF). In the DCF method, future cash flows are projected for a reasonable forecast period of time and adjusted for their time value.
- Fair value of cash and short-term deposits, short term trade receivables, other assets and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of fixed and variable rate borrowings also approximate their carrying amounts except for listed notes. Listed notes are fair valued at the quoted market price as at 31 December 2014.
- Long-term trade receivables and other assets are valued by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2014, the carrying amounts of such trade receivables and other assets, net of allowances, are not materially different from their calculated fair values.
- The fair value of certain non-current other assets as well as other non-current liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities 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.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 35 FAIR VALUE MEASUREMENT continued

#### Fair value hierarchy continued

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities. Below assets and liabilities are valued at 31 December 2014 and 2013.

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2014:

	<i>Total</i> US \$ '000	<i>Quoted price in active markets (Level 1)</i> US \$ '000	<i>Significant observable inputs (Level 2)</i> US \$ '000	<i>Significant unobservable inputs (Level 3)</i> US \$ '000
<b>Assets measured at fair value</b>				
Derivative financial assets				
Currency	36,349	-	36,349	-
Equity	346,701	-	346,701	-
Commodity	175,383	-	175,383	-
Others	16,161	-	4,754	11,407
Portfolio investments				
Investments at fair value through profit or loss				
Held for trading	390,230	376,530	13,700	-
Designated on initial recognition	1,980,037	1,933,761	16,606	29,670
Available-for-sale investments				
Quoted equity shares	2,675,742	2,675,742	-	-
Unquoted equity shares	380,476	-	13,149	367,327
Quoted debt securities	91,798	32,850	58,948	-
<b>Assets for which fair value is disclosed:</b>				
Investment properties	2,587,289	-	-	2,587,289
Investments in listed associates	4,640,521	4,640,521	-	-
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities				
Interest rate	8,359	-	8,359	-
Currency	49,124	-	49,124	-
Equity	228,339	-	228,339	-
Commodity	182,743	-	182,743	-
Others	56,910	-	56,910	-
<b>Liabilities for which fair values are disclosed:</b>				
Borrowings				
Listed notes and other borrowing instruments	17,592,716	15,538,711	2,054,005	-
Unlisted borrowings	7,665,154	-	7,019,283	645,871
Others	1,411	-	1,411	-

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 FAIR VALUE MEASUREMENT continued

**Fair value hierarchy** continued

Quantitative disclosures fair value measurement hierarchy for assets and liabilities as at 31 December 2013:

	<i>Total</i> US \$ '000	<i>Quoted price in active markets (Level 1)</i> US \$ '000	<i>Significant observable inputs (Level 2)</i> US \$ '000	<i>Significant unobservable inputs (Level 3)</i> US \$ '000
<b>Assets measured at fair value</b>				
Derivative financial assets				
Interest rate	392	-	392	-
Currency	25,289	-	25,289	-
Equity	761,229	-	232,854	528,375
Commodity	15,844	-	15,844	-
Others	44,635	-	44,635	-
Portfolio investments				
Investments at fair value through profit or loss				
Held for trading	482,798	459,552	23,246	-
Designated on initial recognition	5,067,979	5,017,669	19,100	31,210
Available-for-sale investments				
Quoted equity shares	1,414,027	1,414,027	-	-
Unquoted equity shares	280,634	-	13,907	266,727
Quoted debt securities	56,564	56,564	-	-
<b>Assets for which fair value is disclosed:</b>				
Investment properties	2,272,349	-	-	2,272,349
Investments in listed associates	5,799,139	5,799,139	-	-
Other assets				
Mandatorily exchangeable bond	1,465,345	-	-	1,465,345
<b>Liabilities measured at fair value</b>				
Derivative financial liabilities				
Interest rate	134,076	-	134,076	-
Currency	24,928	-	24,928	-
Equity	1,629,683	-	1,629,683	-
Commodity	7,601	-	7,601	-
Others	111,307	-	56,049	55,258
<b>Liabilities for which fair values are disclosed:</b>				
Borrowings				
Listed notes and other borrowing instruments	18,027,199	15,805,620	2,221,579	-
Unlisted borrowings	5,242,927	-	1,862,266	3,380,661
Others	3,183	-	3,183	-

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 35 FAIR VALUE MEASUREMENT continued

#### Reconciliation of fair value measurements of Level 3 financial instruments

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:

	<i>Opening balance US \$ '000</i>	<i>Additions US \$ '000</i>	<i>Disposals US \$ '000</i>	<i>Fair value gain (loss) US \$ '000</i>	<i>Exchange difference US \$ '000</i>	<i>Total US \$ '000</i>
<b>31 December 2014</b>						
Derivative financial instruments						
Equity	528,375	-	(528,375)	-	-	-
Others	(55,258)	-	-	66,665	-	11,407
Portfolio investments						
Investments at FVTPL						
Designated on initial recognition	31,210	5,132	-	(6,672)	-	29,670
Available-for-sale investments						
Unquoted equity shares	266,727	223,303	-	(100,033)	(22,670)	367,327
	<u>771,054</u>	<u>228,435</u>	<u>(528,375)</u>	<u>(40,040)</u>	<u>(22,670)</u>	<u>408,404</u>
<b>31 December 2013</b>						
Derivative financial instruments						
Equity	528,375	-	-	-	-	528,375
Others	23,392	-	-	(78,650)	-	(55,258)
Portfolio investments						
Investments at FVTPL						
Designated on initial recognition	27,792	3,190	-	228	-	31,210
Available-for-sale investments						
Unquoted equity shares	275,799	-	(9,830)	33	725	266,727
	<u>855,358</u>	<u>3,190</u>	<u>(9,830)</u>	<u>(78,389)</u>	<u>725</u>	<u>771,054</u>

### 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 and investments.

The Group enters into derivative transactions including equity derivatives, interest rate swaps 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 management of each company within the Group reviews and agrees policies for managing each of these risks which are summarised below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES** continued

**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 2014 and 2013.

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 2014.

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.

With all other variables held constant, a 50 basis points ("bps") decrease in interest rates will increase the Group's profit by US \$ 54,222 thousand (2013: US \$ 40,248 thousand), through the impact on all floating rate borrowings. There is no material impact on the Group's equity.

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

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

#### 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.

	Change %	Effect on profit before tax US \$ '000	Effect on equity US \$ '000
<b>2014</b>			
CHF	+50 bp	(20)	-
EUR	+50 bp	6,986	(305,085)
JPY	+50 bp	(23)	(10)
CAD	+50 bp	(3,980)	(381)
GBP	+50 bp	(13,626)	404
Others	+50 bp	4,287	116,778
		<u>(6,376)</u>	<u>(188,294)</u>
<b>2013</b>			
CHF	+50 bp	178	38
EUR	+50 bp	(117,293)	(151,476)
JPY	+50 bp	(4,427)	(32)
CAD	+50 bp	(73,472)	(10,910)
GBP	+50 bp	(13,274)	423
Others	+50 bp	24,541	132,971
		<u>(183,747)</u>	<u>(28,986)</u>

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

##### Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the 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.

A fall in the level of crude oil prices has a negative impact on the earnings of the exploration and production division. Furthermore, this impact can be dampened due to the application of the clauses of the Production Sharing Contract (PSC)-type agreements and their effect on the quantities of crude oil to be received by the Group, particularly CEPSA, and that are available for sale.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

#### Market risk continued

##### Commodity price risk continued

Fluctuations in crude oil prices also have an inverse effect on product refining and marketing operations, the extent of which depends on the speed with which price changes in energy products or base petrochemical products at source is relayed to the international and local finished goods markets.

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

	Change	2014		2013	
		Effect on profit before tax US \$ '000	Effect on equity US \$ '000	Effect on profit before tax US \$ '000	Effect on equity US \$ '000
Crude oil	+10%	53,154	-	(56,120)	-
Natural gas	+10%	-	2,512	(23,700)	2,832
Electricity	+10%	-	32,916	-	26,719
Propylene	+10%	24,478	-	35,294	-
Polyethelene	+10%	204,204	-	186,281	-
Other petrochemical feedstock*	+10%	59,853	(965)	49,405	-

\*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 statement of profit or loss and equity:

	Change	2014		2013	
		Effect on profit before tax US \$ '000	Effect on equity US \$ '000	Effect on profit before tax US \$ '000	Effect on equity US \$ '000
Europe	+10%	188,424	109,770	83,945	105,672
Middle East (excluding UAE)	+10%	-	15,000	-	25,000
North America	+10%	-	-	-	-
Asia and Pacific	+10%	4	154,009	3,360	35,178
Africa	+10%	-	9,129	-	3,671

A 10% decrease in equity prices would have resulted in equivalent but opposite impact (2013: except for the profit or loss effect of the investments in Europe for which a corresponding amount would have been a decrease of US \$ 80,409 thousand) assuming the decline does not represent an impairment.

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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.

The Group has established certain internal regulation and procedures relating to loan collection which are periodically updated. These regulations include, among other aspects, determining commercial credit limits for each client, monitoring and control of assigned credit limits, establishing more appropriate collection tools, and actions to be taken for management and collection of overdue payments.

The Group also uses risk analysis computer systems to process internal and external data in an integrated and automated manner. Such data are assessed by applying the models established to classify each customer's commercial risk, the analyst risk's evaluation and assign the related credit limit. Insurance policies have also been taken out to cover the risk of customer default in certain commercial areas.

*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*

	2014		2013	
	Carrying value US \$ '000	Maximum credit exposure US \$ '000	Carrying value US \$ '000	Maximum credit exposure US \$ '000
<i>On balance sheet</i>				
Derivative financial assets	574,594	574,594	847,389	847,389
Held to maturity investments	23,207	23,207	18,318	18,318
Trade and other receivables*	5,704,945	7,590,337	7,391,133	9,043,132
Other assets	5,076,885	5,076,885	5,874,970	5,874,970
Cash and short-term deposits	5,303,258	5,303,258	6,818,844	6,818,844
	<u>16,682,889</u>	<u>18,568,281</u>	<u>20,950,654</u>	<u>22,602,653</u>

\* This amount includes loans and other banking receivables of Falcon Private Bank. The maximum credit exposure to credit risk on loans and other banking receivables is the full amount of the credit facilities (drawn and undrawn) granted to customers.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

#### Credit risk continued

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

	<i>UAE</i> <i>US \$ '000</i>	<i>Austria</i> <i>US \$ '000</i>	<i>Canada</i> <i>US \$ '000</i>	<i>Spain</i> <i>US \$ '000</i>	<i>Others</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
<b>2014</b>						
Derivative financial instruments	11,407	148,994	-	9,215	404,978	574,594
Trade receivables	123,701	1,346,931	174,071	2,948,799	1,111,443	5,704,945
Other assets	1,222,115	327,298	30,158	1,012,880	2,484,434	5,076,885
Cash and short-term deposits	<u>1,343,242</u>	<u>11,763</u>	<u>336</u>	<u>549,023</u>	<u>3,398,894</u>	<u>5,303,258</u>
	<b><u>2,700,465</u></b>	<b><u>1,834,986</u></b>	<b><u>204,565</u></b>	<b><u>4,519,917</u></b>	<b><u>7,399,749</u></b>	<b><u>16,659,682</u></b>
<b>2013</b>						
Derivative financial instruments	-	39,705	-	6,011	801,673	847,389
Trade receivables	410,144	1,611,238	243,736	3,860,215	1,265,800	7,391,133
Other assets	1,649,633	512,134	48,085	606,198	3,058,920	5,874,970
Cash and short-term deposits	<u>1,349,699</u>	<u>13,424</u>	<u>-</u>	<u>2,912,235</u>	<u>2,543,486</u>	<u>6,818,844</u>
	<b><u>3,409,476</u></b>	<b><u>2,176,501</u></b>	<b><u>291,821</u></b>	<b><u>7,384,659</u></b>	<b><u>7,669,879</u></b>	<b><u>20,932,336</u></b>

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

	<i>Energy</i> <i>US \$ '000</i>	<i>Materials</i> <i>US \$ '000</i>	<i>Banks</i> <i>US \$ '000</i>	<i>Diversified financials services</i> <i>US \$ '000</i>	<i>Real estate</i> <i>US \$ '000</i>	<i>Total</i> <i>US \$ '000</i>
<b>2014</b>						
Derivative financial instruments	38,857	148,994	121,174	265,569	-	574,594
Trade receivables	2,746,759	1,203,112	1,755,074	-	-	5,704,945
Other assets	1,467,343	544,206	27,559	1,796,993	1,240,784	5,076,885
Cash and short-term deposits	<u>1,672,798</u>	<u>814,913</u>	<u>1,727,895</u>	<u>1,075,883</u>	<u>11,769</u>	<u>5,303,258</u>
	<b><u>5,925,757</u></b>	<b><u>2,711,225</u></b>	<b><u>3,631,702</u></b>	<b><u>3,138,445</u></b>	<b><u>1,252,553</u></b>	<b><u>16,659,682</u></b>
<b>2013</b>						
Derivative financial instruments	567,989	39,705	239,695	-	-	847,389
Trade receivables	3,878,293	1,551,663	1,634,639	325,733	805	7,391,133
Other assets	2,189,157	607,291	506,770	741,688	1,830,064	5,874,970
Cash and short-term deposits	<u>3,137,862</u>	<u>955,399</u>	<u>1,724,631</u>	<u>995,059</u>	<u>5,893</u>	<u>6,818,844</u>
	<b><u>9,773,301</u></b>	<b><u>3,154,058</u></b>	<b><u>4,105,735</u></b>	<b><u>2,062,480</u></b>	<b><u>1,836,762</u></b>	<b><u>20,932,336</u></b>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

### 36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

#### Credit risk continued

##### Credit quality by class of financial assets

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

	<i>High</i> US \$ '000	<i>Medium</i> US \$ '000	<i>Low</i> US \$ '000	<i>Non classified</i> US \$ '000	<i>Total</i> US \$ '000
<b>31 December 2014</b>					
Derivative financial assets	414,193	-	-	160,401	574,594
Held to maturity investments	23,207	-	-	-	23,207
Trade and other receivables	3,262,020	1,376,847	471,631	594,447	5,704,945
Other assets	3,048,103	516,780	79,668	1,432,334	5,076,885
Cash and short-term deposits	<u>4,014,131</u>	<u>432</u>	<u>-</u>	<u>1,288,695</u>	<u>5,303,258</u>
	<b><u>10,761,654</u></b>	<b><u>1,894,059</u></b>	<b><u>551,299</u></b>	<b><u>3,475,877</u></b>	<b><u>16,682,889</u></b>
<b>31 December 2013</b>					
Derivative financial assets	774,081	-	-	73,308	847,389
Held to maturity investments	18,318	-	-	-	18,318
Trade and other receivables	4,264,348	1,040,013	515,833	1,570,939	7,391,133
Other assets	3,113,593	6,606	52,982	2,701,789	5,874,970
Cash and short-term deposits	<u>5,687,288</u>	<u>3</u>	<u>-</u>	<u>1,131,553</u>	<u>6,818,844</u>
	<b><u>13,857,628</u></b>	<b><u>1,046,622</u></b>	<b><u>568,815</u></b>	<b><u>5,477,589</u></b>	<b><u>20,950,654</u></b>

The credit quality of financial assets is managed by the Group using internal credit ratings defined as follows:

- High: preferred customers, customers with excellent credit standing and financial strength and customers with cash in advance or secured payment terms
- Medium: medium size customers with good reputation and financially sound customers, but with history of slow payments
- Low: all new customers with no credit history and customers with repetitive slow payments or with weak financial situation.

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

	<i>Neither past due nor impaired</i> US \$ '000	<i>Past due but not impaired</i>				<i>Total</i> US \$ '000
		<i>Past due up to 1 month</i> US \$ '000	<i>Past due 1-3 months</i> US \$ '000	<i>Past due 3-6 months</i> US \$ '000	<i>Past due longer than 6 months</i> US \$ '000	
<b>31 December 2014</b>						
Derivative financial assets	574,594	-	-	-	-	574,594
Held to maturity investments	23,207	-	-	-	-	23,207
Trade and other receivables	4,781,423	209,818	164,321	467,819	81,564	5,704,945
Other assets	5,032,457	4,058	2,337	7,153	30,880	5,076,885
Cash and short-term deposits	<u>5,303,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,303,258</u>
	<b><u>15,714,939</u></b>	<b><u>213,876</u></b>	<b><u>166,658</u></b>	<b><u>474,972</u></b>	<b><u>112,444</u></b>	<b><u>16,682,889</u></b>
<b>31 December 2013</b>						
Derivative financial assets	847,389	-	-	-	-	847,389
Held to maturity investments	18,318	-	-	-	-	18,318
Trade and other receivables	6,866,872	357,382	82,801	46,763	37,315	7,391,133
Other assets	5,873,391	870	-	26	683	5,874,970
Cash and short-term deposits	<u>6,818,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,818,844</u>
	<b><u>20,424,814</u></b>	<b><u>358,252</u></b>	<b><u>82,801</u></b>	<b><u>46,789</u></b>	<b><u>37,998</u></b>	<b><u>20,950,654</u></b>

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

#### Credit risk continued

Movements in allowance for impairment are as follows:

	Opening US \$ '000	Additions/ acquired US \$ '000	Interest US \$ '000	Written- off US \$ '000	Recoveries US \$ '000	Exchange difference US \$ '000	Total US \$ '000
<b>On balance sheet</b>							
<b>2014</b>							
Trade and other receivables	278,672	160	2,636	1,142	(24,408)	(31,941)	226,261
Other assets	<u>77,730</u>	<u>32,310</u>	<u>-</u>	<u>(841)</u>	<u>(33,467)</u>	<u>(8,111)</u>	<u>67,621</u>
	<b>356,402</b>	<b>32,470</b>	<b>2,636</b>	<b>301</b>	<b>(57,875)</b>	<b>(40,052)</b>	<b>293,882</b>
<b>2013</b>							
Trade and other receivables	263,938	4,186	2,222	10,766	1,080	(3,520)	278,672
Other assets	<u>27,514</u>	<u>48,638</u>	<u>-</u>	<u>(841)</u>	<u>82</u>	<u>2,337</u>	<u>77,730</u>
	<b>291,452</b>	<b>52,824</b>	<b>2,222</b>	<b>9,925</b>	<b>1,162</b>	<b>(1,183)</b>	<b>356,402</b>

#### Collateral and other credit enhancements

Falcon Private Bank, the Groups' 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 others. 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 objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, and other borrowings. Individually, each company within the Group seeks to ensure 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
<b>2014</b>							
Other liabilities	391,968	968,577	652,652	26,884	3,372	72,790	2,116,243
Trade and other payables	741,136	4,096,345	47,197	838	968	2,100	4,888,584
Borrowings	25,059	2,583,788	4,381,770	10,200,994	6,252,798	11,984,972	35,429,381
Customer deposits and other amounts due to banking customers	2,636,687	125,169	145,046	-	-	-	2,906,902
Due to banks	<u>120,631</u>	<u>22,324</u>	<u>-</u>	<u>20,137</u>	<u>-</u>	<u>-</u>	<u>163,092</u>
	<b>3,915,481</b>	<b>7,796,203</b>	<b>5,226,665</b>	<b>10,248,853</b>	<b>6,257,138</b>	<b>12,059,862</b>	<b>45,504,202</b>
<b>2013</b>							
Other liabilities	435,438	4,374,700	1,078,660	2,653,982	665,764	266,828	9,475,372
Trade and other payables	321,508	1,673,594	750,872	2,513,052	638,367	152,894	6,050,287
Borrowings	237,086	3,066,819	4,023,258	9,979,185	6,050,457	12,252,313	35,609,118
Customer deposits and other amounts due to banking customers	2,285,965	137,465	127,977	-	-	-	2,551,407
Due to banks	<u>166,081</u>	<u>715,235</u>	<u>303,052</u>	<u>47,154</u>	<u>18,222</u>	<u>71,392</u>	<u>1,321,136</u>
	<b>3,446,078</b>	<b>9,967,813</b>	<b>6,283,819</b>	<b>15,193,373</b>	<b>7,372,810</b>	<b>12,743,427</b>	<b>55,007,320</b>

In 2012, the Company agreed to guarantee the obligations (principal and associated interests) of certain subsidiaries of IMDB in respect of two financings (see note 41). The principal amount of these obligations is US \$ 3.5 billion. The obligations to which these guarantees relate mature in 2022.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

#### 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 2014 and 2013.

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>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Interest bearing loans and borrowings (note 29)	<b>29,949,563</b>	33,503,914
Less cash and short term deposits (note 25)	<b><u>(5,303,258)</u></b>	<b><u>(6,818,844)</u></b>
Net debt	<b><u>24,646,305</u></b>	<b><u>26,685,070</u></b>
Total equity	<b><u>16,250,465</u></b>	<b><u>17,537,011</u></b>
Equity and net debt	<b><u>40,896,770</u></b>	<b><u>44,222,081</u></b>
Gearing ratio	<b><u>60%</u></b>	<b><u>60%</u></b>

### 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 Group ensures that 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.

#### Environmental risks

Certain activities of companies within the Group, for instance CEPESA, 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 minimizing impact on the environment. Further, the Group's objective is to minimize the impact of its activities on the environment where it operates its industrial plants, which is reflected in internal environmental protection policies of the group companies and is regulated by the relevant authorities.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 38 ASSETS UNDER MANAGEMENT

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
Real estate (including mutual funds)	<b>524,551</b>	504,815
Cash and cash equivalents	<b>3,095,763</b>	2,454,271
Fixed income instruments (bonds, loans and mutual funds)	<b>1,828,570</b>	1,633,118
Equities (stocks and mutual funds)	<b><u>10,326,468</u></b>	<u>10,678,272</u>
Assets under management and custody by the Group	<b>15,775,352</b>	15,270,476
Assets not in the custody of the Group	<b><u>2,047,780</u></b>	<u>2,581,913</u>
	<b><u>17,823,132</u></b>	<u>17,852,389</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 \$1,938 million (31 December 2013: US \$ 2,444 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% (2013: 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 statement of profit or loss.

### 39 CONTRACTUAL COMMITMENTS

	<i>2014</i>	<i>2013</i>
	<i>US \$ '000</i>	<i>US \$ '000</i>
<b>Guarantees</b>		
Financial guarantees (see note 41)	<b>3,500,000</b>	3,500,000
Other guarantees and letters of credit	<b><u>3,126,776</u></b>	<u>2,140,030</u>
	<b><u>6,626,776</u></b>	<u>5,640,030</u>
<b>Operating lease commitments</b>		
Up to 1 year	<b>374,253</b>	250,474
1 to 5 years	<b>667,048</b>	746,304
Beyond 5 years	<b><u>424,753</u></b>	<u>528,142</u>
	<b><u>1,466,054</u></b>	<u>1,524,920</u>
<b>Capital commitments</b>		
Property, plant and equipment	<b>1,743,506</b>	1,918,686
Investment properties	<b>795,287</b>	752,714
Investments in equity instruments	<b>257,395</b>	240,906
Intangible assets	<b><u>6,093</u></b>	<u>7,795</u>
	<b><u>2,802,281</u></b>	<u>2,920,101</u>
<b>Fiduciary assets</b>	<b><u>672,096</u></b>	<u>837,195</u>

A fiduciary asset is a placement made with another bank or loan granted to an institution in the name of Falcon Private Bank, but for the account and the risk of the customer of the bank. Assets held in fiduciary capacity are reported as off balance sheet items in the consolidated financial statements, as they are not the assets of the Group.

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**40 LITIGATIONS AND CONTINGENCIES**

The Group is involved in litigations from time-to-time in the ordinary course of business. Legal claims often involve highly complex issues, actual damages, and other matters. These issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimate of damages are often difficult to determine.

The Group has recorded a provision for claims for which it is able to make an estimate of the expected loss or range of possible loss, but believe that the publication of this information on a case-by-case basis would seriously prejudice its position in the ongoing legal proceedings or in any related settlement discussions. Accordingly, for these claims, the Group has disclosed information with respect to the nature of the claim, but not an estimate of the range of potential loss or any provision accrued.

The Group believes that the aggregate provisions recorded for these matters are adequate based upon currently available information as of year-end. However, given the inherent uncertainties related to these claims, the Group could, in the future, incur judgments that could have a material adverse effect on its results of operations, liquidity, financial position or cash flows in any particular period.

For contingent liabilities, the Group has disclosed the claims, but have not recorded a provision of the potential outcome of these claims and is unable to make an estimate of the expected financial effect that will result from ultimate resolution of the proceedings.

*Dow Litigations*

In 2005, The Dow Chemical Company ("Dow Chemical") filed suit against NOVA in the Federal District Court in Delaware alleging that certain grades of NOVA's SURPASS® polyethylene film resins infringe two Dow Chemical patents. In 2010, a jury trial took place and a judgment of infringement against NOVA was entered on June 18, 2010. Dow Chemical was awarded certain amounts for damages and pre-judgment interest. In 2012, after unsuccessful appeals, NOVA paid Dow Chemical approximately US \$ 77 million. A Supplemental Damages Bench Trial was held on April 30, 2013 and May 1, 2013 to determine any additional damages that should be awarded to Dow Chemical based on sales of certain grades of NOVA's SURPASS resin in the United States from January 1, 2010 through the expiration of the patents on October 15, 2011. The court issued a decision in March 2014. Approximately \$30 million was awarded to Dow Chemical for supplemental damages. In April 2014, NOVA filed a Notice of Appeal with the court, and will be required to post at least US \$ 30 million as security for the appeal. Oral arguments in the appeal were heard in June 2015.

In December 2010, Dow Chemical filed a Statement of Claim against NOVA in Federal Court in Canada alleging that certain grades of NOVA's SURPASS polyethylene film resins infringe a Dow Chemical Canadian patent, and in March 2011, NOVA filed its statement of defences and counterclaim. A trial on the infringement issue commenced in September 2013 and concluded in November 2013. In May 2014, the judge for the Federal Court issued an adverse judgment. In August 2014, NOVA filed a Notice of Appeal with the Federal Court of Appeal. A subsequent trial to determine damages will be held at a future date if the judgment is affirmed on appeal.

In 2006, a claim was filed against NOVA in the Court of Queen's Bench of Alberta by Dow Chemical Canada ULC and its European affiliate (collectively, "Dow Canada") concerning the jointly owned third ethylene plant at NOVA's Joffre site. Dow Canada has amended its initial statement of claim and has claimed for further losses and damages in an amount to be proven at trial of this action. In its most recent amendment, Dow Canada estimates its claim at an amount exceeding \$800 million. NOVA initially counterclaimed in the same action. NOVA also amended its statement of defence and counterclaim. The amount of the counterclaim is estimated in NOVA's most recent amendment at approximately \$50 million. A trial commenced in January 2015.

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**40 LITIGATION AND CONTINGENCIES** continued

*Tax contingencies*

On 29 December 2014, Borealis Technology Oy (“TOY”), Finland, has received a re-assessment decision by the Finnish Tax Authority (FTA) for the year 2008. Based on this re-assessment the taxable income of TOY has been increased by an amount of US \$ 930,300 thousand (Euro 700,000 thousand). This leads to a requested additional total payment of US \$ 374,442 thousand (Euro 281,747 thousand), comprising of taxes, late payment interest and penalties. The payment obligation has been suspended pending TOY’s appeal.

The FTA claims that the exclusive licence agreement under which TOY licensed its polyolefin technology to Borealis AG in the year 2008 is to be regarded as a sale of business. The management of Borealis believes that the FTA’s decision is unjustified as, in fact, it constitutes an attempt to re-characterise a valid and legitimate licence deal into a sale deal that never took place. Furthermore, Borealis believes that TOY’s licensed technology constitutes assets and cannot be regarded as a fully-fledged business. Borealis is confident that it is very likely that the decision of the FTA will be reversed in the next phases of the proceeding.

On 9 June 2015, TOY received from the Finnish tax authority a re-assessment decision to pay an additional amount of US \$ 165,593 thousand (Euro 124,600 thousand) in taxes, penalties and interest related to the year 2010.

While the re-assessment decision from December 2014 relates to TOY’s polyolefin technology, the re-assessment decision as received on June 9th relates to TOY’s catalyst technology. The amount claimed for catalyst is based on an additional taxable income of US \$ 451,860 thousand (Euro 340,000 thousand).

Despite all arguments provided by Borealis and its team of advisors the Finnish tax authority decided to follow an argumentation which is deemed incorrect according to both Borealis and its advisors. Borealis will file a claim for adjustment with the Board of Adjustment of the Finnish tax authority and will also ask for a suspension of payment pending the appeal.

In February 2015, Borealis Polymer Oy (“BPOY”), a Finnish subsidiary of Borealis, received a preliminary tax audit report from the Finnish tax authority regarding the years 2009. The preliminary tax audit report suggests to increase BPOY’s taxable base in year 2009 by US \$ 863,850 thousand (Euro 650,000 thousand). Given the preliminary nature of the proceedings, potential impacts, if any, cannot be currently reliably estimated.

Also several other companies within the Group are currently subject to routine tax audits performed by their respective tax authorities. In some of the audits, specific emphasis is put on business restructuring and transfer pricing. Managements’ opinions are that the companies are in compliance with all applicable regulations. Given the preliminary nature of the proceedings, potential impacts, if any, cannot be currently reliably estimated.

**41 1MDB GUARANTEE**

The Company agreed in 2012 to guarantee the obligations (principal and associated interests) of certain subsidiaries of 1Malaysia Development Berhad (“1MDB”), a strategic development company wholly-owned by the Government of Malaysia, in respect of two financings in the energy and power sector. The principal amount of these obligations is US \$ 3.5 billion.

The guarantees were initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantees. Subsequent to initial recognition, 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. As at 31 December 2014, the unamortised deferred income was US \$ 279,751 thousand (31 December 2013: US \$ 311,721 thousand) (note 33).

In respect of these financings, the Company benefits from back-to-back guarantees and support from 1MDB and has secured for its Group the rights (“the Options Agreements”) to acquire up to 49% stake in the shares of two subsidiaries of 1MDB at a fixed price.

# International Petroleum Investment Company PJSC and its subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 41 1MDB GUARANTEE continued

In 2014, the Group entered into an agreement relating to the Options Agreements where the Group assigned all of its rights under the Options Agreement to 1MDB and its subsidiaries for a fixed price. As of 31 December 2014, an amount of US \$ 481,326 thousand was outstanding (note 23).

On 28 May 2015, IPIC, Aabar, Minister of Finance, Inc., Malaysia (MOF) and 1Malaysia Development Berhad (1MDB) entered into a binding term sheet that provides for the following principal matters:

- on 4 June 2015, IPIC provided US\$1 billion to 1MDB for 1MDB to utilise immediately to settle certain of its liabilities (the Cash Payment);
- from 4 June 2015, IPIC has assumed the obligations to pay (on an interim basis) all interest due under two IPIC guaranteed 1MDB financings amounting to US\$3.5 billion in aggregate principal amount (the Notes);
- upon the completion of the transfer of assets as described below, IPIC will directly assume liability for all payment obligations under the Notes (the Assumption of Debt) and forgive certain financial obligations of the 1MDB Group to the IPIC Group (the Debt Forgiveness); and
- by 30 June 2016, IPIC is to have received a transfer of assets with an aggregate value of an amount which represents the sum of the Cash Payment, the Assumption of Debt and the Debt Forgiveness.

1MDB and MOF have agreed to perform the obligations contemplated in the binding term sheet and to indemnify IPIC and Aabar for any non-performance, and vice versa.

IPIC has met the Cash Payment and will meet the interim interest payments under the Notes from existing liquidity available to IPIC.

### 42 RELATED PARTY TRANSACTIONS AND BALANCES

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.

#### 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>2014</i> <i>US \$ '000</i>	<i>2013</i> <i>US \$ '000</i>
Short-term benefits	<b>6,035</b>	5,905
Board of directors' remuneration	<b><u>1,144</u></b>	<u>1,144</u>
	<b><u>7,179</u></b>	<u>7,049</u>

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 RELATED PARTY TRANSACTIONS AND BALANCES** continued

<i>Business relationship</i>	<i>Goods and services</i>						<i>Financing</i>	
	<i>Purchases from</i> <i>US \$ '000</i>	<i>Sales to</i> <i>US \$ '000</i>	<i>Receivables from</i> <i>US \$ '000</i>	<i>Payables to</i> <i>US \$ '000</i>	<i>Others payables</i> <i>US \$ '000</i>	<i>Other assets</i> <i>US \$ '000</i>	<i>Interest received</i> <i>US \$ '000</i>	<i>Interest paid</i> <i>US \$ '000</i>
<b>2014</b>								
Associates	2,924,900	1,496,434	190,514	404,768	272,245	559,335	28,284	182
Joint ventures	690,668	1,123,714	89,643	48,713	28,538	292,037	21,300	374
Others	24	112	1,417	27,397	7,260	54,824	3	-
Entities under common management of key management personnel of the Company	<u>38,469</u>	-	-	-	<u>84,249</u>	<u>1,370,651</u>	<u>119,635</u>	-
	<u>3,654,061</u>	<u>2,620,260</u>	<u>281,574</u>	<u>480,878</u>	<u>392,292</u>	<u>2,276,847</u>	<u>169,222</u>	<u>556</u>
<i>Business relationship</i>	<i>Purchases from</i> <i>US \$ '000</i>	<i>Sales to</i> <i>US \$ '000</i>	<i>Receivables from</i> <i>US \$ '000</i>	<i>Payables to</i> <i>US \$ '000</i>	<i>Others payables</i> <i>US \$ '000</i>	<i>Other assets</i> <i>US \$ '000</i>	<i>Interest received</i> <i>US \$ '000</i>	<i>Interest paid</i> <i>US \$ '000</i>
<b>2013</b>								
Associates	2,790,847	1,849,442	318,314	569,199	-	536,987	59,018	188
Joint ventures	414,244	1,093,132	79,970	53,647	41,410	233,822	6,937	142
Others	-	-	33,862	1,547	4,138	-	-	-
Entities under common management of key management personnel of the Company	<u>15,150</u>	-	-	-	<u>68,201</u>	<u>1,222,640</u>	<u>115,762</u>	-
	<u>3,220,241</u>	<u>2,942,574</u>	<u>432,146</u>	<u>624,393</u>	<u>113,749</u>	<u>1,993,449</u>	<u>181,717</u>	<u>330</u>

**Terms and conditions of transactions with related parties**

Outstanding balances at the year-end are unsecured and settlement occurs in cash or in shares. There have been no guarantees provided or received for any related party receivables or payables. As at 31 December 2014, the Group has not recorded any impairment of receivables relating to amounts owed by related parties except for an amount of US \$ 41 million on loan provided to an associate (2013: US \$ 50 million). 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.

International Petroleum Investment Company PJSC and its subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**42 RELATED PARTY TRANSACTIONS AND BALANCES** continued

Pursuant to the 29 May 1984 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 or significantly influenced by the Government of the Emirate 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.

<i>Business relationship</i>	<i>2014</i>				<i>2013</i>			
	<i>Cash and cash equivalents US \$ '000</i>	<i>Borrowings US \$ '000</i>	<i>Interest income US \$ '000</i>	<i>Interest expense US \$ '000</i>	<i>Cash and cash equivalents US \$ '000</i>	<i>Borrowings US \$ '000</i>	<i>Interest income US \$ '000</i>	<i>Interest expense US \$ '000</i>
<b>Financing:</b>								
Entities under common shareholder - the Government of the Emirate of Abu Dhabi	<u>936,964</u>	<u>860,225</u>	<u>6,419</u>	<u>29,405</u>	<u>610,678</u>	<u>2,485,528</u>	<u>5,178</u>	<u>105,590</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**43 EVENTS AFTER THE REPORTING PERIOD**

- (i) In January 2015, Aabar acquired an equity stake in a construction and fertilizer producer company OCI N.V. listed on Amsterdam stock exchange for US \$ 179,561 thousand, which subsequently spun off their construction unit. The Group further participated in the capital raise on the Egyptian Stock Exchange of the construction unit of OCI N.V., Orascom Construction Ltd.
- (ii) In March 2015, CEPESA has agreed to sell its purified terephthalic acid (“PTA”) business in Montreal, Canada to Thailand-based Indorama, a world leader in the production of polyester. The agreement with Indorama for the sale of the PTA business is subject to regulatory approval.
- (iii) In March 2015, Aabar issued EUR 1,000,000 thousand 5 year and EUR 1,000,000 thousand 7 year senior unsecured exchangeable bonds, exchangeable into UniCredit SpA shares. The bond carries a fixed coupon payable semi-annually. The exchangeable bonds are hybrid securities consisting of a straight bonds and an embedded call option with a fixed strike price to exchange the bond for either UniCredit SpA shares, or cash of an equivalent value.
- (iv) During the period from March 2015 to May 2015, Aabar repaid majority of the portion of the EUR 1,250,000 thousand 4% 5 year senior unsecured exchangeable bonds (Aabar-exchangeable bond in note 29) issued on 27 May 2011. The repayment of the exchangeable bonds led to the derecognition of its embedded derivatives. The remaining portion of the bonds are subject to mandatory “clean up” call which is expected to be finalised in June 2015.
- (v) In March 2015, Aabar acquired a 70% stake in an investment vehicle that owns and operates certain real estate assets in the Kingdom of Morocco for consideration of MAD 308,460 thousand.
- (vi) In March 2015, Borealis has signed a term facility agreement with Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social) for a total amount of BRL 36,700 thousand (US \$ 114,000 thousand).
- (vii) In April 2015, Aabar repaid its AED 750,000 thousand (Aabar – Loan 12 in note 29) and US \$ 208,708 thousand (Aabar – Loan 22 in note 29) (multicurrency) loan facilities maturing in September 2015.
- (viii) In April 2015, Aabar sold one of its available-for-sale investments for total proceeds of US \$ 71,746 thousand (EUR 51,664 thousand).
- (ix) In May 2015, Aabar repaid its US \$ 300,000 thousand (Aabar – Loan 24 in note 29) loan facility maturing in July 2017.
- (x) In May 2015, IPIC, Aabar, Minister of Finance, Inc., Malaysia (MOF) and 1Malaysia Development Berhad (1MDB) entered into a binding term sheet (note 41).

**44 COMPARATIVE FIGURES**

Advance received from the Government of the Emirate of Abu Dhabi amounting to US \$ 2 billion at 31 December 2013 has been reclassified from “Liabilities classified as held for sale to “Advances received against assets held for sale” (note 15). There is no impact on the statement of financial position as of 1 January 2013 since the advance was received during 2013. Additionally, certain comparative figures have been reclassified, wherever necessary, to conform to the presentation adopted in the consolidated financial statements.