IMPORTANT NOTICE

THIS BASE PROSPECTUS IS AVAILABLE ONLY TO: (1) QUALIFIED INSTITUTIONAL BUYERS THAT ARE ALSO QUALIFIED PURCHASERS (EACH AS DEFINED BELOW); (2) INSTITUTIONAL ACCREDITED INVESTORS THAT ARE ALSO QUALIFIED PURCHASERS (EACH AS DEFINED BELOW); OR (3) CERTAIN PERSONS OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Base Prospectus following this notice, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Base Prospectus. In accessing the Base Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer, the Company, the Arranger and Dealers (each as defined in the Base Prospectus) as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. NEITHER THE SECURITIES NOR THE GUARANTEE DESCRIBED IN THIS BASE PROSPECTUS HAVE BEEN OR WILL BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTIONS AND MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS BASE PROSPECTUS MAY ONLY BE COMMUNICATED TO PERSONS IN THE UNITED KINGDOM IN CIRCUMSTANCES WHERE SECTION 21(1) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 DOES NOT APPLY. NEITHER THE ISSUER NOR THE COMPANY HAS REGISTERED AND NEITHER INTENDS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**").

THE FOLLOWING BASE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your representation: In order to be eligible to view this Base Prospectus or make an investment decision with respect to the securities, investors must be either: (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) that are also Qualified Purchasers ("**QPs**") (as defined in Section 2(a)(51)(A) of the Investment Company Act); (2) persons who are "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") that are also QPs who execute and deliver an IAI Investment Letter (as defined in the Agency Agreement) in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof; or (3) non-U.S. persons within the meaning of Regulation S outside the United States. This Base Prospectus is being sent at your request and by accepting the email and accessing this Base Prospectus, you shall be deemed to have represented to us that: (1) you and any customers you represent are either: (a) QIBs that are also QPs; (b) Institutional Accredited Investors that are also QPs; or (c) non-U.S. persons within the meaning of Regulation S outside the U.S.; (2) unless you are a QIB that is also a QP or an Institutional Accredited Investor that is also a QP, the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S.; (3) you are a person who is permitted under applicable law and regulation to receive this Base Prospectus; and (4) you consent to delivery of such Base Prospectus by electronic transmission.

You are reminded that this Base Prospectus has been delivered to you on the basis that you are a person into whose possession this Base Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Base Prospectus to any other person.

This Base Prospectus does not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that an offering of securities described herein be made by a licensed broker or dealer and the Arranger and Dealers or any affiliate of the Arranger or applicable Dealers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Arranger or such Dealer or such affiliate on behalf of the Issuer or holders of the applicable securities in such jurisdiction.

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Issuer, the Company, the Arranger and Dealers nor any person who controls them nor any director, officer, employee nor agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer, the Company, the Arranger and Dealers. Please ensure that your copy is complete. You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk, and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

BASE PROSPECTUS

شـركـة الاسـتـثـمـارات الـبـتـرولـيـة الـدولـيـة
INTERNATIONAL PETROLEUM INVESTMENT COMPANY
IPIC

IPIC GMTN LIMITED

(an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law (2010 Revision))

Global Medium Term Note Programme unconditionally and irrevocably guaranteed by International Petroleum Investment Company P.J.S.C.

(established with limited liability in the Emirate of Abu Dhabi, United Arab Emirates)

Under this Global Medium Term Note Programme (the "**Programme**"), IPIC GMTN Limited (the "**Issuer**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Issuer and the relevant Dealer (as defined below). The payments of all amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by International Petroleum Investment Company P.J.S.C. ("**IPIC**", the "**Company**" or the "**Guarantor**"). The aggregate nominal amount of the Notes outstanding will not be limited.

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**").

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time (each a "**Dealer**" and, together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*" on page 10.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**U.K. Listing Authority**") for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the U.K. Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Regulated Market**"). References in this Base Prospectus to Notes being "**listed**" (and all related references) shall mean that such Notes have been admitted to trading on the Regulated Market and have been admitted to the Official List or such other or further stock exchanges or markets as may be specified in the applicable Final Terms (as defined below). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined in "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the "**Final Terms**") which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the U.K. Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer, the Company and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

This Base Prospectus relates to an exempt offer ("**Exempt Offer**") in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"). This Base Prospectus is intended for distribution only to persons of a type specified in those rules. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The Notes to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

Neither the Notes nor the guarantee contained in the Deed of Guarantee (as defined in "*Terms and Conditions of the Notes*") (the "**Guarantee**") have been or will be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or any U.S. state securities laws and the Notes may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available and the offer or sale is made in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Notes are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and within the United States only: (i) to persons who are "qualified institutional buyers" ("**QIBs**") in reliance on Rule 144A under the Securities Act ("**Rule 144A**") that are also "qualified purchasers" (each a "**QP**") within the meaning of Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended (the "**Investment Company Act**"), and the rules and regulations thereunder; or (ii) to persons who are both "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that are institutions ("**Institutional Accredited Investors**") that are also QPs, who execute and deliver an IAI Investment Letter (as defined in the Agency Agreement) in which they agree to purchase the Notes for their own account and not with a view to the distribution thereof. Neither the Issuer nor the Company has registered and neither intends to register as an investment company under the Investment Company Act, in reliance on the exemption provided by Section 3(c)(7) thereof. Please see "*Summary of Provisions relating to the Notes while in Global Form*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer. Please see "*Subscription and Sale and Transfer and Selling Restrictions*".

The rating of certain Series (as defined under "*Overview of the Programme*") of Notes to be issued under the Programme may be specified in the Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009 (the "**CRA Regulation**") will be disclosed in the Final Terms. Each of Fitch Ratings Ltd. ("**Fitch**"), Moody's Investors Service Ltd. ("**Moody's**") and Standard & Poor's Credit Market Services Europe Limited ("**S&P**") has rated the Company. The Company has been assigned ratings of Aa3 (stable outlook) by Moody's and AA (stable outlook) by each of Fitch and S&P. See "*Description of the Group—Overview*" on page 117. For further information on credit rating agencies see page ix of this Base Prospectus.

Arranger

Goldman Sachs International

Dealers

BofA Merrill Lynch	**Goldman Sachs International**
HSBC	**National Bank of Abu Dhabi**
Standard Chartered Bank	**The Royal Bank of Scotland**

The date of this Base Prospectus is 19 October 2011

IPIC

شركة الاستثمارات البترولية الدولية
INTERNATIONAL PETROLEUM INVESTMENT COMPANY

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive").

The Issuer and the Company accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Issuer and the Company (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each Tranche of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the applicable Final Terms. This Base Prospectus must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the applicable Final Terms.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers (as defined in the applicable Final Terms), as the case may be.

Copies of Final Terms will be available from the registered office of the Issuer and the specified office of each of the Paying Agents (as defined in "*Terms and Conditions of the Notes*").

Certain information under the headings "*Risk Factors*", "*Overview of the U.A.E. and Abu Dhabi*" and "*Relationship with the Government*" has been extracted from the following public official sources:

- **information provided by the Organisation of the Petroleum Exporting Countries ("OPEC") (in the case of "*Risk Factors*" and "*Overview of the U.A.E. and Abu Dhabi*");**
- **publications of the U.A.E. and Abu Dhabi governments and their ministries and departments, including the Abu Dhabi Statistics Centre and the U.A.E. National Bureau of Statistics (in the case of "*Overview of the U.A.E. and Abu Dhabi*"); and**
- **information provided by Abu Dhabi National Oil Company ("ADNOC"), the International Monetary Fund ("IMF") and the U.A.E. Central Bank (in the case of "*Overview of the U.A.E. and Abu Dhabi*").**

Certain information appearing on pages 140 to 143 (inclusive) of this Base Prospectus under the heading "*Book-Entry Clearance Systems*" has been obtained from the clearing systems referred to herein.

Each of the Issuer and the Company confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources referred to, no facts have been omitted which would render the reproduced information inaccurate or misleading.

No person is or has been authorised by the Issuer or the Company to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Company or any of the Arranger or Dealers.

To the fullest extent permitted by law, none of the Arranger or the Dealers accept any responsibility for the contents of this Base Prospectus or any information incorporated by reference into this document or for any other statement made, or purported to be made, by the Arranger or a Dealer or on its behalf in connection with the Issuer, the Company, or the issue and offering of the Notes. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes: (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Issuer, the Company, the Arranger, the Dealers or Agents that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and/or the Company.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and/or the Company is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger and Dealers expressly do not undertake to review the financial condition or affairs of the Issuer or the Company during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Issuer, the Company, the Arranger or the Dealers represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Company, the Arranger or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the Cayman Islands, the Dubai International Financial Centre, the European Economic Area, Hong Kong, Japan, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, the State of Kuwait, the State of Qatar, Singapore, the United Arab Emirates (excluding the Dubai International Financial Centre), the United Kingdom and the United States. See "*Subscription and Sale and Transfer and Selling Restrictions*".

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

In the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as of the date of issue of the Notes).

None of the Issuer, the Company, the Arranger or the Dealers has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own independent examination of the Issuer and the Company and the terms of the Notes being offered, including the merits and risks involved.

None of the Dealers, the Arranger, the Issuer or the Company makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs and Institutional Accredited Investors, each of whom is also a QP, for informational use solely in connection with the consideration of the purchase of certain Notes issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to U.S. persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended (the "Code") and the U.S. Treasury regulations promulgated thereunder.

Registered Notes may only be offered or sold in the United States in private transactions: (i) to persons who are QIBs that are also QPs, in transactions exempt from registration under the Securities Act; or (ii) to persons who are Institutional Accredited Investors that are also QPs; or (iii) to persons who are QPs pursuant to any other applicable exemption from registration under the Securities Act. Each subsequent U.S. purchaser of Registered Notes sold in reliance on Rule 144A is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A. Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Purchasers of Notes sold under (ii) above will be required to execute and deliver to the Registrar an IAI Investment Letter.

NEITHER THE NOTES NOR THE GUARANTEE HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY SECURITIES COMMISSION OF ANY STATE IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Each purchaser or holder of Definitive IAI Registered Notes (as defined herein), Notes represented by a Restricted Global Certificate (as defined herein) or any Notes issued in registered form in exchange or substitution therefor (together "Legended Notes") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Summary of Provisions relating to the Notes while in Global Form*".

AVAILABLE INFORMATION

In connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act, each of the Issuer and the Company has undertaken in a deed poll dated 19 October 2011 (the "**Deed Poll**") to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and each of the Issuer and the Company is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is an exempted company with limited liability incorporated in the Cayman Islands under the Companies Law (2010 Revision) and all or a substantial portion of the assets of the Issuer are located outside the United States. As a result, it may not be possible for investors to effect service of process upon the Issuer within the United States (or in any country outside of the Cayman Islands), or to enforce judgements against it obtained in courts within the United States (or in any country outside of the Cayman Islands) predicated upon civil liabilities of the Issuer under laws other than Cayman Islands law, including any judgement predicated upon United States federal securities laws or the securities laws of any state or territory within the United States.

The Company is a public joint stock company established by Emiri Decree under the laws of the U.A.E. and all or a substantial portion of the assets of the Company are located outside the United States. As a result, it may not be possible for investors to effect service of process upon the Company within the United States (or in any country outside of the U.A.E.), or to enforce judgements against it obtained in courts within the United States (or in any country outside of the U.A.E.) predicated upon civil liabilities of the Company under laws other than U.A.E. law, including any judgement predicated upon United States federal securities laws or the securities laws of any state or territory within the United States.

The Notes and the Deed of Guarantee are governed by English law and disputes in respect of them may be settled under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA Rules**"), in London, England. In addition, actions in respect of the Notes and the Deed of Guarantee may be brought in the English courts.

In the absence of any bilateral treaty for the reciprocal enforcement of foreign judgements, the U.A.E. courts are unlikely to enforce an English court judgement or arbitration award without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the Notes and the Deed of Guarantee. Investors may have difficulties in enforcing any English judgements or arbitration awards against the Issuer or the Company in the courts of the U.A.E. In addition, even if English law is accepted as the governing law, this will only be applied to the extent that it is compatible with Abu Dhabi law, applicable federal law of the U.A.E. and public policy. Moreover, judicial precedent in Abu Dhabi or the U.A.E. has no binding effect on subsequent decisions and there is no formal system of reporting court decisions in Abu Dhabi or the U.A.E. These factors create greater judicial uncertainty than would be expected in certain other jurisdictions. See "*Risk Factors—Risks Relating to Enforcement—Investors may experience difficulties in enforcing arbitration awards and foreign judgements in Abu Dhabi*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus. Each potential investor resident in the Kingdom of Bahrain intending to subscribe for Notes (each, a "**potential investor**") may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase Notes within a reasonable time period determined by the Issuer, the Company and the Dealers. Pending the provision of such evidence, an application to subscribe for Notes will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the Issuer, the Company or the Dealers are satisfied therewith, its application to subscribe for Notes may be rejected, in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the Issuer and the Company will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder, including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Notes have not been and will not be offered, sold or delivered at any time, directly or indirectly, in the State of Qatar in a manner that would constitute a public offering. This Base Prospectus has not been reviewed or approved by or registered with the Qatar Central Bank, the Qatar Exchange or the Qatar Financial Markets Authority.

KINGDOM OF SAUDI ARABIA NOTICE

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Notes issued under the Programme and offered hereby should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus, he or she should consult an authorised financial adviser.

CAYMAN ISLANDS NOTICE

No invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for the Notes and this Base Prospectus shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for the Notes.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information of the Group

Since its date of incorporation, no financial statements of the Issuer have been prepared.

Unless otherwise indicated, the financial position, financial performance and cash flows included in this Base Prospectus relating to the Company, its consolidated subsidiaries and its associates and jointly controlled entities (collectively, the "**Group**"), have been extracted from the audited consolidated financial statements of the Group as of and for the years ended 31 December 2010 (the "**2010 Financial Statements**"), 31 December 2009 (the "**2009 Financial Statements**", and together with the 2010 Financial Statements, the "**Audited Financial Statements**"), and the unaudited interim condensed consolidated financial statements of the Group as of and for the six months ended 30 June 2011 set forth elsewhere herein (the "**Unaudited Financial Statements**" and, together with the Audited Financial Statements, the "**Financial Statements**").

The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and have been audited by Ernst & Young Middle East (Abu Dhabi Branch) ("**Ernst & Young**") as stated in their reports included elsewhere in this Base Prospectus. The Unaudited Financial Statements have been prepared in accordance with

International Accounting Standard No. 34, Interim Financial Reporting ("**IAS 34**") and have been reviewed by Ernst & Young, in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

This Base Prospectus also contains certain selected unconsolidated financial information of the Company, which has been extracted from the unaudited interim condensed unconsolidated financial statements of the Company as of and for the six months ended 30 June 2011, and the audited unconsolidated financial statements of the Company as of and for the year ended 31 December 2010. Such unconsolidated financial statements are not included in this Base Prospectus but are available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent. See "*General Information—Documents Available*".

The Group's financial year ends on 31 December, and references in this Base Prospectus to any specific year are to the 12-month period ended on 31 December of such year.

During the year ended 31 December 2010 the Group changed the presentation of certain line items in its consolidated income statement and consolidated statement of financial position to more accurately reflect the Group's business. As a result, the 2009 financial information (as presented within the 2010 Financial Statements) was reclassified to conform to the revised presentation of the 2010 Financial Statements. Accordingly, on an individual line item basis, the 2009 financial information (as presented within the 2010 Financial Statements) is not comparable to the 2009 financial information within the 2009 Financial Statements. However, the reclassification in the 2010 Financial Statements had no effect on the reported profits or the equity of the Group and was not deemed to be material to the 2010 Financial Statements. See Note 41 ("*Corresponding Figures*") to the 2010 Financial Statements. For the avoidance of doubt, all 2009 financial information as provided in this Base Prospectus is the audited reclassified financial information as presented within the 2010 Financial Statements.

Pursuant to an arbitration award in November 2009, the Group was directed to sell its entire interest in Hyundai Oilbank. As a result of this judgement, Hyundai Oilbank was classified as a 'disposal group held-for-sale in 2009, and the corresponding comparative financial information for the year 2008 was reclassified in the 2009 Financial Statements for presentation purposes, as required by IFRS. In addition, as a result of a series of acquisitions in 2009, the Company established a revised reporting framework for the consolidation process to align certain line items of a similar nature of each of the subsidiaries to ensure conformity and comparability of the presented financial information. As a result of the above changes, the 2008 financial information (as presented within the 2009 Financial Statements) was reclassified to conform to the revised presentation of the 2009 Financial Statements. However, such reclassification in the 2009 Financial Statements had no effect on the reported profits or the equity of the Group and was not deemed to be material to the 2009 Financial Statements. See Note 40 ("*Comparative Information*") to the 2009 Financial Statements. For the avoidance of doubt, all 2008 balance sheet information provided in this Base Prospectus is the audited reclassified financial information as presented within the 2010 Financial Statements, and all remaining 2008 financial information provided in this Base Prospectus is the audited reclassified financial information as presented within the 2009 Financial Statements.

Presentation of Statistical Information and Other Data

Certain statistical information in this Base Prospectus has been derived from a number of publicly available sources.

The statistical information in the section entitled "*Overview of the U.A.E. and Abu Dhabi*" has been derived from a number of different identified sources. All statistical information provided in that section may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. The data set out in the section relating to Abu Dhabi's gross domestic product ("**GDP**") for 2010 is preliminary and subject to change and certain other historical GDP data set out in that section may also be subject to future adjustment.

Certain Defined Terms

Capitalised terms which are used but not defined in any particular section of this Base Prospectus will have the meaning attributed thereto in "*Terms and Conditions of the Notes*" or any other section of this Base Prospectus. In addition, the following terms as used in this Base Prospectus have the meanings defined below:

- references to "**Abu Dhabi**" herein are to the Emirate of Abu Dhabi;
- references to "**capital and investment expenditure**" incurred and expected to be incurred by the Group refer to expenditure in relation to existing and new investments, projects and the refinancing of indebtedness;

- references to “**capital contributions**” made by the Government to the Company refer to equity and other contributions to the capital of the Company;
- references to “**EIA**” herein are to the Emirates Investment Authority;
- references to “**Emirate**” herein are to one or more of the seven emirates of the U.A.E.;
- references to an “**Emiri Decree**” herein are to a law of the Emirate of Abu Dhabi;
- references to the “**Government**” herein are to the government of Abu Dhabi; and
- references to “**U.A.E.**” herein are to the United Arab Emirates.

Further, the following terms are used in this Base Prospectus to identify certain of the companies, investments and projects in the Company’s investment portfolio and shall have the meanings set forth below:

- references to “**Aabar**” herein are to Aabar Investments P.J.S.;
- references to “**ADCOP**” herein are to Abu Dhabi Crude Oil Pipeline;
- references to “**Al Falah Growth Fund**” are to Al Falah Growth Fund LP;
- references to “**Atlantia**” are to Atlantia S.p.A.;
- references to “**Banco Santander Brasil**” herein are to Banco Santander (Brasil) S.A.;
- references to “**Banvit**” herein are to Banvit Bandirma Vitaminli Yem Sanayii Anonim Şirketi;
- references to “**Barclays**” herein are to Barclays Bank PLC;
- references to “**Borealis**” herein are to Borealis AG;
- references to “**Borouge**” herein are to Abu Dhabi Polymers Company Limited;
- references to “**CEPSA**” herein are to Compañia Española de Petróleos, S.A.;
- references to “**ChemaWEyaat**” herein are to the Abu Dhabi National Chemicals Company P.J.S.C.;
- references to “**Cosmo Oil**” herein are to Cosmo Oil Company, Limited;
- references to “**Daimler**” herein are to Daimler AG;
- references to “**EDP**” herein are to Energias de Portugal, S.A.;
- references to “**Falcon Bank**” are to Falcon Private Bank Ltd.;
- references to “**Ferrostaal**” herein are to Ferrostaal AG;
- references to “**GEM**” herein are to Gulf Energy Maritime P.J.S.C.;
- references to “**Glencore**” herein are to Glencore International plc;
- references to “**Hyundai Oilbank**” herein are to Hyundai Oilbank Co., Ltd.;
- references to “**IPBC Bond**” herein are to the mandatory exchangeable bonds issued by Independent Public Business Corporation to the Company which at maturity, and in certain circumstances, are exchangeable into shares of Oil Search;
- references to “**Mercedes-Benz Grand Prix**” are to Mercedes-Benz Grand Prix Ltd;
- references to “**Nova Chemicals**” herein are to Nova Chemicals Corporation;
- references to “**Oil Search**” herein are to Oil Search Limited;
- references to “**OIP**” herein are to Oasis International Power L.L.C.;
- references to “**OMV**” herein are to OMV Aktiengesellschaft;
- references to “**OPP**” herein are to Oman Polypropylene LLC;
- references to “**PARCO**” herein are to Pak-Arab Refinery Limited;
- references to “**QADIC**” herein are to Qatar and Abu Dhabi Investment Company Q.S.C.;
- references to “**RHB**” herein are to RHB Capital Berhad;
- references to “**SUMED**” herein are to Arab Petroleum Pipelines Company;

- references to "**TAQA**" herein are to Abu Dhabi National Energy Company;
- references to "**Tesla Motors**" herein are to Tesla Motors, Inc.;
- references to "**UniCredit**" herein are to UniCredit S.p.A.; and
- references to "**Virgin Galactic**" are to Galactic Ventures, LLC.

Certain Conventions

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

References in this Base Prospectus to the Company holding or making investments in certain entities include the holding and/or the making of investments (as applicable) in such entities through various direct or indirect intermediary corporate or partnership or other structured investment entities.

All references in this Base Prospectus to "**U.S. dollars**" and "**U.S.$**" refer to United States dollars, being the legal currency of the United States of America (the "**United States**") and all references to "**dirham**" and "**AED**" refer to the U.A.E. dirham, being the legal currency of the U.A.E. The dirham has been pegged to the U.S. dollar since 22 November 1980. The mid-point between the official buying and selling rates for the dirham is at a fixed rate of AED 3.6725 = U.S.$1.00. In addition, all references to "**Sterling**" and "**£**" refer to pounds sterling, being the legal currency of the United Kingdom; "**Yen**" and "**¥**" refer to Japanese yen, being the legal currency of Japan; "**A$**" refer to Australian dollars, being the legal currency of The Commonwealth of Australia; "**TL**" refer to Turkish lira, being the legal currency of the Republic of Turkey; "**KRW**" refer to South Korean Won, being the legal currency of the Republic of Korea; "**MYR**" refer to Malaysian Ringgit, being the legal currency of Malaysia; and "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. Please refer to "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors that Affect the Group's Results of Continuing Operations—Foreign Currency Translation*", for accounting policy regarding exchange rates used in foreign currency translation.

References to a "**billion**" are to a thousand million.

References in this Base Prospectus to one gender shall be deemed to include the other except where the context does not permit.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward-looking statements. Forward-looking statements include statements concerning the Company's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying such forward-looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward-looking statements. These forward-looking statements are contained in the sections entitled "*Risk Factors*", "*Relationship with the Government*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Description of the Group*" and other sections of this Base Prospectus. The Company has based these forward-looking statements on the current view of its management with respect to future events and financial performance. Although the Company believes that the expectations, estimates and projections reflected in its forward-looking statements are reasonable as at the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those identified below or which the Company has otherwise identified in this Base Prospectus, or if any of the Company's underlying assumptions prove to be incomplete or inaccurate, the Company's actual results of operation may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

- the Company's ability to receive distributions and other revenue flows from its investments (including its subsidiaries);
- the Company's ability to obtain and maintain sufficient capital to fund its current and future investments and financial obligations, including the Company's ability to obtain external financing;
- the Company's ability to manage the growth of the Group successfully;

- actions taken by the Group's joint venture partners that may not be in accordance with the Company's policies and/or objectives;
- changes in international oil and gas prices and market prices for refined and petrochemicals products;
- regulatory restrictions applicable to certain companies within the Group pursuant to environmental and health and safety laws and potential liabilities arising thereunder;
- changes in political, social, legal or economic conditions in the markets that affect the Group and the value of the Group's investments; and
- the political and economic conditions in Abu Dhabi, the U.A.E. and the Middle East.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*".

Any forward-looking statements contained in this Base Prospectus speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, the Issuer and the Company expressly disclaim any obligation or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward-looking statement is based.

CREDIT RATING AGENCIES

Each of Fitch Ratings Ltd. ("**Fitch**"), Moody's Investors Service Ltd. ("**Moody's**") and Standard & Poor's Credit Market Services Europe Limited ("**S&P**") has rated the Company and Abu Dhabi and Moody's has also rated the U.A.E. See pages 17, 70, 72 and 120.

Fitch, Moody's and S&P are established in the European Union and have applied for registration under the CRA Regulation, although notification of the corresponding registration decisions have not yet been provided by the relevant competent authority.

SUPPLEMENTARY PROSPECTUS

If at any time the Issuer and the Company shall be required to prepare a supplementary prospectus pursuant to Section 87G of the Financial Services and Markets Act 2000 (the "**FSMA**"), the Issuer and the Company will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further Base Prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Regulated Market, shall constitute a supplementary prospectus as required by the U.K. Listing Authority and Section 87G of the FSMA.

Each of the Issuer and the Company has given an undertaking to the Arranger and Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Company, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Base Prospectus or publish a replacement Base Prospectus for use in connection with any subsequent offering of the Notes and shall supply to the Arranger and each Dealer such number of copies of such supplement hereto as such Arranger and/or Dealer may reasonably request.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action or over-allotment may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of thirty (30) days after the issue date of the relevant Tranche of Notes and sixty (60) days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OVERVIEW OF THE COMPANY

The following overview is qualified in its entirety by, and is subject to, the more detailed information and Financial Statements contained or referred to elsewhere in this Base Prospectus, including the sections "Relationship with the Government", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of the Group" and "Management". To understand the terms of the Notes, investors should carefully read the sections of this Base Prospectus entitled "Terms and Conditions of the Notes" and the risks of investing in the Notes under "Risk Factors" and the applicable Final Terms.

Overview

IPIC was established by the Government of Abu Dhabi pursuant to an Emiri Decree in 1984 with a mandate to invest globally in energy and energy-related industries. The Government owns 100 per cent. of IPIC and appoints all of the members of its board of directors.

IPIC is a long-term strategic investor and currently holds more than 15 investments in over 10 countries and on five different continents. As of 30 June 2011, the Group's consolidated total assets were U.S.$61.8 billion. As of 30 June 2011, IPIC had 131 employees and the consolidated companies in the Group had approximately 14,500 employees.

IPIC's registered office is Al Muhairy Center Office Tower, 10th Floor, Sheikh Zayed the 1st Street, P.O. Box 7528, Abu Dhabi, U.A.E. and its website address is www.ipic.ae. The information contained in IPIC's website is not incorporated by reference into, or otherwise included in, this Base Prospectus.

Management

IPIC benefits from an experienced board of directors comprised of senior members of the Government, the energy industry and the financial services industry. For example, the Chairman of the board of directors, H.H. Sheikh Mansour bin Zayed Al Nahyan, is a member of the ruling family of Abu Dhabi, the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs. In addition, three board members sit on Abu Dhabi's Supreme Petroleum Council, two board members sit on the Government's Executive Council and two are chairmen of leading Abu Dhabi banks.

Relationship with the Government

Since establishment, IPIC has received significant capital contributions from the Government. To date, the Government has made six equity contributions to IPIC totalling U.S.$3.5 billion, the last of which was in 2008. In June 2010, the Government also provided IPIC with a U.S.$500 million perpetual shareholder loan (which, by the nature of its terms, is accounted for within equity in IPIC's statement of financial position) to meet its obligations in respect of QADIC, which is a joint venture between the Government and the government of the State of Qatar. As at the date of this Base Prospectus, the Government has committed an additional U.S.$500 million for further investment in QADIC which has not yet been received. IPIC believes the Government considers its ownership of IPIC to be a long-term strategic holding. IPIC has not paid any dividends to the Government to date, nor is IPIC aware of any plans by the Government to request dividends for the foreseeable future. The Government's support for IPIC was affirmed in a statement made by the Abu Dhabi Department of Finance on 5 March 2010. See "*Relationship with the Government—Government Statement of Support for IPIC*".

Strategy

IPIC leverages its 27 years of investment and portfolio management experience to invest across the entire hydrocarbon value chain and to undertake other diversified investments. IPIC seeks attractive returns by making investments which leverage its relationship with the Government and the synergies across its investment portfolio.

Furthermore, IPIC plays an integral role in the Government's strategy to secure and develop end markets for Abu Dhabi's crude oil production by investing in the midstream and downstream segments of the oil and gas sector. IPIC also provides Abu Dhabi with exposure to the international hydrocarbon sector outside of Abu Dhabi and provides Abu Dhabi with a natural hedge for adverse geopolitical and macro-economic developments.

Strengths

IPIC believes that it has the following key strengths:

- a focused mandate;
- a strong track record;
- an experienced board of directors;
- a proven ability to derive synergies from its portfolio; and
- a close relationship with the Government.

Risk Factors

The material risks associated with the business which IPIC operates and any investment in an issue of the Notes are discussed under "*Risk Factors*". Prospective investors should review these carefully prior to making any decision to invest in an issue of Notes.

See "*Risk Factors*", "*Relationship with the Government*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Group*" and "*Management*".

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms. The Issuer, the Company and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions of the Notes, in which event, in the case of listed Notes only, a new Base Prospectus or a supplement to the Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Notes.

This overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

Words and expressions defined in "*Terms and Conditions of the Notes*" and "*Summary of Provisions relating to the Notes while in Global Form*" shall have the same meanings in this overview.

Issuer:	IPIC GMTN Limited is an exempted company with limited liability incorporated in the Cayman Islands in accordance with the Companies Law (2010 Revision) of the Cayman Islands on 27 September 2010 with registration number 245969, having its registered office at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Issuer is a special purpose entity which is a wholly-owned subsidiary of IPIC and which has been established for the purpose of issuing the Notes under the Programme. See "*Description of the Issuer*".
IPIC, the Company or the Guarantor:	IPIC is a public joint stock company established under the laws of the U.A.E. on 29 May 1984 pursuant to Emiri Decree No. 3 of 1984, having its registered office at P.O. Box 7528, Abu Dhabi, U.A.E. IPIC is wholly-owned by the Government. See "*Relationship with the Government*" and "*Description of the Group*". The payment of amounts due in respect of the Notes will be unconditionally and irrevocably guaranteed by IPIC.
Description:	Guaranteed Global Medium Term Note Programme.
Programme Size:	The Programme is unlimited in amount.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme and IPIC's ability to fulfil its obligations under the Guarantee. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of a particular Series of Notes and certain market risks. See "*Risk Factors*".
Arranger:	Goldman Sachs International.
Dealers:	Goldman Sachs International, HSBC Bank plc, Merrill Lynch International, National Bank of Abu Dhabi P.J.S.C., Standard Chartered Bank, The Royal Bank of Scotland plc and any other

	Dealer(s) appointed from time to time in accordance with the terms of the Distribution Agreement or in relation to a particular Tranche of Notes. The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
Fiscal Agent, Paying Agent, Exchange Agent and Transfer Agent:	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent (in respect of Unrestricted Notes, as defined in the Agency Agreement):	The Bank of New York Mellon (Luxembourg) S.A.
Registrar and Transfer Agent (in respect of Restricted Notes, as defined in the Agency Agreement):	The Bank of New York Mellon, New York Branch.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the "**Final Terms**").
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of Notes:	The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if: (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date; or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with the D Rules (as defined in "—*Selling Restrictions*" below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for a common depositary for one or more clearing systems are referred to as "**Global**

	Certificates". Registered Notes sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by an Unrestricted Global Certificate (an "**Unrestricted Global Certificate**"). Registered Notes sold in the United States to QIBs that are also QPs or Institutional Accredited Investors that are also QPs will initially be represented by a Restricted Global Certificate (a "**Restricted Global Certificate**"). Registered Notes sold in the United States are not exchangeable for Bearer Notes. See "*Terms and Conditions of the Notes*" and "*Summary of Provisions relating to the Notes while in Global Form*".
Clearing Systems:	Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and Euroclear Bank S.A./N.V. ("**Euroclear**") for Bearer Notes, Clearstream, Luxembourg, Euroclear and the Depository Trust Company ("**DTC**") for Registered Notes and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.
Initial Delivery of Notes:	On or before the issue date for each Tranche, the Global Note representing Bearer Notes ("**Global Notes**") or the Global Certificates may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg and/or DTC (as applicable). Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Fiscal Agent and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Company and the relevant Dealers.
Redenomination, Renominalisation and/or Consolidation:	Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the applicable Final Terms.
Maturities:	The Notes will have such maturities as may be agreed between the Issuer, the Company and the relevant Dealers, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
Specified Denomination:	Definitive Notes will be in such denominations as may be specified in the applicable Final Terms, save that: (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); (ii) unless otherwise permitted by then current laws and regulations, Notes

	(including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA will have a minimum denomination of £100,000 (or its equivalent in other currencies); (iii) in the case of any Notes to be sold in the United States to QIBs that are also QPs, the minimum specified denomination shall be U.S.$200,000 (or its equivalent in other currencies); and (iv) in the case of any Notes to be sold in the United States to Institutional Accredited Investors that are also QPs, the minimum specified denomination shall be U.S.$500,000 (or its equivalent in other currencies).
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the applicable Final Terms.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or (ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the applicable Final Terms) as adjusted for any applicable margin. Interest periods will be specified in the applicable Final Terms.
Zero Coupon Notes:	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the applicable Final Terms.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the applicable Final Terms.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the applicable Final Terms.
Redemption:	The applicable Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in Sterling) which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the FSMA must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

Redemption by Instalments:	The Final Terms issued in respect of each issue of Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Other Notes:	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes, reverse dual currency Notes, optional dual currency Notes, Partly Paid Notes and any other type of Note that the Issuer, the Company and the relevant Dealers may agree to issue under the Programme will be set out in the applicable Final Terms and a supplementary prospectus (if applicable).
Optional Redemption:	The Final Terms issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption.
Early Redemption:	Except as provided in "—*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. Please see "*Terms and Conditions of the Notes—Redemption, Purchase and Options*".
Change of Control:	If so specified in the applicable Final Terms, each holder will have the right to require the redemption of its Notes if a Change of Control occurs. Please see "*Terms and Conditions of the Notes—Redemption, Purchase and Options*".
Negative Pledge and Asset Sales:	Please see "*Terms and Conditions of the Notes—Negative Pledge*".
Cross-Default:	Please see "*Terms and Conditions of the Notes—Events of Default*".
Status of the Notes and Guarantee:	The Notes and the Guarantee will constitute unsubordinated and unsecured obligations of the Issuer and the Company, respectively, all as described in "*Terms and Conditions of the Notes—Guarantee and Status*".
Withholding Tax:	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of a Relevant Taxing Jurisdiction (as defined in Condition 6(c) (*Redemption, Purchase and Options—Redemption for Taxation Reasons*), subject to customary exceptions, all as described in "*Terms and Conditions of the Notes—Taxation*".
Ratings:	Tranches of Notes will be rated or unrated. Where a tranche of Notes is to be rated, such rating will be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to the relevant Tranche of Notes will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating.
Governing Law:	English.
Listing and Admission to Trading:	Application has been made to list Notes issued under the Programme on the Official List and to admit them to trading on the London Stock Exchange's Regulated Market or as otherwise specified in the

	applicable Final Terms and references to listing shall be construed accordingly. As specified in the applicable Final Terms, a Series of Notes may be unlisted.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the Cayman Islands, the Dubai International Financial Centre, the European Economic Area, Hong Kong, Japan, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, Singapore, the State of Kuwait, the State of Qatar, the U.A.E. (excluding the Dubai International Financial Centre), the United Kingdom and the United States of America. Additional restrictions may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale and Transfer and Selling Restrictions—Selling Restrictions*". The Bearer Notes will be issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(D) (the "**D Rules**") unless: (i) the applicable Final Terms states that Notes are issued in compliance with U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the "**C Rules**"); or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the applicable Final Terms as a transaction to which TEFRA is not applicable.
Transfer Restrictions:	There are restrictions on the transfer of Definitive IAI Registered Notes, Notes represented by a Restricted Global Certificate or any Notes issued in registered form in exchange or substitution therefor. Please see "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*".
ERISA:	Unless otherwise stated in any applicable Final Terms, Notes (or any interest therein) may not be purchased by Benefit Plan Investors (as defined in Section 3(42) of the U.S. Employee Retirement Income Security Act 1974, as amended ("**ERISA**")) and certain other plans that are subject to Similar Law. See "*ERISA and Certain other U.S. Considerations*".

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the Financial Services Authority shall be incorporated in, and form part of, this Base Prospectus:

(a) CEPSA's audited consolidated financial statements as at and for the year ended 31 December 2009 and the related audit opinion from CEPSA's accountants;

(b) CEPSA's audited consolidated financial statements as at and for the year ended 31 December 2008 and the related audit opinion from CEPSA's accountants;

together, the "**CEPSA Financial Statements**"; and

(c) the Terms and Conditions of the Notes contained on pages 38 to 59 (inclusive) in the base prospectus dated 1 November 2010 prepared by the Issuer in connection with the Programme.

For the periods prior to 5 July 2011, CEPSA was not controlled by the Company. The CEPSA Financial Statements are therefore not consolidated into the Financial Statements and are incorporated by reference in this Base Prospectus for informational purposes only. Furthermore, the CEPSA Financial Statements have not been audited by the auditors of the Company. Neither the Arranger nor any of the Dealers nor any person who controls them nor any director, officer, employee or agent of any of them nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of the CEPSA Financial Statements.

Copies of the documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and from the specified office of the Fiscal Agent for the time being in London.

Any parts of the documents referred to in (a) to (c) (inclusive) above which are not expressly incorporated by reference in this Base Prospectus as provided above are not relevant to an investor contemplating purchasing any Notes.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

RISK FACTORS

Each of the Issuer and the Company believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Company is in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme are also described below.

If any of the risks described below actually materialise, the Issuer, the Company and/or the Group's business, results of operations, financial condition or prospects could be materially adversely affected. If that were to happen, the trading price of the Notes could decline and investors could lose all or part of their investment.

Each of the Issuer and the Company believes that the factors described below represent all the material risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer or the Company to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons which may not be considered significant risks by the Issuer and the Company based on information currently available to them or which they may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Risks Relating to the Group and its Strategy

The Company relies on distributions and other revenue flows from its investments (including its subsidiaries) to meet its financial obligations

The Company conducts its operations principally through, and derives most of its revenues from, its investments (including its subsidiaries) and has limited revenue-generating operations of its own. Consequently, the Company's cash flows and ability to meet its cash requirements, including its obligations under the Notes, depend upon the profitability and cash flows from its investments (including its subsidiaries). Because the Company's investments (including its subsidiaries) are not providing guarantees or any other form of security with respect to the Notes, investors in the Notes will not have any direct claim on the cash flows or assets of the Company's investments (including its subsidiaries) in the event of an insolvency, and the Company's investments (including its subsidiaries) will have no obligation, contingent or otherwise, to pay amounts due under the Notes, or to make funds available to the Company to make those payments.

The Terms and Conditions of the Notes do not restrict the amount of indebtedness which the Group may incur including indebtedness of its investments (including its subsidiaries). Such indebtedness, in certain cases, contains covenants which prevent or restrict distributions to the Company until such time as the relevant indebtedness has been repaid. The ability of the Company's investments (including its subsidiaries) to pay dividends or make other distributions or payments to the Company will also be subject to the availability of profits or funds for the purpose which, in turn, will depend on the future performance of the entity concerned which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that may be beyond its control. In addition, any such entity may be subject to restrictions on the making of such distributions contained in applicable laws and regulations. There can be no assurance that the Group's individual businesses will generate sufficient cash flow from operations or that alternative sources of financing will be available at any time in an amount sufficient to enable these businesses to service their indebtedness, to fund their other liquidity needs and to make payments to the Company to enable the Company to meet payment obligations under any inter-company loans from the Issuer and/or its guarantee of any Notes.

The Company expects to have significant financing requirements

The Company has in the past made, and anticipates that it will continue to make, significant capital and investment expenditures. The Company intends to finance its future expenditures and financial obligations through borrowings from third parties (including by way of the issue of Notes under the Programme), cash flow from the Company's investments and, in certain circumstances, capital contributions from the Government.

The Company's ability to obtain external financing and the cost of such financing depend on numerous factors, including general economic and market conditions, international interest rates, credit availability from banks or other financiers, investor confidence in the Company and the Government, the Company's credit rating, the financial condition of the Company and the performance of the Group's businesses. There can be no assurance that external financing will be available or, if available, that such financing will be obtainable on terms that are not onerous to the Company. Although the Government has, in the past, provided cash and other contributions to the Company to support its projects and investment objectives, the Government is not legally obliged to fund any of the Company's projects or investments and accordingly may decide not to do so in the future, even if it has previously approved the funding of the project or investment concerned. Furthermore, the Government is not guaranteeing any of the Company's obligations in respect of the Notes and the Noteholders therefore do not benefit from any legally enforceable claim against the Government. If the Company is not able to obtain adequate financing to make capital and investment expenditures in the future, this could have a material adverse effect on the Group's business, financial condition and results of operations and therefore on the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The investments and projects that the Company undertakes require significant capital and investment expenditures, which are subject to a number of risks and uncertainties

The investments and projects that the Company undertakes are highly capital intensive and such expenditure may materially adversely affect the profits of the Company. The Company's actual capital and investment expenditures may be significantly higher or lower than planned amounts due to various factors, including, among others, unplanned cost overruns, the Company's ability to generate sufficient cash flows from investments, the Company's ability to obtain adequate financing or, as the case may be, refinancing for its planned capital and investment expenditures or other such expenditures that may arise from time to time. The Company can make no assurances with regard to whether, or at what cost, its planned or other possible capital projects will be completed or that these projects will be successful if completed. Furthermore, the Company cannot provide any assurances that it will be able to obtain refinancing when needed on existing financing arrangements. In addition, the Company cannot make any assurances that it will be able to continue to obtain additional financing when needed on commercially acceptable terms or at all.

The Government's interests may, in certain circumstances, be different from the interests of the Noteholders

As the Company's sole shareholder, the Government is in a position to control the outcome of actions requiring shareholder approval and also appoints all the members of the Company's board of directors and thus has the ability to influence the board of directors' decisions.

The interests of the Government may from time to time be different from those of the Company's creditors, including the Noteholders. For example, decisions made by the Company's board of directors may be influenced by the need to consider Government objectives, including strategic and development objectives. Such decisions could result in the Company making investments for other than purely commercial reasons, which may not be in the interests of the Noteholders.

The Government may alter its relationship with the Company

The Government has the ability to limit the Company's mandate, or limit the amount of financial support provided to, or assets granted to, the Company. Any such actions by the Government could have a material adverse effect on the Company's business, results of operations, financial condition and prospects, and subsequently affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Company may be required to make distributions to its shareholder, the Government

In the past, the Government has provided funding to companies in which it has ownership interests, although it is under no legal obligation to do so. As the sole shareholder of the Company, the Government has the right to require that a meeting of the shareholders' ordinary general assembly or extraordinary general assembly be convened. At such a meeting, it is within the power of the Government to request that any particular issues be entered on the agenda, which could include a request for the Company to make distributions of profit or assets to the Government, in compliance with U.A.E. law. If the Company is required to make a distribution to the Government, this could have a material adverse effect on the Company's business, results of operations, financial condition and prospects, and subsequently affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Company depends significantly on the members of its board of directors and senior management team, and the departure of any of these individuals could materially adversely affect the Company's ability to execute its investment strategy

The Company depends significantly on the diligence and skill of its board of directors and senior management team for the execution of its investment strategy and final selection, structuring, closing and ongoing management of its investments and projects. The Company's continued success depends to a significant extent on the continued service and coordination of its senior management team. None of these individuals would be easy to replace on short notice.

The Company may not be able to manage the growth of the Group successfully

The Group has recently experienced a period of significant growth and the Company expects that the Group will continue to grow significantly in future years, including through acquisitions. Acquisitions expose the Group to numerous risks, including challenges in managing the increased scope, geographic diversity and complexity of the operations of the Group's companies.

Future growth may place a significant strain on the Company's managerial, operational, financial and other resources. The need to manage the Company's investments may require continued development of procedures and management controls, hiring and training additional personnel, as well as training and retaining its employee base. Such growth may also significantly increase costs, including the cost of compliance arising from exposure to additional activities and jurisdictions.

If the Company is not successful in meeting the challenges associated with any significant acquisitions it may make or managing its growth successfully, this could have a material adverse effect on the Group's business, financial condition and results of operations and could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Company's historical consolidated financial statements may be difficult to compare from one financial period to another due to its significant investment activity in recent years

The Company has engaged in significant investment activities in recent years. Since 1 January 2008, the Company's acquisitions have included, amongst others, its acquisition of its controlling stake in Aabar, its acquisition of 70.0 per cent. of Ferrostaal, its acquisition of 100 per cent. of Nova Chemicals and the increase, in several stages, of its stake in CEPSA to 100 per cent. Furthermore, the Group sold its entire interest in its subsidiary Hyundai Oilbank, which took place in August 2010. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors that Affect the Group's Results of Continuing Operations—Acquisitions and Disposals*".

Primarily as a result of its investment activities, the Group's consolidated total assets increased from U.S.$23.3 billion as of 31 December 2008 to U.S.$61.8 billion as of 30 June 2011. During the year ended 31 December 2010 the Group changed the presentation of certain line items in its consolidated income statement and consolidated statement of financial position to more accurately reflect the Group's business. As a result, all 2009 figures (as presented within the 2010 Financial Statements) were reclassified to conform to the 2010 Financial Statements and as a result of the revised reporting framework for the consolidation process, all 2008 figures (as presented within the 2009 Financial Statements) were reclassified to conform to the 2009 Financial Statements. Accordingly, the Company's historical consolidated financial statements may be difficult to compare from one financial period to another and may not be helpful in assessing the Company's or the Group's future cash flows, results of operations or rate of growth or the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

Risks Relating to the Group's Investment Activities and Businesses

Implementing projects is inherently risky

When undertaking a new project, companies in the Group may face a number of risks, including:

- requirements to make significant capital expenditures without receiving cash flow from the project concerned until future periods;
- delays in obtaining, or a failure to obtain, all necessary governmental and regulatory permits, approvals and authorisations;

- an inability to complete projects on schedule or within budgeted amounts; and
- construction related risks, such as the inability to find a suitable contractor, disruptions in services, defective materials, shortages of materials, equipment and labour, disputes with contractors and sub-contractors, adverse weather conditions, natural disasters, accidents and escalating costs of construction materials.

There can be no assurance that any or all of the Group's current or future projects will be completed in the anticipated timeframe or at all, whether as a result of the factors specified above or for any other reason. The Group's inability to complete a project in the anticipated timeframe or at all could have a material adverse effect on the Group's business, financial condition and results of operations and could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The due diligence process that the Company undertakes in connection with new investments and projects may not reveal all relevant facts

When conducting due diligence and making an assessment regarding a proposed new investment or project, the Company can rely only on resources available to it, including information provided by the target where relevant and, in some circumstances, third-party investigations. In some cases, information may be limited and cannot be verified by reference to the underlying sources. The Company can offer no assurance that any due diligence investigation that it carries out with respect to any investment opportunity or proposed project will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such opportunity or project. If relevant facts are not identified through the due diligence process, the Company may make misinformed business decisions, which could have a material adverse effect on the Company's business, financial condition and results of operations and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Company may pursue investment opportunities in countries in which it has no previous investment experience or in jurisdictions that are subject to greater social, economic and political risks

The Company may not be able to adequately assess the risks of investing in new jurisdictions irrespective of advice from its advisers. Investments made by the Company in emerging markets may involve a greater degree of risk than investments in developed countries. For example, emerging market investments may carry the risk of more volatile equity markets, less favourable and less sophisticated fiscal and commercial regulation, a greater likelihood of severe inflation, unstable currency, exchange controls, restrictions on repatriation of profits and capital, corruption, political, social and economic instability (including warfare and civil unrest) and government actions or interventions, including tariffs, royalties, protectionism, subsidies, expropriation of assets and cancellation of contractual rights, than investments in companies based in developed countries.

If any of the foregoing risks were to occur or if the Company failed to correctly identify the risks associated with an investment, the Company's business, financial condition and results of operations could be adversely affected and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Company's relationship with the Government may restrict its ability to make certain international investments

Certain countries heavily regulate or restrict foreign direct investment, in particular by state-controlled enterprises. These regulations and restrictions are likely to be particularly relevant to investments or projects in sectors considered to be strategically important to the country in which the investment is being made.

As a result, the Company's investment opportunities may be limited by regulatory constraints that arise, in particular, due to the Company's ownership by the Government. It is possible that in certain countries the Company will be prohibited from investing in particular sectors or, to the extent it is permitted to invest in a particular sector, its investments may be restricted or subject to governmental or regulatory approvals that may be difficult to obtain. If the Company is required to limit the scope of or forgo attractive investment opportunities due to these restrictions or requirements, the Company's business, financial condition and results of operations could be materially adversely affected and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

Certain of the investments made by the Group in companies or joint ventures are non-controlling stakes, which may expose the Group to additional risks

Current or future investments in which the Group does not have a controlling stake are subject to the risk that the other shareholders of the company in which the investment is made may have different business or investment objectives. As a result, such shareholders may have the ability to block and/or control business, financial or management decisions which the Group believes are crucial to the success of the project or investment concerned or may take risks or otherwise act in a manner that does not take into account the long-term interests of the Group.

In addition, any of the Group's joint venture partners may be unable or unwilling to fulfil their obligations under the relevant joint venture or other agreements or may experience financial or other difficulties that may materially adversely affect the Group's investment. In certain of its joint ventures, the Group is reliant on the particular expertise of its joint venture partners and any failure by any such partner to perform its obligations in a diligent manner could also materially adversely affect the Group's investment. The Group can give no assurance as to the performance of any of its joint venture partners.

In addition, the Group's equity investments in such companies may also be diluted if it does not participate in future equity or equity-linked fundraising opportunities.

If any of the foregoing were to occur, the Group's business, financial condition and results of operations could be materially adversely affected and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The value of certain of the Group's assets is subject to factors beyond the Group's control and may be volatile

A substantial portion of the Group's assets consist of investments in public and non-public portfolio companies that are treated in its financial statements as investments in financial instruments assets and, accordingly, are carried at fair value on its balance sheet and revalued on each balance sheet date. As of 30 June 2011, 22.8 per cent. of the Group's total assets were classified as investments in financial instruments. The value of the Group's investments in financial instruments may be volatile and is likely to fluctuate due to a number of factors beyond the Group's control, including actual or anticipated fluctuations in the results of the relevant portfolio companies and other companies in the sectors in which they operate, market perceptions concerning the availability of additional securities for sale, general economic, social or political developments, changes in industry conditions, changes in government regulation, shortfalls in operating results from levels forecast by securities analysts, the general state of the securities markets and other material events, such as significant management changes, refinancings, acquisitions and dispositions. A significant decline in the value of the Group's investments in financial instruments could result in a material decrease in the Group's total assets and profits.

Revenues derived from the Group's oil and gas investments could be materially adversely affected by changes in oil and gas prices

The Group's revenues depend significantly on the prices of oil and gas. The substantial decline in the price of crude oil materially adversely affected the Group's revenues in 2008 and any decline in the price of crude oil or natural gas could in the future have a material adverse effect on the Group's revenue, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of the Group's assets, its planned level of spending for exploration and production and the level of its reserves. Historically, the markets for petroleum products have been volatile and these markets are likely to continue to be volatile in the future. Prices for oil and gas are based on world supply and demand dynamics and are subject to large fluctuations in response to relatively minor changes in demand, whether as a result of market uncertainty or other factors beyond the control of the Group, including actions taken by OPEC and adherence to agreed production quotas, war, terrorism, government regulation, social and political conditions in oil producing countries generally, economic conditions, prevailing weather patterns and meteorological phenomena such as storms and hurricanes and the availability and price of alternative sources of energy. It is impossible to accurately predict future oil and gas price movements. According to the OPEC website, the price of the OPEC Reference Basket has fluctuated significantly in the last three years, having a year-end figure in 2008 of U.S.$94.95 per barrel, a year-end figure in 2009 of U.S.$61.06 per barrel and a year-end figure in 2010 of U.S.$77.45 per barrel. As of 30 September 2011, the average price of the OPEC Reference Basket for the year to that date was U.S.$107.31 per barrel. No assurance can be given that oil and gas prices will be sustained at levels that will enable the Group to operate its oil and gas businesses profitably.

The volatility of international market prices for refined and petrochemicals products and the Group's feedstocks, and the cyclical nature of the refinery and petrochemicals industries, could materially adversely affect the Group's revenues and results of operations

A substantial portion of the Group's revenues are derived from its refining and petrochemicals businesses. Historically, the refining and petrochemicals industries have experienced alternating periods of tight supply, resulting in increased prices and profit margins, followed by periods of substantial increases in capacity, resulting in oversupply and declining prices and profit margins. The historical operating results of the Group have in part reflected this volatile and cyclical nature of the refining and petrochemicals industries.

The Group's sales arrangements for its refined and petrochemicals products generally provide for the purchase price to be referenced in part to industry benchmarks. Fluctuations in benchmarks have a corresponding impact on the prices the Group receives for its principal products and hence its revenues.

As the Group's feedstock costs form a substantial part of the Group's cost of sales, the Group's cost of sales is linked to the price of oil and gas. Increases in the price of oil or gas, which are not always of the same magnitude or direction as the changes in the prices the Group receives for its products, can cause significant fluctuations in the margins that these businesses generate if the Group cannot pass on the increases in feedstock prices to its customers. The ability of the Group to pass on increases in feedstock prices through an increase in sales prices is limited due to intense competition in the refining and petrochemicals industries.

Certain companies in the Group could face significant liabilities under environmental and safety laws

Environmental contamination, toxicity and explosions from leakage and associated penalties are inherent risks to the oil and gas, refinery, pipeline and petrochemicals businesses. Companies in the Group must comply with national, state and local environmental laws and regulations which may affect their operations. These laws and regulations set various standards regulating certain aspects of health, safety, security and environmental quality, provide for civil and criminal penalties and other liabilities for the violation of such standards and establish, in certain circumstances, obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation.

Significant liability could be imposed on members of the Group for damages, clean-up costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of property purchased by the Group, acts of sabotage or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on the Group's business, financial condition and results of operations (either because of the cost implications for the Group or because of disruption to services provided at the relevant project or business). It may also result in a reduction of the value of the relevant project or business or affect the ability of the Group to dispose of such project or business.

The Group cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by the Group for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on the Group's business, financial condition and results of operations and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

Changes in laws or regulations, or a failure to comply with any laws and regulations, may materially adversely affect the Group's business

The Group and each project and company in which it invests are subject to laws and regulations enacted by national, regional and local governments. In addition, the Group seeks to structure the holding of its investments in a tax efficient manner in accordance with the then current relevant tax regulations in the various jurisdictions in which it operates, and in which it holds such investments.

Tax authorities may conclude differently from the Group (and its advisers) as to amounts of tax to which the Group should be subject. In addition, laws and regulations and their interpretation and application may change from time to time. Any such change of law, regulation or interpretation (or divergence of views by any authority to that of the Group's) may have a material adverse effect on the Group's business, financial condition and results of operations and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Group needs to maintain high capacity utilisation rates in its refineries and petrochemicals plants in order to maintain its profit margins

Earnings in the refinery and petrochemicals business are closely tied to global chemical demand, industry inventory levels and plant capacity utilisation. The Group's ability to maintain profitability depends, to a significant degree, on its ability to maintain high capacity utilisation rates in its refineries and petrochemicals plants, which is the level of output each facility achieves in relation to its capacity.

If the markets for the Group's products do not grow as the Group has anticipated, the Group risks under-utilisation of its facilities, which would reduce its profitability. In addition, excess industry capacity, especially at times when demand is weak, has in the past caused companies in the Group and other industry participants to lower production rates, which can reduce the Group's margins, income and cash flow. The failure by the companies in the Group to maintain high capacity utilisation rates could have a material adverse effect on the Group's results of operations.

The industries in which the Group operates are highly competitive

The hydrocarbon, petrochemicals and plastics industries are highly competitive. The Company's portfolio companies compete with companies that may possess greater technical, physical and/or financial resources. Many of these competitors engage not only in oil and gas exploration and production, but also carry on refining operations and market petroleum and other products on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources.

If competitors increase their throughput or refining capacity in the future, some of the Group companies could face increased competition, which would put pressure on the prices of their products. Certain companies in the Group also compete with other industries that provide alternative means of energy, such as natural gas, coal and renewable energy sources. If such companies are unable to compete effectively, both within and outside their industries, their business, financial condition and results of operations could be materially adversely affected, which could materially adversely affect the Group's business, financial condition and results of operations.

The Group also faces significant competition in each of its petrochemicals markets. In the polyolefins chemicals industry, competition is based upon a number of considerations, principally product differentiation and innovation, product quality and quality of logistics, including distribution capability. In addition, in some market segments, the Group's products are subject to intense price competition due to factors such as overcapacity, competition from low-cost producers and consolidation and globalisation among the Group's customers and competitors. Increased price competition may also occur in certain product areas as industry segments mature. If the Group is not able to compete with new products or technologies developed by competitors, it could lose customers for its petrochemicals products, which could have a material adverse effect on its competitive position.

The Group also competes with other companies to attract and retain experienced skilled management and industry professionals. Failure to compete successfully with other companies with respect to any of these considerations could have a material adverse effect on the Group's business, financial condition and results of operations and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The Company's results of operations may be affected by exchange rate fluctuations

The Company maintains its consolidated accounts, and reports its results, in U.S. dollars and its reported financial results are therefore subject to movements in exchange rates on the translation of the results of businesses whose operational currencies are different from its reporting currency. In particular, a significant number of companies within the Group report, or have listed equity securities denominated, in euro and, as a result, significant fluctuations in the exchange rates between the euro and the U.S. dollar could affect the Company's reported results. In order to reduce the Company's exposure to currency fluctuations, the Company has a policy to finance its acquisitions, when possible, in the same currency as in which it makes them, thereby creating a natural hedge against currency fluctuations with respect to the cost of the acquisition. However, this policy may not fully protect the Company from significant decreases or increases in particular currencies. In addition, the loans and financing facilities that are denominated in currencies other than the Company's reporting currency may also increase the Company's overall exposure to a particular currency. The Company's assessment and estimates of future changes in exchange rates and the chosen degree of risk aversion or risk tolerance may therefore materially impact its ability to protect successfully against currency fluctuations. If the Company's currency hedging policies are unsuccessful, the value of investments in the Company's financial results and the income the Company receives from its portfolio companies that do not report in U.S. dollars could be significantly reduced.

Economic recessions or downturns could impair the value of the Group's projects and investments or prevent it from increasing its project and investment base

During periods of adverse economic conditions, projects and companies in which the Group invests may experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these projects and companies may also have difficulty expanding their businesses and operations and be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing could cause the value of the affected projects and investments to decline and materially adversely affect the ability of the Company's portfolio companies to pay dividends and make other distributions to the Company. In addition, during periods of adverse economic conditions, the Group may have difficulty accessing financial markets, which could make it more difficult or impossible to obtain funding for additional projects and investments and materially adversely affect its business, financial condition and results of operations.

Since early 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. As at the date of this Base Prospectus, economic conditions in sovereign states including, in particular, certain euro-zone member states (for example Greece, Portugal and Spain) could possibly lead to such euro-zone member states re-negotiating their existing debt obligations or, in extreme circumstances, restructuring their existing debt obligations which may lead to a material change in the current political and/or economic framework of the European Monetary Union. The financial performance of the Group has been materially adversely affected by these trends and may be further materially adversely affected by a worsening of general economic conditions in the markets in which the Company and each of its subsidiaries operates, as well as by United States, European and international trading market conditions and/or related factors. In addition, changes in investment markets, including changes in interest rates, exchange rates and returns from equity and other investments, and changes in banking sector regulations and oversight, may also materially adversely affect the financial performance of the Group which could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

Credit ratings assigned to the Company and/or the Notes are subject to ongoing evaluation and there can be no assurance that the ratings currently assigned to the Company and/or the Notes will not be placed on credit watch or downgraded

As at the date of this Base Prospectus, the Company has been assigned a rating of AA (stable outlook) by Fitch Ratings Ltd. ("**Fitch**"), Aa3 (stable outlook) by Moody's Investors Service Ltd. ("**Moody's**") and AA (stable outlook) by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). One or more independent credit rating agencies may also assign credit ratings to the Notes. Any ratings of either the Company or the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Base Prospectus and other factors that may affect the value of the Notes. Nevertheless, real or anticipated changes in the Company's credit ratings or the ratings of the Notes generally will affect the market value of the Notes. Any adverse change in the applicable credit rating could adversely affect the trading price of the Notes.

The Company's credit rating is closely linked to that of the sovereign credit rating of the Government. In the event that any of Fitch, Moody's and/or S&P and/or any other agency that provides the sovereign credit rating for the Government downgrades the Government's sovereign credit rating, there can be no assurance that such downgrade of the Government's sovereign credit rating will not materially adversely affect the credit rating of the Company and/or its debt securities (including the Notes).

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the European Union and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-European Union credit rating agencies, unless the relevant credit ratings are endorsed by a European Union-registered credit rating agency or the relevant non-European Union rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

Interest rate fluctuations may increase the cost of the Group's current and future borrowings

The Group's interest-bearing borrowings (on a consolidated basis and after giving effect to the Group's interest rate swaps) are primarily subject to floating interest rates, which fluctuate based on market interest rates. An increase in market interest rates applicable to all the currencies in which the Group has borrowings of 0.5 per cent. for the year ended 31 December 2010 would have resulted in a U.S.$44.6 million reduction in the Group's profit before tax. In addition, the Company expects that it and other companies in the Group may seek a substantial amount of additional debt financing (including under the Programme) to fund capital and investment expenditure and operations, and the cost of such financing will depend to a great extent on market interest rates. As a result, increases in interest rates, to the extent that their effects are not hedged, will increase the Company's funding costs and the Company's business, financial condition and results of operations could be materially adversely affected and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

Certain companies in the Group may be subject to losses that are not covered by insurance

The operations of the companies in the Group are subject to hazards and risks inherent in, among other things, refining and petrochemicals operations and in transporting and storing crude oil and refined products. Such hazards and risks include fires, explosions, pipeline ruptures and spills, storage tank leaks, chemical spills, discharges or releases of hazardous substances or gases and other environmental risks, mechanical failure of equipment at the Group's facilities, war, terrorism, sabotage and natural disasters. In addition, many of these operating and other risks may cause personal injury and loss of life, severe damage to or destruction of the Group's properties and the properties of others and environmental pollution which may result in suspension of operations and the imposition of civil or criminal penalties.

While the Company believes that certain companies in the Group maintain insurance coverage in amounts consistent with industry norms in the countries in which such companies operate, if production facilities are damaged in whole or in part, or if such companies' operations are interrupted for a sustained period, there can be no assurance that their insurance policies (including their business interruption insurance policies) will be adequate to cover the losses that may be incurred as a result of such interruption or the costs of repairing or replacing the damaged facilities. If companies in the Group suffer large uninsured losses or if any insured loss suffered by a company in the Group significantly exceeds its insurance coverage, the business, financial condition and results of operations of such companies may be materially adversely affected. If the foregoing were to occur, the ability of the Company's portfolio companies to pay dividends and make other distributions to the Company, and the Company's consolidated revenue, could be materially adversely affected.

Risks Relating to Abu Dhabi, the U.A.E. and the Middle East

Certain companies in the Group are subject to political and economic conditions in Abu Dhabi, the U.A.E. and the Middle East

Certain companies in the Group currently have significant operations and interests in the U.A.E., including, among others, the Company's ADCOP project, Borealis' investment in Borouge and the Fujairah Refinery project in the Emirate of Fujairah, and plan to make future investments in Abu Dhabi, the U.A.E. and the Middle East. Furthermore, the Company and certain of its subsidiaries are based in, or have operations or investments in, the Middle East. While the U.A.E. is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not. In particular, since early 2011 there has been political unrest (leading in certain circumstances to a change in political regime) in a range of countries in the Middle East and North Africa ("**MENA**") region, including Algeria, Egypt, the Hashemite Kingdom of Jordan, the Kingdom of Bahrain, the Kingdom of Saudi Arabia, Libya, the Republic of Yemen, the Sultanate of Oman, Syria and Tunisia. This unrest has ranged from public demonstrations to, in extreme cases, armed conflict and has given rise to increased political uncertainty across the region. The businesses of the companies in the Group may be affected by the financial, political and general economic conditions prevailing from time to time in the U.A.E. and the MENA region. It is not possible to predict the occurrence of events or circumstances such as war, terrorism, civil unrest or hostilities, or the impact of such occurrences, and no assurance can be given that the Company would be able to sustain its business and/or the development of all of its projects if further adverse political events or circumstances were to occur. Any such occurrences could have a material adverse effect on the Company's business, financial condition and results of operations and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

A general downturn or instability in certain sectors of the U.A.E. or the regional economy could have a material adverse effect on the Group's business, financial condition and results of operations and on the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes. The Company's business and financial performance could be adversely affected by political, economic or related developments both within and outside the Middle East because of the inter-relationships between the global financial markets.

Although the U.A.E. has enjoyed significant economic growth and stability in recent years, there can be no assurance that such growth or stability will continue. Moreover, while the Government's policies have generally resulted in improved economic performance, there can be no assurance that such level of performance can be sustained.

The Company's business may be materially adversely affected if the U.A.E. dirham/U.S. dollar peg were to be removed or adjusted

The Company maintains its accounts, and reports its results, in U.S. dollars, while the Company's headquarters and certain of its Group's operations are located within the U.A.E. As at the date of this Base Prospectus, the U.A.E. dirham remains pegged to the U.S. dollar. However, there can be no assurance that the U.A.E. dirham will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that materially adversely affects the Company. Any such de-pegging could have a material adverse effect on the Company's business, financial condition and results of operations and this could therefore affect the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

The U.A.E.'s economy is highly dependent upon its oil revenues

The U.A.E.'s economy, and the economy of Abu Dhabi in particular, is highly dependent upon its oil revenues. The Company has historically been funded, in part, by contributions made by the Government, which derive predominantly from its significant oil revenues. Declines in international prices for oil products in the future could therefore adversely affect the availability of funding for the Company from the Government which, in turn, could adversely affect the Company's ability to fund its investments and the ability of the Issuer and the Company to perform their respective obligations in respect of any Notes.

Oil prices have fluctuated in response to changes in many factors over which the Company has no control. These factors include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand dynamics, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming countries;
- prices and availability of alternative fuels;
- global economic and political conditions;
- prices and availability of new technologies; and
- global weather and environmental conditions.

Risks Relating to the Issuer

The Issuer has a limited operating history and no material assets and will depend on receipt of payments from the Company to make payments to Noteholders

The Issuer is an exempted company with limited liability incorporated in the Cayman Islands in accordance with the Companies Law (2010 Revision) of the Cayman Islands on 27 September 2010 and, accordingly, only has a limited operating history.

The Issuer has not and will not engage in any business activity other than the issuance of Notes under this Programme and other borrowing programmes established from time to time by the Company, the making of loans to the Company or other companies controlled by the Company and other activities incidental or related to the foregoing. The Issuer has not had and is not expected to have any income but will receive payments from the Company and/or from other companies controlled by the Company in respect of loans made by the Issuer to those companies, which will be the only material sources of funds available to meet the claims of the Noteholders. In the absence of sufficient repayment of any inter-company loan, the Issuer's ability to pay principal and interest and other amounts will depend on the Company's ability to obtain additional external financing or capital contributions from the Government. As a result, the Issuer is subject to all the risks to which the Company and other Group companies are subject, to the extent that such risks could limit their ability to satisfy in full and on a timely basis their respective obligations to the Issuer under any such loans. See "*—Risks Relating to the Group and its Strategy*" above for a further description of these risks.

Risks Relating to Notes Generally

The claims of Noteholders against the assets and revenues of the Company's investments (including its subsidiaries) are structurally subordinated to the claims of the creditors of the Company's subsidiaries and other portfolio companies

The Company's investments (including its subsidiaries) have incurred, and will continue to incur in the future, substantial amounts of debt in order to finance their operations. In the event of the insolvency of any of the subsidiaries or other entities or ventures of the Company, claims of secured and unsecured creditors of such entity, including trade creditors, banks and other lenders, will have priority with respect to the assets of such entity over any claims that the Company or the creditors of the Company, as applicable, may have with respect to such assets. Accordingly, if the Company became insolvent at the same time, claims of the Noteholders against the Company in respect of any Notes would be structurally subordinated to the claims of all such creditors of the Company's investments (including its subsidiaries).

The Notes may not be a suitable investment for all investors

Each potential investor in Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financing situation, an investment in Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They generally purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in an issue of Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects of the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Notes are subject to modification by a majority of Noteholders without the consent of all Noteholders

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests. These provisions permit defined majorities to bind all Noteholders (including Noteholders who did not attend or vote at the relevant meeting as well as Noteholders who did attend the relevant meeting, but voted in a manner contrary to the majority).

The Terms and Conditions of the Notes also provide that the Issuer and the Company may make any modification to the Notes, the Receipts, the Coupons, the Deed of Guarantee, the Deed of Covenant, the Deed Poll or the Agency Agreement which is not materially prejudicial to the interests of the Noteholders or is of a formal, minor or technical nature or is made to correct a manifest error, without the consent of the Noteholders. In addition, the Issuer may, without the consent of the Noteholders, substitute for itself another company as principal debtor under any Notes in the circumstances described in Condition 11(c) (*Meetings of Noteholders and Modifications—Substitution*) of the Terms and Conditions of the Notes.

The transferability of the Notes may be limited under applicable securities laws

The Notes have not been registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. In addition, neither the Issuer nor the Company has registered and neither intends to register as an investment company under the Investment Company Act, in reliance on the exemption set forth in Section 3(c)(7) thereof. The Notes may not be offered, sold or otherwise transferred in the United States or to or for the account or benefit of a U.S. person other than to persons that are QIBs that are also QPs or Institutional Accredited Investors that are also QPs. Each purchaser of the Notes will also be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended to restrict transfers of the Notes as described under "*Subscription and Sale and Transfer and Selling Restrictions*". It is the obligation of each purchaser of the Notes to ensure that its offers and sales of the Notes comply with all applicable securities laws.

In addition, if at any time the Issuer determines that any owner of Notes, or any account on behalf of which an owner of Notes purchased its Notes, is a person that is required to be either a QIB that is also a QP or an Institutional Accredited Investor that is also a QP and does not meet those requirements, the Issuer may require that such owner's Notes be sold or transferred to a person designated by or acceptable to the Issuer.

The European Monetary Union may cause Notes denominated in certain currencies to be re-denominated in euro

If Notes are issued under the Programme which are denominated in the currency of a country which, at the time of issue, is not a member of the European Monetary Union which has adopted the euro as its sole currency and, before the relevant Notes are redeemed, the euro becomes the sole currency of that country, a number of consequences may follow, including, but not limited to, any or all of the following: (i) all amounts payable in respect of the relevant Notes may become payable in euro; (ii) applicable law may allow or require such Notes to be re-denominated into euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in such currency used to determine the rates of interest on such Notes. The introduction of the euro in such a country could be accompanied by a volatile interest rate and/or economic environment which could adversely affect investors in the Notes. Any of these or any other consequences could materially adversely affect the holders of the relevant Notes.

The EU Savings Directive may give rise to withholding on certain Notes

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or collected by such person for, an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Austria and Luxembourg may instead apply (unless during that period they elect otherwise) a withholding system in relation to such payments deducting tax at rates rising over time to 35.0 per cent. (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The European Commission has proposed certain amendments to the EU Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above. A number of non-EU countries and territories including Switzerland have adopted similar measures with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer, the Company nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer and the Company will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

Certain Bearer Notes, the denominations of which involve integral multiples, may be illiquid and difficult to trade

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC. Except in the circumstances described in each Global Note and Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of Euroclear, Clearstream, Luxembourg and DTC and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or a Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Notes. The Issuer and the Company have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

A change of law may materially adversely affect the Notes

The Terms and Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issuance of the relevant Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes constitute legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Notes by the investor.

Financial institutions should consult their legal advisers or the appropriate regulations to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules and regulations.

Risks Relating to the Structure of a Particular Issue of Notes

Notes issued at a substantial discount or premium are subject to increased volatility

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may be subject to optional redemption

Any optional redemption feature that any Notes may include is likely to limit their market value. During any period when the Issuer may elect to redeem certain Notes, the market value of such Notes generally will not rise substantially above the price at which they may be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes may be redeemed prior to their final maturity date for tax reasons

If the Issuer or the Company becomes obliged to pay any additional amounts in respect of the Notes or under the Guarantee (as the case may be) as provided or referred to in Condition 8 ("*Taxation*") of the Terms and Conditions of the Notes as a result of any change in, or amendment to, the laws or regulations of a Relevant Taxing Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, the Issuer may redeem all but not some only of the outstanding Notes of such Tranche in accordance with Condition 6(c) ("*Redemption, Purchase and Options—Redemption for Taxation Reasons*") of the Terms and Conditions of the Notes.

Indexed Linked Notes and Dual Currency Notes are subject to additional market risks

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;
- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- the amount or principal payable upon redemption may be less than the nominal value of such Notes or even zero;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applicable to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable is likely to be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in the light of its particular circumstances.

Partly-paid Notes are subject to additional risks

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable Rate Notes with a multiplier or other leverage factor are subject to increased volatility

Notes with variable interest rates can be volatile investments. If Notes are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be more volatile than those for securities that do not include such features.

Inverse Floating Rate Notes are subject to increased volatility

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates which further materially adversely affects the market value of these Notes.

Fixed/Floating Rate Notes are subject to additional risks

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on the Notes.

Any Fixed Rate Notes the Issuer may issue will be subject to interest rate risks

An investment in Fixed Rate Notes involves the risk that subsequent changes in market rates may materially adversely affect the value of such Fixed Rate Notes.

Risks Relating to Enforcement

Investors may experience difficulties in enforcing arbitration awards and foreign judgements in Abu Dhabi

The payments under the Notes are dependent upon the Issuer (failing which, the Company) making payments to investors in the manner contemplated under the Notes or the Guarantee, as the case may be. If the Issuer and subsequently the Company fail to do so, it may be necessary to bring an action against the Company to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time-consuming.

Under current Abu Dhabi law, the Abu Dhabi courts are unlikely to enforce an English or United States court judgement without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the transaction. In the U.A.E., foreign law is required to be established as a question of fact and the interpretation of English law, by a court in the U.A.E., may not accord with the perception of an English court. In principle, courts in the U.A.E. recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the U.A.E., or to any mandatory law of, or applicable in, the U.A.E.

The U.A.E. is a civil law jurisdiction and judicial precedents in Abu Dhabi have no binding effect on subsequent decisions. In addition, court decisions in Abu Dhabi are generally not recorded. These factors create greater judicial uncertainty.

The Notes, the Agency Agreement, the Deed of Guarantee, the Deed Poll, the Deed of Covenant and the Distribution Agreement are governed by English law and the parties to such documents have agreed to refer any unresolved dispute in relation to such documents to arbitration under the LCIA Rules.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the U.A.E. on 19 November 2006. Any arbitration award rendered in London should therefore be enforceable in Abu Dhabi in accordance with the terms of the New York Convention. Under the New York Convention, the U.A.E. has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the Abu Dhabi courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the U.A.E. There have been limited instances where the U.A.E. courts, most notably the Fujairah Court of First Instance and the Dubai Court of First Instance, have ratified or ordered the recognition and enforcement of foreign arbitration awards under the New York Convention. There is, however, no system of binding judicial precedent in the U.A.E. and it is unclear if these decisions are subject to any appeal. In practice, therefore, how the New York Convention provisions would be interpreted and applied by the Abu Dhabi courts, and whether the Abu Dhabi courts will enforce a foreign arbitration award in accordance with the New York Convention, remain largely untested.

There are limitations on the effectiveness of guarantees in the U.A.E. and claims under a guarantee may be required to be made within a prescribed period

As described above, the Abu Dhabi courts are unlikely to enforce an English or United States judgement without re-examining the merits of the claim, including the validity of the obligations of the parties contained in the underlying documentation. If an Abu Dhabi court were to re-examine the merits of a claim made against the Company for payment under the Guarantee, notwithstanding that the Guarantee is governed by English law, the Abu Dhabi court may interpret the Guarantee in light of U.A.E. law principles rather than English law principles.

Under the laws of the U.A.E., the obligation of a guarantor is incidental to the obligations of the principal debtor and the obligations of a guarantor will only be valid to the extent of the continuing obligations of the principal debtor. The laws of the U.A.E. do not contemplate a guarantee by way of indemnity of the obligations of the debtor by the guarantor and instead contemplate a guarantee by way of suretyship. Accordingly, it is not possible to state with any certainty whether a guarantor could be obliged by the Abu Dhabi courts to pay a greater sum than the debtor is obliged to pay or to perform an obligation that the debtor is not obligated to perform. In order to enforce a guarantee under the laws of the U.A.E., the underlying debt obligation for which such guarantee has been granted may need to be proved before the Abu Dhabi courts.

Consequently, were an Abu Dhabi court to re-examine the merits of a claim made against the Company for payment under the Guarantee, if the Issuer's obligation to make payment under the Notes cannot be proven to the satisfaction of the Abu Dhabi court, the court may conclude that there is no obligation on the Company to make payment in the full amount claimed under the Guarantee. Furthermore, notwithstanding that the Notes and the Guarantee are governed by English law, if an Abu Dhabi court were to apply U.A.E. law principles when assessing a claim in respect of the Guarantee, the Company may be released from its obligations under the Guarantee if the relevant claim is not made within six months of payment becoming due under the Guarantee.

The Company's waiver of immunity may not be effective under the laws of the U.A.E.

U.A.E. law provides that public or private assets owned by the U.A.E. or any of the Emirates may not be confiscated. Since the Company is wholly-owned and controlled by the Government, there is a risk that the assets of the Company may fall within the ambit of government assets and as such cannot be attached or executed upon.

The Company has waived its rights in relation to sovereign immunity, however, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Agency Agreement, the Deed of Guarantee, the Deed Poll, the Deed of Covenant and the Distribution Agreement are valid and binding under the laws of the U.A.E. and applicable in Abu Dhabi.

Risks Relating to the Market Generally

A secondary market may not develop for any Notes

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. The liquidity of any market for the Notes that may develop will depend on a number of factors, including:

- the method of calculating the principal and interest in respect of the Notes;
- the time remaining to the maturity of the Notes;
- the outstanding amount of the Notes;
- the redemption features of the Notes;
- the amount of other debt securities linked to the index or formula applicable to the Notes; and
- the level, direction and volatility of market interest rates generally.

Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a material adverse effect on the market value of Notes.

The Notes may be subject to exchange rate risks and exchange controls

Neither the Issuer nor the Company has any control over factors that generally affect exchange rate risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and such exchange rate volatility with a variety of currencies may continue in the future.

The Issuer or, as the case may be, the Company will pay principal and any interest due on any Notes in the Specified Currency. If an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency, it may therefore bear certain exchange rate risks. These include: (i) the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency); and (ii) the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Any appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Notes; (ii) the Investor's Currency-equivalent value of the principal payment on the Notes; and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of principal or interest on a Note. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note would not be available at such Note's maturity.

Regulatory Risks

Neither the Issuer nor the Company has registered, and neither will register, as an Investment Company under the Investment Company Act

The Issuer and the Company will each seek to qualify for an exemption from the definition of "investment company" under the Investment Company Act and will not register as an investment company in the United States under the Investment Company Act. The Investment Company Act provides certain protections to investors and imposes certain restrictions on registered investment companies, none of which will be applicable to the Company, the Issuer or its investors.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

IPIC GMTN LIMITED

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*]

under the Global Medium Term Note Programme

Guaranteed by

International Petroleum Investment Company P.J.S.C.

PART A—CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes set forth in the Base Prospectus dated [●] [and the supplemental Base Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Base Prospectus] [is][are] available for viewing at the market news section of the London Stock Exchange website (http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and copies may be obtained during normal business hours from the registered office of the Fiscal Agent at One Canada Square, London, E14 5AL United Kingdom.

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.]

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") contained in the Agency Agreement dated [*original date*] and set forth in the Base Prospectus dated [*original date*] [and the supplemental Base Prospectus dated [●]] which are incorporated by reference into the Base Prospectus dated [●] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [*current date*] [and the supplemental Base Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions. Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [*current date*] [and the supplemental Base Prospectuses dated [●] and [●]]. Copies of the Base Prospectus [and the supplemental Base Prospectuses] and the Final Terms are available for viewing at the market news section of the London Stock Exchange website (http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html) and copies may be obtained during normal business hours from the registered office of the Fiscal Agent at One Canada Square, London, E14 5AL United Kingdom.

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]

[When completing or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination may need to be £100,000 or its equivalent in any other currency.]

1.	(a)	Issuer:	IPIC GMTN Limited
	(b)	Guarantor:	International Petroleum Investment Company P.J.S.C.
2.	[(a)]	SeriesNumber:	[●]
	[(b)	Tranche Number:	[●] (*If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible*)]
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount of Notes:		
	[(a)]	Series:	[●]
	[(b)	Tranche:	[●]]
5.	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date]* (*if applicable*)]
6.	(a)	Specified Denominations: *(in the case of Registered Notes, this means the minimum integral amount in which transfers can be made)*	[●] *(N.B. Where Bearer Notes with multiple denominations above €100,000 or equivalent are being used the following language should be used:* *"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]")* *(N.B. If an issue of Notes is: (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive, the €100,000 or equivalent minimum denomination is not required)* *(If the Notes are to be offered to QIBs that are also QPs, the minimum denomination must be at least U.S.$200,000 or its equivalent in any other currency)* *(If the Notes are to be offered to Institutional Accredited Investors that are also QPs, the minimum denomination must be at least U.S.$500,000 or its equivalent in any other currency)*
	(b)	Calculation Amount:	[●] (*If there is only one Specified Denomination, insert that Specified Denomination. If there is more than one Specified Denomination, insert the highest common factor. N.B. There must be a common factor in the case of two or more Specified Denominations*)

7.	(a) Issue Date:	[●]
	(b) Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes)*
8.	Maturity Date:	[*Fixed rate—specify date/Floating rate—Interest Payment Date falling in or nearest to [specify month and year]*]
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/- [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*Specify other*] (*further particulars specified below*)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*Specify other*] *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply and the Issuer will prepare a supplement to the Base Prospectus.)*
11.	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/ Payment Basis*]
12.	Put/Call Options:	[General Put Option] [Call Option] [Change of Control Put] (*N.B. Change of Control Put shall apply unless expressly stated to be not applicable*) [(*further particulars specified below*)]
13.	Date Board approval for issuance of Notes and Guarantee obtained:	[Not Applicable] / [[●] and [●], respectively] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*
14.	Method of distribution:	[Syndicated/Non syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Rate(s) of Interest:	[●] per cent. per annum [payable [annually/semi annually/quarterly/monthly/(*specify other*)] in arrear]
		(*If payable other than annually, consider amending Condition 5 (Interest and other Calculations)*)
(b)	Interest Payment Date(s):	[[●] in each year up to and including the Maturity Date/*specify other*]
		(N.B. This will need to be amended in the case of long or short coupons)
(c)	Fixed Coupon Amount(s):	[●] per Calculation Amount
(d)	Broken Amount(s):	[[●] per Calculation Amount payable on the Interest Payment Date falling in/on [●]] [Not Applicable]
(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [*specify other*]]
(f)	Determination Date(s):	[●] in each year
		(Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon)
		(N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration.)
		(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))
(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[None/*give details*]
16.	Floating Rate Note Provisions:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Specified Period(s)/ Specified Interest Payment Dates:	[●]
(b)	Interest Period Date:	[●] (*Not applicable unless different from Interest Payment Date*)
(c)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[*specify other*]]
(d)	Business Centre(s):	[●]
(e)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/ [*specify other*]]
(f)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Fiscal Agent):	[●]

(g)	Screen Rate Determination:		
	(i)	Reference Rate:	[●] (*Either LIBOR, EURIBOR or other, although additional information is required if other including fallback provisions in the Agency Agreement*)
	(ii)	Interest Determination Date(s):	[●] (*Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR*)
	(iii)	Relevant Screen Page:	[●] (*In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)
(h)	ISDA Determination:		
	(i)	Floating Rate Option:	[●]
	(ii)	Designated Maturity:	[●]
	(iii)	Reset Date:	[●]
(i)	Margin(s):		[+/-][●] per cent. per annum
(j)	Minimum Rate of Interest:		[●] per cent. per annum
(k)	Maximum Rate of Interest:		[●] per cent. per annum
(l)	Day Count Fraction:		[Actual/Actual (ISDA) Actual/365 (Fixed) Actual/360 30/360 30E/360 30E/360 (ISDA) Actual/Actual (ICMA) *Other*] *(Please see Condition 5 (Interest and other Calculations) for alternatives)*
(m)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:		[●]

17. Zero Coupon Note Provisions: [Applicable/Not Applicable]

(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

(a)	Amortisation Yield:	[●] per cent. per annum
(b)	Any other formula/basis of determining amount payable:	[●]

	(c)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions [●] and [●] apply/*specify other*] (*Consider applicable day count fraction if not U.S. dollar denominated*)
18.	Index Linked Note Provisions:		[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*) *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply and the Issuer will prepare a supplement to the Base Prospectus)*
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Calculation Agent:	[*give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)*]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Fiscal Agent):	[●]
	(d)	Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other Variable:	[●]
	(e)	Interest Determination Date(s):	[●]
	(f)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable [*need to include a description of market disruption or settlement disruption events and adjustment provisions*]:	[●]
	(g)	Interest Period(s):	[●]
	(h)	Specified Interest Payment Dates:	[●]
	(i)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/*specify other*]
	(j)	Business Centre(s):	[●]
	(k)	Minimum Rate of Interest:	[●] per cent. per annum
	(l)	Maximum Rate of Interest:	[●] per cent. per annum
	(m)	Day Count Fraction:	[●]

19.	Dual Currency Note Provisions:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
		(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply and the Issuer will prepare a supplement to the Base Prospectus)
(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]
(b)	Party, if any, responsible for calculating the Principal and/or interest due (if not the Fiscal Agent):	[●]
(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(d)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	Call Option:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Optional Redemption Date(s):	[●]
(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*/see Appendix]
(c)	If redeemable in part:	
	(i) Minimum Redemption Amount:	[●] per Calculation Amount
	(ii) Maximum Redemption Amount:	[●] per Calculation Amount
(d)	Notice period (if other than as set out in the Conditions):	[●]
		(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)
21.	General Put Option:	[Applicable/Not Applicable]
		(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Optional Redemption Date(s):	[●]
(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*/see Appendix]

	(c) Notice period (if other than as set out in the Conditions):	[●]
		(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Fiscal Agent)
22.	Change of Control Put Option:	[Applicable/*specify if otherwise*]
		(N.B. Change of Control Put Option shall apply unless expressly stated to be not applicable)
	(a) Change of Control Redemption Amount:	[●] per Calculation Amount
	(b) Any other provisions relating to Change of Control Put Option:	[Not Applicable/*give details*]
23.	Final Redemption Amount:	[[●] per Calculation Amount/*specify other*/see Appendix]
		(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply and the Issuer will prepare a supplement to the Prospectus)
24.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[[●] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	Form of Notes:	[Bearer Notes:
		[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
		[Temporary Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
		[Permanent Global Note exchangeable for Definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event/at any time at the request of the Issuer]]]
		(N.B. The exchange upon notice/at any time should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect:
		"[€100,000] and integral multiples of [€1,000] in excess thereof up to and including [€199,000]. No Notes in definitive form will be issued with a denomination above [€199,000]"

	Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by Temporary Global Notes exchangeable for Definitive Notes)
	[Registered Notes:
	[Unrestricted Global Certificate (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]
	[Restricted Global Certificate (U.S.$[●] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]]
	(In the case of an issue with more than one Global Note or a combination of one or more Global Notes and Restricted Notes, specify the nominal amounts of each Global Note and, if applicable, the aggregate nominal amount of all Restricted Notes if such information is available)
26. Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details*]
	(Note that this paragraph relates to the date and place of payment for the purposes of Condition 7(h) (Payments and Talons—Non-Business Days), and not Interest Period end dates to which sub-paragraphs 16(d) and 18(i) above relate)
27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues*]
29. Details relating to Instalment Notes:	
(a) Instalment Amount(s):	[Not Applicable/give details]
(b) Instalment Date(s):	[Not Applicable/give details]
30. Redenomination applicable:	Redenomination [not] applicable
	(*If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates)*)
31. Other final terms:	[Not Applicable/give details]
	(*When adding any other final terms consideration should be given as to whether such terms constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive*)

DISTRIBUTION

32.	(a)	If syndicated, names and addresses of Managers and underwriting commitments:	[Not Applicable/*give names, addresses and underwriting commitments*] (*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names and addresses of entities agreeing to underwrite the issue on a firm commitment basis and names and addresses of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers*)
	(b)	Date of [Subscription] Agreement:	[●]
	(c)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
33.		If non-syndicated, name and address of relevant Dealer(s):	[Not Applicable/*give name and address*]
34.		U.S. Selling Restrictions:	[Reg. S Compliance Category 2; Rule 144A and 3(c)(7) Section 4(2); TEFRA D/TEFRA C/TEFRA not applicable] [Notes may be offered and sold to QIBs that are also QPs or Institutional Accredited Investors that are also QPs]
35.		Additional selling restrictions:	[Not Applicable/give details]
36.		ERISA:	[Employee benefit plans can buy [Yes/No]]
37.		Additional U.S. federal income tax considerations:	[Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant listing on an official list (for example, the Official List of the U.K. Listing Authority)*] of the Notes described herein pursuant to the Global Medium Term Note Programme of IPIC GMTN Limited.

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in these Final Terms. [[Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]]. [Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading].

Signed on behalf of **IPIC GMTN Limited**:

By: ______________________________________
Duly authorised

Signed on behalf of **INTERNATIONAL PETROLEUM INVESTMENT COMPANY P.J.S.C.**:

By: ______________________________________
Duly authorised

PART B—OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i) Listing and Admission to trading:	[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant listing on an official list (for example, the Official List of the U.K. Listing Authority)*] with effect from [●].] [Not Applicable]
(ii) Estimate of total expenses related to admission to trading:	[●]

2. **RATINGS**

Ratings:	The Notes to be issued have been rated: [Fitch: [●]] [Moody's: [●]] [Standard & Poor's: [●]] [[*Other*]: [●]] *(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)* *Insert one (or more) of the following options, as applicable:* ***Option 1: CRA is: (i) established in the EU; and (ii) registered under the CRA Regulation:*** *[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and registered under Regulation (EC) No. 1060/2009 (the "CRA Regulation").* ***Option 2: CRA is: (i) established in the EU; (ii) not registered under the CRA Regulation; but (iii) has applied for registration:*** *[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and has applied for registration under Regulation (EC) No. 1060/2009 (the "CRA Regulation"), although notification of the registration decision has not yet been provided.* ***Option 3: CRA is: (i) established in the EU; and (ii) has not applied for registration and is not registered under the CRA Regulation:*** *[Insert legal name of particular credit rating agency entity providing rating] is established in the EU and is neither registered nor has it applied for registration under Regulation (EC) No. 1060/2009 (the "CRA Regulation").*

Option 4: CRA is not established in the EU but the relevant rating is endorsed by a CRA which is established and registered under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but the rating it has given to the [Notes] is endorsed by [insert legal name of credit rating agency], which is established in the EU and registered under Regulation (EC) No. 1060/2009 (the "CRA Regulation").

Option 5: CRA is not established in the EU and the relevant rating is not endorsed under the CRA Regulation, but the CRA is certified under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU but is certified under Regulation (EC) No. 1060/2009 (the "CRA Regulation").

Option 6: CRA is neither established in the EU nor certified under the CRA Regulation and the relevant rating is not endorsed under the CRA Regulation:

[Insert legal name of particular credit rating agency entity providing rating] is not established in the EU and is not certified under Regulation (EC) No. 1060/2009 (the "CRA Regulation") and the rating it has given to the [Notes] is not endorsed by a credit rating agency established in the EU and registered under the CRA Regulation.

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save as discussed in "*Subscription and Sale and Transfer and Selling Restrictions*", so far as the Issuer or the Guarantor is aware, no person involved in the issue of the Notes has an interest material to the offer. *Amend as appropriate if there are other interests*]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]]

4. **[REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

[(i)]	Reasons for the offer:	[●]
[(ii)]	Estimated net proceeds:	[●]
[(iii)]	Estimated total expenses:	[●]
		[(N.B. Delete unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)]]

5. [**YIELD (Fixed Rate Notes only)** — [●] per cent. per annum on a [quarterly/[semi-] annual] basis

Indication of yield:	The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **[PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (INDEX LINKED NOTES ONLY)**

[Need to include details of where past and future performance and volatility of the index/formula can be obtained.]

[Where the underlying is an index, need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer, need to include details of where the information about the index can be obtained. Where the underlying is not an index, need to include equivalent information.]

[Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.]

[(When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

The Issuer and the Guarantor [intend to provide post-issuance information [specify what information will be reported and where it can be obtained]] [do not intend to provide post issuance information.]

(N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)]

7. **[PERFORMANCE OF RATE[S] OF EXCHANGE (DUAL CURRENCY NOTES ONLY)**

[Need to include details of where past and future performance and volatility of the relevant rates can be obtained.]

[(When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

(N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)]

8. **OPERATIONAL INFORMATION**

(i)	ISIN:	[●]
(ii)	Common Code:	[●]
(iii)	CUSIP:	[●]
(iv)	CINS:	[●]
(v)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*/DTC and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]
(viii)	Name and address of Registrar:	[The Bank of New York Mellon (Luxembourg) S.A. of Vertigo Building, Polaris 2 – 4 rue Eugène Ruppert, 2453 Luxembourg, Luxembourg[1]/ The Bank of New York Mellon, New York Branch of 101 Barclay Street, New York, NY 10286 United States[2]]

1 Select if issue relates to Unrestricted Notes.
2 Select if issue relates to Restricted Notes.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the applicable Final Terms (and save for the text in italics), shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either: (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Final Terms; or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the applicable Final Terms. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme. For so long as the Notes are represented by Global Notes and/or Global Certificates, these Conditions shall be as modified by the terms of the relevant Global Note or Global Certificate. Please see "Summary of Provisions relating to the Notes while in Global Form".*

The Notes are issued pursuant to an amended and restated Agency Agreement (as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 19 October 2011 between the Issuer, the Guarantor, The Bank of New York Mellon, London Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Guarantee (as amended and/or supplemented and/or restated from time to time, the "**Deed of Guarantee**") dated 19 October 2011 and entered into by the Guarantor, a Deed of Covenant (as amended and/or supplemented and/or restated from time to time, the "**Deed of Covenant**") dated 19 October 2011 and a deed poll dated 19 October 2011 (as amended and/or supplemented and/or restated from time to time, the "**Deed Poll**"), in each case, executed by the Issuer and the Guarantor in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents, the exchange agent and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**", the "**Exchange Agent**" and the "**Calculation Agent(s)**". The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects.

Copies of the Agency Agreement, the Deed of Guarantee, the Deed of Covenant and the Deed Poll are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon provided that: (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes); and (ii) in the case of any Notes sold within the United States to: (A) persons who are QIBs that are also QPs in reliance on Rule 144A (each as defined below), such Notes shall be Registered Notes and the minimum Specified Denomination shall be U.S.$200,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes); or (B) persons who are Institutional Accredited Investors (as defined below) that are also QPs in private placements not involving a public offering, such Notes shall be Registered Notes and the minimum Specified Denomination shall be U.S.$500,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

As used in these Conditions:

"**Institutional Accredited Investors**" means persons who are both "accredited investors" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) and institutions;

"**QIBs**" means qualified institutional buyers as defined in Rule 144A under the Securities Act;

"**QPs**" means qualified purchasers within the meaning of Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, and the rules and regulations thereunder;

"**Rule 144A**" means Rule 144A under the Securities Act; and

"**Securities Act**" means the United States Securities Act of 1933, as amended.

All Registered Notes shall have the same Specified Denomination.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. No Exchange of Notes and Transfers of Registered Notes

(a) ***No Exchange of Notes***: Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) ***Transfer of Registered Notes***: One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Noteholders. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) ***Exercise of Options or Partial Redemption in Respect of Registered Notes***: In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of

Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) ***Delivery of New Certificates***: Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(e)(iii)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Agent (as defined in the Agency Agreement) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) ***Transfer Free of Charge***: Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) ***Closed Periods***: No Noteholder may require the transfer of a Registered Note to be registered: (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note; (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d); (iii) after any such Note has been called for redemption; or (iv) during the period of seven days ending on (and including) any Record Date.

3. Guarantee and Status

(a) ***Guarantee***: The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Notes, the Receipts and the Coupons. Its obligations in that respect (the "**Guarantee**") are contained in the Deed of Guarantee.

(b) ***Status of Notes and Guarantee***: The Notes and the Receipts and Coupons relating to them constitute (subject to Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4, at all times rank at least equally with all other unsecured and unsubordinated indebtedness and monetary obligations of the Issuer and the Guarantor respectively, present and future.

4. Negative Pledge

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor will create, or have outstanding, any mortgage, charge, lien, pledge or other security interest (each a "**Security Interest**"), other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Notes and the Coupons the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or such other security as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

In these Conditions:

(a) "***Non-recourse Project Financing***" means any financing of all or part of the costs of the acquisition, construction or development of any project, provided that:

   (i) any Security Interest given by the Guarantor in connection therewith is limited solely to the assets of the project;

   (ii) the persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the sole source of repayment for the moneys advanced; and

   (iii) there is no other recourse to the Guarantor in respect of any default by any person under the financing;

(b) "***Permitted Security Interest***" means:

   (i) any Security Interest existing on the date on which agreement is reached to issue the first Tranche of the Notes;

   (ii) any Security Interest securing Relevant Indebtedness of a person existing at the time that such person is merged into, or consolidated with, or acquired by the Guarantor, provided that such Security Interest was not created in contemplation of such merger, consolidation or acquisition;

   (iii) any Security Interest existing on any property or assets prior to the acquisition thereof by the Guarantor and not created in contemplation of such acquisition;

   (iv) any Security Interest granted to secure a Non-recourse Project Financing or to secure any indebtedness incurred in connection with a Securitisation;

   (v) any renewal of or substitution for any Security Interest permitted by any of sub-paragraphs (i) to (iv) above (inclusive) so long as the Relevant Indebtedness secured by such Security Interest is for an amount not materially greater than the principal (and any capitalised interest and fees) of such Relevant Indebtedness and the Security Interest does not extend to any additional property or assets (other than the proceeds of such assets); and

   (vi) any Security Interest created by, or outstanding in respect of, the Issuer or the Guarantor, provided that the amount of any Relevant Indebtedness secured by such Security Interest (when aggregated with the amount (if any) of Relevant Indebtedness secured by other Security Interests created by, or outstanding in respect of, the Issuer or the Guarantor (but ignoring for these purposes any Relevant Indebtedness secured by any Security Interest under sub-paragraphs (i) to (v) above (inclusive))) does not exceed 15.0 per cent. of the consolidated total assets of the Guarantor and its consolidated Subsidiaries, as shown in the most recent published audited consolidated financial statements of the Guarantor and its consolidated Subsidiaries;

(c) "***Relevant Indebtedness***" means any indebtedness which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities (including trust certificates) which for the time being are, or are intended to be, or are capable of being quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

(d) "***Securitisation***" means any securitisation of existing or future assets and/or revenues, provided that:

   (i) any Security Interest given by the Guarantor in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation;

   (ii) each person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues so securitised as the sole source of repayment for the money advanced or payment of any other liability; and

   (iii) there is no other recourse to the Guarantor in respect of any default by any person under the securitisation; and

(e) "***Subsidiary***" means any entity:

   (i) which is then directly or indirectly controlled by the Issuer or the Guarantor; or

   (ii) more than 50.0 per cent. of whose issued equity share capital (or equivalent) is then beneficially owned by the Issuer or the Guarantor; or

(iii) whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer or the Guarantor (as the case may be).

For an entity to be "**controlled**" by the Issuer or the Guarantor means that the Issuer or the Guarantor (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that entity or otherwise controls, or has the power to control, the affairs and policies of that entity.

Guarantor asset sale covenants*: The Guarantor has agreed in the Deed of Guarantee that, so long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), the Guarantor will not enter into any Asset Sale, other than a Permitted Asset Sale, in respect of an asset with a book value (as determined by reference to the most recently available financial statements of the Guarantor, prepared in accordance with Relevant GAAP) that exceeds the higher of U.S.$400 million or 3.0 per cent. of the consolidated total assets of the Guarantor (as determined by reference to the Relevant Accounts), unless such Asset Sale shall have been approved by the Board of Directors of the Guarantor prior to such sale;*

"***Asset Sale***" *means any sale, lease, sale and lease-back, transfer or other disposition by the Guarantor of all or any of the legal or beneficial interest of it in any property, assets and/or business of any member of the Group (including, without limitation, all or any of the legal or beneficial interest in the Capital Stock of any Subsidiary), in one or more connected transactions, to any Person who is not a member of the Group at such time;*

"***Capital Stock***" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any preferred stock of such Person, whether outstanding on the date on which *agreement is reached to issue the first Tranche of the Notes or issued after such date, including, without limitation, all series and classes of such Capital Stock;*

"***Group***" *means the Guarantor and its Subsidiaries;*

"***Permitted Asset Sale***" *means an Asset Sale which is entered into on the following terms:*

(i) *the sale is made for the purpose of raising unsecured finance in a manner which is intended to be Shari'a compliant;*

(ii) *the only recourse of the purchaser in respect of the asset is to require the seller to repurchase the asset at a price no greater than the price at which it was sold plus any accrued but unpaid rental payments and servicing payments, as the case may be; and*

(iii) *the seller of the asset is entitled to require the asset to be resold to it upon repayment of the financing raised;*

"***Person***" *includes any individual, company, unincorporated association, government, state agency, international organisation or other entity;*

"***Relevant Accounts***" *means, at any time, the most recently available consolidated audited or reviewed financial statements of the Guarantor, prepared in accordance with Relevant GAAP; and*

"***Relevant GAAP***" *means International Financial Reporting Standards or such other international financial reporting standards as may be adopted from time to time by the Guarantor or any other relevant Person.*

5. Interest and other Calculations

(a) ***Interest on Fixed Rate Notes***: Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) ***Interest on Floating Rate Notes and Index Linked Interest Notes***:

(i) *Interest Payment Dates*: Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement

Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is: (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event: (x) such date shall be brought forward to the immediately preceding Business Day; and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment; (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day; (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Final Terms and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms.

(A) *ISDA Determination for Floating Rate Notes*

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the applicable Final Terms;

(y) the Designated Maturity is a period specified in the applicable Final Terms; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Final Terms.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes*

(x) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either: (1) the offered quotation; or (2) the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations. If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) If the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes*: The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Final Terms and interest will accrue by reference to an Index or Formula as specified in the applicable Final Terms.

(c) ***Zero Coupon Notes***: Where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) ***Dual Currency Notes***: In the case of Dual Currency Notes, if the rate or amount of interest fails to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the applicable Final Terms.

(e) ***Partly Paid Notes***: In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

(f) ***Accrual of Interest***: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) ***Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding***:

(i) If any Margin is specified in the applicable Final Terms (either: (A) generally; or (B) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (A), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (B), calculated in accordance with paragraph (b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to sub-paragraph (ii) below.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the applicable Final Terms, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified: (A) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up); (B) all figures shall be rounded to seven significant figures (with halves being rounded up); and (C) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(h) ***Calculations***: The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply, save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) ***Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Change of Control Redemption Amounts and Instalment Amounts***: The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount, Change of Control Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount, Change of Control Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than: (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) ***Definitions***: In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual—ISDA**" is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D_2 will be 30;

(vii) if "**Actual/Actual-ICMA**" is specified in the applicable Final Terms,

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

"**Interest Accrual Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date;

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the applicable Final Terms, shall mean the Fixed Coupon Amount or Broken Amount specified in the applicable Final Terms as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the applicable Final Terms;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified: (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling; or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro; or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the applicable Final Terms;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the applicable Final Terms;

"**Rate of Interest**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon;

"**Reference Banks**" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the applicable Final Terms;

"**Reference Rate**" means the rate specified as such hereon;

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the applicable Final Terms;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(k) ***Calculation Agent***: The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Change of Control Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) ***Redemption by Instalments and Final Redemption***:

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified in the applicable Final Terms. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the applicable Final Terms at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within sub-paragraph (i) above, its final Instalment Amount.

(b) ***Early Redemption***:

(i) *Zero Coupon Notes*:

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the applicable Final Terms.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified in the applicable Final Terms.

(c) ***Redemption for Taxation Reasons***: The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Note) or, at any time, (if this Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (as described in Condition 6(b) (together with interest accrued to the date fixed for redemption), if: (i) the Issuer (or, if the Guarantee were called, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 as a result of any change in, or amendment to, the laws or regulations of any jurisdiction in which the Issuer or, as applicable, the Guarantor is incorporated, organised or otherwise resident for tax purposes, or from or in which any of the foregoing makes any payment on the Notes, or by any political subdivision or any authority thereof or therein having power to tax (each, as applicable, a "**Relevant Taxing Jurisdiction**"), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or the Guarantee, as the case may be) then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment.

(d) ***Redemption at the Option of the Issuer***: If Call Option is specified in the applicable Final Terms, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the applicable Final Terms) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the applicable Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the applicable Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6.

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) ***Redemption at the Option of Noteholders***:

(i) If Put Option is specified in the applicable Final Terms, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the applicable Final Terms) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

(ii) Except where expressly specified as not applicable in the applicable Final Terms, if a Change of Control occurs, the Issuer shall, at the option of the holder of any such Note (unless prior to the giving of the relevant Change of Control Notice (as defined below) the Issuer has given notice of redemption under Condition 6(c) or 6(d)), redeem such Note on the Put Date at its Change of Control Redemption Amount together (if applicable) with interest accrued to but excluding the Put Date.

Promptly upon the Issuer or the Guarantor becoming aware that a Change of Control has occurred, the Issuer shall give notice (a "**Change of Control Notice**") to the Noteholders in accordance with Condition 14 specifying the nature of the Change of Control.

For the purpose of these Conditions:

(A) a "**Change of Control**" shall occur each time the Government of the Emirate of Abu Dhabi (the "**Government**") or any other department, agency or authority wholly-owned by the Government:

(x) sells, transfers or otherwise disposes of any of the issued share capital of the Guarantor, other than to an entity, directly or indirectly, wholly-owned by the Government; or

(y) otherwise ceases to control (directly or indirectly) the Guarantor and "**control**" for these purposes shall be the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of the Guarantor or to control or have the power to control the affairs and policies of the Guarantor (in each case whether by the ownership of share capital, the possession of voting power, contract, trust or otherwise);

(B) "**Put Date**" shall be the tenth Business Day after the expiry of the Put Period; and

(C) "**Put Period**" shall be the period of 30 days after a Change of Control Notice is given.

(iii) To exercise the option set out in either sub-paragraph (i) or (ii) above, the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) ***Partly Paid Notes***: Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified in the applicable Final Terms.

(g) ***Purchases***: Each of the Issuer, the Guarantor and their Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Such Notes may be reissued, resold or, at the option of the Issuer or the Guarantor, surrendered for cancellation as set out in Condition 6(h).

(h) ***Cancellation***: All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries may, at the option of the Issuer or the Guarantor, be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

(i) ***Compulsory Sale***: If, at any time, the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a QP is not in fact such a QP, the Issuer may: (i) compel such beneficial owner to sell its Notes to: (A) a person who is not a U.S. person within the meaning of Regulation S under the Securities Act; or (B) a person who is a QIB that is also a QP; or (C) an Institutional Accredited Investor who is also a QP and who, in each case, is otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act; or (ii) compel such beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the least of: (x) the purchase price paid by the beneficial owner for such Notes; (y) 100 per cent. of the principal amount thereof; or (z) the fair market value thereof as determined in good faith by the board of directors of the Issuer. The Issuer has the right to refuse to register or otherwise honour the transfer of interests in such Notes to a person who is not: (i) a QIB that is also a QP; or (ii) an Institutional Accredited Investor that is also a QP.

7. Payments and Talons

(a) ***Bearer Notes***: Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) ***Registered Notes***:

(i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) ***Payments in the United States***: Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if: (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due; (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) ***Payments Subject to Laws***: All payments are subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Appointment of Agents***: The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents, the Exchange Agent and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Fiscal Agent, the Paying Agent, the Registrar, the Transfer Agents, the Exchange Agent and the Calculation Agent(s) act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent, the Exchange Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain: (i) a Fiscal Agent; (ii) a Registrar in relation to Registered Notes; (iii) a Transfer Agent in relation to Registered Notes and where such Registered Notes are held in global form and are registered in the name of a nominee for The Depository Trust Company, an Exchange Agent; (iv) one or more Calculation Agent(s) where the Conditions so require; (v) Paying Agents having specified offices in at least two major European cities; (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed; and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in paragraph (c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) ***Unmatured Coupons and Receipts and unexchanged Talons***:

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index linked Notes), those Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Change of Control Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) ***Talons***: On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) ***Non-Business Days***: If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by, on behalf of, or within a Relevant Taxing Jurisdiction, unless such withholding or deduction is required by law or by the relevant taxing authority's interpretation or administration thereof. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) ***Other connection:*** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection (present or former) with a Relevant Taxing Jurisdiction other than the mere holding of the Note, Receipt or Coupon; or

(b) ***Presentation more than 30 days after the Relevant Date:*** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth such day; or

(c) ***Payment to individuals:*** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in the European Council Directive 2003/48/EC; or

(d) ***Payment by another Paying Agent:*** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to: (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Change of Control Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it; (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it; and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition 8.

9. **Prescription**

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

If any of the following events ("**Events of Default**") occurs, the holder of any Note may give written notice to the Issuer and the Guarantor, effective as at the date of receipt thereof by the Guarantor, that such Note is immediately repayable, whereupon the Early Redemption Amount of such Note together (if applicable) with accrued interest to the date of payment shall become immediately due and payable:

(a) ***Non-Payment***: default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes; or

(b) ***Breach of Other Obligations***: the Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in respect of the Notes, which default is incapable of remedy or, such default (if capable of remedy) is not remedied within 45 days after written notice of such default shall have been given to the Issuer or the Guarantor (as the case may be) by any Noteholder; or

(c) ***Cross-Acceleration***: (i) the holders of any indebtedness of the Issuer or the Guarantor accelerate such indebtedness or declare such indebtedness to be due and payable or required to be prepaid (other than by a regularly scheduled required prepayment or pursuant to an option granted to the holders by the terms of such indebtedness), prior to the stated maturity thereof; or (ii) the Issuer or the Guarantor fails to pay in full any principal of, or interest on, any of its indebtedness when due (after expiration of any originally applicable grace period) or any guarantee of any indebtedness of others given by the Issuer or the Guarantor shall not be honoured when due and called upon; provided that the aggregate amount of the relevant indebtedness or guarantee in respect of which one or more of the events mentioned above in this paragraph (c) shall have occurred equals or exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates)); or

(d) ***Security Enforced***: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor and securing an amount which equals or exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies (on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank on the day on which this paragraph operates)) becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person, but excluding the issue of any notification to the Issuer or the Guarantor, as the case may be, that such Security Interest has become enforceable) unless the full amount of the debt which is secured by the relevant Security Interest is discharged within 30 days of the first date on which a step is taken to enforce the relevant Security Interest; or

(e) ***Insolvency***: the Issuer or the Guarantor is adjudicated or found bankrupt or insolvent; or

(f) ***Winding-up***: an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Guarantor (and such proceedings are not being actively contested in good faith by the Issuer or the Guarantor, as the case may be), or the Issuer or the Guarantor shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, which in each case (other than the appointment of an administrator) is not discharged within 30 days, and except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Noteholders; or

(g) ***Ownership***: the Issuer ceases to be directly or indirectly wholly-owned and controlled by the Guarantor; or

(h) ***Illegality***: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its respective obligations under any of the Notes; or

(i) ***Guarantee***: the Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect; or

(j) ***Analogous Events***: any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (e) and (f) above.

References in paragraphs (c) and (d) above to "**indebtedness**" and "**debt**" respectively shall be deemed to include any debt or other financing arrangement issued (or intended to be issued) in compliance with the principles of *Shari'a*, whether entered into directly or indirectly by the Issuer or the Guarantor, as the case may be.

11. **Meetings of Noteholders and Modifications**

(a) ***Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions. Such a meeting may be convened by Noteholders holding not less than 10.0 per cent. in nominal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be one or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting, one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*: (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes; (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes; (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes; (iv) if a Minimum and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum and/or Maximum; (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount or the Change of Control Redemption Amount, including the method of calculating the Amortised Face Amount; (vi) to vary the currency or currencies of payment or denomination of the Notes; (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass the Extraordinary Resolution; or (viii) to modify or cancel the Guarantee, in which case the necessary quorum shall be one or more persons holding or representing not less than two-thirds, or at any adjourned meeting, not less than one-third in nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Agency Agreement provides that a resolution in writing signed by or on behalf of the holders of not less than 90.0 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the applicable Final Terms in relation to such Series.

(b) ***Modification***: The Issuer or, as the case may be, the Guarantor may, without the consent of the Noteholders or Couponholders, make any modification to the Notes, the Receipts, the Coupons, the Deed of Guarantee, the Deed of Covenant, the Deed Poll or the Agency Agreement which is:

(i) not prejudicial to the interests of the Noteholders; or

(ii) of a formal, minor or technical nature or is made to correct a manifest or proven error.

Any such modification shall be binding on the Noteholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 14 as soon as practicable thereafter.

(c) ***Substitution***: The Issuer, or any previous substituted company, may at any time, without the consent of the Noteholders or the Couponholders, substitute for itself as principal debtor under the Notes, the Receipts, the Coupons and the Talons any company (the "**Substitute**") that is the Guarantor, or a Subsidiary of the Guarantor, provided that no payment in respect of the Notes, the Receipts or the

Coupons is at the relevant time overdue. The substitution shall be made by a deed poll (the "**Substitution Deed Poll**"), to be substantially in the form scheduled to the Agency Agreement as Schedule 8, and may take place only if: (i) the Substitute shall, by means of the Substitution Deed Poll, agree to indemnify each Agent, Noteholder and Couponholder against any tax, duty, assessment or governmental charge that is imposed on it by (or by any authority in or of) the jurisdiction of the country of the Substitute's residence for tax purposes and, if different, of its incorporation with respect to any Note, Receipt, Coupon, Talon or the Deed of Covenant and that would not have been so imposed had the substitution not been made, as well as against any tax, duty, assessment or governmental charge, and any cost or expense, relating to the substitution; (ii) where the Substitute is not the Guarantor, the obligations of the Substitute under the Substitution Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant shall be unconditionally guaranteed by the Guarantor by means of the Substitution Deed Poll; (iii) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Substitution Deed Poll, the Notes, Receipts, Coupons, Talons and Deed of Covenant represent valid, legally binding and enforceable obligations of the Substitute and in the case of the Substitution Deed Poll of the Guarantor have been taken, fulfilled and done and are in full force and effect; (iv) the Substitute shall have become party to the Agency Agreement, with any appropriate consequential amendments, as if it had been an original party to it; (v) legal opinions addressed to the Noteholders shall have been delivered to them (care of the Fiscal Agent) from a lawyer or firm of lawyers with a leading securities practice in each jurisdiction referred to in (i) above and in England and in the country of incorporation of the Substitute as to the fulfilment of the preceding conditions of this sub-paragraph (c) and the other matters specified in the Substitution Deed Poll; and (vi) the Issuer shall have given at least 14 days' prior notice of such substitution to the Noteholders, stating that copies, or pending execution of the agreed text, of all documents in relation to the substitution that are referred to above, or that might otherwise reasonably be regarded as material to Noteholders, shall be available for inspection at the specified office of each of the Paying Agents. References in Condition 10 to obligations under the Notes shall be deemed to include obligations under the Substitution Deed Poll, and, where the Substitution Deed Poll contains a guarantee, references to the Guarantee shall be deemed to include the guarantee granted in respect of the Substitute.

12. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer, Fiscal Agent or Registrar may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as a particular series of Notes (so that, for the avoidance of doubt, references in these Conditions to "Issue Date" shall be to the first issue date of the series of Notes) and so that the same shall be consolidated and form a single series with such Notes even if further Notes have original issue discount ("**OID**") for U.S. federal income tax purposes and even if doing so may adversely affect the value of the original Notes. References in these Conditions to "Notes" shall be construed accordingly.

14. **Notices**

Notices to the holders of Registered Notes shall be mailed to them (or, in the case of joint holders, to the first named) at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. The Issuer shall also ensure that notices are duly published in a manner that complies with any relevant rules of any stock exchange or other relevant authority on which Notes are for the time being, or by which they have for the time being been, admitted to trading.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 14.

15. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. **Governing Law and Jurisdiction**

(a) ***Governing Law***: The Agency Agreement, the Deed of Guarantee, the Deed of Covenant, the Deed Poll, the Notes, the Receipts, the Coupons, the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) ***Agreement to Arbitrate***: Subject to Condition 16(c), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with them) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Arbitration Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**") which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 16(b). For these purposes:

(i) the place of arbitration shall be London, England;

(ii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly shall each nominate one arbitrator. In the event that one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA within 15 days of such failure. In the event that the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA within 15 days of such failure; and

(iii) the language of the arbitration shall be English.

On receipt by the Issuer of a Request for Arbitration as defined in the Rules initiated by a Noteholder, the Issuer shall send a copy of the Request for Arbitration to all Noteholders (the "**Notification**") within 30 days of receipt. The arbitral proceedings shall be suspended until the earlier of the completion of the Notification process or 30 days following the receipt by the Issuer of a Request for Arbitration.

Any Noteholder(s) may, on receipt of such Notification, request to be joined with any other Noteholder(s) to that arbitration, by filing a written notice (a "**Joinder Notice**") with the relevant Noteholder and the Issuer prior to disclosure of documents in that arbitration. Each Noteholder hereby agrees to accept the joinder of any other Noteholder(s) where the interests of the Noteholders are materially similar. Failure to file a Joinder Notice does not preclude any Noteholder(s) from bringing any action (whether arising from similar facts to those relevant to the arbitration in respect of which the Notification is provided or otherwise) in the future.

Any multi-party arbitration resulting from the joinder of any other Noteholder(s) will be formally settled in single arbitral proceedings.

In multi-party arbitration proceedings, the arbitral tribunal shall have all powers necessary to establish any supplementary procedural rules required or desirable in view of the multi-party nature of the proceedings.

In the event of arbitration proceedings where the interests of Noteholders are sufficiently similar to permit those parties to be represented by a single counsel without generally accepted principles regarding conflicts of interest being infringed, such parties are obliged to act together and through one counsel only. In the event that there is some question as to whether the interests of some or all of the Noteholders concerned are sufficiently similar to invoke the terms of this provision requiring joint representation, then that may be determined as a preliminary issue by the arbitral tribunal.

(c) ***Option to Litigate***: Notwithstanding Condition 16(b), any Noteholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer and the Guarantor:

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If any Noteholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 16(d) and, subject as provided below, any arbitration commenced under Condition 16(b) in respect of that Dispute will be terminated. Each person who gives such notice and the recipient of that notice will bear its own costs in relation to the terminated arbitration.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the relevant Noteholder must also within 28 days of service of a Request for Arbitration give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(ii) his entitlement to be paid his proper fees and disbursements; and

(iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(d) ***Effect of Exercise of Option to Litigate***: In the event that a notice pursuant to Condition 16(c) is issued, the following provisions shall apply:

(i) the courts of England shall have jurisdiction to settle any Dispute and each of the Issuer and the Guarantor submits to the exclusive jurisdiction of such courts;

(ii) each of the Issuer and the Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 16(d) is for the benefit of Noteholders only. As a result, and notwithstanding sub-paragraph (i) above, any Noteholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) ***Appointment of Process Agent***: Each of the Issuer and the Guarantor irrevocably appoints Law Debenture Corporate Services Limited at its registered office at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process, and undertakes that, in the event of Law Debenture Corporate Services Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and shall immediately notify Noteholders of such appointment in accordance with Condition 14. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer or the Guarantor). Nothing herein shall affect the right to serve Proceedings in any other manner permitted by law.

(f) ***Enforcement***: Each of the parties to the Proceedings or Dispute agrees that an arbitral award or judgment or order of an English or other court, in connection with a Dispute arising out of or in connection with these Conditions, shall be binding on it and may be enforced against it in the courts of any competent jurisdiction.

(g) ***Other documents and the Guarantor***: The Issuer and, where applicable, the Guarantor have in the Agency Agreement, the Deed of Guarantee, the Deed of Covenant and the Deed Poll made provision for arbitration and appointed an agent for service of process in terms substantially similar to those set out above. In respect of its obligations under the Notes, the Receipts, the Coupons and the Talons, the Issuer hereby irrevocably and unconditionally waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings. The Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Deed Poll include waivers of immunity by the Issuer and/or the Guarantor (as the case may be) on substantially similar terms.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a Common Depositary (as defined below).

Upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee of a Common Depositary for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of Cede & Co as nominee for DTC and delivery of the relevant Global Certificate to the Fiscal Agent as Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the applicable Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (the "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the applicable Final Terms indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme—Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the applicable Final Terms, for Definitive Notes.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under "*—Partial Exchange of Permanent Global Notes*" below, in part for Definitive Notes:

(i) if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of fourteen (14) days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or

(ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

Unrestricted Global Certificates

If the Final Terms state that the Notes are to be represented by an Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*No Exchange of Notes and Transfers of Registered Notes —Transfer of Registered Notes*) may only be made in whole but not in part:

(i) if the relevant clearing system is closed for business for a continuous period of fourteen (14) days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) if principal in respect of any Notes is not paid when due; or

(iii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to sub-paragraphs (i) or (ii) above, the registered holder has given the Registrar not less than thirty (30) days' notice at its specified office of the registered holder's intention to effect such transfer.

Restricted Global Certificates

If the Final Terms state that the Restricted Notes are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of DTC, but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by that Restricted Global Certificate pursuant to Condition 2(b) (*No Exchange of Notes and Transfers of Registered Notes—Transfer of Registered Notes*) may only be made:

(i) in whole but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and this Issuer is unable to locate a qualified successor within ninety (90) days of receiving notice of such ineligibility on the part of DTC; or

(ii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to sub-paragraph (i) above, the relevant Registered Noteholder has given the relevant Registrar not less than thirty (30) days' notice at its specified office of the Registered Noteholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions—Transfer Restrictions*".

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes: (i) if principal in respect of any Notes is not paid when due; or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the applicable Final Terms) relating to Partly Paid Notes.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will: (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange; or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes and Definitive Notes will be delivered outside the United States and its possessions.

In this Base Prospectus, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means, in relation to a temporary Global Note, the day falling after the expiry of forty (40) days after its issue date and, in relation to a permanent Global Note, a day falling not less than sixty (60) days, or in the case of failure to pay principal in respect of any Notes when due thirty (30) days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Base Prospectus. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) (*Payments and Talons—Appointment of Agents*) and Condition 8(d) (*Taxation—Payment by another Paying Agent*) will apply to the Definitive Notes only.

For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h) (*Payments and Talons—Non-Business Days*).

Payment Record Date

Each payment in respect of the Global Certificates will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificates are being held is open for business.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of ten (10) years (in the case of principal) and five (5) years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note or its presentation to or to the order of the Fiscal Agent for endorsement in the relevant schedule of such permanent Global Note or in the case of a Global Certificate, by reduction in the aggregate principal amount of the Global Certificates in the register of the certificateholders, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Company or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, DTC or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting the permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation.

Events of Default

Each Global Note provides that the holder may cause such Global Note, or a portion of it, to become due and repayable in the circumstances described in Condition 10 (*Events of Default*) by stating in the notice to the Fiscal Agent the nominal amount of such Global Note that is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer and the Company under the terms of a Deed of Covenant executed as a deed by the Issuer and the Company on 19 October 2011 to come into effect in relation to the whole or a part of such Global Note or one or more Registered Notes in favour of the persons entitled to such part of such Global Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or Global Certificate. Any such notice shall be deemed to have been given to the Noteholders on the third day after the day on which such notice is delivered to the relevant clearing system as aforesaid. The Issuer shall also ensure that notices are duly published in a manner that complies with any relevant rules of any stock exchange or other relevant authority on which the Notes are for the time being, or by which they have for the time being been, admitted to trading.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Base Prospectus, but will be contained in the applicable Final Terms and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be lent by the Issuer to the Company through inter-company loans and will be used by the Company for general corporate purposes or, as the case may be, as set forth in the Final Terms applicable to each Tranche. If, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No. 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the Final Terms applicable to each Tranche.

DESCRIPTION OF THE ISSUER

General

The Issuer was incorporated under Cayman Islands law as an exempted company with limited liability on 27 September 2010 for an unlimited period of time. The registered office of the Issuer is c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and its telephone number is +1 345 949 8066. The Issuer is registered in the Cayman Islands Register of Companies under number 245969.

The authorised share capital of the Issuer is U.S.$50,000 divided into ordinary shares of a nominal or par value of U.S.$1 each. At incorporation and as at the date hereof, 100 ordinary shares with a par value of U.S.$1 each had been issued.

The Issuer is a direct wholly-owned subsidiary of the Company and does not have any subsidiaries of its own.

Business of the Issuer

The Issuer has a limited operating history and does not have any substantial liabilities other than in connection with the Outstanding Notes issued under the Programme.

The objects for which the Issuer is established are unrestricted and are set out in clause 3 of its Articles of Association (as registered or adopted on 27 September 2010) and include raising funds (including through the issuance of Notes), granting loans and granting security over its assets.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to: (i) its registration as an exempted company; (ii) the authorisation of the establishment and update of the Programme and the issue of the Outstanding Notes under the Programme; and (iii) the ownership of such interests and other assets referred to herein.

The Issuer's ongoing activities will principally comprise: (i) the issue of the Notes under the Programme; (ii) the entering into of any documents related to the Programme and an issue of Notes thereunder; (iii) the on-lending of the proceeds of any issue of Notes to the Company; and (iv) the exercise of related rights and powers and other activities referred to in this Base Prospectus or reasonably incidental to those activities.

Directors of the Issuer

The management of the Issuer is conducted by a board of directors that consists of the following Directors:

Name	Principal occupation outside of the Issuer
Murtadha M. Al Hashmi	Chief Financial Officer of the Company
Mohamed Ali Al Fahim	Manager–Finance Division of the Company

The business address of Mr. Al Hashmi and Mr. Al Fahim is P.O. Box 7528, Abu Dhabi, U.A.E.

There are no potential conflicts of interest between the private interests or other duties of the Directors listed above and their duties to the Issuer.

The Issuer has no employees and is not expected to have any employees in the future.

Financial Statements

Since the date of its incorporation, no financial statements of the Issuer have been prepared. The Issuer is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

OVERVIEW OF THE U.A.E. AND ABU DHABI

The U.A.E.

The U.A.E. is a federation of seven Emirates. Formerly known as the Trucial States, they were a British protectorate until they achieved independence in December 1971 and merged to form the United Arab Emirates. Each Emirate has a local government headed by the Ruler of the Emirate. There is a federal government which is headed by the President. The federal budget is principally funded by Abu Dhabi.

The federation is governed by the Supreme Council of the Rulers which consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President (for renewable five-year terms). H.H. Sheikh Zayed bin Sultan Al Nahyan, the late Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004. During his long presidency, H.H. Sheikh Zayed bin Sultan Al Nahyan oversaw massive investment in the infrastructure of the U.A.E., which transformed the country. Following his death, his son H.H. Sheikh Khalifa bin Zayed Al Nahyan took over as Ruler of Abu Dhabi and has been elected as President of the U.A.E.

According to data published by the IMF in 2011, the U.A.E. is the third largest economy in the Gulf region after the Kingdom of Saudi Arabia and the Islamic Republic of Iran, based on nominal GDP. It has a more diversified economy than most of the other countries in the Gulf Co-operation Council (the "**GCC**"). According to OPEC data, at 31 December 2010, the U.A.E. had approximately 6.7 per cent. of the world's proven global oil reserves (giving it the sixth largest oil reserves in the world), generating, according to estimated data produced by the U.A.E. National Bureau of Statistics, 33.9 per cent. of the U.A.E.'s GDP in 2010. Based on IMF data (extracted from the World Economic Outlook (April 2011)) real GDP growth in the U.A.E. increased by 3.2 per cent. in 2010 after having decreased by 3.2 per cent. in 2009 and increased by 5.3 per cent. in 2008, 6.5 per cent. in 2007, 8.8 per cent. in 2006 and 8.6 per cent. in 2005.

On 23 April 2010, Moody's reaffirmed the U.A.E.'s long-term credit rating of Aa2 with a stable outlook. The principal reason cited for this high investment grade rating is the assumption that the obligations of the federal government will be fully supported by Abu Dhabi. The U.A.E. is not rated by the other rating agencies.

Abu Dhabi

Abu Dhabi is the richest and largest of the seven Emirates and the city of Abu Dhabi is also the capital of the U.A.E.

According to ADNOC, Abu Dhabi produces over 2.0 million barrels of oil per day and has approximately 94.0 per cent. of the U.A.E.'s total oil reserves. At this rate of production, Abu Dhabi's oil reserves would last over 100 years. In Abu Dhabi, the non-associated Khuff natural gas reservoirs beneath the Umm Shaif and Abu al-Bukhush oil fields rank among the world's largest. In total, the U.A.E. has approximately 6,091 billion standard cubic metres of natural gas reserves, representing approximately 3.2 per cent. of the world's natural gas reserves of 192,549 billion standard cubic metres (according to OPEC at 31 December 2010).

The table below shows Abu Dhabi's crude oil production, exports and average selling prices for each of the years indicated.

	2010	2009	2008	2005
Crude oil production (million b/d)	2.2*	2.2	2.5	2.3
Crude oil exports (million b/d)	2.0	1.9	2.3	2.1
Crude oil exports (U.S.$ billions)	75.7*	53.5*	98.1	50.3
Average selling price (U.S.$ per barrel)	78.5	62.7	96.6	51.9

* Preliminary figures.
Source: Abu Dhabi Statistics Centre.

The population of the U.A.E., based on a census carried out in 2005, was approximately 4.1 million, of whom approximately 1.4 million resided in Abu Dhabi. In mid-2010, the U.A.E. National Bureau of Statistics estimated the population of the U.A.E. to be approximately 8.2 million in 2009 and 8.3 million in 2010. The current census for 2010 is underway but, as at the date of this Base Prospectus, census records have not been published.

The populations of both the U.A.E. and Abu Dhabi have grown significantly since 1975, reflecting an influx of foreign labour, principally from Asia, as the Emirates have developed.

The table below illustrates this growth using official census data since 1975.

	2005	2001	1995	1985	1980	1975
Abu Dhabi population	1,399,484	1,170,254	942,463	566,036	451,848	211,812
Total U.A.E. population	4,106,427	N/A	2,411,041	1,379,303	1,042,099	557,887

Source: Official census data published by the U.A.E. National Bureau of Statistics, except 2001 figure for Abu Dhabi which is sourced from data published by the Abu Dhabi Statistics Centre.

Since 2005, Abu Dhabi's population has grown by 40.6 per cent. to 1,967,659 in 2010, according to estimates from the Abu Dhabi Statistics Centre (the "**Statistics Centre**").

In 2010 and based on the Statistics Centre mid-year estimates, Abu Dhabi had a predominantly young population with 0.8 per cent. being 65 years and over and 21.1 per cent. being under the age of 15. According to the same data, between 2005 and 2010, Abu Dhabi's average annual population growth rate was 7.7 per cent. The population mix in 2010 is estimated by the Statistics Centre to have comprised 22.0 per cent. U.A.E. nationals and 78.0 per cent. non-nationals.

According to the Statistics Centre, Abu Dhabi's nominal GDP per capita was approximately U.S.$85,854 in 2010, which makes it one of the highest in the Gulf region. The oil and gas industry dominates Abu Dhabi's economy and contributed approximately U.S.$83.9 billion, or 49.7 per cent., of nominal GDP in 2010. Oil prices declined significantly in the second half of 2008 and this fact was the principal reason for the decline in Abu Dhabi's nominal GDP in 2009. Abu Dhabi's growing non-oil sector, which in 2010 accounted for over 50.0 per cent. of Abu Dhabi's GDP, in comparison to 2008, where it accounted for just over 41.4 per cent., contributed to Abu Dhabi's increase in GDP in 2010, despite the continuing economic financial crises and declining oil prices.

No meaningful real GDP information is currently available for Abu Dhabi as a result of historic uncertainties surrounding the calculation of inflation for the Emirate. It is anticipated that real GDP data may become available during the course of 2011.

The table below shows Abu Dhabi's nominal GDP, its percentage growth change, the U.A.E.'s nominal GDP and the percentage contribution of Abu Dhabi's nominal GDP to the U.A.E.'s nominal GDP for each of the years indicated.

	2010	2009	2008
	(AED billions, except for percentage)		
Abu Dhabi nominal GDP (current price)	620.3	535.3	705.1
Percentage change in Abu Dhabi nominal GDP	15.9	(24.1)	29.3
U.A.E. nominal GDP (current prices)	1,093.1*	992.8**	1,156.3
Abu Dhabi as a percentage of U.A.E.	56.7	53.9	60.9

* Estimated figures.
** Preliminary figures.
Sources: Statistics Centre (for Abu Dhabi nominal GDP) and U.A.E. National Bureau of Statistics (for U.A.E. nominal GDP only).

Abu Dhabi's GDP is dominated by the oil and gas sector, which contributed 58.5 per cent. of nominal GDP in 2008, 44.6 per cent. in 2009 and 49.7 per cent. in 2010. Outside the oil and gas sector, the principal contributors to nominal GDP in Abu Dhabi in each of 2008, 2009 and 2010 have been: construction; real estate and business services; manufacturing; transport, storage and communications; financial corporations sector; and wholesale, retail trade and repairing services, which together accounted for 36.0 per cent. of nominal GDP in 2008, 48.1 per cent. in 2009 and 43.9 per cent. in 2010.

In terms of growth, the fastest growing sectors between 2005 and 2010 were construction; public administration and defence; real estate and business services; financial corporations sector and restaurants and hotels, with compound annual growth rates ("**CAGRs**") of 25.2 per cent., 17.6 per cent., 15.8 per cent., 13.9 per cent. and 12.8 per cent., respectively.

Public administration and defence accounted for 3.7 per cent. of GDP in 2010 (as per preliminary estimates published by the Statistics Centre).

The following table shows Abu Dhabi's nominal GDP by economic activity and by percentage contribution, as well as the year on year growth rate, for each of the years indicated.

	2010*			2009			2008		
	(AED millions)	(%)	(2010 compared to 2009, % change)	(AED millions)	(%)	(2009 compared to 2008, % change)	(AED millions)	(%)	(2008 compared to 2007, % change)
Sector									
Crude oil and natural gas	308,022	49.7	28.9	239,006	44.6	(42.1)	412,774	58.5	34.3
Manufacturing	33,860	5.5	10.8	30,560	5.7	(22.1)	39,211	5.6	11.2
Public administration and defence	23,231	3.7	13.0	20,559	3.8	10.2	18,653	2.6	61.2
Construction	80,925	13.0	2.0	79,310	14.8	20.8	65,655	9.3	39.6
Real estate and business services	53,414	8.6	6.4	50,223	9.4	7.4	46,749	6.6	16.6
Wholesale, retail trade and repairing services	29,999	4.8	5.3	28,484	5.3	(12.3)	32,479	4.6	24.2
Financial corporations sector	34,498	5.6	14.4	30,154	5.6	2.0	29,575	4.2	8.4
Transport, storage and telecommunications	39,661	6.4	1.3	39,134	7.3	(2.0)	39,918	5.7	19.9
Agriculture, livestock and fishing	6,111	1.0	2.1	5,988	1.1	3.5	5,786	0.8	3.5
Electricity, gas and water	14,366	2.3	(0.6)	14,458	2.7	3.2	14,010	2.0	11.3
Hotels and restaurants	6,572	1.1	4.6	6,283	1.2	(7.1)	6,762	1.0	39.0
Other	15,648	2.6	14.0	13,728	2.6	2.4	13,405	1.9	29.0
Less: Imputed Bank Service Charge	(25,990)	(4.2)	15.1	(22,575)	(4.2)	13.9	(19,815)	(2.8)	22.1
Total GDP	**620,316**	—	—	**535,311**	—	—	**705,159**	—	—

* Preliminary estimates.
Source: Statistics Centre.

The Government's long-term foreign and local currency issuer ratings were affirmed at Aa2 and its short-term foreign and local currency issuer ratings at Prime-1 by Moody's on 23 April 2010. Reasons cited for these high investment grade ratings include a very strong government balance sheet, abundant hydrocarbon resources, high (albeit volatile) GDP per capita, domestic political stability and strong international relations. On the other hand, Moody's also noted the troubled regional political environment, the fact that Abu Dhabi has weaker institutions than other highly rated countries, its volatile GDP caused by a concentration on hydrocarbons and its substantial, in Moody's opinion, domestic contingent liabilities.

The Government's long-term sovereign credit ratings were affirmed at AA long-term and A-1+ short-term by S&P on 25 November 2010. S&P commented that the ratings on Abu Dhabi were supported by the Government's very strong asset position, which provides significant financial flexibility and which has allowed Abu Dhabi to face the global economic downturn with a high degree of resilience.

The Government's long-term foreign and local currency issuer default ratings were affirmed at AA and short-term foreign currency issuer default ratings at F1+ by Fitch on 23 September 2011. Fitch commented that the affirmation reflected the continuing strength of Abu Dhabi's sovereign balance sheet, which conveys exceptional fiscal flexibility, and the fact that the 2008-2009 global financial crisis had left Abu Dhabi's balance sheet largely undented.

Government

Executive authority in Abu Dhabi is derived from the Ruler, H.H. Sheikh Khalifa bin Zayed Al Nahyan and the Crown Prince, H.H. Sheikh Mohamed bin Zayed Al Nahyan.

Departments, authorities and councils are established by Emiri Decree.

The Supreme Petroleum Council was established by law No. (1) of 1988, and the Chairman of the Supreme Petroleum Council is H.H. Sheikh Khalifa bin Zayed Al Nahyan, Ruler of Abu Dhabi and President of the U.A.E. In accordance with Law No. (1) of 1988, the Supreme Petroleum Council is the highest authority responsible for petroleum affairs in Abu Dhabi and formulates and oversees Abu Dhabi's policies and objectives in all sectors of the petroleum industry. The Supreme Petroleum Council has twelve board members and three of the Company's board members sit on the Supreme Petroleum Council.

The Executive Council is the principal executive authority below the Ruler and the Crown Prince and currently comprises 14 members, appointed by an Emiri Decree issued on 11 December 2010. Two of the Company's board members sit on the Executive Council.

Departments manage administration within the Emirate and manage specific portfolios, including, for example, the Department of Economy and Planning, the Department of Finance, the Department of Municipal Affairs, the Department of Transport and the Judicial Department. Authorities manage the Emirate's resources and strategies and include the Abu Dhabi Accountability Authority, the Abu Dhabi Tourism Authority, the Abu Dhabi Water and Electricity Authority, the Executive Affairs Authority and the Health Authority. Councils act as controlling bodies for certain Government initiatives, projects and industry sectors by setting and monitoring policies, regulations and standards, and include the Civil Service Council, the Council for Economic Development, the Education Council, the Supreme Petroleum Council and the Urban Planning Council.

The Government owns or has material shareholdings in a number of other significant companies and institutions in addition to the Company, including ADNOC, Abu Dhabi Investment Authority ("**ADIA**"), Abu Dhabi Investment Council (the "**Council**"), Mubadala Development Company ("**Mubadala**") and Tourism Development and Investment Company ("**TDIC**"). Each of these companies and institutions are wholly-owned by the Government and one or more board members of each of these companies and institutions are represented on the Executive Council.

ADNOC was established in 1971 to operate in all areas of Abu Dhabi's oil and gas industry. Since 1971, ADNOC has steadily broadened its activities establishing various companies and subsidiaries to create an integrated oil and gas industry in Abu Dhabi. ADNOC has oil production capacity of more than 2.0 million barrels a day, making it among the top ten oil producers in the world. Three of the Company's board members sit on the ADNOC board of directors.

ADIA was established in 1976. The Government provides funds to ADIA on a periodic basis that are surplus to its budgetary requirements and other funding requirements. ADIA carries out its investment strategy independent of and without reference to the Government or other entities that also invest funds on the Government's behalf. In addition, at certain times, in practice only during periods of extreme and/or prolonged weakness in commodity prices, ADIA is required to make available to the Government its financial resources to secure and maintain the future welfare of Abu Dhabi. ADIA currently has ten board members and two of the Company's board members sit on the ADIA board of directors.

IPIC was established in 1984. IPIC has a mandate to invest in energy and energy-related assets globally. IPIC has eight board members, including H.H. Sheikh Mansour bin Zayed Al Nahyan, the Chairman of the board of directors, a member of the ruling family of Abu Dhabi, the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs. See "*Relationship with the Government*" and "*Description of the Group*".

The Council started its operations in 2007. The Council is another investment arm of the Government and is also responsible for investing the Government's financial resources. The Council is empowered by the Government with a direct investment mandate to broaden Abu Dhabi's economic base and facilitate the international development of Abu Dhabi companies. The Council currently has seven board members and one of the Company's board members sits on the Council's board of directors.

Mubadala was established in 2002. Mubadala is a business development and investment company mandated by the Government to act as a primary catalyst in the implementation of Abu Dhabi's development strategy in a commercial and profitable manner. Mubadala currently has seven board members and two of the Company's board members sit on the Mubadala board of directors.

TDIC was established in 2005. TDIC is a wholly-owned subsidiary of the Abu Dhabi Tourism Authority. TDIC is mandated to implement the strategy of the Abu Dhabi Tourism Authority through tourism development and is charged with fulfilling Abu Dhabi's ambition to become a leading global tourist destination.

Abu Dhabi's Economic Strategy

The Government's development strategy is articulated in the Abu Dhabi Policy Agenda 2007-2008 (the "**Policy Agenda**") and the Abu Dhabi Economic Vision 2030, issued by the Government in January 2009 (the "**2030 Economic Vision**"). Drawing on the Policy Agenda, the 2030 Economic Vision sets forth a roadmap for developing the Government's strategy for economic development over the period to 2030.

The Policy Agenda establishes broad, long-term policy goals to drive economic, social and geopolitical/ governance change in Abu Dhabi. Under the Policy Agenda, diversifying the energy sector and the economy through investments by entities such as the Company is a key step in achieving economic development, including through the strengthening of downstream hydrocarbon capabilities (refining, transportation and distribution), the application of better processes, products and technologies and the expansion of the proportion of value-added exports, such as refined and semi-refined products in the petrochemicals sector, from Abu Dhabi. The Policy Agenda also calls for the pursuit of the geographic diversification of Abu Dhabi's assets through strategic investments in upstream, midstream and downstream hydrocarbon assets outside the U.A.E. by entities such as the Company and the leveraging of Abu Dhabi's strengths in the hydrocarbon sector to diversify into other industrial sectors, such as the development of Abu Dhabi as a world leader in the petrochemicals industry. The Company is specifically identified in the 2030 Economic Vision as playing a key role in executing certain of these initiatives.

International Relations

The foreign policy of the U.A.E. is based upon a set of guiding principles, laid down by the country's first President, H.H. Sheikh Zayed bin Sultan Al Nahyan.

The U.A.E. participates in a number of multi-lateral aid-giving institutions, including the International Bank for Reconstruction and Development, the International Development Agency, the IMF and regional bodies like the Arab Bank for Economic Development in Africa, the Arab Gulf Fund for the United Nations, the Abu Dhabi-based Arab Monetary Fund, the Islamic Development Bank and the OPEC Fund for International Development. In addition, the U.A.E. is a member of various other international organisations, including, among others, the Asia-Pacific Economic Co-operation, the GCC, the International Organisation for Industrial Development, the League of Arab States, OPEC, the Organisation of Arab Petroleum Exporting Countries, the Organisation of Islamic Countries, the United Nations, the World Health Organisation and the World Trade Organisation. In December 2009, the U.A.E. entered into a bilateral agreement with the United States for peaceful nuclear co-operation which establishes the legal framework for commerce in civilian nuclear energy between the two countries.

The U.A.E. enjoys good relations with the other states in the GCC. However, the U.A.E. has an ongoing dispute with the Islamic Republic of Iran and continuing discussions with the Kingdom of Saudi Arabia over border issues. Since 1971, the three Gulf islands of Abu Musa and Greater and Lesser Tunb have been occupied by the Islamic Republic of Iran. The U.A.E. believes that the islands should be returned to the Emirate of Sharjah which claims sovereignty over them and is seeking to resolve the dispute through negotiation.

The U.A.E. is also seeking, through negotiation, to resolve issues related to the 1974 provisional and, as yet, unratified, agreement with the Kingdom of Saudi Arabia on the border between the two countries, which the U.A.E. believes should be substantially amended. In addition, the U.A.E. is involved in discussions with the governments of the Kingdom of Saudi Arabia and the State of Qatar relating to a maritime corridor which the State of Qatar has purported to grant to the Kingdom of Saudi Arabia, from within the State of Qatar's own maritime waters, which crosses part of the route of the gas pipeline constructed by Dolphin Energy Limited. The U.A.E. believes that this grant is in breach of existing agreements between the U.A.E. and the State of Qatar and, in June 2009, the U.A.E.'s Ministry of Foreign Affairs stated this position in a letter to the UN Secretary General.

RELATIONSHIP WITH THE GOVERNMENT

Overview

The Company was established by the Government of Abu Dhabi pursuant to an Emiri Decree in 1984 with a mandate to invest globally in energy and energy-related industries. Ownership of the Company was initially divided equally between ADIA and ADNOC, each wholly-owned by the Government. Ownership was subsequently transferred directly to the Government in December 1986 pursuant to an Emiri Decree.

The Company is wholly-owned by the Government, which appoints all members of the Company's board of directors pursuant to Emiri Decree. Any change to the Government's 100 per cent. ownership in the Company, and any change to the board of directors, requires an Emiri Decree. The Company enjoys a strong relationship with the Government and other Government controlled entities.

The Chairman of the Company's board of directors, H.H. Sheikh Mansour bin Zayed Al Nahyan, is a member of the ruling family of Abu Dhabi, the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs. Other members of the Company's board of directors include senior officials of the Government and the government of the U.A.E. and board members of other significant Government controlled companies and institutions, as illustrated below.

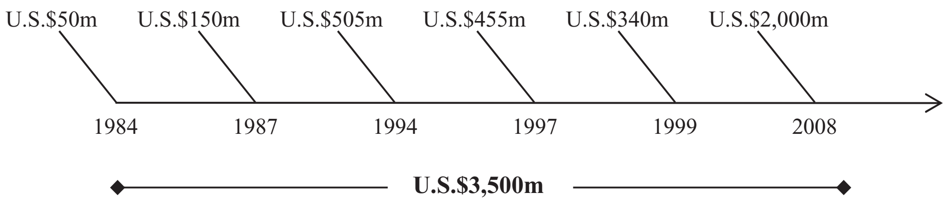
Board Member	Abu Dhabi Government	Abu Dhabi Government Councils	U.A.E. Government / Entities	Abu Dhabi Government Related Entities
H.H. Sheikh Mansour bin Zayed Al Nahyan		Member of the Supreme Petroleum Council	U.A.E. Minister of Presidential Affairs	Board Member of ADIA
			U.A.E. Deputy Prime Minister	Board Member of the Council
			Chairman of EIA	
H.E. Mohamed bin Dhaen Al Hamli			U.A.E. Minister of Energy	
H.E. Yousef Omair bin Yousef		Former Member and Secretary General of the Supreme Petroleum Council		Former CEO of ADNOC
H.E. Khalifa Mohamed Al Kindi		Member of the Supreme Petroleum Council		Board Member and Managing Director of the Council
H.E. Hamad Al Hurr Al Suwaidi	Chairman of the Department of Finance	Member of the Supreme Petroleum Council		Board Member of ADIA
		Member of the Executive Council		Board Member of Mubadala
				Chairman of TAQA
H.E. Nasser Ahmed Khalifa Alsowaidi	Chairman of the Department of Economic Development	Member of the Executive Council		Vice Chairman of ADWEA
				Board Member of Mubadala
H.E. Eissa Mohammed Ghanem Al Suwaidi			Board Member of EIA	
H.E. Khadem Abdulla Al Qubaisi			Board Member of EIA	

References to ADWEA are to the Abu Dhabi Water & Electricity Authority.

The Company's board of directors is specifically charged with approving all investments and projects undertaken by the Company, regardless of size. The board of directors is also updated regularly on the status of its investments and projects.

Funding, support and oversight from the Government

Since its establishment, the Government has made six equity contributions totalling U.S.$3.5 billion to the Company, of which U.S.$2.0 billion was received in 2008.



In June 2010, the Government also provided the Company with a U.S.$500 million perpetual shareholder loan (which, by the nature of its terms, is accounted for within equity in the statement of financial position) to meet its obligations in respect of QADIC, which is a joint venture between the Government and the government of the State of Qatar. As at the date of this Base Prospectus, the Government has committed an additional U.S.$500 million for further investment in QADIC which has not yet been received. See "*—IPIC's role in Abu Dhabi's Economic Strategy—State-to-State Relationships*".

Additionally, the Government granted the Company a plot of land of 22,060 square metres on the main island of the city of Abu Dhabi. The Company is currently constructing its new headquarters on this plot of land which it expects to occupy in 2012. It is intended that all of the Group's regional offices will join the Company in its new headquarters as tenants.

There is no specific budget to determine the amount of funding the Company receives from the Government. The Company has received funding from the Government from time to time and expects to continue to do so in the future to undertake investments or specific projects.

The Company believes the Government considers its ownership of the Company as a long-term strategic holding. The Company has not paid any dividends to the Government to date, nor is the Company aware of any plans by the Government to make such a request for the foreseeable future.

In addition, the Company's financial statements are periodically audited by the Abu Dhabi Accountability Authority. The Abu Dhabi Accountability Authority has the ability to audit any company in which the Government owns more than a 50.0 per cent. stake.

Also, the Company co-ordinates with the Abu Dhabi Department of Finance and its Debt Management Office regarding the levels of its current indebtedness. As a result, the Government is aware of and updated regularly on the levels of the Company's indebtedness.

Government Statement of Support for IPIC

While the Government does not guarantee the obligations of the Company (including any Notes issued under this Programme), the Abu Dhabi Department of Finance, as authorised by H.E. Hamad Al Hurr Al Suwaidi, Chairman of the Department of Finance (and a member of the Company's board of directors) issued a statement on 5 March 2010 stating that:

- the Company (together with Mubadala and TDIC) plays a crucial role in the Government's strategy for diversifying the economy and is irreplaceable;
- in terms of credit risk, it is impossible to differentiate between the Government and the Company; and
- the Government backs the Company fully and unconditionally.

IPIC's Role in Abu Dhabi's Economic Strategy

The Company plays a fundamental role in implementing Abu Dhabi's economic strategy and continues to make investments using the framework provided in its then current investment criteria. Please see "*Description of the Group—Investment Policies—Investment Strategy and Criteria*" and "*Overview of the U.A.E. and Abu Dhabi—Abu Dhabi's Economic Strategy*".

Developing and maintaining Abu Dhabi's market share in the global hydrocarbon sector

The Company provides Abu Dhabi with exposure to the international hydrocarbon sector outside of Abu Dhabi (through entities such as CEPSA, OMV and Cosmo Oil) and also provides Abu Dhabi with a natural hedge for adverse geopolitical and macro-economic developments.

Helping Secure and Develop End Markets

The Company plays an integral role in the Government's strategy to secure and develop end markets for Abu Dhabi's crude oil production by investing in the midstream and downstream segments of the oil and gas sector. Investments across the hydrocarbon value chain provide the Company with exposure to the refining, marketing, power and petrochemicals sectors. Examples of such investments include:

- ADCOP, a 400 kilometre pipeline project which, upon completion, is expected to have a rated delivery capacity of 1.5 million barrels per day to ensure safe and cost-effective transport of Abu Dhabi's crude oil to its end markets;
- Borouge, a joint venture in which the Company's subsidiary Borealis has a 40.0 per cent. stake, and which is Abu Dhabi's largest and most technologically advanced petrochemicals complex to date;
- CEPSA, a leading Spanish integrated oil and petrochemicals company; Cosmo Oil, a leading Japanese refining and marketing company; and OMV, a leading Austrian integrated oil and gas company with a presence throughout Central and Eastern Europe;
- ChemaWEyaat, a company formed by Emiri Decree in 2008, in which the Company has a 40.0 per cent. stake, which is mandated with the development of the world's largest single-site petrochemicals facility to establish Abu Dhabi as a global player in petrochemicals; and
- the multi-billion dollar Fujairah Refinery project in the Emirate of Fujairah, which will process U.A.E. crude oil, such as Murban and Upper Zakum.

Diversification of Abu Dhabi's Economy

The Company's investments in CEPSA, OMV, Cosmo Oil and PARCO provide access to geographically diverse refining capacity and marketing and retail outlets. In addition, its investments in Borealis and Nova Chemicals provide exposure to, and the opportunity to benefit from, different elements of the petrochemicals value chain.

Furthermore, through the Company's ownership of Aabar, a diversified investment company, it has been able to provide further diversification through investments in sectors such as aerospace (through its investment in Virgin Galactic), automotive (through its investments in Daimler and Tesla Motors), financial services (through its investments in RHB and UniCredit), food security (through its investments in Glencore and Banvit) and real estate.

The Company has also supported geographic diversification of Abu Dhabi's economy, through investments in:

- North America, such as its investment in Nova Chemicals, a plastics and chemicals company with operations in Canada and the United States;
- Europe, such as its investments in CEPSA, a leading Spanish integrated oil and petrochemicals company, and in OMV, a leading Austrian integrated oil and gas company with a presence throughout Central and Eastern Europe; and
- Asia, such as its investment in Cosmo Oil, a leading Japanese refining and marketing company.

Knowledge and Technology Transfer and Skills Development

The Company's investment activities and the integration of its portfolio companies support the development of Abu Dhabi's economy in a manner that advances the Government's objective of bringing the latest technology and expertise to Abu Dhabi. Examples of such activities include the establishment and expansion of Borouge, Abu Dhabi's largest and most technologically advanced petrochemicals plant to date; the planned development of a "petrochemicals city" by ChemaWEyaat; and Aabar's diversified investments in the aerospace, automotive, commodities and food security, financial services and real estate industries.

In addition, through its investments, the Company adds to Abu Dhabi's strategy for job creation and local Emirati-skills development. An example of this is Borouge which, as of 30 June 2011, employed approximately

1,800 people in Abu Dhabi. In addition, the Borouge innovation centre (which is expected to be operational by the first half of 2012) is designed to enhance education and competencies in plastics material development through, amongst other things, co-operation with end-users and universities.

Execution of Strategic Projects

The Company invests in and develops infrastructure projects that are strategically important to the Government including:

- the multi-billion dollar ChemaWEyaat project at Madeenat ChemaWEyaat Al Gharbia, which is expected to comprise a series of world-class petrochemicals complexes with access to Abu Dhabi's gas and liquid petroleum feedstocks. The first phase of this project is expected to be completed in 2015 and it is currently expected to be the world's largest single-site petrochemicals facility;
- the ADCOP pipeline which will connect Abu Dhabi's key onshore oil fields to an export terminal located in the Emirate of Fujairah on the Indian Ocean (outside the Arabian Gulf). The pipeline's development is intended to help mitigate the risk of a suspension of Abu Dhabi's crude oil exports in the event of a closure of, or disruption to, the Strait of Hormuz and is expected to provide long-term cost reduction benefits and increased capacity in the export of Abu Dhabi's crude oil;
- the Borouge joint venture with ADNOC which has brought advanced technology and expertise into Abu Dhabi to strengthen and develop Abu Dhabi's industrial base and hydrocarbon and petrochemicals industries; and
- the multi-billion dollar development and construction of a new oil refinery in the Emirate of Fujairah, designed to process the U.A.E.'s crude oil, such as Murban and Upper Zakum.

State-to-State Relationships

Due to the Company's position and relationship with the Government, the Company is able to benefit from unique and attractive investment opportunities, which are also instrumental in building and solidifying state-to-state relationships.

Examples of such investments include SUMED, a joint venture with Egyptian General Petroleum, Saudi Arabian Oil Company, three Kuwaiti companies and Qatar Petroleum, which operates two 320 kilometre oil pipelines running from the Gulf of Suez to the Mediterranean Sea; QADIC, a joint venture with the Qatar Investment Authority which targets global acquisitions in all sectors; the Al Falah Growth Fund, established with the Government of Kazakhstan to invest in the energy and natural resource industry in the Commonwealth of Independent States, with a focus on Kazakhstan; and PARCO, a joint venture with the Government of Pakistan, which operates a refinery and storage facility in Multan, Pakistan, a network of crude oil and related product pipelines extending for 2,000 kilometres across the country and a network of marketing and retail outlets.

Further countries with which the Company has partnered or made joint investments include the Arab Republic of Egypt, Austria, the Independent State of Papua New Guinea, the Kingdom of Saudi Arabia, the State of Kuwait and the Sultanate of Oman.

Focus on Returns

The Company seeks attractive returns by making investments which leverage its relationship with the Government and the synergies of its portfolio companies. In addition to opportunities identified independently by the Company, the Government also introduces investment opportunities to the Company in certain sectors, regions or countries and has occasionally facilitated such investments.

The Company believes that the Government gives it such opportunities due to its long history, track record and experience in executing and/or managing diversified investments and investments strategies. Recent examples include the Company's construction of the ADCOP pipeline, the Company's decreed shareholding in ChemaWEyaat and the investment in Aabar, a diversified investment company.

CAPITALISATION OF THE GROUP

The following table shows the Group's cash and short-term deposits, debt and consolidated capitalisation as of 30 June 2011. This table should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements set out elsewhere in this Base Prospectus.

	As of 30 June 2011
	(U.S.$ million)
Cash and short-term deposits(1)	4,284
Debt:	
Short-term debt(2)	5,208
Long-term debt(3)	26,579
Total debt(4)	**31,787**
Equity:	
Share capital	3,500
Retained earnings	8,250
Shareholder loan	500
Other reserves(5)	3,719
Non-controlling interest	1,795
Total equity	**17,764**
Total capitalisation(6)	**49,551**

(1) Comprises cash and bank balances, call deposits and short-term deposits with banks that are readily convertible into cash. The Company finalised its acquisition of the entire share capital of CEPSA in July and August 2011, which resulted in CEPSA being accounted for on a consolidated basis from 5 July 2011. As of 30 June 2011, CEPSA had U.S.$1,539 million of cash and short-term deposits. See "*Unaudited Pro Forma Consolidated Financial Information*".

(2) Includes current portion of long-term debt.

(3) In September 2011, the Company entered into a AED 7.3 billion unsecured conventional loan with an interest rate at a margin over EIBOR for general corporate and working capital purposes. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Borrowings—The Company—The Company's Material Borrowings Post 30 June 2011*".

(4) The Company finalised its acquisition of the entire share capital of CEPSA in July and August 2011, which resulted in CEPSA being accounted for on a consolidated basis from 5 July 2011. As of 30 June 2011, CEPSA had U.S.$3,939 million of borrowings. See "*Unaudited Pro Forma Consolidated Financial Information*".

(5) Other reserves comprise cumulative changes in fair value of available-for-sale investments, foreign currency translation reserve, reserves for cash flow hedges, reserves for actuarial gains and losses, reserves for disposal groups held-for-sale, share of reserves of associates and other reserves.

(6) Total equity plus total debt.

Other than as set out above, there have been no significant changes in the cash and short-term deposits, debt or consolidated capitalisation of the Group since 30 June 2011.

SELECTED FINANCIAL INFORMATION OF THE GROUP

The selected financial information set forth below has been extracted from the Financial Statements set out elsewhere in this Base Prospectus and should be read in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements set out elsewhere in this Base Prospectus. The consolidated financial statements of the Group as of 31 December 2010 and 31 December 2009 and for the years then ended, have been prepared in accordance with IFRS issued by the IASB and have been audited by Ernst & Young as stated in their reports included elsewhere in this Base Prospectus. The unaudited interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting (IAS34) and have been reviewed by Ernst & Young in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The selected financial information set out in the tables below shows certain consolidated statement of financial position data of the Group as of 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 and certain consolidated income statement and statement of cash flows data of the Group for the six months ended 30 June 2011 and 30 June 2010 and for the years ended 31 December 2010, 31 December 2009 and 31 December 2008.

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

Unless otherwise indicated, the statement of financial position, income statement and statements of cash flows included in this Base Prospectus relating to the Group have been extracted from the Financial Statements.

During the year ended 31 December 2010 the Group changed the presentation of certain line items in its consolidated income statement and consolidated statement of financial position to more accurately reflect the Group's business. As a result, the 2009 financial information (as presented within the 2010 Financial Statements) was reclassified to conform to the revised presentation of the 2010 Financial Statements. Accordingly, on an individual line item basis, the 2009 financial information (as presented within the 2010 Financial Statements) is not comparable to the 2009 financial information within the 2009 Financial Statements. However, such reclassification in the 2010 Financial Statements had no effect on the reported profits or the equity of the Group and was not deemed to be material to the 2010 Financial Statements. See Note 41 ("*Corresponding Figures*") to the 2010 Financial Statements. For the avoidance of doubt, all 2009 financial information as provided in this Base Prospectus is the audited reclassified financial information as presented within the 2010 Financial Statements. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Composition of the Financial Statements and Comparability of Financial Information*".

Pursuant to an arbitration award in November 2009, the Group was directed to sell its entire interest in Hyundai Oilbank, which took place in August 2010. As a result of this judgement, Hyundai Oilbank was classified as a "disposal group held-for-sale" in 2009, and the corresponding comparative financial information for the year 2008 was reclassified in the 2009 Financial Statements for presentation purposes, as required by IFRS. In addition, as a result of a series of acquisitions in 2009, the Company established a revised reporting framework for the consolidation process to align certain line items of a similar nature of each of the subsidiaries to ensure conformity and comparability of the presented financial information. As a result, the 2008 financial information (as presented within the 2009 Financial Statements) was reclassified to conform to the revised presentation of the 2009 Financial Statements. However, such reclassification in the 2009 Financial Statements had no effect on the reported profits or the equity of the Group and was not deemed to be material to the 2009 Financial Statements. See Note 40 ("*Comparative Information*") to the 2009 Financial Statements. For the avoidance of doubt, all 2008 balance sheet information as provided in this Base Prospectus is the audited reclassified financial information as presented within the 2010 Financial Statements, and all remaining 2008 financial information provided in this Base Prospectus is the audited reclassified financial information as presented within the 2009 Financial Statements. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Composition of the Financial Statements and Comparability of Financial Information*".

Statement of Financial Position Data

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(U.S.$'000)		
Total assets	**61,833,305**	**47,878,577**	**46,271,401**	**23,268,100**
of which:				
Property, plant and equipment	10,267,753	9,842,760	9,271,973	5,265,478
Intangible assets	1,345,950	1,330,902	1,548,546	324,523
Investment properties	1,858,017	1,292,574	18,547	—
Investments in associates and jointly controlled entities	12,833,563	10,922,636	10,300,463	1,115,351
Investments in financial instruments	14,069,671	11,245,501	7,973,272	10,455,092
Restricted cash	5,776,098	—	—	—
Other non-current assets	3,972,287	3,981,649	3,992,192	262,777
Inventories	2,626,908	2,052,522	2,346,665	1,760,865
Current trade and other receivables	3,336,813	2,847,167	2,219,727	882,421
Cash and short-term deposits	4,283,688	3,150,931	2,533,118	1,957,868
Assets included in disposal groups held-for-sale	94,287	59,179	4,838,944	22,496
Total liabilities	**44,069,652**	**31,872,699**	**30,953,020**	**13,014,370**
of which, borrowings	31,786,581	21,041,241	17,434,916	9,729,603
Total equity	**17,763,653**	**16,005,878**	**15,318,381**	**10,253,730**

Income Statement Data

	Six months ended 30 June		Year ended 31 December		
	2011	2010	2010	2009	2008
			(U.S.$'000)		
CONTINUING OPERATIONS					
Revenues	8,631,840	7,379,506	15,366,952	9,917,370	9,851,870
Cost of sales	(6,809,694)	(5,980,451)	(12,468,481)	(8,392,547)	(8,408,295)
Gross profit	**1,822,146**	**1,399,055**	**2,898,471**	**1,524,823**	**1,443,575**
Share of post tax profits of associates and jointly controlled entities	727,044	324,556	704,441	140,965	280,961
Selling and distribution costs	(476,459)	(470,338)	(940,154)	(810,508)	(792,863)
General and administrative expenses	(423,054)	(443,748)	(916,877)	(613,260)	(399,474)
Research and development expenses	(78,025)	(63,163)	(149,737)	(128,276)	(131,807)
Net gain/(loss) on foreign exchange	(294,392)	913,385	345,663	(108,971)	142,005
Finance income	423,478	132,188	257,059	613,984	320,109
Finance costs	(722,565)	(402,185)	(833,331)	(715,610)	(524,111)
Other income	26,029	89,494	146,972	185,007	2,507
Other expense	(66,874)	(142,008)	(692,399)	(32,272)	—
Gains on acquisitions and disposals	16,016	13,571	137,138	3,119,182	—
Other (losses) gains on financial instruments	424,037	(1,084,064)	(336,851)	727,503	—
Profit before tax from continuing operations	**1,377,381**	**266,743**	**620,395**	**3,902,567**	**340,902**
Tax (expense)/credit	(223,905)	(107,517)	(471,260)	(37,893)	(35,400)
Profit for the period from continuing operations	**1,153,476**	**159,226**	**149,135**	**3,864,674**	**305,502**
DISCONTINUED OPERATIONS					
Profit/(loss) for the period from discontinued operations	**8,104**	**254,550**	**1,199,038**	**284,592**	**(256,215)**
Profit for the period	**1,161,580**	**413,776**	**1,348,173**	**4,149,266**	**49,287**

Statement of Cash Flows Data

	Six months ended 30 June		Year ended 31 December		
	2011	2010	2010	2009	2008
			(U.S.$'000)		
Net cash from (used in) operating activities . . .	390,025	(170,441)	517,089	475,780	(86,417)
Net cash used in investing activities	(8,459,462)	(3,782,438)	(3,617,656)	(4,653,601)	(6,962,718)
Net cash from financing activities	9,172,849	4,314,785	3,463,938	5,040,204	8,461,999

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial information is prepared for illustrative purposes only to show the effect of the acquisition by the Company in July and August 2011 of the remaining issued share capital of CEPSA not already owned by the Company, which resulted in CEPSA (which was previously accounted for as an associate) being accounted for as a subsidiary (the "**Transaction**"). The following unaudited pro forma condensed consolidated statement of financial position as of 30 June 2011 gives effect to the Transaction as if it had occurred on 30 June 2011. The following unaudited pro forma condensed consolidated income statements for the six months ended 30 June 2011 and the year ended 31 December 2010 give effect to the Transaction as if it had occurred on 1 January 2010.

The unaudited pro forma condensed consolidated statement of financial position and consolidated income statements, because of their nature, address a hypothetical situation and are presented for illustrative purposes only. They do not represent the actual total assets, total liabilities, net assets, operating results or profit of the Group had the Transaction been completed at the dates indicated or any other date and should not be construed as indicative of future financial position or future operating results.

The unaudited pro forma condensed consolidated statement of financial position and consolidated income statements are based on the consolidated statement of financial position and the consolidated income statements of the Group extracted without material adjustment from the 2010 Financial Statements and the Unaudited Financial Statements included elsewhere in this Base Prospectus. The historical consolidated statements of financial position and the consolidated income statements of CEPSA have been extracted from its unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2011 and audited consolidated financial statements for the year ended 31 December 2010.

The unaudited pro forma condensed consolidated income statement for the year ended 31 December 2010 has been prepared on a basis consistent with the accounting policies of the Group as set out in Note 2.7 ("*Summary of Significant Accounting Policies*") of the notes to the 2010 Financial Statements. The unaudited pro forma condensed consolidated statement of financial position and consolidated income statement as of and for the six months ended 30 June 2011 have been prepared on a basis consistent with the accounting policies of the Group as set out in Note 2.2 ("*Significant Accounting Policies*") of the notes to the Unaudited Financial Statements. The accounting policies for the two periods noted are consistent in all material respects. The unaudited pro forma condensed consolidated statement of financial position and consolidated income statements should be read in conjunction with the accompanying notes set out below, as well as the 2010 Financial Statements and the Unaudited Financial Statements included elsewhere in this Base Prospectus.

Unaudited Pro Forma Condensed Consolidated Statement of Financial Position as of 30 June 2011

The following unaudited pro forma condensed consolidated statement of financial position as of 30 June 2011 gives effect to the Transaction as if it had occurred on 30 June 2011.

			Pro forma Adjustments				
	Group	CEPSA	Acquisition of additional interest in CEPSA	Fair value adjustments	Recycling of existing reserves to income statement	Consolidation adjustments	Pro forma
	Note 1	Note 2	Note 3	Note 4	Note 5	Note 6	
				(U.S.$ millions)			
Assets							
Property. plant and equipment	10,268	6,721				2,277	19,266
Intangible assets	1,346	339					1,685
Investments in associates and jointly controlled entities	12,834	375	5,739	(856)		(10,842)	7,250
Restricted cash	5,776		(5,739)				37
Cash and short-term deposits	4,284	1,539					5,823
Other assets	27,325	8,323					35,648
Total Assets	**61,833**	**17,297**	**—**	**(856)**	**—**	**(8,565)**	**69,709**
Equity and Liabilities							
Share capital	3,500	880				(880)	3,500
Shareholder loan	500	—					500
Retained earnings	8,250	7,588		(856)	891	(7,588)	8,285
Other reserves	3,719	97			(891)	(97)	2,828
	15,969	**8,565**	**—**	**(856)**	**—**	**(8,565)**	**15,113**
Non-controlling interests	1,795	105					1,900
Total Equity	**17,764**	**8,670**	**—**	**(856)**	**—**	**(8,565)**	**17,013**
Liabilities							
Borrowings	31,787	3,939					35,726
Other liabilities	12,282	4,688					16,970
Total Liabilities	**44,069**	**8,627**	**—**	**—**	**—**	**—**	**52,696**
Total Equity and Liabilities	**61,833**	**17,297**	**—**	**(856)**	**—**	**(8,565)**	**69,709**

1. The consolidated statement of financial position as of 30 June 2011 has been extracted, without material adjustment, from the Unaudited Financial Statements included elsewhere in this Base Prospectus.

2. This column represents the unaudited interim condensed consolidated statement of financial position of CEPSA as of 30 June 2011, extracted without material adjustment from the consolidated financial statements of CEPSA as of 30 June 2011. The Company finalised its acquisition of the entire share capital of CEPSA in July and August 2011. The statement of financial position of CEPSA is presented in Euro and has been translated into U.S.$ at the closing rate at 30 June 2011 of €1=U.S.$1.4510.

3. This column represents the acquisition of the remaining issued share capital of CEPSA at €28 per share. The acquisition was financed through the cash in escrow that partly came from the proceeds of the bond issuance in March 2011 and the Company's own cash. As part of the acquisition process, the Company had to make available in an escrow account in Spain the entire purchase consideration which amounted to €4.0 billion.

4. The fair value adjustments relate to a reduction of U.S.$856 million in the carrying value of the Group's investments in associates representing the re-measurement of the previously held equity investment in CEPSA at the assumed acquisition fair value of €28 per share. The resulting loss is recognised in the income statement.

5. This column represents the recycling of existing reserves arising from the accounting of the previously held interest in CEPSA which represents the reversal of the cumulative changes in fair value of CEPSA recognised during the period prior to 31 July 2009, i.e. prior to CEPSA being accounted for as an investment in associate and the reversal of the cumulative reserves of CEPSA recognised during the period 1 August 2009 to 30 June 2011, i.e. the period during which CEPSA was accounted for as an investment in associate.

6. This column represents the consolidation entries at the assumed acquisition date. The value of the entire investment in CEPSA is eliminated against the share capital and pre-acquisition reserves of CEPSA, and the assets acquired and liabilities assumed (as per Note 2 above) are accounted in the Group accounts. The share

capital and pre-acquisition reserves of CEPSA are reported in Euro and have been translated into U.S.$ at the closing rate at 30 June 2011 of €1=U.S.$1.4510. The purchase price allocation ("**PPA**") has not been completed and no adjustment has been made to reflect the fair values of the assets and liabilities acquired. For the purposes of the pro forma financial information, U.S.$2,277 million, being the difference between the fair value of the cost of acquisition amounting to U.S.$10,842 million and the carrying value of assets and liabilities acquired (adjusted for non-controlling interests) of CEPSA amounting to U.S.$17,297 million and U.S.$8,732 million, respectively, at 30 June 2011, has been allocated to tangible fixed assets because once the PPA is completed, it is expected that substantially all of the fair value adjustment will relate to tangible assets. The tax impact of the fair value adjustments is not expected to be material to the unaudited pro forma condensed consolidated statement of financial position. In accordance with IFRS, the Company has up to one year from the effective date of the acquisition to complete the PPA.

Unaudited Pro Forma Condensed Consolidated Income Statement for the six months ended 30 June 2011

The following unaudited pro forma condensed consolidated income statement for the six months ended 30 June 2011 gives effect to the Transaction as if it had occurred on 1 January 2010.

		Pro forma Adjustments			
	Group	**CEPSA**	**Reverse associate accounting**	**Financing costs**	**Pro forma**
	Note 1	**Note 2**	**Note 3**	**Note 4**	
			(U.S.$ millions)		
Revenues	8,632	18,340			26,972
Cost of sales	(6,810)	(16,481)			(23,291)
Gross profit	**1,822**	**1,859**	**—**	**—**	**3,681**
Share of results of associates and jointly controlled entities	727	45	(216)		556
Operating expenses	(978)	(981)			(1,959)
Operating profit	**1,571**	**923**	**(216)**	**—**	**2,278**
Net finance costs	(299)	1		(68)	(366)
Other expenses, net	(41)	34			(7)
Gains and losses, net	146	6			152
Profit for the period from continuing operations before tax	**1,377**	**964**	**(216)**	**(68)**	**2,057**
Tax expense	(224)	(393)			(617)
Profit for the period from continuing operations	**1,153**	**571**	**(216)**	**(68)**	**1,440**

1. The consolidated income statement for the six months ended 30 June 2011 has been extracted, without material adjustment, from the Unaudited Financial Statements included elsewhere in this Base Prospectus.
2. This column represents the interim condensed consolidated income statement of CEPSA for the six months ended 30 June 2011 extracted without material adjustment from the consolidated financial statements of CEPSA for the six months ended 30 June 2011. The income statement of CEPSA for the six months ended 30 June 2011 is presented in Euro and has been translated into U.S.$ at the average rate for the six months ended 30 June 2011 of €1=U.S.$1.40321.
3. This column includes a charge of U.S.$216 million representing the reversal of the Group's share of post–tax profit of CEPSA for the six months ended 30 June 2011 as previously recorded within the Group's results.
4. This column includes:
   (a) Adjustment to reflect additional interest expense of U.S.$47 million at rates contracted between 4.875 per cent. and 6.59 per cent. per annum on the borrowings raised for the acquisition of the remaining issued share capital of CEPSA.
   (b) Adjustment to reflect the reversal of interest income of U.S.$21 million representing interest income received on cash in escrow during the six months ended 30 June 2011.

The Group has not yet completed the purchase price allocation ("**PPA**") in respect of the acquisition of CEPSA and, accordingly, no adjustment has been made to reflect fair values at the date of acquisition in the pro forma financial information. In accordance with IFRS, the Company has up to one year from the effective date of the acquisition to complete the PPA. Given that it is expected that substantially all of the fair value adjustment resulting from the finalisation of the PPA will relate to tangible fixed assets, the Company expects an increase in depreciation and amortisation of approximately U.S.$146 million, which is expected to decrease in future years. No adjustment for this amount is included in the pro forma income statement.

The pro forma adjustments, except for the adjustments in Note 3 above, are expected to have a continuing impact on the Group.

Unaudited Pro Forma Condensed Consolidated Income Statement for the year ended 31 December 2010

The following unaudited pro forma condensed consolidated income statement for the year ended 31 December 2010 gives effect to the Transaction as if it had occurred on 1 January 2010.

			Pro forma Adjustments			
	Group	**CEPSA**	**Reverse associate accounting**	**Acquisition related adjustments**	**Financing costs**	**Pro forma**
	Note 1	**Note 2**	**Note 3**	**Note 4**	**Note 5**	
				(U.S.$ millions)		
Revenues	15,367	29,326				44,693
Cost of sales	(12,468)	(24,011)				(36,479)
Gross profit	**2,899**	**5,315**	**—**	**—**	**—**	**8,214**
Share of results of associates and jointly controlled entities	704	42	(236)			510
Operating expenses	(2,007)	(4,138)				(6,145)
Operating profit	**1,596**	**1,219**	**(236)**	**—**	**—**	**2,579**
Net finance costs	(576)	20			(238)	(794)
Other expenses, net	(546)	118				(428)
Gains and losses, net	146	(1)		281		426
Profit for the period from continuing operations before tax	620	1,356	(236)	281	(238)	1,783
Tax expense	(471)	(497)				(968)
Profit for the period from continuing operations	**149**	**859**	**(236)**	**281**	**(238)**	**815**

1. The consolidated income statement for the year ended 31 December 2010 has been extracted, without material adjustment, from the 2010 Financial Statements included elsewhere in this Base Prospectus.

2. This column represents the consolidated income statement of CEPSA for the year ended 31 December 2010 extracted without material adjustment from the consolidated financial statements of CEPSA for the year ended 31 December 2010. The income statement of CEPSA for the year ended 31 December 2010 is presented in Euro and has been translated into U.S.$ at the average rate for the year ended 31 December 2010 of €1=U.S.$1.32789.

3. This column includes a charge of U.S.$236 million representing the reversal of the Group's share of post–tax profit of CEPSA for the year ended 31 December 2010 as previously recorded within the Group's results.

4. This column represents the net effect of the re-measurement of the previously held equity investment in CEPSA, the reversal of the cumulative changes in fair value of CEPSA recognised during the period prior to 31 July 2009, i.e. prior to CEPSA being accounted for as an investment in associate, and the reversal of the cumulative reserves of CEPSA recognised during the period 1 August 2009 to the date of acquisition, i.e. the period during which CEPSA was accounted for as an investment in associate.

5. This column relates to adjustment to reflect interest expense of U.S.$238 million at the contracted rates between 4.875 per cent. and 6.59 per cent. per annum on the borrowings raised for the acquisition of the remaining issued share capital of CEPSA.

The Group has not yet completed the purchase price allocation ("**PPA**") in respect of the acquisition of CEPSA and, accordingly, no adjustment has been made to reflect fair values at the date of acquisition in the pro forma financial information. In accordance with IFRS, the Company has up to one year from the effective date of the acquisition to complete the PPA. Given that it is expected that substantially all of the fair value adjustment resulting from the finalisation of the PPA will relate to tangible fixed assets, the Company expects an increase in depreciation and amortisation of approximately U.S.$146 million, which is expected to decrease in future years. No adjustment for this amount is included in the pro forma income statement.

The pro forma adjustments, except for the adjustments in Notes 3 and 4 above, are expected to have a continuing impact on the Group.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the information set out in "Presentation of Financial and Other Information", "Capitalisation of the Group", "Selected Financial Information of the Group" and the Financial Statements.

The following discussion of the Group's financial condition and results of operations is based upon the Financial Statements, which have been prepared in accordance with IFRS. This discussion contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Base Prospectus, particularly under the headings "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors".

Overview

The Company was established by the Government of Abu Dhabi pursuant to an Emiri Decree in 1984 with a mandate to invest globally in energy and energy-related industries. The Company is a holding company and currently has no significant revenue generating assets at the Company level. All of its consolidated revenues for the years ended 31 December 2010, 2009 and 2008 and for the six months ended 30 June 2011 and 2010 were earned by its subsidiaries. Income at the Company level is mostly comprised of interest income and dividends from investments. As of 30 June 2011, the Company had four significant operating subsidiaries: Borealis, Aabar, Ferrostaal and Nova Chemicals. In July and August 2011, the Company finalised its acquisition of the remaining issued share capital of CEPSA not previously held by the Company, and CEPSA will therefore be accounted for as a subsidiary from 5 July 2011.

The Company prepares audited consolidated financial statements on an annual basis and unaudited consolidated interim financial information semi-annually. The Company makes these statements available on its website.

Composition of the Financial Statements and Comparability of Financial Information

The Financial Statements present the results of operations and financial position of the Company and its subsidiaries. During the year ended 31 December 2010 the Group changed the presentation of certain line items in its consolidated income statement and consolidated statement of financial position to more accurately reflect the Group's business. As a result, the 2009 financial information (as presented within the 2010 Financial Statements) was reclassified to conform to the revised presentation of the 2010 Financial Statements. Accordingly, on an individual line item basis, the 2009 financial information (as presented within the 2010 Financial Statements) is not comparable to the 2009 financial information within the 2009 Financial Statements. However, such reclassification in the 2010 Financial Statements had no effect on the reported profits or the equity of the Group and was not deemed to be material to the 2010 Financial Statements. See Note 41 ("*Corresponding Figures*") to the 2010 Financial Statements. For the avoidance of doubt, all 2009 financial information provided in this Base Prospectus is the audited reclassified financial information as presented within the 2010 Financial Statements.

For the years ended 31 December 2009 and 2008, all of the Company's subsidiaries are consolidated on a line-by-line basis, except for Hyundai Oilbank, which the Group disposed of in August 2010 and which is accounted for as 'disposal group held-for-sale' for the year ended 31 December 2009 and is not consolidated on a line-by-line basis, together with the Group's proportionate share of the results of the Group's jointly controlled entities and associates (which are accounted for using equity accounting). Pursuant to an arbitration award in November 2009, the Group was directed to sell its entire interest in Hyundai Oilbank. As a result of this judgement, Hyundai Oilbank was classified as a 'disposal group held-for-sale' in 2009, and the corresponding comparative financial information for 2008 were reclassified in the 2009 Financial Statements for presentation purposes, as required by IFRS. In addition, as a result of a series of acquisitions in 2009, the Company established a revised reporting framework for the consolidation process to align certain line items of a similar nature of each of the subsidiaries to ensure conformity and comparability of the presented financial information. As a result of the changes above, the 2008 financial information (as presented within the 2009 Financial Statements) was reclassified to conform to the revised presentation of the 2009 Financial Statements. Accordingly, on an individual line item basis, the 2008 financial information (as presented within the 2009 Financial Statements) is not comparable to the 2008 financial information within the 2008 audited consolidated financial statements. However, such reclassification in the 2009 Financial Statements had no effect on the reported profits or the equity of the Group and was not deemed to be material to the 2009 Financial Statements.

See Note 40 ("*Comparative Information*") to the 2009 Financial Statements. For the avoidance of doubt, all 2008 financial information provided in this Base Prospectus is the audited reclassified financial information as presented within the 2009 Financial Statements.

In addition, the Group has a number of other significant derivative and non-derivative investments on its balance sheet, and changes in the fair value of these investments are recognised during each accounting period in the consolidated income statement, except for changes in available-for-sale investments and the effective portion of cash flow hedges, which are recognised in the consolidated statement of comprehensive income.

The following table shows the accounting treatment of each of the Company's significant operating subsidiaries and certain of its associates and other investments in its consolidated financial statements for each of the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008.

	Six months ended 30 June		**Year ended 31 December**		
	2011	**2010**	**2010**	**2009**	**2008**
Consolidated Subsidiaries					
Borealis (Plastic solutions— Europe)	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation	Full Consolidation
Aabar (Diversified investments)	Full Consolidation	Full Consolidation	Full Consolidation	From 23 March: Full Consolidation	—
Ferrostaal (Industrial engineering services)	Full Consolidation	Full Consolidation	Full Consolidation	From 25 March: Full Consolidation	—
Nova Chemicals (Plastic solutions—North America)	Full Consolidation	Full Consolidation	Full Consolidation	From 6 July: Full Consolidation	—
Hyundai Oilbank (Petroleum refinery products)	—	Shown as 'disposal group held-for-sale'	—	Shown as 'disposal group held-for-sale'	Shown as 'disposal group held-for-sale'
Non-Consolidated Investments					
OMV	Equity Method	Equity Method	Equity Method	Through 30 December: Available-for-Sale / From 31 December: Equity Method	Available-for-Sale
CEPSA[(1)]	Equity Method	Equity Method	Equity Method	Through 29 July: Available-for-Sale / From 30 July: Equity Method	Available-for-Sale
Cosmo Oil	Available-for-Sale	Available-for-Sale	Available-for-Sale	Available-for-Sale	Available-for-Sale
EDP	Available-for-Sale	Available-for-Sale	Available-for-Sale	Available-for-Sale	From March: Available-for-Sale
GEM	Equity Method	Equity Method	Equity Method	Equity Method	Equity Method
PARCO	Equity Method	Equity Method	Equity Method	Equity Method	Equity Method
SUMED	Available-for-Sale	Available-for-Sale	Available-for-Sale	Available-for-Sale	Available-for-Sale
Convertible Instruments					
IPBC Bond	Amortised Cost	Amortised Cost	Amortised Cost	From 5 March: Amortised Cost	—

(1) The Company finalised its acquisition of the entire share capital of CEPSA not already owned by the Company in July and August 2011, which resulted in CEPSA being accounted for on a consolidated basis from 5 July 2011.

The Company does not currently generate any revenues from ADCOP, ChemaWEyaat or the Fujairah Refinery. Expenses relating to these projects are capitalised.

Whilst the Company holds a number of long-term assets, it also has short-term liabilities which may, from time to time, result in the Company's current liabilities exceeding its current assets. This was the case as of 30 June 2011 and 31 December 2010. Notwithstanding the foregoing, the Company believes that, given the liquid nature of certain of the assets that it holds (among other factors) it is able to meet all of its short-term liabilities as and when they fall due.

Recent Developments

- In September 2011, the Company provided a AED 7.3 billion perpetual interest-free loan to Aabar, which will be accounted for within equity in the statement of financial position of Aabar.
- In September 2011, the Company entered into a AED 7.3 billion unsecured conventional loan with an interest rate at a margin over EIBOR for general corporate and working capital purposes.
- In September 2011, Aabar finalised its acquisition of a 24.9 per cent. stake in RHB for MYR 10.80 per share, implying a consideration of MYR 5.9 billion (U.S.$1.9 billion).
- In August 2011, Aabar finalised its acquisition of a 16.3 per cent. stake in Banvit for consideration of TL78 million (U.S.$46 million).
- In July 2011, Aabar invested a further U.S.$110 million in Virgin Galactic. As a result Aabar's stake in Virgin Galactic increased from 31.8 per cent. to 37.8 per cent.
- In July and August 2011, the Company finalised its acquisition of the remaining issued share capital of CEPSA for €4.0 billion (U.S.$5.8 billion).
- Between July and September 2011, the Company acquired an additional 4.0 per cent. stake in OMV, increasing the Company's shareholding in OMV to 24.9 per cent.

See Note 21 ("*Events after the Reporting Period*") to the Unaudited Financial Statements.

Factors that Affect the Group's Results of Continuing Operations

Acquisitions and Disposals

Consistent with its mandate from the Government and as part of its strategy, the Company has engaged in significant investment activities since 2008. As a result, year-on-year comparisons of the Group's financial statements may be difficult and may not be representative of the Group's underlying financial performance. Key acquisitions and disposals made by the Company since 1 January 2008 are described below. Each of these transactions has been reflected in the Financial Statements from its date of completion.

Year Ended 31 December 2008

- During 2008, the Company acquired a 4.1 per cent. interest in EDP through a series of open market purchases of shares totalling €483 million (U.S.$702 million).
- During 2008, the Company increased its holding in OMV from 17.6 per cent. to 19.6 per cent. through purchases of additional shares for a total consideration of €167 million (U.S.$214 million).
- In November 2008, the Company acquired certain mandatory convertible notes, reserve capital instruments and warrants of Barclays (the "**Barclays Financial Instruments**") for £3.3 billion (U.S.$5.0 billion).

Year Ended 31 December 2009

- In February and March 2009, the Company acquired mandatory exchangeable bonds issued by Aabar for AED 6.7 billion (U.S.$1.8 billion) that it immediately converted, resulting in the Company acquiring an aggregate 71.2 per cent. stake in Aabar, which has been reflected in the Group's results of operations from 23 March 2009.
- In March 2009, the Company acquired a 70.0 per cent. stake in Ferrostaal for consideration of €513 million (U.S.$698 million). As part of the acquisition, the Company and the previous shareholders of Ferrostaal also entered into a put and call arrangement in respect of the outstanding 30.0 per cent. minority interest.

- In March 2009, the Company acquired mandatory exchangeable bonds for A$1.7 billion (U.S.$1.1 billion), which, upon exchange, on or before 2014, will result in the Company acquiring shares in Oil Search, subject to certain circumstances under which the Independent Public Business Corporation may elect to repay the IPBC Bond in cash. The exchangeable bonds are treated as embedded derivatives in the consolidated financial statements.
- In July 2009, the Company increased its stake in CEPSA to 47.1 per cent. for €3.3 billion (U.S.$4.7 billion).
- In July 2009, the Company completed the acquisition of 100 per cent. of Nova Chemicals for a total consideration of U.S.$503 million. The Company also provided a U.S.$250 million backstop facility, out of which Nova Chemicals utilised U.S.$200 million that was later converted into equity.
- In December 2009, the Company increased its stake in OMV to 20.0 per cent. through the purchase of OMV shares for €37 million (U.S.$53 million), which has been reflected in the Group's results of operations from 31 December 2009.
- During 2009, the Company disposed of its investments in the Barclays Financial Instruments for total net proceeds of approximately £4.7 billion (U.S.$7.0 billion) and realised a net gain of U.S.$2.2 billion.

Year Ended 31 December 2010

- In January 2010, the Company sold its 20.0 per cent. stake in OPP for U.S.$20 million.
- In June 2010, a shareholder loan provided to Aabar by the Company in 2009 was converted into non-interest bearing convertible bonds of Aabar, which, effective 13 June 2010, were converted into 600 million shares of Aabar at AED 2.50 per share, increasing the Company's shareholding in Aabar from 71.2 per cent. to 75.5 per cent.
- In August 2010, the Group sold its entire interest in Hyundai Oilbank for net proceeds of approximately KRW 2,314 billion (U.S.$1,950 million) to Hyundai Heavy Industries pursuant to an arbitration award issued in November 2009, according to which the Group was directed to sell its entire interest in Hyundai Oilbank.
- In August 2010, the Company purchased 430,941,605 shares of Aabar at AED 1.95 per share from Aabar's non controlling shareholders, increasing the Company's interest in Aabar from 75.5 per cent. to 86.2 per cent. as part of the Company's plan to acquire full control of Aabar.
- In October 2010, Aabar completed its acquisition of a 31.8 per cent. stake in Virgin Galactic for a consideration of U.S.$280 million.
- In November 2010, Aabar completed the sale of its entire 0.8 per cent. stake in Banco Santander Brasil for an aggregate purchase price of U.S.$363 million.
- In November 2010, Aabar completed the sale of its entire 3.3 per cent. stake in Atlantia for an aggregate purchase price of €321 million (U.S.$455 million).

Six months ended 30 June 2011

- In January 2011, Aabar completed the acquisition of a 28.0 per cent. stake in Xojet Inc for a consideration of U.S.$75 million.
- In May 2011, Aabar completed the acquisition of U.S.$850 million of shares in Glencore, which were purchased as part of Glencore's initial public offering. The acquisition of the shares has resulted in Aabar holding a 1.4 per cent. equity stake in Glencore.
- In June 2011, the Company participated in the rights issue by OMV, resulting in the Company retaining its 20.0 per cent. equity stake in OMV.
- In June 2011, the Company purchased shares of OMV on the open market, which increased its stake to 20.9 per cent.
- During the six months ended 30 June 2011, a shareholder loan provided by the Company to Aabar in 2010 was converted into non-interest bearing convertible bonds of Aabar, which were then converted into 887 million shares of Aabar at AED 1.45 per share, increasing the Company's shareholding in Aabar from 86.2 per cent. to 93.1 per cent.
- During the six months ended 30 June 2011, the Company purchased additional shares of Aabar from Aabar's non controlling shareholders, which increased its stake from 93.1 per cent. to 95.2 per cent. As at the date of this Base Prospectus, the Company has a 95.3 per cent. stake in Aabar.

Post six months ended 30 June 2011

For a description of key acquisitions and disposals made by the Company since 30 June 2011, see "*—Recent Developments*" above.

The year ended 31 December 2010 and the six months ended 30 June 2011 were significant periods for the Company in terms of investment activity. See "*Unaudited Pro Forma Consolidated Financial Information*". For the remainder of 2011, the Company intends to focus on integrating its recent investments into its existing portfolio in a manner that reduces costs, maximises efficiencies and enhances synergies across its investment portfolio. However, the Company will continue to evaluate potential investment opportunities and will make investments if an attractive investment opportunity that meets its investment criteria arises.

Portfolio Companies

The Company's results and operations are dependent on the results and contributions of its principal portfolio companies. The following table sets forth summary information regarding the Company's principal portfolio companies as of 30 September 2011.

Investment	Reporting Segment	Date of Initial Investment	Percentage Ownership	Accounting Treatment
Consolidated Subsidiaries				
CEPSA[(1)]	Other	1988	100.0	Consolidated
Borealis[(2)]	Plastic Solutions—Europe	1998	64.0	Consolidated
Nova Chemicals	Plastic Solutions—North America	2009	100.0	Consolidated
Ferrostaal	Industrial Engineering services	2009	70.0	Consolidated
Aabar	Diversified investments	2009	95.3	Consolidated
Non-consolidated Investments				
OMV	Other	1994	24.9	Equity Method
Cosmo Oil	Other	2007	20.8	Available-for-Sale
EDP	Other	2008	4.1	Available-for-Sale
PARCO[(3)]	Other	1995	30.0	Equity Method
SUMED	Other	1995	15.0	Available-for-Sale
GEM	Other	2004	30.0	Equity Method
Convertible Instruments				
IPBC Bond	Other	2009	—	Amortised Cost

(1) The Company finalised its acquisition of the entire share capital of CEPSA in July and August 2011, and accordingly CEPSA will be consolidated from 5 July 2011.

(2) OMV holds the remaining 36.0 per cent. of Borealis.

(3) The Company's investment in PARCO is indirectly held through Abu Dhabi Petroleum Investment Company L.L.C. ("**ADPIC**"), a special purpose vehicle. ADPIC holds a 40.0 per cent. stake in PARCO and the Company has a 75.0 per cent. stake in ADPIC with the remaining 25.0 per cent. held by OMV.

In addition to the investments listed in the table above, the Company is involved in a number of projects, including the ADCOP, ChemaWEyaat and Fujairah Refinery projects. Please see "*Description of the Group—Projects Under Development*".

The Group has six reporting segments:

- *Plastic solutions—Europe.* The plastic solutions—Europe segment, through Borealis, provides plastic solutions based on polyolefin and chemical solutions, including phenol, acetone, melamine and agrochemicals.

- *Plastic solutions—North America.* The plastic solutions—North America segment, through Nova Chemicals, provides plastic solutions based on ethylene and polyethylene and performance styrenic polymers. This segment produces plastics and chemicals and develops value-added products and technology for customers worldwide that produce consumer, industrial and packaging products.

- *Petroleum refinery products.* The petroleum refinery products segment, through Hyundai Oilbank, produced and sold petroleum refinery products during the periods under discussion. For periods subsequent to August 2010, the Group will not report petroleum refinery products as a separate segment unless it acquires or develops business in this segment. See *"—Composition of the Financial Statements and Comparability of the Financial Information*".

- *Industrial engineering services.* The industrial engineering services segment, through Ferrostaal, develops and manages large-scale plant projects and provides industrial solutions worldwide.
- *Diversified investments.* The diversified investments segment, through Aabar, provides investment advisory and asset management services, through Aabar's wholly-owned subsidiary, Falcon Bank, and also includes Aabar's other diversified investments.
- *Others*. The others segment relates primarily to the Company as the parent holding company of the Group and its financing activities and investments in the Group's operating companies. This segment also includes the Company's investments in OMV, CEPSA, Cosmo Oil, EDP, GEM, PARCO, SUMED and the IPBC Bond, as well as the ADCOP, ChemaWeyaat (petrochemicals facility) and Fujairah Refinery projects.

Foreign Currency Translation

The Financial Statements are presented in U.S. dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are presented in that functional currency.

Transactions and Balances

Transactions in foreign currencies are initially recorded by Group entities using their respective functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange prevailing at the balance sheet date.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates 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 was determined.

Group Companies

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

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

Factors Affecting Revenue

Plastic Solutions

Revenue consists primarily of revenue from plastic solutions. Revenue from plastic solutions consists of revenue from sales by Borealis and Nova Chemicals of olefins and polyolefins, including ethylene, polyethylene, melamine and a variety of chemical and energy products and from sales of styrenic-based products, primarily expandable polystyrene and higher value styrenic polymers. Revenue from plastic solutions is a function of the volume of products sold and the sales price of each product. Sales volumes are influenced primarily by economic growth, a key driver of demand. Sales volumes may also be influenced by short-term changes in customer buying patterns, which are primarily driven by expectations of price volatility. Pricing for plastic solutions is based on the amount customers are willing to pay for those products compared to similar available or competing products. Prices can rapidly change as a result of feedstock costs and fluctuations in the balance between supply and demand. Demand growth is driven by economic growth. In contrast, new product supply grows in large increments through the construction of large, complex new plants, which generally require significant capital expenditure and lead-time to complete. As a result, prices in the plastic solutions industry are cyclical based on the state of the economy rather than seasonal. In 2009, sales volumes were lower, and prices were significantly lower, than in 2008 due to the effects of the global economic crisis. In 2010, as a result of the improvement of the global economy, both sales volumes and prices have recovered from their 2009 lows. During the first half of 2011, the polyolefins industry continued its recovery. Pricing improved across all segments compared to the previous financial year.

Industrial Engineering Services

Revenue from industrial engineering services consists of Ferrostaal's revenues from providing project development and management services. The projects in which Ferrostaal is active have timelines of several years and are often carried out under contract for government-owned principals. The key factor influencing plant construction in the oil and gas, petrochemicals and power plant sectors in which Ferrostaal is active is that demand for the relevant products—basic chemical stocks, fuels and electrical energy–essentially parallels global growth in population and wealth.

Diversified Investments

Revenue from diversified investments consists of revenue from investment advisory and asset management services rendered by Aabar's wholly-owned subsidiary, Falcon Bank.

Factors Affecting Cost of Sales

Plastic Solutions

Cost of sales consists primarily of cost of sales of plastic solutions. Cost of sales of plastic solutions consists principally of raw materials and supplies used in production, including feedstock (ethane, other natural gas liquids such as propane and butane, crude oil and crude oil derivatives, ethylene and styrene, among others), catalyst additives and utilities; depreciation and amortisation of equipment and facilities related to the production of plastic solutions; and staff costs related to the production of plastic solutions. Feedstock costs are the largest component of cost of sales of plastic solutions. Feedstock prices are driven by the prices of crude oil and natural gas. The oil price peaked in April 2011, when the price of Brent crude oil climbed above U.S.$125/bbl, compared to U.S.$100/bbl at the end of December 2010. By June 2011, feedstock prices had decreased slightly from the April high with average monthly prices of Brent crude oil and Naphtha settling approximately 20 per cent. and 10 per cent. higher compared to end of December 2010. Ethylene and propylene contract prices also increased in the first half of 2011, offsetting the higher feedstock prices and leading to an improvement of industry cracker margins. Significant components of the cost of sales of plastic solutions, including depreciation, staff costs and equipment maintenance costs, are fixed. An increase in production efficiency through higher utilisation rates and higher yields enables the Group to increase revenues without significantly increasing fixed cost components. During periods of lower market demand, significant declines in capacity utilisation rates result in significant adverse effects to the profitability of the Group's plastic solutions businesses.

Industrial Engineering Services

Cost of sales also includes cost of sales of industrial engineering services, which are primarily related to Ferrostaal's construction contracts. These costs (and the related revenues) are recognised by reference to the stage of completion of each construction project achieved as of the balance sheet date.

Diversified Investments

Cost of sales for diversified investments consists of interest and commission expenses for Aabar's wholly-owned subsidiary Falcon Bank.

Other Key Income Statement Items

Share of post-tax profit of associates and jointly controlled entities. Share of post-tax profit of associates and jointly controlled entities comprises the Group's proportionate share of the profit of its associates and jointly controlled entities. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture, while a jointly controlled entity is one where there is a contractual arrangement between the Group and the other parties for joint control over the economic activity of the entity. Please see Note 5 ("*Investments in Associates and Jointly Controlled Entities*") to the 2010 Financial Statements for a list of significant associates and jointly controlled entities as of 31 December 2010.

Finance income. Finance income includes dividend income from investments other than subsidiaries and associates and interest income from bank deposits and the IPBC Bond.

Finance costs. Finance costs include interest expense relating to interest-bearing loans, borrowings and debentures and amortisation of arrangement fees on borrowings.

Gains on acquisitions and disposals. Gains on acquisitions and disposals includes gain on disposal of available-for-sale financial instruments, gain on disposal of financial instruments at fair value through profit or loss and excess of fair value over cost of business combinations.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not otherwise classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity instruments. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the consolidated income statement.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by International Accounting Standard No. 39 Financial Instruments: *Recognition and Measurement (Revised)*. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with gains or losses recognised in the consolidated income statement.

Other gains (losses) on financial instruments. Other gains (losses) on financial instruments includes fair value gain on non-derivative financial instruments at fair value through profit or loss, fair value loss on non-derivative financial instruments at fair value through profit or loss, fair value gain on derivative financial instruments and fair value loss on derivative financial instruments.

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 on each balance sheet date. The fair value of a derivative financial instrument is determined by reference to market values for similar instruments or, in the absence of reference market prices, using valuation techniques. Any gains or losses arising from changes in fair value on derivatives are recognised in the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The Group has significant exposure to derivative financial instruments, primarily due to the use of funded collar arrangements and put options in the financing of certain investments including, in particular, the purchase of its 9.1 per cent. stake in Daimler (reduced to 9.04 per cent. in October 2011) and its 4.99 per cent. stake in UniCredit. Funded collar arrangements enable the Group to raise the financing required for an acquisition while mitigating the risks associated with the investment's volatility. They consist of the acquisition of several puts and the sale of several calls on the investment, each in small tranches with different strike prices and different maturity dates. The puts mitigate the downside risk for the Group by providing a minimum price at which the Group can sell its investment. Sale of the calls funds the Group's acquisition of the puts. The strike prices of the calls limit the potential gain for the Group by providing a maximum price beyond which the Group will forego any gain. The derivative financial instruments associated with the funded collar arrangement will be "in the money" if the share price is below the put strike price and will be recognised as a balance sheet asset. The derivative financial instruments will have no value if the share price is within the range of the puts and the calls. The derivative financial instruments will be "out of the money" if the share price is above the call strike price and will be recognised as a balance sheet liability.

During the six months ended 30 June 2011, the Group's fair value gain on non-derivative financial instruments at fair value through profit or loss was U.S.$767 million, primarily relating to the increase in the value of its investment in Daimler, and the Group's fair value loss on derivative financial instruments was U.S.$351 million, primarily relating to its investment in Daimler. During the year ended 31 December 2010, the Group's fair value gain on non-derivative financial instruments at fair value through profit or loss was U.S.$1,340 million, primarily relating to the increase in the value of its investment in Daimler; the Group's fair value loss on non-derivative financial instruments at fair value through profit or loss was U.S.$242 million, primarily relating to the decrease in value of its investment in Unicredit; the Group's fair value gain on derivative financial instruments was U.S.$291 million, primarily relating to its investment in Unicredit; and the Group's fair value loss on derivative financial instruments was U.S.$1,448 million, primarily relating to its investment in Daimler. See Note 7 ("*Other (losses) gains on financial instruments*") to the Unaudited Financial Statements and Note 9 ("*Other (losses) gains on financial instruments*") to the 2010 Financial Statements for further detail.

Segmental Analysis

For management purposes, the Group is organised into business units based on their products and services and has six reportable operating segments: plastic solutions—Europe, plastic solutions—North America; petroleum refinery products; industrial engineering services; diversified investments; and others. See "—*Overview*" above.

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

Transfer prices between operating segments are on an arm's length basis consistent with transactions with third parties.

The following table sets forth revenue, profit for the period and certain asset and liability information for the Group's business segments for the six months ended 30 June 2010 and as of and for the six months ended 30 June 2011 and the years ended 31 December 2010, 2009 and 2008.

	Plastic solutions Europe(2)	Plastic solutions North America(3)	Petroleum refinery products(4)	Industrial engineering services(5)	Diversified investments(6)	Others(7)	Total
				(U.S.$'000)			
Six months ended 30 June 2011							
Segment revenue	5,270,680	2,690,722	—	612,685	57,753	—	8,631,840
Segment profit for the period	478,831	388,095	—	(24,456)	(236,119)	555,229	1,161,580
Six months ended 30 June 2010							
Segment revenue	4,025,677	2,340,899	—	961,163	51,767	—	7,379,506
Segment profit for the period	193,769	142,148	254,550	(37,334)	(281,029)	141,672	413,776
Year ended 31 December 2010							
Segment revenue	8,324,538	4,590,003	—	2,377,421	74,990	—	15,366,952
Segment profit for the year	442,792	262,182	1,160,282	30,710	(904,385)	356,592	1,348,173
Year ended 31 December 2009							
Segment revenue	6,574,067	1,639,059	—	1,650,415	53,829	—	9,917,370
Segment profit for the year	52,481	923,040	284,592	20,758	717,433	2,150,962	4,149,266
Year ended 31 December 2008							
Segment revenue	9,851,870	—	—	—	—	—	9,851,870
Segment profit for the year	351,602	—	(256,215)	—	—	(46,100)	49,287
As of 30 June 2011							
Segment assets(1)	8,598,220	5,960,348	—	3,248,816	19,942,427	24,083,494	61,833,305
Segment liabilities	4,142,671	3,609,904	—	2,252,285	15,698,389	18,366,403	44,069,652

	Plastic solutions Europe[2]	Plastic solutions North America[3]	Petroleum refinery products[4]	Industrial engineering services[5]	Diversified investments[6]	Others[7]	Total
				(U.S.$'000)			
As at 31 December 2010							
Segment assets[1]	7,560,957	5,576,924	—	3,083,716	15,325,339	16,331,641	47,878,577
Segment liabilities ..	3,651,601	3,604,074	—	2,113,903	12,167,323	10,335,798	31,872,699
As at 31 December 2009							
Segment assets[1]	6,982,745	5,353,903	4,735,206	4,183,388	10,475,524	14,540,635	46,271,401
Segment liabilities ..	3,492,205	3,560,557	3,431,482	3,188,633	6,701,961	10,578,182	30,953,020
As at 31 December 2008							
Segment assets	5,558,316	—	3,740,776	—	—	13,969,008	23,268,100
Segment liabilities ..	3,534,161	—	2,795,141	—	—	6,685,068	13,014,370

(1) Consists of 'segment assets', 'investments in associates and jointly controlled entities' and 'assets included in disposal groups held-for-sale' (as such terms are used in the segmental reporting tables relating to the Group's business segments as of 30 June 2011 and 31 December 2010 and 2009).

(2) Consists solely of Borealis and its consolidated subsidiaries.

(3) Consists solely of Nova Chemicals and its consolidated subsidiaries.

(4) Consists solely of Hyundai Oilbank and its consolidated subsidiaries. Hyundai Oilbank was sold in August 2010.

(5) Consists solely of Ferrostaal and its consolidated subsidiaries.

(6) Consists solely of Aabar and its consolidated subsidiaries.

(7) Includes investments in OMV, CEPSA, Cosmo Oil, EDP, GEM, PARCO, SUMED and the IPBC Bond, as well as the ADCOP and ChemaWEyaat and Fujairah Refinery projects.

The total assets of the Company on an unconsolidated basis were U.S.$33,619 million, U.S.$24,848 million, U.S.$21,766 million and U.S.$16,480 million as of 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 respectively. Total equity of the Company on an unconsolidated basis was U.S.$15,454 million, U.S.$14,602 million, U.S.$11,373 million and U.S.$9,745 million as of 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 respectively.

The following table sets forth revenue and certain asset information for the Group's geographical segments for the years ended and as of 31 December 2010, 2009 and 2008.

	U.A.E.	Europe	North America	Rest of the world	Total
			(U.S.$'000)		
Segment revenue					
Year ended 31 December 2010	273,568	8,049,253	4,579,587	2,464,544	**15,366,952**
Year ended 31 December 2009	53,579	6,013,736	1,604,815	2,245,240	**9,917,370**
Year ended 31 December 2008	68,447	8,788,335	148,572	846,516	**9,851,870**
Segment non-current assets[1]					
As at 31 December 2010	4,119,886	4,363,901	3,901,489	80,960	**12,466,236**
As at 31 December 2009	1,852,609	4,934,522	4,051,935	—	**10,839,066**
As at 31 December 2008	479,102	3,522,674	9,690	1,578,535	**5,590,001**

(1) Consists of property, plant and equipment, intangible assets and investment properties.

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of the Group's customers. For the year ended 31 December 2010, 52.4 per cent. of the Group's revenue was derived from customers in Europe, 29.8 per cent. was derived from customers in North America, with the remaining 17.8 per cent. spread between the other geographical segments, compared with 60.6 per cent., 16.2 per cent. and 23.2 per cent., respectively, for the year ended 31 December 2009 and 89.2 per cent., 1.5 per cent. and 9.3 per cent., respectively, for the year ended 31 December 2008. The Group does not disclose geographical segment information in its interim financial statements, as permitted by IFRS.

Results of Continuing Operations

Comparison of Six Months Ended 30 June 2011 and 2010

Revenue. The Group's revenue was U.S.$8,632 million in the six months ended 30 June 2011, compared to U.S.$7,380 million in the six months ended 30 June 2010, an increase of U.S.$1,252 million, or 17.0 per cent. The increase in revenue is primarily attributable to an increase in revenue from Borealis and Nova Chemicals, partially offset by a decrease in revenue from Ferrostaal.

Revenue from the plastic solutions–Europe segment was U.S.$5,271 million in the six months ended 30 June 2011, compared to U.S.$4,026 million in the six months ended 30 June 2010, an increase of U.S.$1,245 million, or 30.9 per cent. The increase in revenue at Borealis was a result of higher sales volumes in the first six months of 2011.

Revenue from the plastic solutions–North America segment was U.S.$2,691 million in the six months ended 30 June 2011, compared to U.S.$2,341 million in the six months ended 30 June 2010, an increase of U.S.$350 million, or 15.0 per cent. This increase was due to increases in selling prices.

Revenue from the industrial engineering services segment was U.S.$613 million in the six months ended 30 June 2011, compared to U.S.$961 million in the six months ended 30 June 2010, a decrease of U.S.$348 million, or 36.2 per cent. This decrease was due to an overall reduction in orders at Ferrostaal as a result of the ongoing investigation.

Revenue from the diversified investments segment was U.S.$58 million in the six months ended 30 June 2011, compared to U.S.$52 million in the six months ended 30 June 2010, an increase of U.S.$6 million, or 11.5 per cent.

Cost of sales. Cost of sales was U.S.$6,810 million in the six months ended 30 June 2011, compared to U.S.$5,980 million in the six months ended 30 June 2010, an increase of U.S.$830 million, or 13.9 per cent. The increase in cost of sales was primarily due to an increase in sales volumes and in line with revenue increases. Cost of sales as a percentage of the Group's revenue was 78.9 per cent. in the six months ended 30 June 2011 and 81.0 per cent. in the six months ended 30 June 2010.

Cost of sales in the plastic solutions—Europe segment was U.S.$4,293 million in the six months ended 30 June 2011, compared to U.S.$3,248 million in the six months ended 30 June 2010, an increase of U.S.$1,045 million, or 32.2 per cent., in line with the increase in revenue.

Cost of sales in the plastic solutions—North America segment was U.S.$1,980 million in the six months ended 30 June 2011, compared to U.S.$1,849 million in the six months ended 30 June 2010, an increase of U.S.$131 million, or 7.1 per cent. This increase was a result of higher feedstock prices.

Cost of sales in the industrial engineering services segment was U.S.$512 million in the six months ended 30 June 2011, compared to U.S.$858 million in the six months ended 30 June 2010, a decrease of U.S.$346 million, or 40.3 per cent. This decrease was primarily due to a reduction in sales orders as a result of the ongoing investigation.

Cost of sales in the diversified investments segment was U.S.$25 million in each of the six months ended 30 June 2011 and 2010.

Gross profit. Gross profit was U.S.$1,822 million in the six months ended 30 June 2011, compared to U.S.$1,399 million in the six months ended 30 June 2010, an increase of U.S.$423 million, or 30.2 per cent., which is largely in line with changes in revenue and cost of sales and is primarily due to the reasons set forth above.

Gross profit in the plastic solutions—Europe segment was U.S.$978 million in the six months ended 30 June 2011, compared to U.S.$778 million in the six months ended 30 June 2010, an increase of U.S.$200 million, or 25.7 per cent.

Gross profit in the plastic solutions—North America segment was U.S.$711 million in the six months ended 30 June 2011, compared to U.S.$492 million in the six months ended 30 June 2010, an increase of U.S.$219 million, or 44.5 per cent.

Gross profit in the industrial engineering services segment was U.S.$101 million in the six months ended 30 June 2011, compared to U.S.$103 million in the six months ended 30 June 2010, a decrease of U.S.$2 million, or 1.9 per cent.

Gross profit in the diversified investments segment was U.S.$33 million in the six months ended 30 June 2011, compared to U.S.$27 million in the six months ended 30 June 2010, an increase of U.S.$6 million, or 22.2 per cent.

Share of post-tax profits of associates and jointly controlled entities. Share of post-tax profits of associates and jointly controlled entities was U.S.$727 million in the six months ended 30 June 2011, compared to U.S.$325 million in the six months ended 30 June 2010, an increase of U.S.$402 million, or 124.0 per cent. This increase was primarily due to the higher contribution of post-tax profits from the Company's investment in CEPSA and OMV, and from Borealis' investment in Borouge. In addition, the higher contributions of CEPSA and OMV were further increased on translation to U.S.$, the functional currency of the Company, reflecting a strengthening of the Euro against the U.S.$ during the six months ended 30 June 2011.

Foreign exchange (loss) gain, net. Foreign exchange loss, net was U.S.$294 million in the six months ended 30 June 2011, compared to a foreign exchange gain of U.S.$913 million in the six months ended 30 June 2010, a decrease of U.S.$1,207 million, or 132.2 per cent. The decrease was primarily due to exchange loss recognised on translation of Euro borrowings into U.S.$ at a higher exchange rate due to a stronger Euro during the six months ended 30 June 2011.

Finance income. Finance income was U.S.$423 million in the six months ended 30 June 2011, compared to U.S.$132 million in the six months ended 30 June 2010, an increase of U.S.$291 million, or 220.5 per cent. The increase resulted primarily from dividends received by Aabar in respect of its interest in Daimler and income received from cash in the escrow account for the pending purchase of CEPSA.

Finance costs. Finance costs were U.S.$723 million in the six months ended 30 June 2011, compared to U.S.$402 million in the six months ended 30 June 2010, an increase of U.S.$321 million, or 79.9 per cent. This increase was primarily due to an increase in interest expense relating to a higher level of borrowings, partially offset by a decrease in amortisation of arrangement fees on borrowings and additional interest costs paid out by Aabar under a structuring mechanism of its derivative-based investments in Daimler.

Other expense. Other expense was U.S.$67 million in the six months ended 30 June 2011, compared to U.S.$142 million in the six months ended 30 June 2010, a decrease of U.S.$75 million, or 52.8 per cent. The decrease was primarily due to the fact that during the six months ended 30 June 2010, Nova Chemicals recorded a provision in other expense amounting to U.S.$83 million which related to legal proceedings (as disclosed in "*Description of the Group—Legal Proceedings*"). No additional provision was made in 2011.

Gains on acquisitions and disposals. Gains on acquisitions and disposals were U.S.$16 million in the six months ended 30 June 2011, compared to U.S.$14 million in the six months ended 30 June 2010, an increase of U.S.$2 million, or 14.3 per cent.

Other gains (losses) on financial instruments. Other gains on financial instruments were U.S.$424 million in the six months ended 30 June 2011, compared to other losses on financial instruments of U.S.$1,084 million in the six months ended 30 June 2010, an increase of U.S.$1,508 million, or 139.1 per cent. This increase was primarily due to a revaluation gain on the Group's investment in Daimler.

Profit before tax from continuing operations. Profit before tax from continuing operations was U.S.$1,377 million in the six months ended 30 June 2011, compared to U.S.$267 million in the six months ended 30 June 2010, an increase of U.S.$1,110 million, or 415.7 per cent.

Tax expense. Tax expense was U.S.$224 million in the six months ended 30 June 2011, compared to U.S.$108 million in the six months ended 30 June 2010, an increase of U.S.$116 million, or 107.4 per cent. The Company is based in a jurisdiction which has no corporate tax, therefore the tax expenses represent tax expenses charged on international operations in their respective jurisdictions.

Profit for the period from discontinued operations. Profit for the period from discontinued operations was U.S.$8 million in the six months ended 30 June 2011, compared to U.S.$255 million in the six months ended 30 June 2010, a decrease of U.S.$247 million, or 96.9 per cent. The decrease is due to the fact that in 2010 the Group has Hyundai Oilbank classified as "disposal group held-for-sale" and as such its results were reported net under profit for the period from discontinued operations. Hyundai Oilbank was disposed in August 2010 and accordingly no such income was reported in 2011.

Profit for the period. As a result of the foregoing, profit for the period was U.S.$1,162 million in the six months ended 30 June 2011, compared to U.S.$414 million in the six months ended 30 June 2010, an increase of U.S.$748 million, or 180.7 per cent.

Comparison of Years Ended 31 December 2010 and 2009

Revenue. Revenue was U.S.$15,367 million in 2010, compared to U.S.$9,917 million in 2009, an increase of U.S.$5,450 million, or 55.0 per cent., primarily reflecting increases in revenue from each of Nova Chemicals and Borealis.

Revenue from the plastic solutions—Europe segment was U.S.$8,325 million in 2010, compared to U.S.$6,574 million in 2009, an increase of U.S.$1,751 million, or 26.6 per cent. The increase in revenue in Borealis was a result of higher sales prices and volumes as a result of improved economic and business conditions.

Revenue from the plastic solutions—North America segment was U.S.$4,590 million in 2010, compared to U.S.$1,639 million in 2009 an increase of U.S.$2,951 million, or 180.0 per cent., reflecting a full year of consolidation of Nova Chemicals.

Revenue from the industrial engineering services segment U.S.$2,377 million in 2010, compared to U.S.$1,650 million in 2009, an increase of U.S.$727 million, or 44.1 per cent., reflecting a full year of consolidation of Ferrostaal.

Revenue from the diversified investments segment was U.S.$75 million in 2010, compared to U.S.$54 million in 2009, an increase of U.S.$21 million, or 38.9 per cent., reflecting a full year of consolidation of Aabar's investment in Falcon Bank.

Cost of sales. Cost of sales was U.S.$12,468 million in 2010, compared to U.S.$8,393 million in 2009, an increase of U.S.$4,075 million, or 48.6 per cent., in line with the increase in revenue. Cost of sales as a percentage of the Group's revenue was 81.1 per cent. in 2010 and 84.6 per cent. in 2009.

Cost of sales in the plastic solutions—Europe segment was U.S.$6,777 million in 2010, compared to U.S.$5,548 million in 2009, an increase of U.S.$1,229 million, or 22.2 per cent., resulting from higher feedstock costs and therefore higher production costs. The increase in the cost of sales was also in line with the increase in revenue.

Cost of sales in the plastic solutions—North America segment, the industrial engineering services segment, and the diversified investments segment were U.S.$3,722 million, U.S.$1,952 million, and U.S.$17 million, respectively, in 2010, compared to U.S.$1,375 million, U.S.$1,459 million, and U.S.$11 million, respectively, in 2009. The increase in the cost of sales for these segments is primarily due to the fact that Nova Chemicals and Ferrostaal were only consolidated for a portion of 2009, reflecting their respective dates of acquisition, compared to a full year of consolidation in 2010.

Gross profit. Gross profit was U.S.$2,899 million in 2010, compared to U.S.$1,525 million in 2009, an increase of U.S.$1,374 million, or 90.1 per cent., which is largely in line with changes in revenue and cost of sales and is primarily due to the reasons set forth above.

Gross profit in the plastic solutions—Europe segment was U.S.$1,548 million in 2010, compared to U.S.$1,026 million in 2009, an increase of U.S.$522 million, or 50.9 per cent. The increase profitability was driven by improved industry margins across all businesses combined with further efficiency gains by the organisations.

Gross profit in the plastic solutions—North America segment, the industrial engineering services segment, and the diversified investments segment were U.S.$868 million, U.S.$425 million, and U.S.$58 million, respectively, in 2010, compared to U.S.$264 million, U.S.$192 million, and U.S.$43 million, respectively, in 2009, which is largely in line with changes in revenue and cost of sales and is primarily due to the reasons set forth above.

Share of post tax profits of associates and jointly controlled entities. Share of post tax profits of associates and jointly controlled entities was U.S.$704 million in 2010, compared to U.S.$141 million in 2009, an increase of U.S.$563 million, or 399.3 per cent. The increase was mainly due to the treatment of CEPSA and OMV as associates of the Group for the full year ended 31 December 2010, as well as a higher share of profit from Borealis' investments in Borouge, partially offset by additional depreciation and amortisation charges in relation to the allocation of the purchase price for additional shares of CEPSA and OMV to fixed assets.

Foreign exchange (loss) gain, net. Foreign exchange gain, net was U.S.$346 million in 2010, compared to a foreign exchange loss of U.S.$109 million in 2009, an increase of U.S.$455 million, or 417.4 per cent. The decrease was primarily due to gains on translation of the Group's Euro borrowings at year end as a result of a weakening Euro to the U.S.$ in 2010.

Finance income. Finance income was U.S.$257 million in 2010, compared to U.S.$614 million in 2009, a decrease of U.S.$357 million, or 58.1 per cent. This decrease resulted from: (i) dividends received from CEPSA and OMV, amounting to U.S.$137 million and U.S.$74 million, respectively, being credited against the carrying value of the investments in 2010 as a result of the change in the recognition of these investments from available-for-sale investments to investments in associates; in 2009, dividends from these investments were fully credited to finance income in the consolidated income statements; and (ii) interest income received in 2009 amounting to U.S.$281 million, relating to the Company's investments in the Barclays Financial Instruments, which the Company disposed of in 2009.

Finance costs. Finance costs were U.S.$833 million in 2010, compared to U.S.$716 million in 2009, an increase of U.S.$117 million, or 16.3 per cent. This increase was primarily due to from an increase of interest expense resulting from an increase in the level of borrowings during 2010.

Other expense. Other expense was U.S.$692 million in the year ended 31 December 2010, compared to U.S.$32 million in the year ended 31 December 2009, an increase of U.S.$660 million, or 2,062.5 per cent. The increase was primarily due to an impairment loss of U.S.$515 million recognised by Aabar during 2010 on certain of its real estate, in addition to an impairment loss of U.S.$98 million recognised by the Company on goodwill previously recognised on the acquisition of Ferrostaal.

Gains on acquisitions and disposals. Gains on acquisitions and disposals were U.S.$137 million in 2010, compared to U.S.$3,119 million in 2009, a decrease of U.S.$2,982 million, or 95.6 per cent. In 2010, the Group recognised a gain on disposal of financial instruments of Atlantia by Aabar amounting to U.S.$94 million and a gain on disposal of financial instruments of Banco Santander Brasil by Aabar amounting to U.S.$21 million. In 2009, the Group recognised a gain on disposal of the Company's investment in the Barclays Financial Instruments amounting to U.S.$2,192 million, and also recorded negative goodwill on the acquisition of Nova Chemicals amounting to U.S.$926 million.

Other gains (losses) on financial instruments. Other losses on financial instruments were U.S.$337 million in 2010, compared to a gain of U.S.$728 million in 2009, a decrease of U.S.$1,065 million, or 146.3 per cent. This decrease was primarily due to a smaller revaluation gain on the Group's investment in Daimler as compared to 2009.

Profit before tax from continuing operations. Profit before tax from continuing operations was U.S.$620 million in 2010, compared to U.S.$3,903 million in 2009, a decrease of U.S.$3,283 million, or 84.1 per cent.

Tax expense. Tax expense was U.S.$471 million in 2010, compared to U.S.$38 million in 2009, an increase of U.S.$433 million, or 1,139.5 per cent. The increase was primarily due to higher taxable profits from operations of Borealis and Nova Chemicals, as well as deferred tax charges of U.S.$164 million recognised by Aabar on its investments in accordance with the requirements of IAS 12 Income Taxes (which requires that a company recognises deferred tax on the possibility of the company being charged with capital gains tax on future disposal or withholding taxes on future dividends).

The Company is based in a jurisdiction which has no corporate tax, therefore the tax expenses represent tax expenses charged on international operations in their respective jurisdictions.

Profit for the year from discontinued operations. Profit for the year from discontinued operations was U.S.$1,199 million in 2010, compared to U.S.$285 million in 2009, an increase of U.S.$914 million, or 320.7 per cent. The increase related to an increase in profit for the year from Hyundai Oilbank in 2010, as well as a gain recognised by the Group on the disposal of Hyundai Oilbank during that year.

Profit for the year. As a result of the foregoing, profit for the year was U.S.$1,348 million in 2010, compared to U.S.$4,149 million in 2009, a decrease of U.S.$2,801 million, or 67.5 per cent.

Comparison of Years Ended 31 December 2009 and 2008

Revenue. Revenue was U.S.$9,917 million in 2009, compared to U.S.$9,852 million in 2008, an increase of U.S.$65 million, or 0.7 per cent., as the increase in revenue resulting from the acquisitions of Nova Chemicals, Ferrostaal and Aabar in 2009 was largely offset by the decline in the revenue of Borealis.

Revenue from the plastic solutions—Europe segment was U.S.$6,574 million in 2009, compared to U.S.$9,852 million in 2008, a decrease of U.S.$3,278 million, or 33.3 per cent. The decrease in revenue in Borealis was a result of lower sales volumes and a sharp drop in prices across all major product groups as a result of the economic downturn and the resulting reduction in demand for plastic solutions products.

Revenue from the plastic solutions—North America segment was U.S.$1,639 million in 2009, reflecting the acquisition of Nova Chemicals during that year. Revenue from the industrial engineering services segment was U.S.$1,650 million in 2009, reflecting the acquisition of Ferrostaal during that year, and revenue from the diversified investments segment was U.S.$54 million in 2009, reflecting the acquisition of Falcon Bank by Aabar during that year.

The petroleum refinery products segment was classified as a discontinued operation in 2009, and the corresponding comparative figures of 2008 were reclassified in the 2009 Financial Statements.

Cost of sales. Cost of sales was U.S.$8,393 million in 2009, compared to U.S.$8,408 million in 2008, a decrease of U.S.$15 million, or 0.2 per cent., as the increase in cost of sales resulting from the acquisitions of Nova Chemicals, Ferrostaal and Aabar in 2009 was offset by the decline in the cost of sales of Borealis. Cost of sales as a percentage of the Group's revenue was 85.3 per cent. in 2008 and 84.6 per cent. in 2009.

Cost of sales in the plastic solutions—Europe segment was U.S.$5,548 million in 2009, compared to U.S.$8,408 million in 2008, a decrease of U.S.$2,860 million, or 34.0 per cent. This decrease was in line with the 33.3 per cent. decrease in this segment's revenue over the same period.

Cost of sales in the plastic solutions—North America segment was U.S.$1,375 million in 2009, cost of sales at the industrial engineering services segment was U.S.$1,459 million in 2009, and cost of sales at the diversified investments segment was U.S.$11 million in 2009.

Gross profit. Gross profit was U.S.$1,525 million in 2009, compared to U.S.$1,444 million in 2008, an increase of U.S.$81 million, or 5.6 per cent., which is largely in line with changes in revenue and cost of sales and is primarily due to the reasons set forth above.

Gross profit in the plastic solutions—Europe segment was U.S.$1,026 million in 2009, compared to U.S.$1,444 million in 2008, a decrease of U.S.$418 million, or 28.9 per cent.

Gross profit in the plastic solutions—North America segment was U.S.$264 million in 2009, gross profit in the industrial engineering services segment was U.S.$192 million in 2009, and gross profit in the diversified investments segment was U.S.$43 million in 2009.

Share of post-tax profits of associates and jointly controlled entities. Share of post-tax profits of associates and jointly controlled entities was U.S.$141 million in 2009, compared to U.S.$281 million in 2008, a decrease of U.S.$140 million, or 49.8 per cent. The decrease was mainly due to the decrease in the share of post-tax profits of associates and jointly controlled entities of Borealis, partially offset by the increase in the share of post-tax profits of CEPSA.

Foreign exchange (loss) gain, net. Foreign exchange loss, net was U.S.$109 million in 2009, compared to a foreign exchange gain of U.S.$142 million in 2008, a decrease of U.S.$251 million, or 176.8 per cent. The decrease was primarily due to the strengthening of the Euro against the U.S.$ during 2009, which caused Euro liabilities to be more expensive in U.S.$ terms.

Finance income. Finance income was U.S.$614 million in 2009, compared to U.S.$320 million in 2008, an increase of U.S.$294 million, or 91.9 per cent. This increase resulted primarily from interest income received on the investments in the Barclays Financial Instruments, which the Company disposed of in 2009.

Finance costs. Finance costs were U.S.$716 million in 2009, compared to U.S.$524 million in 2008, an increase of U.S.$192 million, or 36.6 per cent. This increase resulted primarily from an increase in interest expenses as a result of increased borrowings to finance the various acquistions of the Company during that period.

Other expense. Other expense was U.S.$32 million in 2009. No comparable expense was recorded in 2008.

Gains on acquisitions and disposals. Gains on acquisitions and disposals were U.S.$3,119 million in 2009, relating primarily to the Group's gain from disposal of financial instruments at fair value through profit or loss of U.S.$2,192 million from the disposal of the Barclays Financial Instruments, and excess of fair value over cost of business combinations amounting to U.S.$926 million in 2009 on the acquisition of Nova Chemicals. The acquisition of Nova Chemicals resulted in negative goodwill of U.S.$926 million. No gains on acquisitions and disposals were recorded in 2008.

Other gains (losses) on financial instruments. Other gains on financial instruments were U.S.$728 million in 2009, relating primarily to the Group's fair value gain from non-derivative financial instruments at fair value through profit or loss of U.S.$2,804 million primarily relating to the increase in the value of its investment in Daimler of U.S.$2,791 million, offset by fair value loss on derivative financial instruments of U.S.$1,974 million primarily from derivative financial instruments relating to the Group's investments in Daimler shares and Atlantia. No other gains (losses) on financial instruments were recorded in 2008.

Profit before tax from continuing operations. Profit before tax from continuing operations was U.S.$3,903 million in 2009, compared to U.S.$341 million in 2008, an increase of U.S.$3,562 million.

Tax expense. Tax expense was U.S.$38 million in 2009, compared to a tax expense of U.S.$35 million in 2008, an increase of U.S.$3 million, or 8.6 per cent.

The Company is based in a jurisdiction which has no corporate tax, therefore the tax expenses represent tax expenses charged on international operations in their respective jurisdictions.

Profit (loss) for the year from discontinued operations. Profit for the year from discontinued operations was U.S.$285 million in 2009, compared to a loss of U.S.$256 million in 2008, an increase of U.S.$541 million, or 211.3 per cent. The increase resulted primarily from a gain on foreign exchange by Hyundai Oilbank of U.S.$39 million in 2009, compared to a loss on foreign exchange of U.S.$398 million in 2008.

Profit for the year. As a result of the foregoing, profit for the year was U.S.$4,149 million in 2009, compared to a profit of U.S.$49 million in 2008, an increase of U.S.$4,100 million.

Liquidity and Capital Resources

Capital Resources and Requirements

The Company's primary capital requirements are for the funding of its future capital and investment expenditures and the refinancing of its maturing debt. The Company expects to fund these requirements principally through borrowings from third parties, cash flow from the Group's operations and, in certain circumstances, capital contributions from the Government.

Cash Flow

The table below summarises the Group's cash flow from operating activities, investing activities and financing activities for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008.

	Six months ended 30 June		Year ended 31 December		
	2011	2010	2010	2009	2008
			(U.S.$'000)		
Net cash from/(used in) operating activities	390,025	(170,441)	517,089	475,780	(86,417)
Net cash used in investing activities	(8,459,462)	(3,782,438)	(3,617,656)	(4,653,601)	(6,962,718)
Net cash from financing activities	9,172,849	4,314,785	3,463,938	5,040,204	8,461,999
Net foreign exchange difference	30,257	(219,079)	(102,269)	68,666	(114,703)
Cash and cash equivalents at period end	4,283,688	3,031,744	3,150,019	2,888,917	1,957,868

Bank balances and cash of the Company on an unconsolidated basis were U.S.$1,810 million (excluding cash in escrow of U.S.$5,776 million), U.S.$1,686 million, U.S.$956 million and U.S.$1,534 million as of 30 June 2011, 31 December 2010, 31 December 2009 and 31 December 2008 respectively.

Comparison of Six Months Ended 30 June 2011 and 2010

Net cash from (used in) operating activities. Net cash from operating activities was U.S.$390 million in the six months ended 30 June 2011, compared to net cash used in operating activities of U.S.$170 million in the six months ended 30 June 2010, an increase of U.S.$560 million, or 329.4 per cent., primarily due to an increase in profit before tax after non-cash adjustments of U.S.$698 million, partially offset by changes in working capital of U.S.$47 million and an increase in income tax paid of U.S.$90 million.

Net cash used in investing activities. Net cash used in investing activities was U.S.$8,459 million in the six months ended 30 June 2011, compared to U.S.$3,782 million in the six months ended 30 June 2010 an increase of U.S.$4,677 million, or 123.7 per cent., primarily due to cash maintained in escrow for acquisition of additional interest in CEPSA of U.S.$5,776 million rather than available for continuing use.

In the six months ended 30 June 2011, the Group made:

- advances on investment properties of U.S.$380 million, primarily relating to real estate investments by Aabar;
- payments to acquire investments in associates of U.S.$323 million, primarily relating to the increase stake in OMV by the Company;
- payments to acquire derivative financial instruments of U.S.$864 million, primarily relating to Aabar's investment in Daimler;
- payments to acquire financial investments of U.S.$1,212 million, primarily relating to the acquisiton of a minority stake in Glencore by Aabar; and
- payments to acquire property, plant and equipment of U.S.$519 million, primarily relating to ADCOP.

These payments were offset by dividends and interest received by the Group (after consolidation adjustments) of U.S.$492 million and U.S.$96 million, respectively.

In the six months ended 30 June 2010, the Group made:

- payments to acquire financial instruments of U.S.$2,767 million, primarily relating to the acquisition of a minority stake in UniCredit by Aabar;
- payments to acquire property, plant and equipment of U.S.$1,302 million, primarily relating to ADCOP and the purchase of fixed assets by Hyundai Oilbank; and
- advances on investment properties of U.S.$427 million, primarily relating to real estate investments by Aabar.

These payments were offset by dividends received by the Group (after consolidation adjustments) of U.S.$226 million and proceeds from the sale of property, plant and equipment of U.S.$554 million, primarily relating to the sale of fixed assets by Hyundai Oilbank.

Net cash from financing activities. Net cash from financing activities was U.S.$9,173 million in the six months ended 30 June 2011, compared to U.S.$4,315 million in the six months ended 30 June 2010. In the six months ended 30 June 2011, the Group received proceeds from borrowings of U.S.$11,592 million, offset by repayments on borrowings of U.S.$1,854 million. In the six months ended 30 June 2010, the Group received proceeds from borrowings of U.S.$12,017 million, offset by repayments on borrowings of U.S.$7,873 million. The Company also received a loan of U.S.$500 million from the Department of Finance of Abu Dhabi.

Comparison of Years Ended 31 December 2010, 2009 and 2008

Net cash from (used) in operating activities. Net cash from operating activities was U.S.$517 million in the year ended 31 December 2010 and U.S.$476 million in the year ended 31 December 2009. Net cash used in operating activities was U.S.$86.4 million in the year ended 31 December 2008. The U.S.$41 million increase in net cash from operating activities in 2010, compared to 2009 was primarily due to a increase in profit before tax after non-cash adjustment of U.S.$777 million, offset by an increase in changes in working capital of U.S.$575 million and an increase in income tax payments made of U.S.$161 million. Net cash from operating activities in the year ended 31 December 2009 is not comparable to reported net cash used in operating activities in the year ended 31 December 2008 due to the reclassification in the 2010 Financial Statements of the 2009 financial information as a result of reclassification of the interest paid as an operating activities to financing activities as the majority of the interest payments relate to borrowings raised for financing rather than working capital uses. Please see "*—Composition of the Financial Statements and Comparability of Financial Information*".

Net cash used in investing activities. Net cash used in investing activities was U.S.$3,618 million in the year ended 31 December 2010, U.S.$4,654 million in the year ended 31 December 2009 and U.S.$6,963 million in the year ended 31 December 2008.

In the year ended 31 December 2010, the Group made:

- payments to acquire financial investments of U.S.$2,416 million, primarily relating to the acquisition of a minority stake in UniCredit by Aabar;
- payments to acquire investments in associates of U.S.$392 million, primarily relating to the acquisition of a minority stake in Galactic Ventures by Aabar;
- payments to acquire property, plant and equipment of U.S.$1,988 million, primarily relating to ADCOP and the purchase of fixed assets by Hyundai Oilbank;
- payments to acquire derivative financial instruments of U.S.$550 million, primarily relating to the purchase of collars and puts to hedge the investment in UniCredit;
- advances on investment properties of U.S.$672 million, primarily relating to real estate investments by Aabar; and
- payments to acquire additional interest in Aabar from the minority shareholders of U.S.$230 million.

These payments were offset by proceeds from the sale of Hyundai Oilbank for an amount of U.S.$1,782 million, net of cash already in subsidiary, and proceeds from the sale of Atlantia and Banco Santander Brasil by Aabar for an amount of U.S.$910 million.

In the year ended 31 December 2009, the Group made:

- payments to acquire subsidiaries of U.S.$1,772 million (net of cash acquired from such subsidiaries), primarily relating to the acquisition of stakes in Aabar, Ferrostaal, Falcon Bank and Nova Chemicals;
- payments to acquire associates of U.S.$4,865 million, primarily relating to the acquisition of additional stakes in CEPSA and OMV;
- payments to acquire financial instruments of U.S.$2,101 million, primarily relating to the acquisition of the IPBC Bond;
- payments to acquire property, plant and equipment of U.S.$2,368 million, primarily relating to ADCOP; and
- advances on investment properties of U.S.$1,378 million, primarily relating to real estate investments by Aabar.

These payments were offset by proceeds from the sale of financial instruments of U.S.$7,149 million, including U.S.$7,086 million relating to the Barclays Financial Instruments.

In the year ended 31 December 2008, net cash used in investing activities by the Group related to payments to acquire financial investments of U.S.$5,933 million, primarily relating to the acquisition of the Barclays Financial Instruments and payments to acquire property, plant and equipment of U.S.$1,365 million, primarily relating to additions to property, plant and equipment by Borealis.

Net cash from financing activities. Net cash from financing activities was U.S.$3,464 million in the year ended 31 December 2010, compared to U.S.$5,040 million in the year ended 31 December 2009 and U.S.$8,462 million in the year ended 31 December 2008. In the year ended 30 December 2010, the Group received proceeds from borrowings of U.S.$15,638 million, offset by repayments on borrowings of U.S.$11,976 million. In the year ended 31 December 2009, the Group received proceeds from borrowings of U.S.$15,361 million, offset by repayments on borrowings of U.S.$9,776 million. Net cash from financing activities in the year ended 31 December 2009 is not comparable to net cash from financing activities in the year ended 31 December 2008 due to the reclassification in the 2010 Financial Statements of the 2009 financial information as a result of reclassification of the interest paid as an operating activities to financing activities as the majority of the interest payments relate to borrowings raised for financing rather than working capital uses. Please see "— *Composition of the Financial Statements and Comparability of Financial Information*".

Borrowings

The table below shows the breakdown of the Group's outstanding borrowings by individual Group company as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(U.S.$'000)		
The Company	17,754,329	10,040,024	10,040,544	6,680,180
Aabar	10,444,936	7,772,109	4,110,630	—
Nova Chemicals	1,720,707	1,695,277	1,823,991	—
Borealis	1,818,549	1,497,186	1,435,716	1,569,033
Hyundai Oilbank[(1)]	—	—	—	1,480,390
Ferrostaal	48,060	36,645	24,035	—
Total	**31,786,581**	**21,041,241**	**17,434,916**	**9,729,603**

(1) Borrowings of Hyundai Oilbank have been included in 'Liabilities of disposal group held-for-sale' in the 2009 Financial Statements.

As of 30 June 2011, the Company had U.S.$17,754 million of borrowings, comprising U.S.$2,282 million of short term debt and U.S.$15,472 million of long term debt.

The following table sets forth the breakdown of the Group's outstanding borrowings by currency as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(U.S.$'000)		
Dirham denominated borrowings	1,368,707	1,249,098	1,373,855	—
Euro denominated borrowings	14,810,992	8,395,560	7,329,888	3,457,154
Sterling denominated borrowings	1,109,396	233,871	242,295	3,607,676
U.S. dollar denominated borrowings	13,201,351	9,749,037	7,493,788	1,292,964
Yen denominated borrowings	834,983	831,383	730,678	741,565
Korean Won denominated borrowings[(1)]	—	—	—	630,244
Canadian dollar denominated borrowings	31,333	184,466	264,412	—
Others	429,819	397,826	—	—
Total loans	**31,786,581**	**21,041,241**	**17,434,916**	**9,729,603**

(1) Borrowings of Hyundai Oilbank have been included in 'Liabilities of disposal group held-for-sale' in the 2009 Financial Statements.

The Group does not present the maturity profile of its borrowings in its interim financial statements, as permitted by IFRS. The following table summarises the maturity profile of the Group's borrowings as of 31 December 2010 on a contractual, undiscounted basis. In the table below, interest rates on variable rate loans have been based on rates prevailing on 31 December 2010.

	On demand	0-3 months	3-12 months	1-3 years	3-5 years	More than 5 years	Total	Carrying value
				(U.S.$'000)				
Interest bearing loans and borrowings	1,416,140	98,121	752,612	15,344,329	1,969,633	3,661,661	23,242,496	21,041,241

The Group's material borrowings currently comprise the following:

The Company

U.S.$1.5 billion unsecured conventional loan dated 7 June 2011 for general corporate and working capital purposes, with an interest rate of a margin over LIBOR, fully repayable on 7 June 2012, with an option for the Company to extend the repayment date by six months to 7 December 2012, all of which was outstanding as of 30 June 2011;

U.S.$1.4 billion unsecured conventional loan dated 5 April 2011 for general corporate and working capital purposes, with an interest rate of a margin over LIBOR, fully repayable on 5 April 2014, all of which was outstanding as of 30 June 2011;

€1.25 billion notes with a fixed interest rate of 4.875 per cent. per annum, fully repayable in May 2016 (the "**2016 Notes**"), €1.25 billion notes with a fixed interest rate of 5.875 per cent. per annum, fully repayable in March 2021 (the "**2021 Notes**") and £550 million notes with a fixed interest rate of 6.875 per cent. per annum, fully repayable in March 2026 (the "**2026 Notes**" and, together with the 2016 Notes and the 2021 Notes, the "**2011 Notes**") each issued on 10 March 2011 for general corporate purposes, all of which was outstanding as of 30 June 2011;

AED 1.0 billion unsecured conventional loan dated 1 February 2011 for purposes related to the financing and construction of the Company's new headquarters, with an interest rate at a margin over EIBOR, repayable in instalments beginning on 31 January 2013, all of which was outstanding as of 30 June 2011;

U.S.$1.0 billion notes with a fixed interest rate of 3.125 per cent. per annum, fully repayable in November 2015 (the "**2015 Notes**") and U.S.$1.5 billion notes with a fixed interest rate of 5.000 per cent. per annum, fully repayable in November 2020 (the "**2020 Notes**" and, together with the 2015 Notes, the "**2010 Notes**", and together with the 2011 Notes, the "**Outstanding Notes**") each issued on 15 November 2010 for general corporate purposes, all of which was outstanding as of 30 June 2011;

U.S.$150 million unsecured conventional loan dated 30 September 2010 for general corporate and working capital purposes, with an interest rate at a margin over LIBOR, fully repayable on 30 September 2013, all of which was outstanding as of 30 June 2011;

AED 1.0 billion unsecured Islamic murabaha facility dated 13 July 2010 for the Company's general corporate and working capital purposes, with a murabaha profit at a margin over EIBOR, fully repayable on 13 July 2013, all of which was outstanding as of 30 June 2011;

U.S.$2.1 billion, €919 million and AED 1.0 billion unsecured conventional loan dated 29 March 2010 for the purpose of refinancing existing indebtedness, with an interest rate at a margin over LIBOR and a margin over EURIBOR and a margin over EIBOR for loans in U.S.$ or € or AED, respectively, fully repayable on 29 March 2013, all of which was outstanding as of 30 June 2011;

U.S.$600 million and AED 917 million loan dated 16 March 2009 for the purpose of financing acquisitions and general corporate and working capital purposes, with an interest rate at a margin over LIBOR and a margin over EIBOR for loans in U.S.$ or AED, respectively, fully repayable on 16 March 2012, all of which was outstanding as of 30 June 2011;

£150 million unsecured conventional term loan dated 25 November 2008, with an interest rate at a margin over LIBOR, fully repayable on 25 November 2013, all of which was outstanding as of 30 June 2011;

U.S.$1.4 billion unsecured overdraft facility dated 1 January 2008 and renewably annually for the purpose of capital expenditure, with an interest rate at a margin over LIBOR, fully repayable on demand, all of which was outstanding as of 30 June 2011;

¥67.5 billion unsecured conventional term loan dated 19 June 2008 for the Company's general working capital purposes, with an interest rate at a margin over EURIBOR, fully repayable on 19 June 2013, all of which was outstanding as of 30 June 2011; and

€221 million unsecured term loan dated 26 October 2005 for the Company's general corporate and working capital purposes, with an interest rate at a margin over EURIBOR, fully repayable on 26 October 2013, all of which was outstanding as of 30 June 2011.

The Company's Material Borrowings Post 30 June 2011

AED 7.3 billion unsecured conventional loan dated 25 September 2011 for general corporate and working capital purposes, with an interest rate at a margin over EIBOR, fully repayable on 24 September 2012, with an option for the Company to extend the repayment date by 364 days to 23 September 2013.

Aabar

€1.25 billion senior unsecured exchangeable notes dated 24 May 2011 with a fixed interest rate of 4.0 per cent. per annum, fully repayable in May 2016. The notes are exchangeable into existing ordinary shares of Daimler AG, all of which was outstanding as of 30 June 2011;

U.S.$750 million loan dated 23 May 2011 with an interest rate at a margin over LIBOR, fully repayable in November 2011, all of which was outstanding as of 30 June 2011;

€200 million loan dated 31 January 2011 with an interest rate at a margin over EURIBOR, fully repayable in January 2014, all of which was outstanding as of 30 June 2011;

€155 million loan dated 21 October 2010 with an interest rate at a margin over EURIBOR, fully repayable in September 2011, all of which was outstanding as of 30 June 2011;

€1.8 billion loan dated 21 June 2010 with an effective interest rate of 1.92 per cent. per annum, fully repayable in April 2013, all of which was outstanding as of 30 June 2011;

€1.2 billion loan dated 10 June 2010 with an effective rate of 1.55 per cent. per annum, fully repayable in October 2012, all of which was outstanding as of 30 June 2011;

U.S.$2.0 billion loan dated 22 November 2010 with an interest rate at a margin over LIBOR, fully repayable in November 2013, of which U.S.$1.4 billion was outstanding as of 30 June 2011;

AED 750 million loan dated 27 August 2009 with an interest rate at a margin over EIBOR, fully repayable in September 2012, all of which was outstanding as of 30 June 2011; and

€1.3 billion loan dated 1 April 2009 drawn down into 6 equal tranches with effective interest rates between 2.3 per cent. and 2.5 per cent. at a margin over EURIBOR, fully repayable between April and September 2012, all of which was outstanding as of 30 June 2011.

Borealis

€160 million loan dated 1 November 2010 with a fixed interest rate of 3.4 per cent. per annum, fully repayable in December 2018, all of which was outstanding as of 30 June 2011; and

€200 million bond issued 1 April 2010 with a fixed interest rate of 5.4 per cent. per annum, fully repayable in October 2017, all of which was outstanding as of 30 June 2011.

In addition to the material facilities above, Borealis has a number of other facilities, under which U.S.$1.4 billion was outstanding as of 30 June 2011.

Nova Chemicals

U.S.$400 million notes dated 8 January 2004 with a fixed interest rate of 6.5 per cent. per annum, fully repayable in January 2012, all of which was outstanding as of 30 June 2011;

U.S.$400 million notes dated 26 October 2005 with an interest rate at a margin over LIBOR, fully repayable in November 2013, all of which was outstanding as of 30 June 2011;

U.S.$350 million senior notes dated 16 October 2009 with a fixed interest rate of 8.4 per cent. per annum, fully repayable in November 2016, all of which was outstanding as of 30 June 2011;

U.S.$350 million senior notes dated 16 October 2009 with a fixed interest rate of 8.6 per cent. per annum, fully repayable in November 2019, all of which was outstanding as of 30 June 2011; and

U.S.$100 million senior notes dated 1 September 1995 with a fixed interest rate of 7.875 per cent. per annum, fully repayable in September 2025, all of which was outstanding as of 30 June 2011.

In addition to the material facilities above, Nova Chemicals has a number of other facilities, under which U.S.$206 million was outstanding as of 30 June 2011.

The Company does not guarantee the debt of any Group companies, including those described above.

Financial Covenants

In respect of the U.S.$150 million loan dated 30 September 2010 and the U.S.$2.1 billion, €919 million and AED 1.0 billion loan dated 29 March 2010, the Company must ensure that on an annual basis:

- the ratio of (i) the aggregate of (a) dividends received by the Company from its subsidiaries and non-controlling interests and (b) cash and cash equivalents held by the Company to (ii) interest expense shall not be less than 2.75; and
- the ratio of the Company's portfolio value to total net borrowings shall not be less than 1.5.

Finance Income and Expenses of the Company

The following table sets forth certain information regarding the Company's dividend and interest income recognised during the six months ended 30 June 2011 and the years ended 31 December 2010, 2009 and 2008 other than interest income from bank deposits and cash at banks:

	Six months ended 30 June		Year ended 31 December		
	2011	**2010**	**2010**	**2009**	**2008**
			(U.S.$'000)		
SUMED	19,650	15,300	21,450	25,800	30,300
PARCO	3,600	10,800	10,800	38,625	30,150
OMV	86,484	73,604	73,604	84,200	102,663
CEPSA(1)	69,870	61,739	137,480	97,195	42,221
Borealis	90,970	—	—	—	109,580
Hyundai Oilbank(2)	—	—	41,457	—	—
Cosmo Oil	16,291	14,782	14,782	8,527	13,032
EDP	25,347	22,500	22,500	23,475	11,375
GEM	1,935	1,935	1,935	1,935	1,935
Total dividend income(3)	**314,147**	**200,660**	**324,008**	**279,757**	**341,256**
Barclays(4)	—	—	—	281,081	—
IPBC Bond(5)	33,898	39,984	89,234	65,280	—
Interest on bank balances and deposits	25,227	2,392	8,340	21,332	36,054
Total interest income	**59,125**	**42,376**	**97,574**	**367,693**	**36,054**
Total dividend and interest income	**373,272**	**243,036**	**421,582**	**647,450**	**377,310**
Total interest expense (excluding amortisation of upfront fees)	**218,515**	**144,496**	**287,785**	**358,637**	**133,542**

(1) In July and August 2011, the Company increased its stake in CEPSA to 100 per cent.

(2) In August 2010, the Group sold its entire interest in Hyundai Oilbank. In connection with such sale, the Group received a dividend declared by Hyundai Oilbank in August 2010 for KRW 49.2 billion (U.S.$41.5 million based on the prevailing exchange rate on the date of payment).

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

(4) Represents interest income from the Barclays Financial Instruments. The Company disposed of its investments in Barclays in 2009.

(5) Represents interest income on mandatory exchangeable bond issued by IPBC.

Shareholder Loan

In June 2010, the Company received a U.S.$500 million perpetual interest-free loan from the Abu Dhabi Department of Finance on behalf of the Government of Abu Dhabi as part of the Government of Abu Dhabi's U.S.$1 billion investment commitment in QADIC. The loan was provided to meet the Company's obligations in respect of the investment in QADIC and has no repayment terms. Accordingly, the Company's management classified the loan as a shareholder loan within equity in the statement of financial position. Of the U.S.$500 million, U.S.$50 million has been invested during July 2011.

Capital Requirements

The Group does not present segmental information in its interim financial statements, as permitted by IFRS. The Group's capital and investment expenditures for the years ended 31 December 2010, 2009 and 2008 by business segments were as follows:

	Plastic solutions—Europe	Plastic solutions—North America	Petroleum refinery products	Industrial engineering services	Diversified investments	Others	Total
				(U.S.$'000)			
Capital expenditure							
Year ended 31 December 2010:							
Property, plant and equipment	162,110	148,474	—	23,346	2,157	980,812	1,316,899
Investment properties	—	—	—	—	—	—	—
Intangible assets	117,730	5,072	—	1,405	8,071	—	132,278
Year ended 31 December 2009[(1)]:							
Property, plant and equipment	448,485	3,669,380	546,974	276,790	44,616	1,374,165	6,360,410
Investment properties	—	—	—	9,251	9,549	—	18,800
Intangible assets	99,546	509,378	758	269,840	104,022	425,702	1,409,246
Year ended 31 December 2008							
Property, plant and equipment	654,213	—	246,679	—	—	479,043	1,379,935
Intangible assets	83,638	—	184	—	—	—	83,822

(1) Capital expenditure for the year ended 31 December 2009 consists of additions to fixed assets, including assets from the acquisition of subsidiaries amounting to U.S.$3.9 billion and U.S.$1.3 billion relating to property, plant and equipment and intangible assets respectively.

As of 30 June 2011, the Company's contracted capital expenditures relating to ADCOP, and the construction of the Company's new headquarters were approximately U.S.$830 million and U.S.$84 million, respectively.

Contractual Commitments

The following table sets forth the Group's contractual commitments as of 30 June 2011:

	Total	Payments Due By Period		
		Less than 1 Year	1-5 Years	More than 5 Years
		(U.S.$ million)		
Feedstock purchase commitments	7,939	1,631	2,805	3,503
Operating lease commitments	496	79	245	172
Capital commitments:				
Property, plant and equipment	974	N/A	N/A	N/A
Investments in financial instruments	2,417	N/A	N/A	N/A
Investment property	621	N/A	N/A	N/A
Total	**12,447**			

See Note 19 ("*Commitments and Contingencies*") to the Unaudited Financial Statements.

Comprehensive Income/(Loss)

In addition to the consolidated income statement, statement of financial position, statement of changes in equity and consolidated statement of cash flows, the Group also prepares a statement of comprehensive income, which reflects changes in certain line items included in the equity portion of the consolidated statement of financial position.

In the six months ended 30 June 2011, total comprehensive income for the period was U.S.$1,944 million, compared to a total comprehensive loss of U.S.$1,226 million in the six months ended 30 June 2010, an increase of U.S.$3,170 million or 258.6 per cent. The increase was primarily attributable to the share of other comprehensive income (loss) of associates and jointly controlled entities (income of U.S.$867 million in 2011, compared to loss of U.S.$1,050 million in 2010, an increase of U.S.$1,917 million).

In 2010, total comprehensive income for the year was U.S.$796 million, compared to a total comprehensive income for the year of U.S.$4,473 million in 2009, a decrease of U.S.$3,677 million or 82.2 per cent. The decrease is primarily attributable to: (i) profit for the year (of U.S.$1,348 million in 2010, compared to U.S.$4,149 million in 2009, a decrease of U.S.$2,801 million); and (ii) other comprehensive (loss) income for the year (loss of U.S.$552 million in 2010, compared to income of U.S.$324 million in 2009, a decrease of U.S.$876 million).

In 2009, total comprehensive income for the year was U.S.$4,473 million, compared to a total comprehensive loss for the year of U.S.$3,682 million in 2008, an increase of U.S.$8,155 million or 221.5 per cent. The increase was primarily attributable to: (i) the exchange gain/(loss) on translation of foreign operations (a gain of U.S.$262 million in 2009, compared to a loss of U.S.$581 million in 2008, an increase of U.S.$843 million); and (ii) losses arising during the year on available-for-sale financial assets (a loss of U.S.$30 million in 2009, compared to a loss of U.S.$3,134 million in 2008, an increase of U.S.$3,104 million) partially offset by the Group's share of other comprehensive income of associates and jointly controlled entities (a gain of U.S.$109 million in 2009 as compared to U.S.$0 in 2008).

Quantitative and Qualitative Disclosures about Market Risk

The principal risks to which the Group is exposed are commodity price risk, foreign currency risk, interest rate risk, liquidity risk, equity price risk and credit risk. The board of directors of each Group company reviews and agrees policies for managing each of these risks. Hedging transactions are primarily used for the purposes of efficient portfolio management.

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk);
- 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.

Commodity Price Risk

The Group's exposure to commodity price risk principally consists of exposure to fluctuations in prices of feedstock and its products, all of which are subject to volatile price movements. The Group purchases substantial quantities of feedstock that are products of natural gas and crude oil and sells substantial quantities of plastics and petrochemicals products. Prices of feedstock and its products generally are based on, or affected by, the U.S. dollar-denominated world prices of oil, gas and petrochemicals. Fluctuations in prices of the Group's feedstock and products have a significant effect on its cost of sales and profit.

The Group uses forward commodity contracts and commodity swaps to hedge its risk associated with price fluctuations in feedstock and electricity prices.

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

	Change in year end price	Negative effect on profit before tax
	(%)	(U.S.$'000)
2010		
Crude oil	+10	59,824
Natural gas	+10	22,190
Electricity	+10	2,330
Propylene	+10	119,038
Polyethylene	+10	(687,289)
Other petrochemical feedstock	+10	294,240
2009		
Crude oil	+10	29,624
Natural gas	+10	27,500
Electricity	+10	8,647
Propylene	+10	95,672
Polyethylene	+10	(558,728)
Other petrochemical feedstock	+10	200,242

Currency Risk

The Group maintains its consolidated accounts, and reports its results, in U.S.$, and its reported financial results are therefore subject to movements in exchange rates on the translation of the financial information of businesses whose operational currencies are not denominated in U.S.$. In particular, a significant number of companies within the Group report, or have listed equity securities denominated, in euro and, as a result, significant fluctuations in the exchange rates between the euro and the U.S.$ could affect the Group's reported results. In addition, the loans and financing facilities that are denominated in currencies other than the Group's reporting currency may also increase the Group's overall exposure to a particular currency.

The Group uses forward foreign exchange contracts to partially hedge the risk associated with foreign currency fluctuations. The changes in fair value of forward exchange contracts that do not qualify for hedge accounting are recorded in the consolidated income statement.

The following table demonstrates the sensitivity to a reasonable 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 U.S.$ is excluded from the sensitivity analysis.

	Change	Net effect on profit	Net effect on equity
	(%)	(U.S.$'000)	
2010			
CHF	+10	(5,890)	—
EUR	+10	112,866	49,420
JPY	+10	(83,367)	(52,420)
CAD	+10	(53,111)	(16,125)
Other	+10	119,205	(7)
		89,703	**(19,132)**
2009			
CHF	+10	55,688	—
EUR	+10	54,272	83,623
JPY	+10	(34,604)	(18,575)
CAD	+10	(98,064)	—
Other	+10	87,073	(7)
		64,365	**65,041**

In addition, reflecting the fact that the exchange rate of the dirham has been pegged to the U.S.$ at a fixed rate of AED 3.6725 = U.S.$1.00 since 22 November 1980, the Group is exposed to any change in this arrangement going forward as reflecting the fact that certain of its revenues and expenditure are in U.S.$ and certain of its indebtedness is U.S. dollar-denominated. See "*Risk Factors—Risks Relating to the Group's Investment Activities and Businesses—The Company's results of operations may be affected by exchange rate fluctuations*".

Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the cost of the Group's floating rate borrowings. Changes in the level of interest rates can also affect, among other things (i) the cost and availability of debt financing and the Group's ability to achieve attractive rates of return on its investment; (ii) the debt financing capability of the investments and businesses in which the Group has invested, and (iii) the rate of return on the Group's uninvested cash balances. See "*Risk Factors—Risks Relating to Abu Dhabi, the U.A.E. and the Middle East—The Company's business may be materially adversely affected if the U.A.E. dirham/U.S. dollar peg were to be removed or adjusted*".

To manage the interest rate risk of the Group's floating rate borrowings, the Group enters into interest rate swaps designed to hedge its underlying debt obligations.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit (through the impact on all floating rate borrowings). The sensitivity analysis excludes all fixed rates financial instruments carried at amortised cost. Currency and commodity based derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

	Decrease in basis points	Effect on profit before tax
		(U.S.$'000)
2010		
U.S.$	50 bps	28,863
AED	50 bps	8,663
EUR	50 bps	123
JPY	50 bps	4,157
Other	50 bps	2,774
		44,580
2009		
U.S.$	50 bps	15,082
AED	50 bps	6,648
EUR	50 bps	14,861
JPY	50 bps	3,653
Other	50 bps	1,078
		41,322

A decrease of 50 basis points in interest rates as of the same date would have had an equal but opposite effect assuming all other variables, including, in particular, foreign exchange rates, remained constant.

Liquidity Risk

The Group is subject to liquidity risk to the extent that its current assets and available sources of funds may not be sufficient to meet its current liabilities. Liquidity risk may be heightened in an organisation, such as the Group, which is experiencing substantial growth and has corresponding financing needs. The risk has been intensified by the more stringent lending requirements imposed by banks in response to the deterioration of the global financial markets since 2008.

The Company's main source of liquidity has been borrowings from third parties, cash flow from the Group's operations and, in certain circumstances, capital contributions from the Government.

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 boards of directors review and approve all significant investment decisions and the Group's management monitors positions on a regular basis. Economic hedging strategies are sometimes used to ensure positions are maintained within acceptable limits.

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

	2010			2009		
	Change	**Effect on profit before tax**	**Effect on equity**	**Change**	**Effect on profit before tax**	**Effect on equity**
	(%)	(U.S.$'000)		(%)	(U.S.$'000)	
Europe	+10	162,058	49,435	+10	176,159	116,419
Middle East (excluding U.A.E.)	+10	—	30,000	+10	—	30,000
North America	+10	—	7,964	+10	34,163	—
Asia and Pacific and others	+10	17,726	57,662	+10	13,502	37,151

The Group may realise losses on its equity securities should it decide to sell them at a price below their cost price. See "*Risk Factors—Risks Relating to the Group's Investment Activities and Businesses—The value of certain of the Group's assets is subject to factors beyond the Group's control and may be volatile*".

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 balance sheet date.

The Group has established procedures to minimise the risk of default by trade debtors including credit verification in order to be able to trade within the Group companies on credit terms and setting mandatory credit limits for each customer. Furthermore, receivable balances are monitored on an aged basis which keeps the exposure to bad debts at insignificant levels.

With respect to credit risk from other financial assets of the Group, which comprise loans and other amounts due from banking customers, loans to associates and jointly controlled entities, held-to-maturity financial assets, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, trade receivables, due from banks, cash and short-term deposits and other. 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.

Significant Accounting Judgements, Estimates and Assumptions

The Group's consolidated financial statements have been prepared in accordance with IFRS. The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements. 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.

The Company believes the following significant accounting policies are affected by management's judgement, estimates and assumptions, changes to which could have a significant impact on the Group's consolidated financial statements.

Investments and other financial assets

Financial assets within the scope of International Accounting Standard No. 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 judgement and includes factors such as normal volatility in share price for quoted equities and the future cash flows and discount factors for unquoted equities.

Deferred tax

Uncertainties exist with respect to the interpretation of complex tax regulations 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. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

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 judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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 licences 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.

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. Where 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 determined using valuation techniques including discounted cash flows models. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Useful life of property, plant and equipment

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

Impairment of non financial assets

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

Impairment of goodwill

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

Impairment of inventories

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

Impairment of trade and other receivables

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

Impairment of advances on investment properties and investment properties

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

Fair value of financial instruments

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

Percentage of completion

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

Pensions and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits as well as present value of pension obligation is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuations, significant judgement regarding the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty.

Development costs

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

Provision for environmental and legal expenses

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

Contingencies

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

DESCRIPTION OF THE GROUP

Overview

The Company was established by the Government of Abu Dhabi pursuant to an Emiri Decree in 1984 with a mandate to invest globally in energy and energy-related industries. The Government owns 100 per cent. of the Company and appoints all the members of its board of directors. Over its history, the Company has been supported by significant equity contributions from the Government. To date, the Government has made six equity contributions to the Company totalling U.S.$3.5 billion, the last of which was made in 2008. In June 2010, the Government also provided the Company with a U.S.$500 million perpetual shareholder loan (which, by the nature of its terms, is accounted for within equity in the Company's statement of financial position) to meet its obligations in respect of QADIC, which is a joint venture between the Government and the government of the State of Qatar. As at the date of this Base Prospectus, the Government has committed an additional U.S.$500 million for further investment in QADIC which has not yet been received.

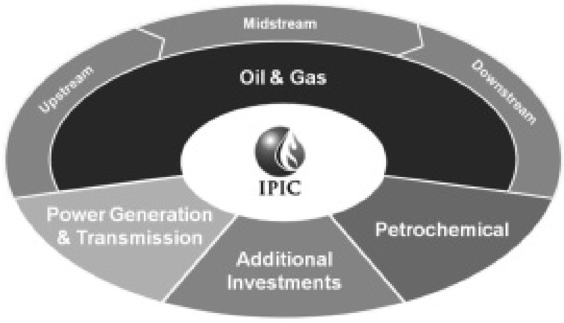
The Company is a long-term strategic investor and it currently holds more than 15 investments in over 10 countries and on five different continents. As of 30 June 2011, the Company's consolidated total assets were U.S.$61.8 billion. Its investment portfolio currently includes:

- two wholly-owned operating companies, being Nova Chemicals, a leading North American plastics and chemicals company, and CEPSA, a leading Spanish integrated oil and petrochemicals company;
- three majority-owned operating companies, being Borealis, one of the world's largest polyolefin producers, Aabar, a diversified investment company, and Ferrostaal, a project developer and manager in the oil and gas and power industries; and
- minority stakes in Cosmo Oil, a leading Japanese refining and marketing company and OMV, a leading Austrian integrated oil and gas company with a presence throughout Central and Eastern Europe.

In addition, the Company is currently undertaking the following strategic projects:

- the multi-billion dollar ChemaWEyaat project at Madeenat ChemaWEyaat Al Gharbia, which is expected to comprise a series of world-class petrochemicals complexes with access to Abu Dhabi's gas and liquid petroleum feedstocks. The first phase of this project is expected to be completed in 2015 and it is currently expected to be the world's largest single-site petrochemicals facility, comprising an aromatics complex, including a naptha reformer, paraxylene and benzene units;
- ADCOP, a 400 kilometre pipeline project which will connect Abu Dhabi's key onshore oil fields to an export terminal located in the Emirate of Fujairah on the Indian Ocean (outside the Arabian Gulf). The pipeline's development is intended to help mitigate the risk of a suspension of Abu Dhabi's crude oil exports in the event of a closure of, or a disruption to, the Strait of Hormuz and is expected to provide long-term cost reduction benefits and increased capacity in the export of Abu Dhabi's crude oil. It is anticipated that the pipeline will be operational in 2012;
- the continuing expansion of the Borouge project (a joint venture in which the Company's subsidiary Borealis has a 40.0 per cent. stake) to bring advanced technology and expertise into Abu Dhabi to strengthen and develop Abu Dhabi's industrial base and hydrocarbon and petrochemicals industries; and
- the multi-billion dollar Fujairah Refinery project in the Emirate of Fujairah, which will process U.A.E. crude oil, such as Murban and Upper Zakum.

During the Company's 27 years of investing, it has acquired extensive insight and understanding of the hydrocarbon industry and the fundamentals of investing and portfolio management. The Company leverages its experience to invest across the entire hydrocarbon value chain while seeking synergies across its investment portfolio. An overview of the Company's investment activities is provided below.



Oil and Gas

Upstream Sector

The upstream sector consists of the exploration for and production of crude oil and natural gas. The Company's upstream investments consist of holdings in the following:

- CEPSA, OMV and Cosmo Oil.

Midstream Sector

The midstream sector consists of the processing, storage and transportation of crude oil, natural gas, natural gas liquids and sulphur. The Company's midstream investments consist of holdings in the following:

- ADCOP, PARCO, SUMED and GEM.

Downstream Sector

The downstream sector consists of refining crude oil and the sale and distribution of natural gas and products derived from crude oil. The Company's downstream investments consist of holdings in the following:

- CEPSA, OMV, Cosmo Oil, PARCO and the Fujairah Refinery.

Petrochemicals

Petrochemicals are chemical products derived from petroleum. Petrochemicals include olefins such as ethylene and propylene, and aromatics such as benzene, toulene and xylene. Oil refineries produce olefins and aromatics by fluid catalytic cracking of petroleum fractions. Chemical plants produce olefins by steam cracking of natural gas liquids like ethane and propane and by steam cracking of naphtha produced in refineries. Aromatics are produced by catalytic reforming of naphtha. Olefins and aromatics are used in materials such as solvents, detergents and adhesives. Olefins are the base material for polymers in plastics products, resins, fibres, elastomers, lubricants and gels.

The Company's petrochemicals investments consist of holdings in the following:

- Borealis, Nova Chemicals, CEPSA and ChemaWEyaat.

Power Generation and Transmission

The power industry provides the generation and transmission of electrical power. The power industry is commonly split up into four processes, including: generation, transmission, distribution and retailing.

The Company's power investments consist of holdings in the following:

- EDP, OIP, CEPSA and OMV.

Additionally, the Company's subsidiary, Ferrostaal, is involved in the construction of both fossil-based power plants and alternative energy power plants, such as solar.

Additional Investments

The Company's additional investments consist of holdings in the following:

- Aabar and Ferrostaal.

The Company seeks to apply the expertise, knowledge and technology of its portfolio companies for the benefit of the broader Group by fostering a culture of knowledge sharing and cooperation among its portfolio companies. In doing so, the Company assists in bringing the latest technology and expertise to Abu Dhabi. See "*Relationship with the Government—IPIC's Role in Abu Dhabi's Economic Strategy*".

Company History

Principal events during the Company's history include:

1984 The Government established the Company pursuant to Emiri Decree No. 3 of 1984. Ownership of the Company was initially divided equally between ADIA and ADNOC, each wholly-owned by the Government.

1986 The Government assumed direct and full ownership of the Company pursuant to Emiri Decree No. 2 of 1986.

1988 The Company made its first investment by acquiring an initial 9.6 per cent. stake (currently 100 per cent.) in CEPSA.

1994 H.H. Sheikh Mansour bin Zayed Al Nahyan, currently the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs, became, and remains, Chairman of the Company.

The Company acquired a 19.6 per cent. stake (currently 24.9 per cent.) in OMV.

1995 ADNOC, at the direction of the Government, contributed to the Company its shareholdings in PARCO (a Pakistan-based oil refinery and pipeline company), SUMED (a joint venture that operates pipelines running across Egypt from the Gulf of Suez to the Mediterranean Sea) and Pak-Arab Fertilisers Ltd ("**PAFCO**") (a manufacturer of chemical fertilisers).

1998 The Company acquired a 25.0 per cent. stake in Borealis (currently 64.0 per cent.).

1999 The Company acquired a 50.0 per cent. stake in Hyundai Oilbank (subsequently increased to 70.0 per cent. prior to disposal), a leading oil refining and marketing company in South Korea.

2004 The Company acquired a 30.0 per cent. stake in GEM, a leading commercial product tanker company in the Middle East.

2006 The Government approved the construction of ADCOP by the Company.

2007 H.E. Khadem Abdulla Al Qubaisi, a former senior executive at ADIA, became the Company's Managing Director.

The Company acquired a 20.8 per cent. stake in Cosmo Oil.

2008 ChemaWEyaat was established by Emiri Decree on 26 November 2008, with three Government owned shareholders, being the Company (40.0 per cent.), the Council (40.0 per cent.) and ADNOC (20.0 per cent.).

The Company acquired a 4.1 per cent. stake in EDP, Portugal's leading electricity company.

2009 The Company acquired 100 per cent. of Nova Chemicals.

The Company acquired a 71.2 per cent. stake (currently 95.3 per cent.) in Aabar.

The Company subscribed for the IPBC Bond which at maturity and in certain other circumstances, is exchangeable into a 15.0 per cent. stake in Oil Search, a company engaged in the exploration, production, development and sale of gas and liquid hydrocarbons in the Asia Pacific and MENA regions.

The Company acquired a 70.0 per cent. stake in Ferrostaal.

The Company acquired certain financial instruments in Barclays for a total consideration of approximately U.S.$5.0 billion in 2008, which were subsequently disposed of in 2009 for proceeds of U.S.$7.1 billion.

The Company received its inaugural ratings from Fitch, Moody's and S&P.

2010 The Company sold its investment in Hyundai Oilbank for net proceeds of approximately KRW 2,314 billion (U.S.$1,950 million).

The Company established the Programme.

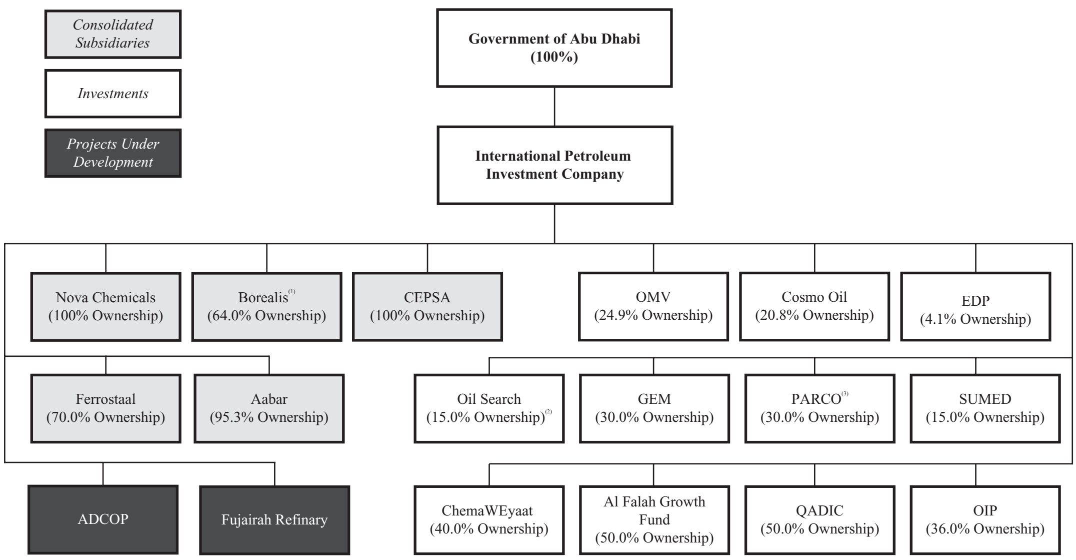
2011 The Company fulfilled its commitment to subscribe for the remaining mandatory convertible bonds in Aabar and converted those bonds into equity, increasing its stake from 86.2 per cent. to 93.1 per cent. In addition, the Company purchased shares of Aabar in the open market, which further increased its stake from 93.1 per cent. to 95.3 per cent.

The Company increased its stake in CEPSA to 100 per cent.

The Company increased its stake in OMV to 24.9 per cent.

Corporate Structure

The following chart illustrates the Group's simplified corporate structure (excluding various direct or indirect intermediary corporate or partnership or other structured investment entities):



(1) OMV holds the remaining 36.0 per cent. of Borealis.
(2) Upon conversion of the IPIC Bond, the Company would hold an approximate 15.0 per cent. stake in Oil Search.
(3) The Company's investment in PARCO is indirectly held through ADPIC a special purpose vehicle. ADPIC holds a 40.0 per cent. stake in PARCO and the Company has a 75.0 per cent. stake in ADPIC with the remaining 25.0 per cent. held by OMV.

Other Company Information

The Company has been assigned ratings of AA (stable outlook) by Fitch, Aa3 (stable outlook) by Moody's and AA (stable outlook) by S&P. In the case of Fitch and S&P, the Company's AA ratings are the same as those given to the Abu Dhabi sovereign and reflect the Company's strong strategic relationship with the Government.

The Company's registered office address is Al Muhairy Center Office Tower, 10th Floor, Sheikh Zayed the 1st Street, P.O. Box 7528, Abu Dhabi, United Arab Emirates, and its main telephone number is +971 2 633 6555.

The Company enjoys the strong support of the Government. See "*Relationship with the Government*".

Strengths

The Company believes that it has the following key strengths:

Focused Mandate

The Company's mandate from the Government to invest in energy and energy-related industries is strongly linked to Abu Dhabi's core hydrocarbon-based economy. See "*Relationship with the Government—IPIC's Role in Abu Dhabi's Economic Strategy*".

Strong Track Record

The Company has prudently invested to develop a large and diversified portfolio that currently consists of more than 15 investments in over 10 countries and on five different continents operating across the hydrocarbon value chain. The Company has historically enjoyed stable dividend income from its portfolio. On an unconsolidated basis, the Company had dividend income from its portfolio companies of U.S.$314 million in the six months ended 30 June 2011, U.S.$324 million in the year ended 31 December 2010, U.S.$280 million in the year ended 31 December 2009 and U.S.$341 million in the year ended 31 December 2008. From 31 December 2008 to 30 June 2011, the Company's consolidated total assets increased from U.S.$23.3 billion to U.S.$61.8 billion, primarily as a result of its investing activities.

The Company intends to continue focusing its strategy on investments that deliver new products, technology and markets to the Government and its other portfolio companies. The acquisition of Nova Chemicals, for example, provided the Group with new product technology that complements the Company's existing portfolio and also gives access to the North American market. The Company has built a strong reputation and has a proven track record of enhancing the value of its investments, and as such management believes that the Company will continue to play an important role in the Government's investment strategy. This strong record of enhancing value has been demonstrated by Nova Chemicals. Since the Company's acquisition of Nova Chemicals, its EBITDA margin has increased from 13.2 per cent. in the year ended 31 December 2009 to 17.4 per cent. in the year ended 31 December 2010.

Experienced Board of Directors

The Company benefits from an experienced board of directors comprised of senior members of the Government, the energy industry and the financial services industry. For example, the Chairman of the board of directors, H.H. Sheikh Mansour bin Zayed Al Nahyan, is a member of the ruling family of Abu Dhabi, the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs. In addition, three board members sit on Abu Dhabi's Supreme Petroleum Council, two board members sit on the Government's Executive Council and two board members are chairmen of leading Abu Dhabi banks. See "*Management—Board of Directors*".

Proven Ability to Derive Synergies from Portfolio

The Company has a proven ability to derive synergies by fostering partnerships among its portfolio companies as well as deriving value for the Government and thereby Abu Dhabi itself. As highlighted in the 2030 Economic Vision, the Company, through its investment in Borealis and its partnership with ADNOC, has developed Borouge, Abu Dhabi's largest and most technologically advanced petrochemicals complex to date, which is also one of the largest sites of its kind in the world. The Company believes that it is well positioned to continue to identify attractive investment opportunities and grow its existing portfolio through its network of relationships and its relationship with the Government. The Company expects to continue to pursue investment opportunities which will further enhance the synergies across its portfolio of investments.

Close Relationship with the Government

The Company is wholly-owned by the Government, which appoints all of the Company's board of directors. The Company has received six equity contributions from the Government totalling U.S.$3.5 billion, the last of which was in 2008. In June 2010, the Government also provided the Company with a U.S.$500 million perpetual shareholder loan (which, by the nature of its terms, is accounted for within equity in the Company's statement of financial position) to meet its obligations in respect of QADIC, which is a joint venture between the Government and the government of the State of Qatar. As at the date of this Base Prospectus, the Government has committed an additional U.S.$500 million for further investment in QADIC which has not yet been received. As a result of the Company's close relationship with the Government, from time to time the Government presents the Company with exclusive opportunities to participate in or directly make certain investments.

Investment Policies

The Company adheres to investment policies which it believes are disciplined and prudent and which have contributed to its success. The principal components of the Company's investment policies are its investment strategy and criteria and its investment process.

Investment Strategy and Criteria

The Company's principal mandate is to invest globally in energy and energy-related industries.

Invest long-term in a commercial and profitable manner

The Company is focused on making investments that generate value for its shareholder, the Government. When making equity investments, the Company generally seeks to acquire controlling or significant minority stakes in companies that give it adequate governance rights and board representation. This allows the Company to provide strategic direction to its portfolio companies, influence dividend policies and realise synergies within the Group.

Foster partnerships which complement the Company's existing portfolio and benefit Abu Dhabi

The Company seeks out opportunities which allow it to apply the expertise, knowledge and technology of its portfolio companies for the benefit of the broader Group by fostering a culture of knowledge sharing and cooperation among its portfolio companies. Correspondingly, companies within the Group are able to benefit from the Company's unique pipeline of investment opportunities and contact networks.

The Company seeks opportunities which will bring in expertise, knowledge and technology to further the development and diversification of Abu Dhabi's economy. For example, in 1998 the Company, through its subsidiary Borealis, established Borouge as a joint venture with ADNOC to build a state-of-the-art ethylene and "Borstar" polyethylene complex in Abu Dhabi. In 2010, Borouge tripled its polyolefin capacity to 2 million tonnes per year and awarded engineer, procure and construct contracts ("**EPC Contracts**") to expand capacity by a further 2.5 million tonnes per year of polyethylene and polypropylene by the end of 2013. Borouge is Abu Dhabi's largest and most technologically advanced petrochemicals complex to date and is also one of the largest sites of its kind in the world.

Diversify operations and portfolio to limit geographical and sector exposure

The Company seeks to make long-term investments which diversify its operations and portfolio to limit geographical or sector exposure. It has made more than 15 investments in over 10 countries and on five different continents creating a Group that operates globally. The Company's portfolio provides exposure to the entire hydrocarbon value chain, including exploration and production, transportation, refining and marketing, petrochemicals and power. The Company's controlling stake in Aabar brings additional geographic and sector diversification to its portfolio.

Investment Process

Investment proposals considered by the Company are generally assessed and executed in accordance with the investment process set out below. However, when opportunities arise which require expedient assessment and execution, the Company has the ability to undertake an accelerated process. All investments are approved by the Company's board of directors prior to execution.

The investment process consists of the following phases:

- *Origination*. Investment proposals considered by the Company may originate internally or be proposed to the Company by third parties, such as one of its portfolio companies, the Government, banks or potential investment partners. Investment proposals that originate internally are sourced by the Company's Investment Department (in relation to which, see "*Management—Principal Departments—Investment Department*") or by members of the Company's senior management.

- *Screening and Preliminary Evaluation*. Each proposed investment is evaluated by the Investment Department and, where appropriate, the Projects Department in light of the investment criteria described above and in comparison to alternative investment opportunities. During this stage, the evaluators discuss with the Company's Finance and Accounts Department (in relation to which, see "*Management—Principal Departments—Finance and Accounts Department*") the capital structure for the proposed investment.

- *Managing Director's Approval to Incur Expenses*. The proposed investment is further discussed with the Company's Managing Director, who is responsible for approving the appointment of advisors to assist in the evaluation of the proposal. If the proposed investment is sufficiently large, the Company's board of directors is consulted. At this stage, an internal deal team with the relevant expertise (and potentially experts from other companies within the Group that have relevant knowledge) is identified to further assess and execute the potential transaction.

- *Due Diligence.* A technical, financial, commercial and/or legal study of the proposed investment is commissioned with the support of the Company's advisers. The findings of this due diligence exercise are reviewed by the internal deal team who prepares an investment memorandum containing an investment recommendation and setting forth any potential areas of concern. At this stage, the deal team further considers optimal financing options and structuring, taxation, regulatory approvals and other aspects of the proposed investment.

- *Senior Management and Managing Director's Review and Approval.* The investment memorandum is presented to senior management and the Managing Director for their consideration and approval. If the memorandum is approved, the Managing Director presents the proposal to the board of directors.

- *Board of Directors' Review and Preliminary Approval.* The board of directors assesses the merits of the potential investment and provide guidance to senior management on the appropriate next steps once the transaction is given preliminary approval.

- *Negotiation with Target*. If the board of directors supports the transaction, the deal team, together with its advisers, will negotiate and agree the outstanding aspects of the transaction, including the detailed terms of the investment and the details of the financing for the transaction.

- *Board of Directors' Final Approval.* The final stage in the investment process is formal approval by the board of directors of the final terms of the transaction. The approval of the board of directors is obtained prior to signing and public announcement of the transaction.

The Investment Department is responsible for the main aspects of the foregoing investment process and works in tandem with the Projects Department, Finance and Accounts Department and the Legal Division (in relation to which, see "*Management—Principal Departments*").

When investing in projects, the Company follows a similar process, save that the due diligence component comprises of pre-feasibility studies conducted by experts both within the group and sourced externally, which are then followed by detailed feasibility studies.

Funding Principles

The Company employs a flexible funding strategy which depends on a number of factors, including the characteristics of the investment being financed, the state of the financing markets and the timing of other transactions being undertaken by the Company. To date, the sources of financing available to the Company have been dividends and interest received from investments, capital markets financing under the Programme, external bank financing and equity contributions from the Government.

Individual portfolio companies also raise funds to finance their development and operations. The Company gives its subsidiaries sufficient flexibility to determine and adopt the optimal funding strategy for their respective businesses. It does not generally provide financial support to its subsidiaries, nor does it provide guarantees for borrowings by its subsidiaries. The Company does, however, provide guidance and direction to its portfolio companies on their capital structure and dividend policy, taking into account the sector in which they operate and relevant market conditions.

The Company has not paid any dividends to the Government to date, nor is the Company aware of any plans by the Government to request any dividends for the foreseeable future, although there can be no assurance that this will remain the case.

Investment Management

The Company monitors the performance of its portfolio companies through the members of its board of directors and senior management who serve as directors of the various portfolio companies. The performance of the investments are also carefully monitored by the Investment, Projects and Finance and Accounts Departments, as well as the Legal Division, and is reviewed by the board of directors.

The Company holds an investment meeting chaired by its Managing Director on a regular basis which includes a discussion of the performance of the Company's investments and projects and any issues relating to them. These meetings are attended by members of the Investment, Projects, Finance and Accounts Departments and the Legal Division.

The Company does not generally interfere with the operations of its portfolio companies. However, in exceptional circumstances, the Company will seek to utilise its representation on the relevant portfolio company's board of directors to address operational or financial issues. An example of this is the Company's investment and management of Nova Chemicals where, following completion of the acquisition, the Company replaced all members of the board of directors and certain members of senior management and assisted the company in meeting its short term refinancing obligations (both pre-acquisition and post-acquisition, through participation in discussions with key lenders). Since the Company's acquisition of Nova Chemicals, its operating and financial performance has significantly improved, contributing U.S.$388 million and U.S.$262 million to the Group's consolidated profit for the six months ended 30 June 2011 and the year ended 31 December 2010, respectively.

While the Company considers itself a long-term investor, it has, to date, divested four of its investments:

- PAFCO, as a result of nationalisation by the government of Pakistan (2004);
- Barclays, as a result of the direction of the shareholder of the Company, the Government (2009);
- Hyundai Oilbank, following compliance with an arbitral award (2010); and
- OPP, as a result of nationalisation by the government of the Sultanate of Oman (2010).

Existing Investment Portfolio

The following table sets forth summary information regarding the Company's principal portfolio companies.

Investment	Sector	Date of Initial Investment	Percentage Ownership	Board Representation	Accounting Treatment	Headquarters	Public/ Private
Consolidated Subsidiaries							
CEPSA[(1)]	Integrated oil and petrochemicals	1988	100.0	10 of 10	Consolidated	Spain	Private
Borealis[(2)]	Petrochemicals	1998	64.0	3 of 5*	Consolidated	Austria	Private
Nova Chemicals	Petrochemicals	2009	100	5 of 7	Consolidated	Canada	Private
Ferrostaal	Industrial services	2009	70.0	4 of 9*	Consolidated	Germany	Private
Aabar	Diversified investments	2009	95.3	5 of 5	Consolidated	U.A.E.	Private
Non-consolidated Investments							
OMV	Integrated oil and petrochemicals	1994	24.9	2 of 15*	Equity Method	Austria	Public
Cosmo Oil	Refining and marketing	2007	20.8	2 of 10	Available-for-Sale	Japan	Public
EDP	Power	2008	4.1	1 of 17	Available-for-Sale	Portugal	Public
PARCO[(3)]	Refining and marketing	1995	30.0	3 of 10	Equity Method	Pakistan	Private
SUMED	Oil transportation	1995	15.0	2 of 14	Available-for-Sale	Egypt	Private
GEM	Commercial tankers	2004	30.0	2 of 7	Equity Method	U.A.E.	Private
Convertible Instruments							
IPBC Bond	—	2009	—	—	Amortised Cost	Papua New Guinea	Private

* Denotes Supervisory Board which is responsible for overseeing the actions of the Management Board in its day-to-day management of the company.

(1) The Company finalised its acquisition of the entire share capital of CEPSA not already owned by the Company in July and August 2011.

(2) OMV holds the remaining 36.0 per cent of Borealis.

(3) The Company's investment in PARCO is indirectly held through ADPIC, a special purpose vehicle. ADPIC holds a 40.0 per cent. stake in PARCO and the Company has a 75.0 per cent. stake in ADPIC with the remaining 25.0 per cent. held by OMV.

In addition to the investments listed in the table above, the Company is also involved in a number of projects, including the ADCOP, ChemaWEyaat and Fujairah Refinery projects. Please see "*—Projects Under Development*".

Consolidated Subsidiaries

The Company has the following investments in portfolio companies that are consolidated for the purposes of the Financial Statements.

Compañía Española de Petróleos, S.A.

The Company made its initial investment in CEPSA in 1988 by way of the acquisition of a 9.6 per cent. stake, which it increased to 47.1 per cent. in 2009. In 2011, the Company completed the acquisition of all of the outstanding common shares of CEPSA. The Company appoints all of the members of CEPSA's board of directors in accordance with applicable law and CEPSA's articles of association, which also provide for the appointment of an audit committee, composed of non-executive directors, by the board of directors. In 2011, the Company obtained control of CEPSA, which led to CEPSA being consolidated in the Company's consolidated financial statements from 5 July 2011.

Based in Madrid, CEPSA is a leading Spanish integrated oil and petrochemicals company. CEPSA has four business areas: exploration and production; refining and marketing; petrochemicals; and gas and power. CEPSA's main exploration and production assets are located in Algeria and the Republic of Colombia. CEPSA operates three refineries in Spain, accounting for approximately one third of Spain's total refining capacity. CEPSA markets its products domestically through a network of over 1,500 outlets and sells motor and other fuels through wholesale channels to different sectors. CEPSA's petrochemicals division is highly integrated within its refining division and primarily produces raw materials for detergent and polyester, phenol and acetone. CEPSA has petrochemicals manufacturing facilities located in Spain, Canada and Brazil. CEPSA's gas and power operations are carried out primarily through joint ventures engaged in the commercialisation of natural gas and the operation of gas-fired power plants and cogeneration facilities for refineries and production sites. One such joint venture is Medgaz, a joint venture created to design, build and operate a gas pipeline linking Algeria and Europe via Spain in which CEPSA has a 20.0 per cent. stake. As of 30 June 2011, CEPSA had approximately 12,000 employees.

As of 30 June 2011 the net carrying value of CEPSA in the Group's consolidated financial statements was U.S.$6.0 billion, representing 9.6 per cent. of the Group's consolidated total assets at such date.

The Company invested in CEPSA with a view to providing the Company with a platform to participate in the Mediterranean refinery market and for future growth in all aspects of the hydrocarbon value chain. The Company's investment in CEPSA is intended to enable the Company to expand into new regions, whilst realising potential synergies between CEPSA and other companies in the Company's portfolio.

Borealis AG

In 1998, the Company and OMV made their initial investment in Borealis, each acquiring a 25.0 per cent. stake. In 2005, the Company and OMV acquired full ownership of Borealis and currently hold 64.0 per cent. and 36.0 per cent. stakes, respectively. The Company has three representatives on Borealis' supervisory board.

Based in Vienna, Austria, Borealis is a major polyolefin producer, focusing on polyethylene and polypropylene materials. These provide solutions for pipe systems, energy and communication cables, automotive and advanced packaging materials. Borealis, together with Borouge, its Abu Dhabi petrochemicals joint venture with ADNOC, is one of the leading global suppliers of advanced polyolefin plastics solutions for the pipe mobility and advanced packaging industry and a leading provider of polyolefin compounds for the global wire and cable industry. Borealis, at its facilities in Europe, also produces ethylene and propylene as well as base chemicals, including phenol, acetone and melamine, together with nitrogenous fertilisers. As of 30 June 2011, Borealis had approximately 5,100 employees.

For the six months ended 30 June 2011, Borealis contributed U.S.$5.3 billion of revenue (after consolidation elimination entries) representing 61.1 per cent. of the Group's consolidated total revenue for the period. As of 30 June 2011, Borealis represented U.S.$8.6 billion of assets (after consolidation elimination entries) or 13.9 per cent. of the Group's consolidated total assets at such date.

The Company acquired its interest in Borealis on the basis of Borealis' potential contribution to the development of the petrochemicals sector in Abu Dhabi, which resulted in the Borouge joint venture between Borealis and ADNOC. Borealis also complements OMV's refining operations, which produce feedstock ethylene and propylene.

Borouge

Borealis holds a 40.0 per cent. stake in Borouge, a joint venture with ADNOC which holds the remaining 60.0 per cent. Based on Borealis' proprietary "Borstar" technology, Borouge produces polyethylene and polypropylene products for the infrastructure and advanced packaging markets in the Asia Pacific and MENA regions. Borouge Pte, in which Borealis and ADNOC each hold 50.0 per cent. of the shares, markets these products as well as Borealis' entire premium grade product range throughout these regions. Borouge provides Borealis with access to a region with low-cost feedstock that is close to the growth markets of China, India and South East Asia. As of 30 June 2011, Borouge had approximately 1,800 employees.

Borouge is Abu Dhabi's largest and most technologically advanced petrochemicals operation to date. Its Borouge 2 complex became fully operational in early 2011, taking Borouge's annual production capacity to approximately 2 million tonnes of polyolefins. In late 2010, Borouge awarded EPC Contracts for the next phase of development, Borouge 3, which is expected to provide an additional 2.5 million tonnes of polyolefins annual production capacity, including a low density polyethylene unit to produce high performance materials for wire and cable applications. Borouge 3 is expected to be operational by the end of 2013.

Borouge and Borealis are also currently developing an Innovation Centre in Abu Dhabi scheduled to be fully operational by the first half of 2012. The focus of the Innovation Centre will be to develop practical solutions for advanced plastic material applications, and will work closely with Borealis' existing European Innovation Centres in Austria, Finland and Sweden. With state of the art equipment, the Innovation Centre will:

- represent a significant investment in research capabilities to meet customer needs in the Asia Pacific and MENA regions;
- form part of the strategic plans of both Borouge and Borealis to expand and become the leading supplier of innovative plastics solutions in the Asia Pacific and MENA regions;
- complement and ensure full support for the Borouge 2 market introduction and "Borstar"-grade application development; and
- initially focus on development of pipe, film and moulding applications.

Nova Chemicals Corporation

In 2009, the Company completed the acquisition of all of the outstanding common shares of Nova Chemicals, a company based in Calgary, Canada. The Company appoints all members of Nova Chemicals' board of directors in accordance with applicable law and Nova Chemicals' articles of continuance, which provide for the appointments of an independent chairman of the audit committee of the board of directors. Nova Chemicals is one of North America's leading plastics and chemicals companies, developing and manufacturing materials for customers worldwide that produce consumer, industrial and packaging products. Nova Chemicals' operations are divided principally into two business units: the olefins/polyolefins business unit, which produces and markets ethylene, polyethylene, higher-value polyethylene and a variety of chemical and energy products, and the performance styrenics business, which produces and markets expandable polystyrene in North America, as well as higher-value styrenic polymers. As of 30 June 2011, Nova Chemicals had approximately 2,500 employees globally.

Nova Chemicals has been assigned ratings of BB- (positive) by Fitch, Ba1 (stable) by Moody's and BB- (stable) by S&P.

For the six months ended 30 June 2011, Nova Chemicals contributed U.S.$2.7 billion of revenue (after consolidation elimination entries) representing 31.2 per cent. of the Group's consolidated total revenue for the period. As of 30 June 2011, Nova Chemicals represented U.S.$6.0 billion of assets (after consolidation elimination entries) or 9.6 per cent. of the Group's consolidated total assets at such date.

The Company acquired Nova Chemicals with a view to gaining access to Nova Chemicals' advanced technology, for the purpose of harnessing potential synergies with its other portfolio companies. In addition, Nova Chemicals' petrochemicals capabilities in North America complement the Group's existing petrochemicals operations in Europe and the Middle East and expand the Group's product range and marketing capabilities, enabling it to offer a full range of premium grade polyethylene products.

Ferrostaal AG

In 2009, the Company acquired a 70.0 per cent. stake in Ferrostaal. The remaining 30.0 per cent. is held by MAN SE ("**MAN**"), a German manufacturing and engineering group.

The Company and MAN entered into a shareholders' agreement at the time the Company completed its acquisition of its 70.0 per cent. stake in Ferrostaal that provides for certain arrangements regarding the Company's acquisition of MAN's remaining 30.0 per cent. stake in Ferrostaal. The Company has, to date, not acquired the remaining 30.0 per cent. of Ferrostaal.

Based in Essen, Germany, Ferrostaal is a project developer and manager of turnkey plant projects in, amongst others, the oil, gas, petrochemicals, solar energy and power industries. Ferrostaal has four core competencies: project development; project management; partner integration; and system integration. As of 30 June 2011, Ferrostaal had approximately 5,000 employees.

For the six months ended 30 June 2011, Ferrostaal contributed U.S.$613 million of revenue (after consolidation elimination entries) representing 7.1 per cent. of the Group's consolidated total revenue for the period. As of 30 June 2011, Ferrostaal represented U.S.$3.2 billion of assets (after consolidation elimination entries) or 5.3 per cent. of the Group's consolidated total assets at such date.

The Company's investment in Ferrostaal was made with a view to obtaining critical knowledge and technology for the Company's projects in Abu Dhabi and abroad and to play a role in the ChemaWEyaat project.

Aabar Investments P.J.S.

The Company made its initial investment in Aabar in 2009 and, through a series of transactions between 2009 and 2011 (including an offer to acquire all of the outstanding shares of Aabar from its public shareholders), increased its stake to 95.3 per cent.

Aabar is a diversified investment company that executes investments domestically and internationally in a broad range of sectors. In September 2010, Aabar's shares were delisted from the Abu Dhabi Securities Exchange.

Since the Company first acquired a stake in Aabar, Aabar has made a number of investments in a broad range of sectors, including aerospace, automotive, commodities and food security, financial services and real estate, resulting in an increase of Aabar's consolidated total assets from AED 37.3 billion (U.S.$10.1 billion) as of 31 December 2009 to AED 72.0 billion (U.S.$19.6 billion) as of 30 June 2011.

For the six months ended 30 June 2011, Aabar contributed U.S.$58 million of revenue (after consolidation elimination entries) representing 0.7 per cent. of the Group's consolidated total revenue for the period. As of 30 June 2011, Aabar represented U.S.$19.9 billion of assets (after consolidation elimination entries) or 32.3 per cent. of the Group's consolidated total assets at such date.

The Company acquired its stake in Aabar with a view to increasing flexibility in its investment strategy not only by diversifying the Company's portfolio into non-hydrocarbon sectors, but also by providing a vehicle through which the Company can participate in short- to long-term investments. In providing diversification to the Company's core holdings, the Company's investment in Aabar also assists the Government to fulfil its diversification objectives as articulated in the 2030 Economic Vision.

The following table sets forth certain summary information regarding Aabar's most significant investments:

Investment	Public/Private	Closing Date	Percentage Ownership	Headquarters
Daimler	Public	March 2009	9.04	Germany
Tesla Motors	Public	July 2009	3.16	U.S.A.
Mercedes-Benz Grand Prix	Private	December 2009	40.0	United Kingdom
Falcon Bank	Private	April 2009	100	Switzerland
UniCredit	Public	June 2010	4.99	Italy
Virgin Galactic	Private	October 2010	37.8	U.S.A.
Xojet Inc	Private	January 2011	28.0	U.S.A.
Glencore	Public	May 2011	1.4	Switzerland
Banvit	Public	August 2011	16.32	Turkey
RHB	Public	September 2011	24.9	Malaysia

Source: Aabar.

Details of these investments are described below:

- *Daimler*. In March 2009, Aabar acquired a 9.1 per cent. stake in Daimler, making it Daimler's single largest shareholder. Originally founded in 1883 and headquartered in Stuttgart, Germany, Daimler is a leading global producer of premium passenger cars (including Mercedes-Benz) and the largest manufacturer of commercial vehicles in the world. In October 2011, Aabar's stake in Daimler was reduced to 9.04 per cent. following an increase in Daimler's share capital as a result of the exercise of stock options.
- *Tesla Motors.* In May 2009, Daimler acquired an equity interest of approximately 9.0 per cent. in Tesla Motors and shortly afterwards sold 40.0 per cent. of its investment, representing, at the time, a stake of 3.6 per cent., to Aabar. Tesla Motors, founded in 2002 and headquartered in San Carlos, California, United States, is a leading producer of electric vehicles in North America and Europe.
- *Mercedes-Benz Grand Prix.* In December 2009, Aabar, together with Daimler U.K. plc, a subsidiary of Daimler, acquired a 75.1 per cent. stake in Brawn GP Limited (now Mercedes-Benz Grand Prix), with a put and call option on the remaining 24.9 per cent. of its share capital. As part of this transaction, Aabar initially acquired a 30.0 per cent. stake in Mercedes-Benz Grand Prix. Following the exercise of the put and call options in March 2011, Aabar currently holds a 40.0 per cent. stake in Mercedes-Benz Grand Prix. Founded in March 2009, Brawn GP was the 2009 Formula One World Constructors' Champion.
- *Falcon Bank*. In April 2009, Aabar completed its acquisition of AIG Private Bank Ltd. (which has since been renamed Falcon Private Bank Ltd) from American International Group, Inc. Falcon Bank, founded in

1965 and headquartered in Zurich, Switzerland, offers personalised wealth management solutions for high net worth clients, families and institutional investors with sophisticated wealth management and investment requirements.

- *UniCredit.* In June 2010, Aabar acquired a 4.99 per cent. stake in UniCredit. Founded in 1998 and headquartered in Milan, Italy, UniCredit is a major financial institution with strong roots in 22 European countries and an established international network in approximately 50 markets, with about 160,000 employees and approximately 9,500 offices.
- *Virgin Galactic*. In October 2010, Aabar acquired a stake of 31.8 per cent. in the holding company of Galactic Ventures LLC, a company that intends to launch the world's first commercial spaceline. Aabar has also committed to fund the development and operation by Galactic Ventures LLC of a satellite launch system, subject to the completion of a detailed assessment of the proposed launch capability and various regulatory approvals. In July 2011, Aabar increased its stake in Galactic Ventures LLC to 37.8 per cent.
- *Xojet Inc*. In January 2011, Aabar acquired a 28.0 per cent. stake in Xojet Inc. The company was founded in 2006 and is based in San Carlos, California with an office in New York. The company provides private aviation services to clients across the United States and other jurisdictions. Aabar, together with Xojet Inc., have created Xojet Aviation Services LLC, a joint venture based in Abu Dhabi mandated to provide similar premium private aviation services to clients in Abu Dhabi and the MENA region.
- *Glencore*. In May 2011, Aabar acquired a 1.4 per cent. stake in Glencore as part of Glencore's initial public offering. Glencore, founded in 1974 and headquartered in Baar, Switzerland, is one of the world's leading integrated producers and marketers of commodities, with worldwide activities in the production, sourcing, processing, refining, transporting, storage, financing and supply of metals and minerals, energy products and agricultural products. Glencore also provides financing, logistics and other supply chain services to producers and consumers of commodities.
- *Banvit*. In August 2011, Aabar acquired a 16.3 per cent. stake in Banvit. Founded in 1968 and headquartered in Bandirma, Turkey, Banvit is a producer and supplier of a range of frozen, cooked and ready-to-cook chicken and turkey products to Eastern Europe and Far East countries.
- *RHB*. In September 2011, Aabar acquired a 24.9 per cent. stake in RHB. Incorporated in 1994 and headquartered in Kuala Lumpur, Malaysia, RHB is the holding company of RHB Banking Group, the fifth largest fully integrated financial products and services provider in Malaysia.

Real Estate Investments

Aabar has invested in various real estate development projects in Abu Dhabi, the Hashemite Kingdom of Jordan, the Kingdom of Morocco, Spain and the United States, which include mixed-use, commercial, hospitality and residential developments and financial instruments.

Non-Consolidated Investments

The Company has made the following investments in portfolio companies that are included in the Financial Statements but are not consolidated subsidiaries.

OMV AG

The Company currently holds a 24.9 per cent. stake in OMV, with 31.5 per cent. held by Österreichische Industrieholding AG, Austria's investment and privatisation agency, and the remaining shares held by public shareholders. The Company has two representatives on OMV's supervisory board.

Based in Vienna, Austria, and listed on the Vienna Stock Exchange, OMV 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 four integrated business units: exploration and production; refining and marketing; petrochemicals; and gas and power. OMV's exploration and production portfolio spans 17 countries and OMV has a total annual refining capacity of 25.8 million tonnes. OMV also 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. As of 30 June 2011, OMV had approximately 31,000 employees.

OMV has been assigned ratings of A- (stable) by Fitch and A3 (stable) by Moody's.

As of 30 June 2011, the net carrying value of OMV in the Group's consolidated financial statements was U.S.$3.3 billion, representing 5.3 per cent. of the Group's consolidated total assets at such date.

The Company acquired its interest in OMV with a view to accessing refining knowledge and technology, expanding its exposure to the entire hydrocarbon value chain and gaining a platform to expand its business into Central and Eastern European end-markets.

In June 2011, the Company participated proportionately in the rights issue by OMV, and subsequently increased its stake in OMV to 24.9 per cent.

Cosmo Oil Co. Ltd.

The Company currently holds a 20.8 per cent. stake in Cosmo Oil. The Company has two representatives on Cosmo Oil's board of directors.

Based in Tokyo, and listed on the Tokyo Stock Exchange, Cosmo Oil is one of Japan's largest oil refining and marketing companies. Cosmo Oil operates four refineries in Japan and markets its products domestically through a network of over 3,500 petrol stations, as well as overseas. Cosmo Oil engages in crude oil exploration and production operations, primarily in the U.A.E. and the State of Qatar, and also produces and sells petrochemicals products. As of 30 June 2011, Cosmo Oil had over 30,000 employees.

Cosmo Oil has been assigned a rating of Baa3 (stable) by Moody's.

The U.A.E. and Japan enjoy strong commercial ties, with Japan being the largest importer of oil from the U.A.E. and the U.A.E. being one of the largest exporters of crude oil to Japan. The Company's investment was made with a view to strengthening these ties while providing the Company with a platform for further growth through partnerships with Cosmo Oil in the Asia Pacific region, a key growth region, and underpinning Cosmo Oil's existing concessions for oil exploration and production in the U.A.E. The Company's investment in Cosmo Oil was also driven, in part, by the potential benefits of synergies between Cosmo Oil and other companies within the Group.

Energias de Portugal, S.A. (EDP)

The Company holds a 4.1 per cent. stake in EDP, a public company listed on Euronext Lisbon and one of the largest companies in Portugal by market capitalisation as of 30 June 2011. The Company has one representative on EDP's board of directors.

Based in Lisbon, EDP is a vertically integrated electric power company and a leading generator, distributor and supplier of electricity in Portugal. EDP also has a significant presence in Brazilian electricity generation and distribution through its subsidiary EDP Energias do Brasil, S.A. and in United States wind energy generation through its subsidiary Horizon Wind Energy LLC.

EDP has assigned ratings of BBB+ (negative) by Fitch, Baa3 (negative) by Moody's and BBB (negative) by S&P.

The Company's investment in EDP, its first investment in the power sector, provides it with diversification in the energy sector through a leading European power company and was made with a view to advance cooperation with EDP in the renewable, electricity and gas sectors.

Pak-Arab Refinery Limited (PARCO)

The Company and OMV currently hold indirect 30.0 per cent. and 10.0 per cent. stakes, respectively, in PARCO through their joint investment vehicle ADPIC. Based in Pakistan, PARCO 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, with a capacity of 100,000 barrels per day, a crude oil pipeline (with a total length of 870 kilometres) running from Karachi to Multan and two refined products pipelines (with a total length of 1,230 kilometres).

Arab Petroleum Pipeline Company (SUMED)

The SUMED pipelines (also known as the Suez-Mediterranean pipelines) are owned by SUMED, a joint venture formed in 1977 between the Company, Egyptian General Petroleum, Saudi Arabian Oil Company, three Kuwaiti companies and Qatar Petroleum, in which the Company has a 15.0 per cent. stake. The SUMED pipelines consist of two parallel 320 kilometre oil pipelines that run across Egypt from the Gulf of Suez to the Mediterranean and provide an economic alternative to the Suez Canal for oil being transported from the Arabian Gulf region to the Mediterranean, in particular, in light of the inability of certain super tankers to pass through the Suez Canal due to their size.

Gulf Energy Maritime P.J.S.C. (GEM)

GEM is a joint venture formed in 2004 between the Company, the Emirates National Oil Company, a company wholly-owned by the Government of the Emirate of Dubai, Oman Oil Company, a company wholly-owned by the Sultanate of Oman, and Thales, a French electronics and information systems company. The Company holds a 30.0 per cent. stake in GEM. Based in the Emirate of Dubai, GEM is one of the leading independent commercial product tanker companies in the Middle East and manages and invests in modern state-of-the-art double-hulled tankers designed to carry petroleum products, chemicals and other hydrocarbons. As of 30 June 2011, GEM had a fleet of 19 double-hulled tankers.

Qatar and Abu Dhabi Investment Company (QADIC)

QADIC was formed in January 2009, following an agreement between the Government and the government of the State of Qatar, who wished to form a joint investment company to target global acquisitions.

The Government chose to hold its 50.0 per cent. stake through the Company, whilst the government of the State of Qatar chose to hold its stake through the Qatar Investment Authority (the "**QIA**"). In June 2010, the Government provided IPIC with a U.S.$500 million perpetual shareholder loan (which, by the nature of its terms, is accounted for within equity in IPIC's statement of financial position) to meet its obligations in respect of QADIC. As at the date of this Base Prospectus, the Government has committed an additional U.S.$500 million for further investment in QADIC which has not yet been received.

The Company and the QIA will invest equal amounts into the fund. As at the date of this Base Prospectus, each party has committed to invest U.S.$1 billion of equity into QADIC, with U.S.$50 million already paid by each of the Company and the QIA, and a further U.S.$950 million to be paid by each of them in the future.

Al Falah Growth Fund

The Company has held a 50.0 per cent. stake in the Al Falah Growth Fund since 2008. The Al Falah Growth Fund's investment objective is to invest in companies operating in Kazakhstan or elsewhere in the Commonwealth of Independent States in order to pursue international business opportunities. The Al Falah Growth Fund focuses on a number of sectors including oil and gas, mining, energy, financial, insurance and real estate as well as information and communication technology.

Oasis International Power (OIP)

The Company acquired a 36.0 per cent. stake in OIP in 2009. OIP is involved in the development, ownership, operation and maintenance of independent water and power plants, renewable energy and environmental projects in the MENA region, with the remaining 64.0 per cent. owned by International Power.

Convertible Instruments

IPBC Bond

In 2009, the Company subscribed for a five-year, A$1,681 million (U.S.$1.1 billion) mandatory exchangeable bond issued by the Independent Public Business Corporation (as trustee of the general business trust of Papua New Guinea), a 100 per cent. state-owned statutory corporation of the government of Papua New Guinea.

Pursuant to the terms of the IPBC Bond, upon exchange, the Company will hold 197 million ordinary shares in Oil Search, becoming one of the largest shareholders in Oil Search with an approximate 15.0 per cent. stake, based on current shareholdings as of 30 June 2011. If the IPBC Bond is not exchanged or redeemed for cash prior to maturity in accordance with its terms, the exchangeable bond will convert into ordinary shares of Oil Search in March 2014. In addition, in certain circumstances, the issuer of the IPBC Bond has the right to redeem the IPBC Bond in cash prior to maturity.

Oil Search is listed on the Australian and Port Moresby stock exchanges. Oil Search engages in the exploration, production, development and sale of gas and liquid hydrocarbons and has operations in Papua New Guinea, Yemen, Egypt, Libya, Iraq, Tunisia and Australia. Oil Search is currently in the process of developing a liquid natural gas project, which has been established to commercialise the undeveloped petroleum and associated gas resources in the Southern and Western Highlands of Papua New Guinea. The first liquid natural gas shipments from the project are currently targeted to be made by 2014. The project is operated and partially owned by ExxonMobil, which holds a 33.2 per cent. stake in the project, while Oil Search holds a 29.0 per cent. stake in the project.

The Company's investment in the IPBC Bond, and its potential exchange into Oil Search shares, is consistent with the Company's mandate to invest globally in energy and energy-related industries and gives it access to a large liquid natural gas project.

Projects Under Development

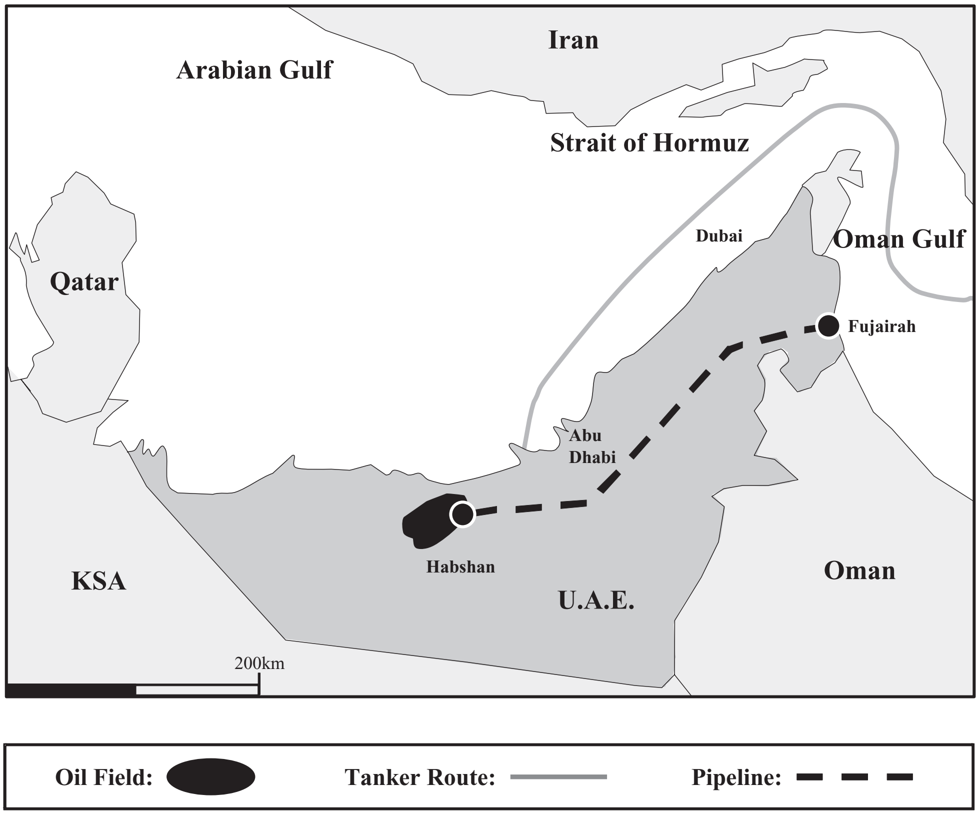
In addition to the investments made by the Company described above, due to the Company's accumulated industry knowledge and strong investment track record, the Government has mandated the Company to develop certain projects that are strategically important to the U.A.E. and Abu Dhabi.

The Abu Dhabi Crude Oil Pipeline (ADCOP)

The ADCOP project was conceived by the Government as a strategic project to bypass the congested Strait of Hormuz by providing an overground link between Abu Dhabi's key onshore oil fields and a deep-water port located in the Emirate of Fujairah on the Indian Ocean. Such a link helps to mitigate the risk of suspension of Abu Dhabi's crude oil exports in the event of a closure of, or disruption to, the Strait of Hormuz, and to provide lower transportation and insurance costs than present routes through the Strait. The deepwater port in the Emirate of Fujairah is also more cost effective since, unlike U.A.E. ports on the Arabian Gulf, it can accommodate very large crude carriers. Upon completion, ADCOP is expected to consist of a 400 kilometre, 48-inch diameter pipeline running from the Habshan oil field in Abu Dhabi to the oil export terminal in the Emirate of Fujairah, with storage capacity of eight million barrels of crude oil. The pipeline is expected to transport 1.5 million barrels per day, representing approximately 68 per cent. of Abu Dhabi's current total daily crude oil production, and is expected to be capable of pumping up to 1.8 million barrels per day periodically. Project implementation is well advanced with first delivery of crude oil via ADCOP scheduled for early 2012.

The total cost of ADCOP is expected to be approximately U.S.$4.0 billion. ADNOC will be the operator of ADCOP under a long-term lease agreement, the terms of which are currently under negotiation between the Company and ADNOC.

The following diagram sets out the geographical location of the ADCOP pipeline.



ChemaWEyaat

ChemaWEyaat was established as a company by Emiri Decree on 26 November 2008 with the Company holding a 40.0 per cent. stake. The remaining shares are owned by the Council, which has a 40.0 per cent stake, and ADNOC, which has a 20.0 per cent. stake. The multi-billion dollar ChemaWEyaat initiative is expected to comprise a series of world-class petrochemicals complexes with access to Abu Dhabi's gas and liquid petroleum feedstocks.

The first of such complexes, the Tacaamol Complex, is expected, in its first phase, to include a world-class naphtha reformer producing paraxylene (1.4 million tonnes per annum) and benzene (940,000 tonnes per annum), with the next phase expected to include a naphtha cracker (1.4 million tonnes per annum of ethylene) with downstream propylene and ethylene derivatives. The first phase of the Tacaamol Complex is expected to be completed in 2016.

Fujairah Refinery Project

In January 2011, the Company's board of directors approved a project involving the construction, operation and maintenance of a grassroots refinery complex in the Emirate of Fujairah. The Fujairah Refinery project is a strategic initiative of the Government and will be located near the main oil terminal for ADCOP and the deep-water oil export terminals in the Emirate of Fujairah. The project will be designed to process a mixture of U.A.E. and other crude oil with a processing capacity of 200,000 barrels per day. The refinery will produce middle distillates primarily for the Northern Emirates of the U.A.E. and bunker fuel to meet strong demand in the Emirate of Fujairah which is a major regional hub for bunkering.

The Company's decision to proceed with the Fujairah Refinery project followed a detailed feasibility study carried out on its behalf by external consultants. The Company has awarded the project management consultancy contract and is currently in the front-end engineering and design phase, with project completion anticipated by mid-2016.

The Fujairah Refinery project is expected to have a total aggregate capital expenditure of approximately U.S.$3.5 billion and the Company is currently considering a number of financing options including, but not limited to, non-recourse project financing.

Duqm Refinery Project

In October 2009, the Company announced an agreement with Oman Oil Company S.A.O.C. ("**OOC**"), a wholly-owned company of the government of the Sultanate of Oman, to assess the feasibility to develop a refinery and petrochemicals complex at Duqm in the Sultanate of Oman.

Under current plans, the Duqm Refinery project represents a joint venture between the Company and OOC to construct, operate and maintain a refinery complex designed to process a mixture of Abu Dhabi, Sultanate of Oman and other U.A.E. crude oil with a processing capacity of 230,000 barrels per day.

The Company's decision to proceed with the Duqm Refinery project followed a detailed feasibility study carried out on its behalf by external consultants. The Company is currently in the pre-front-end engineering and design phase, with project completion expected between 2016 and 2017.

The Duqm Refinery project is expected to have a total aggregate capital expenditure of approximately U.S.$6 billion to be shared equally between the Company and OOC. The Company and OOC are currently considering a number of financing options.

Competition

The Company's primary mandate to invest globally in energy and energy-related industries in a commercial and profitable manner is unique among Government-owned investment vehicles and the Company does not believe it faces significant competition in carrying out this mandate. However, certain of the Company's investments face competition in their specific business areas. The nature and extent of this competition, and its effect on the Group as a whole, varies depending on the businesses concerned. Management believes that the diversification of the Group's activities offers a level of protection against the adverse effects of one or more of its investments facing significant competition in their sphere of operations.

Environmental Matters

The Group is subject to various international, national and local environmental laws and regulations governing the emission, discharge, handling, storage, transportation, disposal, import and export of hazardous waste and materials.

The Group has a strong environmental record and believes that it is currently in material compliance with all applicable regulations. The Group currently possesses all material environmental permits and licenses required for the operation of its businesses.

Legal Proceedings

The Group is not aware of any litigation or other legal proceedings that would individually or in the aggregate be expected to have a material adverse effect on its results of operations or financial condition. However, the Group does highlight the following:

Ferrostaal

In February 2009, the Munich public prosecution authorities launched an investigation based on suspicion of illegal conduct and corrupt practices of Ferrostaal that occurred prior to the Company's acquisition of Ferrostaal. Ferrostaal has cooperated with the authorities throughout this investigation, which is nearing completion. In October 2011, Ferrostaal and the prosecuting authorities reached a preliminary understanding as to the quantum of the fines payable by Ferrostaal in an amount of approximately €150 million, payment of which is subject to certain conditions still to be agreed. Additionally, Ferrostaal has incurred significant costs in connection with the ongoing investigation.

In September 2010, the Group commenced arbitration proceedings against MAN (from whom the 70.0 per cent. interest in Ferrostaal was acquired) seeking to unwind the acquisition through the return of the acquired Ferrostaal shares against return of the purchase price paid for Ferrostaal. The amount of the Group's claim is in excess of the approximately €455 million amount that was paid for the 70.0 per cent. interest in Ferrostaal. MAN has counterclaimed in an amount in excess of the approximately €195 million contractual value of the remaining 30.0 per cent. of Ferrostaal, seeking the Company to consummate the put and call option entered into at the time of the acquisition in respect of the remaining 30.0 per cent. of Ferrostaal.

MAN has also brought legal action against Ferrostaal, challenging Ferrostaal's restatement of past financial statements.

Outside of the arbitration process, the Company is also working towards reaching an amicable solution with MAN in respect of Ferrostaal.

Nova Chemicals

The Group has made a provision of U.S.$101 million related to Nova Chemicals in respect of a patent infringement lawsuit filed by Dow Chemical Company ("**Dow**") in 2005. On 15 June 2010, a U.S. court assessed that Nova Chemicals had infringed Dow's patents and awarded Dow certain amounts for damages, including interest and related costs. Nova Chemicals is currently in the process of making an appeal on certain grounds and has posted security in an amount equivalent to the jury verdict plus interest and costs. A decision is expected before the end of the first quarter of 2012. Of the U.S.$101 million, U.S.$76 million relates to the award while U.S.$25 million relates to sales and interest through 30 June 2011.

In addition, in December 2010, a Dow affiliate filed a second suit alleging infringement of the corresponding Canadian patent. Nova Chemicals will defend this suit vigorously as it is thought to lack merit. This litigation is in its early stages and no provision has been made by the Group as of 30 June 2011 with respect to this claim.

MANAGEMENT

Board of Directors

Emiri Decree No. 20 of 2007 re-appointed the following members to the board of directors of the Company under the Chairmanship of H.H. Sheikh Mansour bin Zayed Al Nahyan, the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs:

Name	Title
His Highness Sheikh Mansour bin Zayed Al Nahyan	Chairman
His Excellency Mohamed bin Dhaen Al Hamli	Deputy Chairman
His Excellency Yousef Omair bin Yousef	Member
His Excellency Khalifa Mohamed Al Kindi	Member
His Excellency Hamad Al Hurr Al Suwaidi	Member
His Excellency Nasser Ahmed Khalifa Alsowaidi	Member
His Excellency Eissa Mohammed Ghanem Al Suwaidi	Member
His Excellency Khadem Abdulla Al Qubaisi	Member and Managing Director

The Company is managed by its board of directors, who are appointed by Emiri Decree. The board of directors meets at least four times a year with a minimum attendance requirement of five members. The board of directors has not established any committees. The business address of each of the members of the board of directors is P.O. Box 7528, Abu Dhabi, U.A.E.

The board of directors guides the strategic direction of the Company and regularly reviews the Company's and the Group's operating and financial position. The board of directors ensures that the necessary resources are in place to enable the Company to meet its investment objectives and monitors the performance of management and aims to ensure that the strategy, policies and procedures adopted are in line with the Company's mandate. See "*Description of the Group—Investment Policies*". In addition, the board of directors approves the preparation and auditing of the Company's financial statements.

Brief biographies of each of the members of the board of directors are set out below:

His Highness Sheikh Mansour bin Zayed Al Nahyan

H.H. Sheikh Mansour bin Zayed Al Nahyan is a member of the ruling family of Abu Dhabi, the Deputy Prime Minister of the U.A.E. and the U.A.E. Minister of Presidential Affairs. H.H. Sheikh Mansour bin Zayed Al Nahyan is the Chairman of the board of directors of the Company.

Other positions: Member of the Supreme Petroleum Council, Chairman of EIA, Chairman of the Abu Dhabi Food Control Authority, Vice Chairman of the Board of Trustees of the Sheikh Zayed Charitable and Humanitarian Foundation, Chairman of the Abu Dhabi Judicial Department, Chairman of the Abu Dhabi Fund for Development, Deputy Chairman of the Environment Agency, board member of ADIA and board member of the Council.

His Excellency Mohamed bin Dhaen Al Hamli

H.E. Mohamed bin Dhaen Al Hamli is the Minister of Energy of the U.A.E. H.E. Mohamed bin Dhaen Al Hamli is the Deputy Chairman of the board of directors of the Company.

Other positions: Member of the Consultative Committee of the Supreme Petroleum Council and Chairman of the Federal Electricity and Water Authority.

Education: H.E. Mohamed bin Dhaen Al Hamli holds a Higher National Diploma in Business Studies and studied the Advanced Management Program at Harvard Business School, United States. He is also a member of the Association of Chartered Certified Accountants.

His Excellency Yousef Omair bin Yousef

H.E. Yousef Omair bin Yousef is a former Member and former Secretary General of the Supreme Petroleum Council and former Chief Executive Officer of ADNOC. H.E. Yousef Omair bin Yousef is a member of the board of directors of the Company.

Education: H.E. Yousef Omair bin Yousef holds a Bachelor's Degree in Economics from the University of Arizona, United States.

His Excellency Khalifa Mohamed Al Kindi

H.E. Khalifa Mohamed Al Kindi is a board member and Managing Director of the Council and a member of the Supreme Petroleum Council. H.E. Khalifa Mohamed Al Kindi is a member of the board of directors of the Company.

Other positions: Chairman of Abu Dhabi National Insurance Company, Chairman of Invest AD and board member of the Abu Dhabi Fund for Development.

Education: H.E. Khalifa Mohamed Al Kindi holds a Bachelor's Degree in Economics from Eastern Michigan University, United States.

His Excellency Hamad Al Hurr Al Suwaidi

H.E. Hamad Al Hurr Al Suwaidi is the Chairman of the Department of Finance of the Government, a member of the Abu Dhabi Executive Council and a member of the Supreme Petroleum Council. H.E. Hamad Al Hurr Al Suwaidi is a member of the board of directors of the Company.

Other positions: Chairman of TAQA, board member of ADIA, board member of the Emirates Telecommunications Corporation ("**Etisalat**"), board member of Mubadala, board member of the Abu Dhabi Food Control Authority and board member of ADWEA.

Education: H.E. Hamad Al Hurr Al Suwaidi holds a Master of Business Administration, Finance Concentration, from California State University and a Bachelor's Degree in Business Administration from the Dominican University, both of the United States.

His Excellency Nasser Ahmed Khalifa Alsowaidi

H.E. Nasser Ahmed Khalifa Alsowaidi is the Chairman of the Department of Economic Development of the Government and a member of the Abu Dhabi Executive Council. H.E. Nasser Ahmed Khalifa Alsowaidi is a member of the board of directors of the Company.

Other positions: Chairman of the Abu Dhabi Securities Exchange, Chairman of Etihad Railway, Chairman of the National Bank of Abu Dhabi P.J.S.C., Chairman of Zones Corp, Vice Chairman of ADWEA and board member of Mubadala.

Education: H.E. Nasser Ahmed Khalifa Alsowaidi holds a Bachelor's Degree in Economics from California State Polytechnic University, United States.

His Excellency Eissa Mohammed Ghanem Al Suwaidi

H.E. Eissa Mohammed Ghanem Al Suwaidi is a member of the board of directors of the Company.

Other positions: Chairman of Abu Dhabi Commercial Bank P.J.S.C., board member of ADNOC Distribution, board member of Abu Dhabi Fund for Development, board member of EIA and board member of the Emirates Integrated Telecommunication Company ("**du**").

Education: H.E. Eissa Mohammed Ghanem Al Suwaidi holds a Bachelor's Degree in Economics from Northeastern University, United States.

His Excellency Khadem Abdulla Al Qubaisi

H.E. Khadem Abdulla Al Qubaisi is a member of the board of directors of the Company and its Managing Director.

Other positions: Chairman of Aabar, Chairman of Borealis, Chairman of CEPSA, Chairman of Nova Chemicals, Chairman of Falcon Bank, Chairman of the Abu Dhabi National Takaful Co. PSC, Deputy Chairman of OMV, board member of First Gulf Bank P.J.S.C. and board member of EIA.

Education: H.E. Khadem Abdulla Al Qubaisi holds a Bachelor's Degree in Economics from the University of the U.A.E.

Senior Management

The Managing Director conducts the Company's business in accordance with the Company's articles of association and the rules and resolutions adopted by the board of directors. The board of directors is closely involved in approving every investment of the Company and remains significantly involved in the management and strategic direction of the investment once a transaction is closed. The business address of each of the members of senior management of the Company named below is P.O. Box 7528, Abu Dhabi, U.A.E.

The members of the Company's senior executive management comprise:

Name	Title
His Excellency Khadem Abdulla Al Qubaisi	Managing Director
Murtadha M. Al Hashmi	Chief Financial Officer
Mohamed Al Mehairi	Director, Investment Department
Saeed Al Mehairbi	Director, Projects Department
Tatik Mankassarian	Senior Adviser, Investment Department
Dr. Mohammed F. Azim	Senior Adviser, Projects Department
Mohamed Ali Al Fahim	Finance Division Manager

Brief biographies of each of the members of senior management are set out below. For the biography of His Excellency Khadem Abdulla Al Qubaisi, please see "*—Board of Directors*" above.

Murtadha M. Al Hashmi

Murtadha Al Hashmi is the Company's Chief Financial Officer.

Board positions: Board member, executive committee member and chairman of the audit committee of CEPSA; board member, audit committee and nomination and remuneration committee member of Aabar; and supervisory board member, presidential committee and audit committee member of Ferrostaal.

Previous experience: Mr. Al Hashmi joined the Company in 1993 and was previously Director - Finance and Accounts. He previously worked in the Finance Control Department of National Bank of Abu Dhabi P.J.S.C.

Education: Mr. Al Hashmi holds a Bachelor's Degree in Accounting from the University of the U.A.E.

Mohamed Al Mehairi

Mohamed Al Mehairi is the Director of the Investment Department of the Company.

Board positions: Vice Chairman of Nova Chemicals, Vice Chairman of PARCO, board member of Aabar, member of Borealis supervisory board and board member of CEPSA.

Previous experience: Mr. Al Mehairi joined the Company in 2006. Previously, he acted as Division Manager, Evaluation & Execution Division of the Company and as Investment Manager in the Company's Investment Department.

Education: Mr. Al Mehairi holds a Bachelor's Degree in Science and Business Administration Finance from Suffolk University, Boston, United States.

Saeed Al Mehairbi

Saeed Al Mehairbi is the Director of the Projects Department of the Company.

Board positions: Board member of CEPSA and board member of OIP.

Previous experience: Mr. Al Mehairbi joined the Company in 2007. He previously worked as Senior Project Coordinator within the Exploration and Production Directorate at ADNOC.

Education: Mr. Al Mehairbi holds a Master of Quality Management from Wollongong University, Dubai, U.A.E. campus; a Bachelor's Degree in Engineering Management from Abu Dhabi Men's College, U.A.E.; and a Higher Diploma in Civil Engineering from Abu Dhabi Men's College, U.A.E.

Tatik Mankassarian

Tatik Mankassarian is a Senior Adviser in the Investment Department of the Company. His areas of expertise include deal valuation, structuring, negotiation and post-investment restructuring.

Board positions: Supervisory board member of Ferrostaal.

Previous experience: Mr. Mankassarian joined the Company in 1995. His previous role at the Company was that of Investment Management Senior Adviser. Prior to joining the Company, Mr. Mankassarian worked in the Treasury Department of ADNOC.

Education: Mr. Mankassarian holds a Masters Degree in Business Administration from McGill University, Canada.

Dr. Mohammed F. Azim

Dr. Mohammed F. Azim is a Senior Adviser in the Projects Department of the Company. His areas of expertise include investment management, deal negotiation and project development and management.

Previous experience: Dr. Azim joined the Company in 2001. Prior to joining the Company, he worked for Qatar Petroleum, Saudi Yanbu Petrochemical Company in the Kingdom of Saudi Arabia, Gulf Oil and Foster Wheeler in England.

Education: Dr. Azim holds a PhD in Chemical Engineering from the University of Manchester, United Kingdom and a Masters Degree in Business Administration from Cranfield School of Management, United Kingdom.

Mohamed Ali Al Fahim

Mohamed Ali Al Fahim is the Company's Finance Division Manager.

Board Positions: Board member of EDP and board member of Aabar.

Previous experience: Mr. Al Fahim joined the Company in 2008. He previously worked as head of the Group Financing Department at ADNOC.

Education: Mr. Al Fahim holds a Bachelor's Degree in Science and Business Administration Finance from Suffolk University, Boston, United States.

Compensation

The General Assembly of the Government's representatives determines the remuneration of the members of the board of directors. The total compensation paid to the Company's key management personnel, which includes its board of directors, for the year ended 31 December 2010 amounted to U.S.$7.4 million.

Principal Departments

The Managing Director's Office

The Managing Director's Office (the "**MDO**") is headed by the Company's Managing Director, H.E. Khadem Abdulla Al Qubaisi. The MDO oversees the activities of all of the principal departments described below (each of which reports directly to the MDO), and ensures that the Company's overall strategy is effected in a coordinated manner, that new opportunities meet the Company's specified investment criteria and that the portfolio is effectively managed. The Managing Director is a member of the Company's board of directors.

Investment Department

The Investment Department, which is headed by Mohamed Al Mehairi, is responsible for the sourcing, evaluation and ongoing monitoring and management of the Company's investments. The Investment Department is divided into the following divisions: Research and Business Development; Evaluation and Execution; and Investment Management. The Investment Department works closely with the Finance and Accounts Department and the Legal Division on all new investments.

Projects Department

The Projects Department, which is headed by Saeed Al Mehairbi, is responsible for all aspects of the Company's on-going development projects, including ADCOP and the Fujairah Refinery.

Finance and Accounts Department

The Finance and Accounts Department, which is headed by Murtadha Al Hashmi, is responsible for the development of funding strategies and policies and the management of operations. The department executes all the major funding strategies and coordinates the finance operations and reporting duties, including the preparation of the Company's accounts.

Human Resources and Administration Department

The Human Resources and Administration Department (the "**HRA**"), which is headed by Khaleefa Al Mehairi, is responsible for developing and effecting strategies, policies and procedures relating to the Company's human resources operations and the management of those operations. The HRA's functions include developing recruitment policies, staff retention, professional and leadership development, alongside responsibilities for performance, planning, learning and development.

Legal Division

The Legal Division provides legal advice and support to the entire business, working closely with all of the principal departments described above. In particular, the Legal Division is responsible for assessing and minimising the legal risks associated with potential projects and investments and the on-going management of projects and investments. The Legal Division, in consultation with other departments, engages external counsel when appropriate. In addition, the Legal Division reviews all significant contracts and agreements, assists with regulatory compliance and provides transactional support. The Legal Division reports to the Managing Director.

Conflicts

There are no conflicts of interest between the duties of the members of the board of directors and senior management listed above to the Company and their private interests or other duties.

Employees

As of 30 June 2011, the Company had 131 employees and the consolidated companies in the Group had approximately 14,500 employees.

BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Clearstream, Luxembourg or Euroclear (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer, the Company nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Book-Entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**").

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, the DTC Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct Participant's and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Restricted Global Certificate, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services, including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-Entry Ownership and Payment in Respect of DTC Notes

The Issuer may apply to DTC in order to have any Tranche of Notes represented by a Global Certificate accepted in its book-entry settlement system. Upon the issue of any such Global Certificate, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Global Certificate to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Global Certificate will be limited to Direct Participants or Indirect Participants, including, in the case of any Unrestricted Global Certificate (as defined herein), the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Global Certificate accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Global Certificate accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Global Certificate in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

The Issuer expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. The Issuer also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Fiscal Agent, the Paying Agent, the Registrar or the Issuer. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the Issuer.

Transfers of Notes Represented by Global Certificates

Transfers of any interests in Notes represented by a Global Certificate within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Global Certificate to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Global Certificate accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Global Certificate accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other hand, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Fiscal Agent, the Paying Agent and any custodian ("**Custodian**") with whom the relevant Global Certificates have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Global Certificates will be effected through the Registrar, the Fiscal Agent, the Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Clearstream, Luxembourg or Euroclear accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Company, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

General

The following is a general description of certain Cayman Islands, U.A.E., U.S. and European Union tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those jurisdictions or elsewhere. It is not intended and does not constitute tax advice. Prospective purchasers of Notes are advised to consult their tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of Notes, including, but not limited to, the consequences of receipt of payments under the Notes and their disposal or redemption. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any changes in law that might take effect after such date.

Cayman Islands

Payments of interest and principal on the Notes will not be subject to taxation in the Cayman Islands and no withholding under Cayman Islands law will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable on the Notes if in registered form. Notes which are not in registered form may be stampable if executed in or brought into the Cayman Islands. An instrument of transfer in respect of a Note is stampable if executed in or brought into the Cayman Islands.

United Arab Emirates

The following summary of the anticipated tax treatment in the U.A.E. in relation to the payments on the Notes and under the Guarantee is based on the taxation law and practice in force at the date of this Base Prospectus and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of any payments with respect to such Notes under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in Abu Dhabi legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended)). The regime is, however, not enforced save in respect of companies active in the oil industry, some related service industries and branches of foreign banks operating in the U.A.E. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of U.A.E. or Abu Dhabi taxation in respect of payments of interest and principal to any holder of the Notes or payments made under the Guarantee. In the event of such imposition of any such withholding, the Issuer or, as the case may be, the Company has undertaken to gross up any payments subject to certain limited exceptions.

The Constitution of the U.A.E. specifically reserves to the U.A.E. government the right to raise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

United States Federal Income Taxation

TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE U.S. INTERNAL REVENUE SERVICE, PROSPECTIVE INVESTORS ARE HEREBY INFORMED THAT ANY TAX DISCUSSION HEREIN WAS NOT WRITTEN AND IS NOT INTENDED TO BE USED AND CANNOT BE USED BY ANY TAXPAYER FOR PURPOSES OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS DESCRIBED HEREIN. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Registered Notes by a U.S. Holder (as defined below). This summary deals only with purchasers of Registered Notes that are U.S. Holders, that acquire such Registered Notes at initial issuance, that will hold the Registered Notes as capital assets, and whose functional currency is the U.S. dollar. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to the acquisition, ownership or disposition of Registered Notes by particular investors. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks and other financial institutions, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, persons who have ceased to be U.S. citizens or to be taxed as U.S. lawful permanent residents, and investors that will hold the Registered Notes as part of straddles, hedging or conversion transactions, or as part of a synthetic security for U.S. federal income tax purposes).

As used herein, the term "**U.S. Holder**" means a beneficial owner of Registered Notes that is, for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation, created or organised in or under the laws of the United States, the District of Columbia, or any State thereof; (iii) an estate, the income of which is subject to U.S. federal income tax without regard to its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or that is otherwise treated as a U.S. person.

This summary applies only to holders of Registered Notes. If a partnership (or any other entity treated as fiscally transparent for U.S. federal income tax purposes) holds Notes, the tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Any such partner or partnership should consult their tax advisers as to the U.S. federal income tax consequences to them of the acquisition, ownership and disposition of Notes.

This summary is based on the tax laws of the United States including the Code, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect and all of which are subject to change at any time, possibly with retroactive effect.

INVESTORS SHOULD CONSULT THEIR TAX ADVISERS TO DETERMINE THE TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING AND DISPOSING OF REGISTERED NOTES, INCLUDING THE APPLICATION TO THEIR PARTICULAR SITUATION OF THE U.S. FEDERAL INCOME TAX CONSIDERATIONS DISCUSSED BELOW, AS WELL AS THE APPLICATION OF THE ALTERNATIVE MINIMUM TAX AND ANY STATE, LOCAL, NON-U.S. OR OTHER TAX LAWS.

The Issuer generally intends to treat Notes issued under the Programme as debt. Certain Notes, however, such as certain Index Linked Notes, among others, may be treated as equity or some other type of instrument or interest for U.S. federal income tax purposes. The tax treatment of Notes to which a treatment other than debt may apply may be discussed in the applicable Final Terms of those Notes. Furthermore, the classification and treatment of amounts received on or in exchange for a Note that is treated as a contingent payment debt instrument is complex and depends upon facts and circumstances at the time the Note is issued and the precise terms and conditions of the Note. In the event that Notes, including, but not limited to, Index Linked Notes, are issued that are likely to be treated as contingent payment debt instruments for U.S. federal income tax purposes, the supplement to the Base Prospectus for such Notes will address the material U.S. federal income tax consequences of the acquisition, ownership and disposition of those Notes by a U.S. Holder. The following summary therefore does not discuss Notes that may be characterised as contingent payment debt instruments for U.S. federal income tax purposes.

U.S. Holders

Payment of Interest

Interest on a Note, whether payable in U.S. dollars or a currency, composite currency or basket of currencies other than U.S. dollars ("**foreign currency**" interest on a "**Foreign Currency Note**"), other than interest on a Discount Note that is not "qualified stated interest" (each as defined below under "*Original Issue Discount – General*"), will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with the U.S. Holder's method of accounting for tax purposes. Interest paid by the Issuer on the Notes and original issue discount ("**OID**"), if any, accrued with respect to the Notes (as described below under "*Original Issue Discount—General*") generally will constitute income from sources outside the United States for the purposes of the rules regarding the foreign tax credit allowable to a U.S. Holder (and the limitations imposed thereon). Prospective purchasers should consult their tax advisers concerning the foreign tax credit implications of the payment of any foreign taxes with respect to the Notes (if applicable).

Original Issue Discount

General

A Note, other than a Note with a term of one year or less (a "**Short-Term Note**"), will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's stated redemption price at maturity over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an "**instalment obligation**") will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is greater than 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of qualified stated interest. A qualified stated interest payment generally is any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described under "*—Variable Interest Rate Notes*"), applied to the outstanding principal amount of the Note (qualified stated interest). Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note. If a Note has *de minimis* OID, a U.S. Holder must include the *de minimis* amount in income as stated principal payments are made on the Note, unless the U.S. Holder makes the election described under "*—Election to Treat All Interest as Original Issue Discount*". A U.S. Holder can determine the includible amount with respect to each such payment by multiplying the total amount of the Note's *de minimis* OID by a fraction equal to the amount of the principal payment made divided by the stated principal amount of the Note.

U.S. Holders of Discount Notes must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or the portion of the taxable year in which the U.S. Holder holds the Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Notes as long as: (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of: (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. The adjusted issue price of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by: (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**") and that does not make the election described under "*—Election to Treat All Interest as Original Issue Discount*", is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant yield method described under "*—General*", with certain modifications. For the purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described under "*—Notes Purchased at a Premium*") or acquisition premium. If a U.S. Holder makes this election for the Note, then, when the constant yield method is applied the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the Internal Revenue Service (the "**IRS**"). However, if the Note has amortisable bond premium, the U.S. Holder will be deemed to have made an election to apply amortisable bond premium against interest for all debt instruments with amortisable bond premium (other than debt instruments, the interest on which is excludible from gross income) held as of the beginning of the taxable year to which the election applies or any taxable year thereafter. If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note (as defined below under "*—Market Discount*"), the electing U.S. Holder will be treated as having made the election discussed under "*—Market Discount*" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the advisability and consequences of making this election.

Variable Interest Rate Notes

Notes that provide for interest at variable rates ("**Variable Interest Rate Notes**") generally will bear interest at a qualified floating rate and thus will be treated as variable rate debt instruments under U.S. Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a variable rate debt instrument if: (a) its issue price does not exceed the total non-contingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount; (b) it provides for stated interest, paid or compounded at least annually, at: (i) one or more qualified floating rates; (ii) a single fixed rate and one or more qualified floating rates; (iii) a single objective rate; or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate; and (c) it does not provide for any principal payments that are contingent.

A qualified floating rate is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note's issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate unless the cap or floor is fixed throughout the term of the Note.

An objective rate is a rate that is not itself a qualified floating rate but one which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Issuer (or a related party) or that is unique to the circumstances of the Issuer (or a related party), such as dividends, profits or the value of the Issuer's stock (although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Issuer). Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note's term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note's term. A qualified inverse floating rate is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note's issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a current value of that rate. A current value of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a variable rate debt instrument, then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Issuer) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a variable rate debt instrument generally will not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a true discount (i.e., at a price below the Note's stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from a true discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to: (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate; or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a variable rate debt instrument will be converted into an equivalent fixed rate debt instrument for the purposes of determining the amount and accrual of OID and the qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an equivalent fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note's issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a variable rate debt instrument and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an equivalent fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the equivalent fixed rate debt instrument by applying the general OID rules to the equivalent fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the equivalent fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the equivalent fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note, the payments on which are determined by reference to an index, does not qualify as a variable rate debt instrument, then the Variable Interest Rate Note will be treated as a contingent payment debt instrument. Prospective purchasers should consult their tax advisers concerning the proper U.S. federal income tax treatment of Variable Interest Rate Notes that are treated as contingent payment debt instruments.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Short-Term Note is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight line basis or, if the U.S. Holder so elects, under the constant yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For the purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short-Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Fungible Issue

The Issuer may, without the consent of the Holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Market Discount

A Note, other than a Short-Term Note, that is not acquired at its original issue generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's revised issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note's stated redemption price at maturity or revised issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes *de minimis* market discount. For this purpose, the revised issue price of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note and decreased by the amount of any payments previously made on the Note that were not qualified stated interest payments.

Any gain recognised on the maturity or disposition of a Market Discount Note (including any payment on a Note that is not qualified stated interest) will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election will apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Market discount will accrue on a straight line basis unless the U.S. Holder elects to accrue the market discount on a constant yield method. This constant yield election applies only to the Market Discount Note with respect to which it is made and is irrevocable.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount (or, for a Discount Note, its stated redemption price at maturity) may elect to treat the excess as amortisable bond premium, in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds, (other than bonds, the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. Please see also "*—Election to Treat All Interest as Original Issue Discount*". A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will generally recognise a capital loss when the Note matures.

Purchase, Sale and Retirement of Notes

A U.S. Holder's tax basis in a Note generally will be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by: (i) the amount of any payments that are not qualified stated interest payments; and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note.

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the tax basis of the Note. Amounts realised on the sale or retirement of a Note are taxable as interest income to the extent of accrued but unpaid interest not previously included in income. Except to the extent described under "*Original Issue Discount—Market Discount*" or "*Original Issue Discount—Short-Term Notes*" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and generally will be treated as from U.S. sources for purposes of the U.S. foreign tax credit limitation. In the case of a U.S. Holder that is an individual, estate or trust, the maximum marginal federal income tax rate applicable to capital gains is currently lower than the maximum marginal rate applicable to ordinary income if the Notes are held for more than one year. The deductibility of capital losses is subject to significant limitations.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods.

Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year). Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

OID

OID for each accrual period on a Discount Note that is denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "—*Interest*". Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise U.S. source exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Bond Premium

Bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency.

On the date bond premium offsets interest income, a U.S. Holder may recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder.

Purchase, Sale and Retirement of Notes

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Foreign Currency Note will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency generally will be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note): (i) on the date of sale or retirement; and (ii) on the date on which the U.S. Holder acquired the Note. Any exchange rate gain or loss recognised on the sale or retirement of a Note (including any exchange rate gain or loss with respect to the receipt of accrued but unpaid interest and OID in the transaction) shall be realised only to the extent of the total gain or loss realised on the transaction.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the interest is received or at the time of the sale or retirement. Foreign currency that is purchased generally will have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Substitution of Issuer

The terms of the Notes provide that, in certain circumstances, the obligations of the Issuer under the Notes may be assumed by a Substitute (as defined in the Terms and Conditions of the Notes). Any such assumption might be treated for U.S. federal income tax purposes as a deemed disposition of Notes by a U.S. Holder in exchange for new notes issued by the Substitute. As a result of this deemed disposition, a U.S. Holder could be required to recognise capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the issue price of the new notes (as determined for U.S. federal income tax purposes), and the U.S. Holder's tax basis in the Notes. U.S. Holders should consult their tax advisers concerning the U.S. federal income tax consequences to them of a change in obligor with respect to the Notes.

Backup Withholding and Information Reporting

In general, payments of interest and accrued OID on, and the proceeds of a sale, exchange, redemption or other disposition of, Notes, payable to a U.S. Holder by a paying agent or other intermediary, may be subject to information reporting to the IRS. In addition, certain U.S. Holders may be subject to backup withholding tax in respect of such payments if they do not provide an accurate taxpayer identification number or certification of exempt status to a paying agent or other intermediary or otherwise comply with the applicable backup withholding requirements.

Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS in the manner required. Certain U.S. Holders (including, among others, corporations) are not subject to information reporting or backup withholding. U.S. Holders should consult their tax advisers as to their qualification for exemption from information reporting and/or backup withholding.

Foreign Financial Asset Reporting

Recently enacted legislation imposes reporting requirements on the holding of certain foreign financial assets, including equity of foreign entities, if the aggregate value of all of these assets exceeds U.S.$50,000. The Notes are expected to constitute foreign financial assets subject to these requirements unless the Notes are regularly traded on an established securities market and held in an account at a financial institution (in which case the account may be reportable if maintained by a foreign financial institution). U.S. Holders should consult their tax advisors regarding the application of this legislation.

Other Reporting Obligations

Treasury regulations require U.S. taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a "**Reportable Transaction**"). Under these regulations, a U.S. Holder that recognises exchange rate loss with respect to the Notes would be required to report the loss on IRS Form 8886 (Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss threshold is U.S.$50,000 in any single year. For other types of taxpayers and other types of losses, the thresholds are higher. Prospective purchasers are urged to consult their own tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

U.S. Holders should consult their own tax advisers regarding any filing or reporting requirements that may apply to their purchase, ownership and disposition of Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

EU Savings Directive

The European Union has adopted a Directive regarding the taxation of savings income. The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to (or for the benefit of) an individual or to certain other persons in another Member State, except that Austria and Luxembourg may instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

ERISA AND CERTAIN OTHER U.S. CONSIDERATIONS

General

The United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and Section 4975 of the Code, impose certain restrictions on: (a) employee benefit plans (as defined in Section 3(3) of ERISA) subject to Title I of ERISA; (b) plans as defined in and subject to Section 4975 of the Code, including individual retirement accounts and Keogh plans (collectively, "**Plans**"); (c) any entities whose underlying assets are deemed for purposes of ERISA or the Code to include "plan assets" by reason of a plan's investment in such entities (together with Plans, the "**Benefit Plan Investors**"); and (d) persons who have certain specified relationships to such Plans ("**parties in interest**" under ERISA and "**disqualified persons**" under the Code, collectively, "**Parties in Interest**"). Section 406 of ERISA and Section 4975 of the Code prohibit Plans from, amongst other things, engaging in certain transactions involving "plan assets" with persons who are Parties in Interest with respect to such Plan. A violation of these "prohibited transaction" rules may result in the imposition of an excise tax, the rescission of the transaction or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Any fiduciary of a Benefit Plan Investor who proposes to cause a Benefit Plan Investor to purchase a Note or any interest therein (to the extent permitted under any applicable Final Terms) should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an investment, and to confirm that such purchase, holding and disposition will not constitute or result in a non-exempt prohibited transaction or any other violation of an applicable requirement of ERISA.

Certain other employee benefit plans which are not Benefit Plan Investors including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) may be subject to U.S. federal, state, local or non-U.S. laws or regulations which are substantially similar to the prohibited transaction provisions of ERISA or Section 4975 of the Code ("**Similar Law**"). Fiduciaries of such plans should consult with their counsel before they purchase any of the Notes or any interest therein (to the extent permitted under any applicable Final Terms) or any interest therein to determine the need for, and the availability of, if necessary, any exemption relief under any such law and regulation.

Prohibited Transaction Exemptions

The fiduciary of a Benefit Plan Investor that proposes to purchase and hold any Notes or interest in a Note (if permitted by the applicable Final Terms) should consider, amongst other things, whether such purchase and holding may involve: (i) the direct or indirect extension of credit to a Party in Interest; (ii) the sale or exchange of any property between a Benefit Plan Investor and a Party in Interest; or (iii) the transfer to, or use by or for the benefit of, a Party in Interest of any assets of a Benefit Plan Investor. Such Parties in Interest could include, without limitation, the Issuer, the Company, the Dealers or any of their respective affiliates. Depending on the satisfaction of certain conditions which may include the identity of the fiduciary of the Benefit Plan Investor making the decision to acquire or hold the Notes or any interest therein on behalf of a Benefit Plan Investor, Section 408(b)(17) of ERISA or Prohibited Transaction Class Exemption ("**PTCE**") 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 90-1 (relating to investments by insurance company pooled separate accounts), PTCE 91-38 (relating to investments by bank collective investment funds), PTCE 95-60 (relating to investments by insurance company general accounts) or PTCE 96-23 (relating to transactions directed by an in-house asset manager) (collectively, the "**Class Exemptions**") could provide an exemption from the prohibited transaction provisions of ERISA and Section 4975 of the Code. However, there can be no assurance that any of these Class Exemptions or any other exemption will be available with respect to any particular transaction involving the Notes or any interest therein.

Accordingly, unless otherwise provided in any applicable Final Terms, each purchaser of a Note (or any interest therein) will be deemed to have represented and warranted that it is not and will not be for as long as it holds the Note (or interest therein) a Benefit Plan Investor or a governmental, church or non-U.S. plan that is subject to Similar Law. Any purported purchase or transfer of a Note or any interest therein that does not comply with the foregoing shall be null and void *ab initio*.

If the applicable Final Terms permit purchases by Benefit Plan Investors, a governmental, church or non-U.S. plan, through its purchase of any Note (or any interest therein), the purchaser thereof will be deemed to have represented and warranted either that: (i) no assets of a Benefit Plan Investor, governmental, church or non-U.S plan have been used to acquire or will be used to hold such Notes or an interest therein; or (ii) the purchase, holding and disposition of such Notes or an interest therein by such person will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or violation of Similar Law.

Each Plan fiduciary (and each fiduciary for governmental, church or non-U.S. plans subject to Similar Law) should consult with its legal or other advisors concerning the potential consequences to the plan under ERISA, the Code or such Similar Laws of an investment in the Notes or any interest therein.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated distribution agreement (the "**Distribution Agreement**") dated 19 October 2011, agreed with the Issuer and the Company a basis upon which they or any of them may from time to time agree to purchase Notes for their own account or for resale to investors and other purchasers at varying pricing relating to prevailing market prices at the time of resale as determined by any Dealer or for resale at a fixed offering price. Any such agreement will extend to those matters stated under "*Summary of Provisions relating to the Notes while in Global Form*" and "*Terms and Conditions of the Notes*".

In accordance with the terms of the Distribution Agreement, the Issuer (failing which, the Company) has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

A Dealer may sell the Notes it has purchased from the Issuer as principal to certain dealers less a concession equal to all or any portion of the discount received in connection with such purchase. Such Dealer may allow, and such dealers may reallow, a discount to certain other dealers. The Dealers may propose initially to offer the Notes at the issue price set forth in the applicable Final Terms. After the initial offering of the Notes, the issue price (in the case of the Notes to be resold at a fixed offering price), the concession and the reallowance may be changed.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically, such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations, stabilising activities may only be carried on by the Stabilising Manager(s) named in the applicable Final Terms (or persons acting on behalf of any Stabilising Manager(s)) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate) or person wishing to transfer an interest from one Global Certificate to another or from global to definitive form or *vice versa*, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Global Certificate with a view to holding it in the form of an interest in the same Global Certificate will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB that is also a QP, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs that are also QPs and it is aware that any sale to it is being made in reliance on Rule 144A; or (b) it is an Institutional Accredited Investor which has delivered an IAI Investment Letter to the Registrar that is also a QP; or (c) it is outside the United States and is not a U.S. person;

(ii) that it is not a broker-dealer which owns and invests on a discretionary basis less than U.S.$25,000,000 in securities of unaffiliated issuers;

(iii) that it is not formed for the purpose of investing in the Issuer;

(iv) that it, and each account for which it is purchasing, will hold and transfer at least the minimum denomination of the Notes;

(v) that it understands that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories;

(vi) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes and the Guarantee have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and neither the Issuer nor the Company has registered or intends to register as an investment company under the Investment Company Act and, accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except as set forth below;

(vii) that, unless it holds an interest in an Unrestricted Global Certificate and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the expiration of the applicable required holding period determined pursuant to Rule 144 of the Securities Act from the later of the last Issue Date for the Series and the last date on which the Issuer or an affiliate of the Issuer was the owner of such Notes, only: (a) to the Issuer or any affiliate thereof; (b) inside the United States to a person whom the seller reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP in a transaction meeting the requirements of Rule 144A; (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act; (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available); or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(viii) it will, and will require each subsequent holder to, notify any purchaser or transferee, as applicable, of the Notes from it of the resale and transfer restrictions referred to in paragraph (vii) above, if then applicable;

(ix) that Notes initially offered in the United States to QIBs that are also QPs will be represented by one or more Restricted Global Certificates, that Notes offered to Institutional Accredited Investors that are also QPs will be in the form of Definitive IAI Registered Notes ("**Definitive IAI Registered Notes**") and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Certificates;

(x) that it understands that the Issuer has the power to compel any beneficial owner of Notes represented by a Restricted Global Certificate that is a U.S. person and is not a QIB that is also a QP to sell its interest in such Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in any Restricted Global Certificate to a U.S. person who is not a QIB that is also a QP. Any purported transfer of an interest in a Restricted Global Certificate to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*;

(xi) that it understands that the Issuer has the power to compel any beneficial owner of Definitive IAI Notes that is a U.S. person and is not an Institutional Accredited Investor that is also a QP to sell its interest in such Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of a Definitive IAI Note to a U.S. person who is not an Institutional Accredited Investor that is also a QP. Any purported transfer of a Definitive IAI Note to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio*;

(xii) except as otherwise provided in any applicable Final Terms, the purchaser of a Note (or any interest in a Note) represents and warrants that it is not, and for so long as it holds such Note or interest it will not be, a Benefit Plan Investor or a governmental, church or non-U.S. plan that is subject to Similar Law. Any purported purchase or transfer that does not comply with the foregoing shall be null and void *ab initio*;

(xiii) to the extent Benefit Plan Investors, non-U.S. plans, governmental plans or church plans are permitted to purchase a Note or any interest therein under the applicable Final Terms, the purchaser of a Note or any interest therein represents and agrees that either: (i) no assets of a Benefit Plan Investor, or non-U.S. plan, governmental or church plan have been used to acquire such Notes or an interest therein; or (ii) the purchase and holding of such Notes or an interest therein by such person will not constitute or result in a non-exempt prohibited transaction under ERISA or the Code or violation of Similar Law. Any purported purchase or transfer of such an interest that does not comply with the foregoing shall be null and void *ab initio*;

(xiv) that the Notes in registered form, other than the Unrestricted Global Certificates, will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"NEITHER THIS SECURITY NOR THE GUARANTEE THEREOF HAS BEEN NOR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES**

ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND NEITHER THE ISSUER NOR THE COMPANY HAS REGISTERED OR INTENDS TO REGISTER AS AN INVESTMENT COMPANY UNDER THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"), AND, ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER: (A) REPRESENTS THAT: (1) IT IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) (A "**QIB**") THAT IS ALSO A QUALIFIED PURCHASER WITHIN THE MEANING OF SECTION 2(a)(51)(A) OF THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, AND THE RULES AND REGULATIONS THEREUNDER (A "**QP**"), PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs THAT ARE QPs IN A MINIMUM PRINCIPAL AMOUNT OF U.S.$200,000 (OR THE EQUIVALENT AMOUNT IN A FOREIGN CURRENCY); OR (2) IT IS AN INSTITUTIONAL "**ACCREDITED INVESTOR** (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) (AN "**INSTITUTIONAL ACCREDITED INVESTOR**") THAT IS ALSO A QP IN A MINIMUM PRINCIPAL AMOUNT OF U.S.$500,000 (OR THE EQUIVALENT AMOUNT IN A FOREIGN CURRENCY) AND THAT IT IS NOT, IN EACH CASE: (i) A BROKER-DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (ii) FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER; AND (iii) A PLAN OR TRUST FUND REFERRED TO IN PARAGRAPH (a)(1)(i)(D), (E) OR (F) OF RULE 144A IF INVESTMENT DECISIONS WITH RESPECT TO THE PLAN ARE MADE BY THE BENEFICIARIES OF THE PLAN; (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND, PRIOR TO EXPIRATION OF THE APPLICABLE REQUIRED HOLDING PERIOD DETERMINED PURSUANT TO RULE 144 OF THE SECURITIES ACT FROM THE LATER OF THE LAST ISSUE DATE FOR THE SERIES AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH SECURITIES OTHER THAN: (1) TO THE ISSUER OR ANY AFFILIATE THEREOF; (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS: (i) A QIB WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT THAT IS ALSO A QP PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB THAT IS ALSO A QP IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; OR (ii) AN INSTITUTIONAL ACCREDITED INVESTOR THAT IS ALSO A QP PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF AN INSTITUTIONAL INVESTOR THAT IS ALSO A QP; (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT; (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT ("**RULE 144**") (IF AVAILABLE); OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY.

ANY RESALE OR OTHER TRANSFER OF THIS SECURITY (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OR ANY OF ITS AGENTS. IN ADDITION TO THE FOREGOING, IN THE EVENT OF A TRANSFER OF THIS SECURITY (OR BENEFICIAL INTEREST HEREIN) TO A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB THAT IS ALSO A QP OR AN INSTITUTIONAL ACCREDITED INVESTOR THAT IS ALSO A QP, THE ISSUER MAY: (A) COMPEL SUCH TRANSFEREE TO SELL THIS SECURITY OR ITS INTEREST HEREIN TO A PERSON WHO: (i) IS A U.S. PERSON WHO IS A QIB THAT IS ALSO A QP OR AN INSTITUTIONAL ACCREDITED INVESTOR THAT IS ALSO A QP THAT IS OTHERWISE QUALIFIED TO PURCHASE THIS SECURITY OR INTEREST HEREIN IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT; OR (ii) IS NOT A U.S. PERSON WITHIN THE MEANING OF

REGULATION S IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S; OR (B) COMPEL SUCH TRANSFEREE TO SELL THIS SECURITY OR ITS INTEREST HEREIN TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF: (X) THE PURCHASE PRICE THEREFOR PAID BY THE ORIGINAL TRANSFEREE; (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF; OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF THIS SECURITY OR INTEREST HEREIN TO A U.S. PERSON WHO IS NOT A QIB THAT IS ALSO A QP OR AN INSTITUTIONAL ACCREDITED INVESTOR THAT IS ALSO A QP. EACH TRANSFEROR OF THIS SECURITY WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ITS TRANSFEREE. NEITHER THE ISSUER NOR THE COMPANY HAS REGISTERED AND NEITHER INTENDS TO REGISTER UNDER THE INVESTMENT COMPANY ACT.

UNLESS OTHERWISE PROVIDED IN THE APPLICABLE FINAL TERMS, THIS SECURITY (OR ANY INTEREST HEREIN) MAY NOT BE PURCHASED BY OR OTHERWISE ACQUIRED BY ANY BENEFIT PLAN INVESTOR (AS DEFINED IN SECTION 3(42) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**")). EACH HOLDER OF SUCH A SECURITY WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT IT IS NOT (AND IS NOT DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") TO BE) AND FOR SO LONG AS IT HOLDS THIS SECURITY WILL NOT BE (OR BE DEEMED FOR SUCH PURPOSES TO BE) A BENEFIT PLAN INVESTOR OR AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"). ANY PURPORTED PURCHASE OR TRANSFER OF A SECURITY OR INTEREST THEREIN THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

IF PERMITTED UNDER THE APPLICABLE FINAL TERMS THIS SECURITY (OR ANY INTEREST HEREIN) MAY BE PURCHASED BY OR OTHERWISE ACQUIRED BY ANY "EMPLOYEE BENEFIT PLAN" WITHIN THE MEANING OF AND SUBJECT TO TITLE I OF ERISA, A "**PLAN**" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, ANY PERSON OR ENTITY WHOSE ASSETS INCLUDE (OR ARE DEEMED TO INCLUDE) THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR PLAN BY REASON OF 29 C.F.R. 2510.3-101 (AS MODIFIED BY SECTION 3(42) OF ERISA) (ANY OF THE FOREGOING, A "**BENEFIT PLAN INVESTOR**") OR AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR WHICH IS SUBJECT TO SIMILAR LAW, PROVIDED THAT, EACH HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER: (A) IT IS NOT (AND IS NOT DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE) AND FOR SO LONG AS IT HOLDS THIS SECURITY OR INTEREST THEREIN WILL NOT BE (OR BE DEEMED FOR SUCH PURPOSES TO BE) A BENEFIT PLAN INVESTOR OR AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR WHICH IS SUBJECT TO SIMILAR LAW; OR (B) THE PURCHASE, HOLDING AND DISPOSITION OF THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR THE CODE AND WILL NOT VIOLATE ANY SUCH SIMILAR LAW. ANY PURPORTED PURCHASE OR TRANSFER OF A SECURITY OR INTEREST THEREIN THAT DOES NOT COMPLY WITH THE FOREGOING SHALL BE NULL AND VOID *AB INITIO*.

THE ISSUER MAY COMPEL EACH BENEFICIAL HOLDER HEREOF TO CERTIFY PERIODICALLY THAT SUCH OWNER IS A QIB THAT IS ALSO A QP OR AN INSTITUTIONAL ACCREDITED INVESTOR THAT IS ALSO A QP.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND

BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(xv) that the Notes in registered form which are registered in the name of a nominee of DTC will bear an additional legend to the following effect unless otherwise agreed to by the Issuer:

"UNLESS THIS GLOBAL NOTE IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION, ("**DTC**"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY REGISTERED NOTE ISSUED IN EXCHANGE FOR THIS GLOBAL NOTE OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUIRED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS GLOBAL SECURITY MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN THE DEPOSITORY TRUST COMPANY OR A NOMINEE THEREOF EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN THIS GLOBAL SECURITY, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THIS LEGEND. BENEFICIAL INTERESTS IN THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH THIS LEGEND.";

(xvi) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as forty (40) days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes of the Tranche of which it forms part), it will do so only: (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act; or (ii) to a QIB that is also a QP in compliance with Rule 144A; and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Unrestricted Global Certificates will bear a legend to the following effect unless otherwise agreed to by the Issuer:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART."; and

(xvii) that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Institutional Accredited Investors that are also QPs who purchase Registered Notes in definitive form offered and sold in the United States in reliance upon the exemption from registration provided by the Securities Act are required to execute and deliver to the Registrar an IAI Investment Letter. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form. Please see "*Summary of Provisions relating to the Notes while in Global Form*".

The IAI Investment Letter will state, among other things, the following:

(i) that the Institutional Accredited Investor has received a copy of the Base Prospectus and such other information as it deems necessary in order to make its investment decisions;

(ii) that the Institutional Accredited Investor understands that any subsequent transfer of the Notes is subject to certain restrictions and conditions set forth in the Base Prospectus and the Notes (including those set out above) and that it agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes except in compliance with, such restrictions and conditions and the Securities Act;

(iii) that, in the normal course of its business, the Institutional Accredited Investor invests in or purchases securities similar to the Notes;

(iv) that the Institutional Accredited Investor is an Institutional Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act that is also a qualified purchaser within the meaning of Section 2(a)(51)(A) of the Investment Company Act and the rules and regulations thereunder and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Notes, and it and any accounts for which it is acting are each able to bear the economic risk of its or any such accounts' investment for an indefinite period of time;

(v) that the Institutional Accredited Investor is acquiring the Notes purchased by it for its own account or for one or more accounts (each of which is an Institutional Accredited Investor that is also a QP) as to each of which it exercised sole investment discretion and not with a view to any distribution of the Notes, subject, nevertheless, to the understanding that the disposition of its property shall at all times be and remain within its control; and

(vi) that, in the event that the Institutional Accredited Investor purchases Notes, it will acquire Notes having a minimum purchase price of at least U.S.$500,000 (or the equivalent amount in a foreign currency).

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.$200,000 (or the equivalent amount in a foreign currency) principal amount or, in the case of sales to Institutional Accredited Investors that are also QPs, U.S.$500,000 (or the equivalent amount in a foreign currency) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$200,000 (or the equivalent amount in a foreign currency) or, in the case of sales to Institutional Accredited Investors that are also QPs, U.S.$500,000 (or the equivalent amount in a foreign currency) principal amount of Registered Notes.

The Bearer Notes will bear a legend to the following effect:

"UPON ANY TENDER OF THE ENCLOSED BEARER NOTE TO THE ISSUER OR ITS AGENT FOR PAYMENT, THE ISSUER SHALL REQUIRE A CERTIFICATE REPRESENTING THAT THE BEARER EITHER: (A) WAS NOT AT THE TIME OF ACQUISITION OF THE BEARER NOTE, A U.S. RESIDENT BENEFICIAL OWNER; OR (B) IS, OR WAS AT THE TIME OF ACQUISITION OF THE BEARER NOTE, A U.S. BENEFICIAL OWNER WHO PURCHASED THE NOTES DIRECTLY FROM THE ISSUER WHILE RESIDENT ABROAD, OR IN A BONA FIDE SECONDARY MARKET TRANSACTION NOT INVOLVING THE ISSUER, ITS AGENTS, AFFILIATES, OR INTERMEDIARIES."

Selling Restrictions

United States

The Notes and the Guarantee have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in certain transactions exempt from or not subject to the registration requirements of the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold and shall offer and sell Notes of any Series: (i) as part of their distribution at any time; and (ii) otherwise until 40 days after the completion of the distribution of such tranche, as determined and certified to the Fiscal Agent by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the tranche of which such Notes are a part, only in accordance with a transaction exempt from or not subject to the registration requirements of the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer agrees that at or prior to confirmation of sale of Notes (other than a sale pursuant to Rule 144A), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in a transaction exempt from or not subject to the registration requirements of the Securities Act to a person: (a) that the seller reasonably believes is a "qualified institutional buyer" (within the meaning of Rule 144A under the Securities Act) that is also a "qualified purchaser" (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940); or (b) that is an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that is also a "qualified purchaser" (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940). Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in the two preceding paragraphs have the meanings given to them by Regulation S under the Securities Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on its or their behalf has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with any offer and sale of the Notes in the United States.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it is a QIB that is also a QP. Each Dealer may, through its respective U.S. registered broker-dealer affiliates, arrange for the offer and resale of the Notes in the United States only to QIBs that are also QPs or to Institutional Accredited Investors that are also QPs in a transaction not involving any public offering.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has offered and sold and will offer and sell the Notes in the United States only to persons: (i) whom it reasonably believes are QIBs that are also QPs; or (ii) who are Institutional Accredited Investors that are also QPs who, in the case of both (i) and (ii) can represent that: (A) they are either QIBs that are also QPs, or Institutional Accredited Investors that are also QPs, as the case may be; (B) they are not broker-dealers who own and invest on a discretionary basis less than U.S.$25 million in securities of unaffiliated issuers; (C) they are not a participant-directed employee plan, such as a 401(k) plan; (D) they are acting for their own account, or the account of one or more QIBs or Institutional Accredited Investors, as the case may be, each of which is a QP; (E) they are not formed for the purpose of investing in the Issuer; (F) each account for which they are purchasing will hold and transfer, in the case of QIBs that are also QPs at least U.S.$200,000 in principal amount of Notes, and in the case of Institutional Accredited Investors that are also QPs at least U.S.$500,000 in principal amount of Notes at any time; (G) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositories; and (H) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of Notes, except with its affiliates or with the prior written consent of the Issuer and the Company.

In addition, unless the Purchase Information or the Subscription Agreement (each as defined in the Distribution Agreement) relating to one or more Tranches specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, in relation to each Tranche of Notes in bearer form, that:

(i) except to the extent permitted under U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (the "**D Rules**"): (a) it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a U.S. person; and (b) it has not delivered and it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(ii) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. person, except as permitted by the D Rules;

(iii) if it is a U.S. person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(6);

(iv) with respect to each affiliate that acquires Bearer Notes from a Dealer for the purpose of offering or selling such Notes during the restricted period, such Dealer will either: (A) repeat and confirm the representations and agreements contained in sub-clauses (i), (ii) and (iii) on such affiliate's behalf; or (B) agree that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in sub-clauses (i), (ii) and (iii); and

(v) it will obtain from any distributor (within the meaning of U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D)(4)(ii) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (except a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of sub-clauses (i), (ii), (iii) and (iv) insofar as they relate to the D Rules, as if such distributor were a Dealer.

Terms used in the preceding paragraph have the meanings given to them by the Code and U.S. Treasury regulations thereunder, including the D Rules.

In addition, to the extent that the Purchase Information or the Subscription Agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "C Rules", under U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(C) (the "**C Rules**"), Notes in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. In relation to each such Tranche, each Dealer represents and agrees that it has not offered, sold or delivered, and shall not offer, sell or deliver, directly or indirectly, Notes in bearer form within the United States or its possessions in connection with their original issuance. Further, in connection with the original issuance of Notes in bearer form, it has not communicated, and shall not communicate, directly or indirectly, with a prospective purchaser if either such purchaser or it is within the United States or its possessions or otherwise involve its U.S. office in the offer or sale of Notes in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the C Rules.

To the extent that the Issuer is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Issuer has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Dealers may also arrange for the resale of Notes to persons who are Institutional Accredited Investors who execute and deliver to the Registrar an IAI Investment Letter and are QPs. Upon execution and delivery of an IAI Investment Letter by an Institutional Accredited Investor, Notes will be issued in definitive registered form.

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restrictions under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(i) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(iii) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that, no such offer of Notes referred to above shall require the Issuer, the Company or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Notes which have a maturity of less than one year: (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Company; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations of Japan.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering or sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"); and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia (a "**Saudi Investor**") who acquires the Notes pursuant to the offering should note that the offer of Notes is being made as a private placement by way of an "offer restricted to sophisticated investors" under Article 10 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**").

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the offer of the Notes may be only offered to "Sophisticated Investors" (as defined in Article 10 of the KSA Regulations).

The offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a limited offer may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Notes are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Notes in any one transaction is equal to or exceeds SR 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer any Notes to the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001 of the Kingdom of Bahrain) in the Kingdom of Bahrain).

State of Qatar

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered and will not offer, sell, or deliver, directly or indirectly, any Notes in the State of Qatar, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

State of Kuwait

The Notes have not been licensed for offering in the State Kuwait by the Ministry of Commerce and Industry or the Central Bank of Kuwait or any other relevant Kuwaiti government agency. The offering of the Notes in the State of Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990, as amended, and Ministerial Order No. 113 of 1992, as amended. No private or public offering of the Notes is being made in the State of Kuwait, and no agreement relating to the sale of the Notes will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Notes in the State of Kuwait.

Singapore

Each Dealer has acknowledged that this Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than: (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law; or

(iv) as specified in Section 276(7) of the SFA.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than: (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no offer or invitation to subscribe for the Notes has been or will be made to the public of the Cayman Islands.

General

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will, to the best of its knowledge and belief, comply with all applicable securities laws, regulations and directives in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Company nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Company or any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other restrictions as the Issuer, the Company and the relevant Dealer(s) shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The establishment of the Programme was authorised by a resolution of the board of directors of the Issuer dated 24 October 2010 and the giving of the Guarantee was authorised by a resolution of the board of directors of the Company dated 26 October 2010. The update of the Programme and the issue of Notes thereunder was authorised by a resolution of the board of directors of the Issuer dated 10 October 2011 and by a resolution of the board of directors of the Company dated 20 September 2011. The Issuer and the Company have obtained or will obtain from time to time, all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes or the Guarantee, as the case may be.

Listing of the Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the Regulated Market will be admitted separately as and when issued, subject only to the issue of a Global Note, a Global Certificate or Notes initially representing the Notes of such Tranche. Application has been made to the U.K. Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Regulated Market. The listing of the Programme in respect of Notes is expected to be granted on or before 24 October 2011.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

(i) the constitutional documents of the Issuer and of the Company (with an English translation thereof);

(ii) the unaudited interim condensed consolidated financial statements of the Company as of and for the six months ended 30 June 2011;

(iii) the audited consolidated financial statements of the Company as of and for the years ended 31 December 2010 and 31 December 2009, together with the audit reports prepared in connection therewith. The Company currently prepares audited consolidated financial statements on an annual basis;

(iv) the most recently published audited consolidated financial statements of the Company and the most recently published unaudited interim condensed consolidated financial statements (if any) of the Company, in each case together with any audit or review reports prepared in connection therewith;

(v) the unaudited interim condensed unconsolidated financial statements of the Company as of and for the six months ended 30 June 2011;

(vi) the audited unconsolidated financial statements of the Company as of and for the year ended 31 December 2010;

(vii) the Agency Agreement, the Deed of Guarantee, the Deed of Covenant, the Deed Poll and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(viii) a copy of this Base Prospectus; and

(ix) any future offering circulars, prospectuses, information memoranda and supplements, including Final Terms (save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. Acceptance by DTC of such Notes will be confirmed in the applicable Final Terms. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States.

Conditions for Determining Price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Company and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

Save in respect of the issuance of the Outstanding Notes, there has been no significant change in the financial or trading position of the Issuer, and no material adverse change in the prospects of the Issuer, since 27 September 2010, being the date of its incorporation.

Save as disclosed on page 125 of this Base Prospectus in respect of the acquisition by the Company in July and August 2011 of the remaining issued share capital of CEPSA not already owned by the Company, which resulted in CEPSA being accounted for on a consolidated basis from 5 July 2011, there has been no significant change in the financial or trading position of the Company or the Group since 30 June 2011. For a pro forma illustration of the effect of the Company's acquisition of the entire share capital of CEPSA, see "*Unaudited Pro Forma Consolidated Financial Information*" on pages 83 to 86 (inclusive) of this Base Prospectus.

There has been no material adverse change in the prospects of the Company or the Group since 31 December 2010.

Legal Proceedings

The Issuer is not, nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this Base Prospectus which may have, or have in such period had, a significant effect on the Issuer and/or the Group's financial position or profitability.

Save as disclosed on page 134 of this Base Prospectus under "*Description of the Group—Legal Proceedings*", the Company is not, nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) in the 12 months preceding the date of this Base Prospectus which may have, or have in such period had, a significant effect on the Company and/or the Group's financial position or profitability.

Auditors

The consolidated financial statements of the Company for each of the years ended 31 December 2010 and 31 December 2009 have been audited by Ernst & Young Middle East (Abu Dhabi branch) as stated in their reports appearing elsewhere herein. The unaudited interim condensed consolidated financial statements of the Company as of and for the six months ended 30 June 2011 have been reviewed in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" by Ernst & Young Middle East (Abu Dhabi branch) as stated in their report appearing elsewhere herein. Ernst & Young Middle East (Abu Dhabi branch) are public accountants registered to practice as auditors with the Ministry of Economy in Abu Dhabi.

Post-issuance Information

Save as set out in the applicable Final Terms, the Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers transacting with the Issuer and the Company

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer, the Company and their affiliates in the ordinary course of business. In particular, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer, the Company and their affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer, the Company and their affiliates routinely hedge their credit exposure to the Issuer, the Company and their affiliates consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Certain additional information relating to the Company

The Company has been incorporated for an initial term of 50 years which term shall thereafter be automatically renewed for consecutive periods of 50 years, unless a resolution is issued by the Company's General Assembly to dissolve the Company before the expiry of its term.

The circumstances in which the Company may be dissolved are:

- upon the expiry of its term, unless renewed;
- by legislation or court decision;
- upon the bankruptcy or insolvency of the Company; or
- by resolution of the Company's General Assembly if it becomes evident from the Company's financial statements that the Company has lost half or more of its capital and does not take a decision to reduce the Company's capital or any other appropriate action by the Company's General Assembly.

The Company was established on 29 May 1984 as a public joint stock company pursuant to Emiri Decree No. 3 of 1984, with ownership initially divided equally between ADIA and ADNOC, each wholly-owned by the Government. Ownership of the Company was subsequently transferred directly to the Government on 6 December 1986 pursuant to Emiri Decree No. 2 of 1986.

As of 30 June 2011, the authorised share capital of the Company is U.S.$5,000 million divided into shares of a nominal or par value of U.S.$1,000 each. The issued share capital of the Company is U.S.$3,500 million.

The Company is the parent company in respect of a large number of subsidiaries, details of which are set out in Note 40 to the 2010 Financial Statements. The Company also participates in associates and jointly controlled entities, details of which are set out in Note 5 to the 2010 Financial Statements.

The Company's address is Al Muhairy Center, Office Tower, 10th Floor, Sheikh Zayed the 1st Street, P.O. Box 7528, Abu Dhabi, U.A.E. The Company's telephone number is +971 2 6336555.

INDEX TO FINANCIAL STATEMENTS

Financial Statements of the Group

Financial Statements of CEPSA

International Petroleum Investment Company PJSC and its subsidiaries

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2011
(UNAUDITED)

ERNST & YOUNG

P.O. Box 136
11th Floor - Al Ghaith Tower
Hamdan Street
Abu Dhabi, United Arab Emirates
Tel: +971 2 417 4400
+971 2 627 7522
Fax: +971 2 627 3383
www.ey.com/me

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF INTERNATIONAL PETROLEUM INVESTMENT COMPANY PJSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of International Petroleum Investment Company PJSC (the "Company") and its subsidiaries (collectively the "Group") as at 30 June 2011, comprising the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated income statement and interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

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

20 September 2011
Abu Dhabi

A member firm of Ernst & Young Global Limited

International Petroleum Investment Company PJSC and its subsidiaries

INTERIM CONSOLIDATED INCOME STATEMENT
Period ended 30 June 2011 (Unaudited)

	Notes	Six months ended 30 June 2011 US$'000	Six months ended 30 June 2010 US$'000 Reclassified*
CONTINUING OPERATIONS			
Revenues		**8,631,840**	7,379,506
Cost of sales		**(6,809,694)**	(5,980,451)
Gross profit		**1,822,146**	1,399,055
Share of results of associates and jointly controlled entities		**727,044**	324,556
Selling and distribution costs		**(476,459)**	(470,338)
General and administrative expenses		**(423,054)**	(443,748)
Research and development expenses		**(78,025)**	(63,163)
Operating profit		**1,571,652**	746,362
Net foreign exchange (loss) gain		**(294,392)**	913,385
Finance income	4	**423,478**	132,188
Finance costs	5	**(722,565)**	(402,185)
Other income		**26,029**	89,494
Other expense		**(66,874)**	(142,008)
Gains on acquisitions and disposals	6	**16,016**	13,571
Other gains (losses) on financial instruments	7	**424,037**	(1,084,064)
Profit for the period from continuing operations before tax		**1,377,381**	266,743
Tax expense		**(223,905)**	(107,517)
Profit for the period from continuing operations		**1,153,476**	159,226
DISCONTINUED OPERATIONS			
Profit after tax for the period from discontinued operations	8	**8,104**	254,550
PROFIT FOR THE PERIOD		**1,161,580**	413,776
Profit for the period attributable to:			
Equity holder of the parent		**988,426**	328,359
Non-controlling interests		**173,154**	85,417
		1,161,580	413,776
		US$	**US$**
Basic and diluted earnings per share attributable to ordinary equity holder of the parent	9	**282**	94
Basic and diluted earnings per share from continuing operations attributable to ordinary equity holder of the parent	9	**280**	46

* Certain amounts shown here do not correspond to the 30 June 2010 interim condensed consolidated financial statements, as disclosed in Note 23.

The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Period ended 30 June 2011 (Unaudited)

	Six months ended 30 June	
	2011	**2010**
	US$'000	**US$'000**
PROFIT FOR THE PERIOD	**1,161,580**	**413,776**
Exchange gain (loss) on translation of foreign operations	**282,674**	(544,559)
Net (loss) gain arising during the period on hedge of net investment	**(263,063)**	4,524
Reclassification during the period to the interim consolidated income statement	**1,225**	8,146
Deferred tax expense from hedge of net investment	**(1,753)**	(3,338)
	(263,591)	9,332
Actuarial gains (losses) on defined benefit plans	**8,347**	(47,165)
Deferred tax (expense) credit from defined benefit plans	**(2,897)**	3,936
	5,450	(43,229)
Losses arising during the period on cash flow hedges	**(9,269)**	(74,466)
Reclassification during the period to interim consolidated income statement	**1,757**	19,064
Deferred tax credit from cash flow hedges	**1,880**	7,278
	(5,632)	(48,124)
(Losses) gains arising during the period on available-for-sale financial assets	**(106,722)**	37,224
Reclassification during the period to interim consolidated income statement	**3,195**	—
Deferred tax expense relating to available-for-sale financial assets	**(671)**	—
	(104,198)	37,224
Share of other comprehensive income (loss) of associates and jointly controlled entities	**867,358**	(1,050,129)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**782,061**	(1,639,485)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**1,943,641**	(1,225,709)
Total comprehensive income (loss) for the period attributable to:		
Equity holder of the parent	**1,697,271**	(1,134,301)
Non-controlling interests	**246,370**	(91,408)
	1,943,641	(1,225,709)

The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2011 (Unaudited)

	Notes	30 June 2011	(Audited) 31 December 2010
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**10,267,753**	9,842,760
Intangible assets		**1,345,950**	1,330,902
Investment properties		**1,858,017**	1,292,574
Investments in associates and jointly controlled entities		**12,833,563**	10,922,636
Deferred tax assets		**341,610**	335,391
Investments in financial instruments	11	**13,660,945**	10,819,947
Trade and other receivables		**74,731**	74,063
Restricted cash	12	**5,776,098**	—
Other non-current assets		**3,972,287**	3,981,649
		50,130,954	38,599,922
Current assets			
Inventories		**2,626,908**	2,052,522
Trade and other receivables		**3,336,813**	2,847,167
Investments in financial instruments	11	**408,726**	425,554
Other current assets		**951,929**	743,302
Cash and short-term deposits		**4,283,688**	3,150,931
		11,608,064	9,219,476
Assets included in disposal groups held-for-sale	8	**94,287**	59,179
TOTAL ASSETS		**61,833,305**	47,878,577
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	13	**3,500,000**	3,500,000
Shareholder loan	14	**500,000**	500,000
Retained earnings		**8,250,045**	7,360,086
Other reserves	15	**3,719,010**	2,973,363
		15,969,055	14,333,449
Non-controlling interests		**1,794,598**	1,672,429
Total equity		**17,763,653**	16,005,878

International Petroleum Investment Company PJSC and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION—(Continued)
At 30 June 2011 (Unaudited)

	Notes	30 June 2011 US$'000	(Audited) 31 December 2010 US$'000
EQUITY AND LIABILITIES continued			
Non-current liabilities			
Borrowings	16	**26,578,455**	19,161,098
Defined benefit plan deficit		**722,145**	723,599
Deferred tax liabilities		**1,585,754**	1,525,668
Derivative financial liabilities		**2,062,706**	2,377,638
Provisions	17	**233,832**	321,527
Trade and other payables		**47,215**	48,249
Other non-current liabilities		**113,385**	148,940
		31,343,492	24,306,719
Current liabilities			
Trade and other payables		**3,735,435**	3,314,140
Borrowings	16	**5,208,126**	1,880,143
Other current liabilities		**1,861,261**	1,720,680
Derivative financial liabilities		**1,528,201**	373,446
Provisions	17	**353,888**	277,571
		12,686,911	7,565,980
Liabilities included in disposal groups held-for-sale	8	**39,249**	—
Total liabilities		**44,069,652**	31,872,699
TOTAL EQUITY AND LIABILITIES		**61,833,305**	47,878,577

MANAGING DIRECTOR

CHIEF FINANCIAL OFFICER

The attached note 1 to 23 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Period ended 30 June 2011 (Unaudited)

	Attributable to equity holder of the parent						
	Share capital	**Shareholder loan**	**Retained earnings**	**Other reserves**	**Total**	**Non-controlling interests**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Balance at 1 January 2010	3,500,000	—	5,935,462	3,337,834	12,773,296	2,545,085	15,318,381
Profit for the period	—	—	328,359	—	328,359	85,417	413,776
Other comprehensive loss for the period	—	—	—	(1,462,660)	(1,462,660)	(176,825)	(1,639,485)
Total comprehensive loss for the period	—	—	328,359	(1,462,660)	(1,134,301)	(91,408)	(1,225,709)
Share capital increase	—	—	—	—	—	11,169	11,169
Dividends paid to non-controlling interests	—	—	—	—	—	(3,600)	(3,600)
Shareholder loan	—	500,000	—	—	500,000	—	500,000
Balance at 30 June 2010	3,500,000	500,000	6,263,821	1,875,174	12,138,995	2,461,246	14,600,241
Balance at 1 January 2011	3,500,000	500,000	7,360,086	2,973,363	14,333,449	1,672,429	16,005,878
Profit for the period	—	—	988,426	—	988,426	173,154	1,161,580
Other comprehensive income for the period	—	—	—	708,845	708,845	73,216	782,061
Total comprehensive income for the period	—	—	988,426	708,845	1,697,271	246,370	1,943,641
Acquisition of additional interest in a subsidiary	—	—	(63,639)	—	(63,639)	(72,560)	(136,199)
Dividends paid to non-controlling interests	—	—	—	—	—	(51,641)	(51,641)
Transfers to other reserves	—	—	(16,358)	18,332	1,974	—	1,974
Reserves of disposal groups held-for-sale	—	—	(18,470)	18,470	—	—	—
Balance at 30 June 2011	**3,500,000**	**500,000**	**8,250,045**	**3,719,010**	**15,969,055**	**1,794,598**	**17,763,653**

The attached notes 1 to 23 form part of these interim condensed consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
Period ended 30 June 2011 (Unaudited)

	Notes	Six months ended 30 June	
		2011	**2010**
		US$'000	**US$'000 Reclassified***
OPERATING ACTIVITIES			
Profit before tax		**1,385,485**	626,349
Adjustments for:			
Depreciation and impairment of property, plant and equipment		**284,973**	341,416
Amortisation and impairment of intangible assets		**69,811**	75,666
Gains on disposals and acquisitions	6	**(16,016)**	(13,571)
Other gains (losses) on financial instruments		**(424,037)**	699,759
Finance income	4	**(423,478)**	(132,188)
Finance costs	5	**722,565**	402,185
Unrealised exchange difference		**553,814**	(1,057,897)
Share of results of associates and jointly controlled entities		**(727,044)**	(324,556)
Charges from provisions and other liabilities		**22,733**	129,189
Other non-cash adjustments		**6,454**	11,198
		1,455,260	757,550
Working capital changes:			
Inventories		**(434,465)**	(133,374)
Trade and other receivables		**(411,187)**	(514,285)
Other assets		**(96,006)**	(329,354)
Accounts payable and accruals		**249,922**	461,225
Other liabilities		**(166,257)**	(295,352)
		597,267	(53,590)
Income tax paid		**(207,242)**	(116,851)
Net cash from (used in) operating activities		**390,025**	(170,441)
INVESTING ACTIVITIES			
Purchase of additional interest in a subsidiary		**(136,247)**	(6,392)
Cash in escrow for acquisition of additional interest in an associate		**(5,776,098)**	—
Advances on investment properties		**(379,904)**	(427,325)
Investment in associates and jointly controlled entities		**(322,938)**	(47,733)
Purchase of derivative financial instruments		**(863,577)**	(526,870)
Purchase of financial investments		**(1,211,781)**	(2,240,134)
Purchase of property, plant and equipment		**(518,879)**	(1,302,460)
Purchase of intangible assets		**(22,628)**	(22,581)
Proceeds from the sale of property, plant and equipment		**18,173**	553,994
Proceeds from the sale of financial investments		**166,298**	57,425
Interest received		**96,290**	29,817
Dividends received		**491,829**	225,624
Other investing activities		**—**	(75,803)
Net cash used in investing activities		**(8,459,462)**	(3,782,438)
FINANCING ACTIVITIES			
Proceeds from borrowings		**11,592,111**	12,016,668
Repayments of borrowings		**(1,854,252)**	(7,872,667)
Interest paid		**(513,369)**	(336,785)
Proceeds from shareholder loan		**—**	500,000
Proceeds from shares issued to non-controlling interests		**—**	11,169
Dividend paid to non-controlling interests		**(51,641)**	(3,600)
Net cash from financing activities		**9,172,849**	4,314,785
INCREASE IN CASH AND CASH EQUIVALENTS		**1,103,412**	361,906
Net foreign exchange difference		**30,257**	(219,079)
Cash and cash equivalents at 1 January		**3,150,019**	2,888,917
CASH AND CASH EQUIVALENTS AT 30 JUNE		**4,283,688**	3,031,744
Analysed as follows:			
Bank balances and cash		**4,283,688**	2,635,764
Bank balances and cash from assets held-for-sale		**—**	395,980
		4,283,688	3,031,744

* Certain amounts shown here do not correspond to the 30 June 2010 interim condensed consolidated financial statements, as disclosed in Note 23.

The attached notes 1 to 23 form part of these interim condensed consolidated financial statements

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2011 (Unaudited)

1 CORPORATE INFORMATION

International Petroleum Investment Company PJSC ("IPIC" or the "Company") is a public joint stock company established on 24 May 1984 in Abu Dhabi, United Arab Emirates ("UAE") by Emiri Decree No 3/1984 (subsequently replaced by Emiri Decree No 2/1986). The Company is wholly owned by the Government of Abu Dhabi. The Company's registered head office is PO 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 companies concentrating on petroleum refining and related upstream and downstream distribution and service networks. The Company also has control over Aabar, which is engaged in investing activities in various growth industries.

As of 30 June 2011, the Company had control over four significant operating companies either directly or through its special purpose vehicles: Borealis AG ("Borealis") (based in Austria); Aabar (based in UAE); Ferrostaal AG ("Ferrostaal") (based in Germany); and Nova Chemicals Corporation ("Nova") (based in Canada). Further, the Company has minority stakes in two other significant operating companies: OMV AG ("OMV") (based in Austria); and Compañía Española de Petróleos SA ("CEPSA") (based in Spain). On 16 February 2011, the Company made a voluntary offer to acquire the entire share capital of CEPSA not already owned by the Company.

The principal activities of the Company and its subsidiaries (the "Group") are described in Note 3.

The interim condensed consolidated financial statements for the six months ended 30 June 2011 were authorised for issue by the Management on 20 September 2011.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standard Board ("IASB").

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

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2010. In addition, results for the six months ended 30 June 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

2.2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2010 except for the adoption of the following new standards and interpretations as of 1 January 2011:

- IAS 32 Financial Instruments: Presentation- Classification of Rights Issues (Amendment)
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRS (issued 2010)
  - IFRS 1 First Time Adoption of International Financial Reporting Standards
  - IFRS 3 Business Combinations
  - IFRS 7 Financial Instruments Disclosures

- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidation and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

The adoption of above standards and interpretations did not have a material effect on the financial position or performance of the company.

3 OPERATING SEGMENT REPORTING

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

Plastic solutions—Europe

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

Plastic solutions—North America

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

Petroleum refinery products

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

Industrial engineering services

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

Diversified investments

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

Others

This segment holds investments in operating entities reported in other segments and provides financing.

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

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

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

	Plastic solutions Europe	Plastic solutions North America	Industrial engineering services	Diversified investments	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Six months ended 30 June 2011						
Results						
Revenue from external customers	5,270,680	2,690,722	612,685	57,753	—	8,631,840
Share of results of associates and joint ventures	212,425	—	48,507	(16,838)	482,950	727,044
Depreciation for the period	(168,124)	(111,566)	(4,038)	(1,245)	—	(284,973)
Amortisation for the period	(9,252)	(16,088)	(25,602)	(7,284)	—	(58,226)
Impairment for the period of long-lived assets	(4,951)	—	—	(6,634)	—	(11,585)
Finance income	4,287	2,558	19,900	272,719	124,014	423,478
Finance costs	(44,107)	(86,716)	(11,315)	(338,904)	(241,523)	(722,565)
Gains on acquisitions and disposals	—	—	16,013	—	3	16,016
Other gains (losses) on financial instruments	(7,295)	—	9,811	427,060	(5,539)	424,037
Income tax (expense) credit	(87,462)	(135,224)	10,648	(11,867)	—	(223,905)
Profit for the period from continuing operations	478,831	379,991	(24,456)	(236,119)	555,229	1,153,476
Profit for the period from discontinued operations	—	8,104	—	—	—	8,104
Profit for the period	478,831	388,095	(24,456)	(236,119)	555,229	1,161,580
At 30 June 2011						
Assets and liabilities						
Investments in associates and jointly controlled entities	1,575,206	—	632,305	540,833	10,085,219	12,833,563
Assets included in disposal groups held for sale	—	24,817	69,470	—	—	94,287
Other segment assets	7,023,014	5,935,531	2,547,041	19,401,594	13,998,275	48,905,455
Total assets	8,598,220	5,960,348	3,248,816	19,942,427	24,083,494	61,833,305
Liabilities included in disposal groups held for sale	—	4,994	34,255	—	—	39,249
Other segment liabilities	4,142,671	3,604,910	2,218,030	15,698,389	18,366,403	44,030,403
Total liabilities	4,142,671	3,609,904	2,252,285	15,698,389	18,366,403	44,069,652

	Plastic solutions Europe	Plastic solutions North America	Petroleum refinery products	Industrial engineering services	Diversified investments	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Six months ended 30 June 2010							
Results							
Revenue from external customers	4,025,677	2,340,899	—	961,163	51,767	—	7,379,506
Share of results of associates and joint ventures	32,175	8,800	—	32,291	(12,659)	263,949	324,556
Depreciation for the period	(142,168)	(103,975)	—	(7,346)	(1,822)	—	(255,311)
Amortisation for the period	(12,555)	(16,218)	—	(33,329)	(13,564)	—	(75,666)
Impairment for the period of long-lived assets	—	—	—	(12)	—	—	(12)
Finance income	1,400	3,945	—	14,758	17,599	94,486	132,188
Finance costs	(25,989)	(103,237)	—	(10,489)	(52,007)	(210,463)	(402,185)
Gains on acquisitions and disposals	—	—	—	—	—	13,571	13,571
Other losses on financial instruments	(9,767)	(17,201)	—	(21,571)	(812,480)	(223,045)	(1,084,064)
Income tax (expense) credit	(51,743)	(69,549)	—	10,989	2,786	—	(107,517)
Profit (loss) for the period from continuing operations	193,769	142,148	—	(37,334)	(281,029)	141,672	159,226
Profit for the period from discontinued operations	—	—	254,550	—	—	—	254,550
Profit for the period	193,769	142,148	254,550	(37,334)	(281,029)	141,672	413,776
At 31 December 2010							
Assets and liabilities							
Investments in associates and jointly controlled entities	1,340,162	3,885	—	570,902	447,393	8,560,294	10,922,636
Assets included in disposal groups held-for-sale	—	59,179	—	—	—	—	59,179
Other segment assets	6,220,795	5,513,860	—	2,512,814	14,877,946	7,771,347	36,896,762
Total assets	7,560,957	5,576,924	—	3,083,716	15,325,339	16,331,641	47,878,577
Liabilities included in disposal groups held-for-sale	—	—	—	—	—	—	—
Segment liabilities	3,651,601	3,604,074	—	2,113,903	12,167,323	10,335,798	31,872,699
Total liabilities	3,651,601	3,604,074	—	2,113,903	12,167,323	10,335,798	31,872,699

4 FINANCE INCOME

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Dividend income	**333,541**	71,790
Interest income	**89,937**	60,398
	423,478	132,188

5 FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Interest expense	**(680,533)**	(334,721)
Amortisation of arrangement fees on financing	**(42,032)**	(67,464)
	(722,565)	(402,185)

6 GAINS ON ACQUISITIONS AND DISPOSALS

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Gain from disposal of property, plant and equipment	**15,685**	—
Gain from disposal of associate	**—**	13,571
Other gains	**331**	—
	16,016	13,571

7 OTHER GAINS (LOSSES) ON FINANCIAL INSTRUMENTS

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Fair value gain (loss) on non-derivative financial instruments at fair value through profit or loss (i)	**767,110**	(343,703)
Fair value loss on derivative financial instruments (ii)	**(350,713)**	(464,172)
Loss on hedged instruments in fair value hedges	**(608)**	—
Gain (loss) on hedging instruments in fair value hedges	**8,530**	(21,338)
Loss on ineffective portion of cash flow hedges	**(282)**	(13,096)
Impairment loss on available-for-sale financial instruments	**—**	(257,924)
Others	**—**	16,169
	424,037	(1,084,064)

(i) Included in fair value gain (loss) on non-derivative financial instruments at fair value through profit or loss are revaluation gain (loss) on following investments:

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Daimler AG shares	**716,587**	(198,730)
Unicredit SpA	**46,943**	(48,403)
Banco Santander (Brasil) ADSs	**—**	(91,657)

(ii) The Group entered into funded collar transactions upon purchase of equity shares in both Daimler AG and Unicredit SpA. The rationale for entering into such funded collar transactions was to raise long term, non-recourse, high loan-to-value financing to fund the purchase of the shares and to protect the Group against adverse movements in the value of the shares. The funded collar transactions include call and put options that restrict the revaluation gains and losses on the Daimler AG and Unicredit SpA shares within a certain range. However, the Group still maintains significant exposure to the share price on both the investments. The analysis of the fair value gain and losses during the period is as follows:

(a) Included in fair value gain (loss) on derivative financial instruments are:

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Collars and put options on Daimler AG shares	**(431,058)**	(481,324)
Call and put options on Atlantia SpA shares	**—**	26,641
Call and put options on Unicredit SpA	**94,198**	(14,565)
CASHES of Unicredit SpA	**1,323**	(10,970)

8 DISCONTINUED OPERATIONS

	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000
Included in the consolidated statement of financial position:		
Assets included in disposal groups held-for-sale		
INEOS Nova Joint Venture (i)	**—**	59,179
SYNTHEON (ii)	**24,817**	—
Certain discontinued operations of Ferrostaal	**69,470**	—
	94,287	59,179
Liabilities included in disposal groups held-for-sale		
SYNTHEON	**4,994**	—
Certain discontinued operations of Ferrostaal	**34,255**	—
	39,249	—

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Included in the consolidated income statement:		
Profit from INEOS Nova Joint Venture (i)	**8,104**	—
Profit from HDO operations	**—**	254,550
	8,104	254,550

(i) On 31 October 2010 NOVA agreed to sell its 50% share in the two INEOS NOVA joint ventures to INEOS, the transaction was completed on February 28, 2011.

(ii) The SYNTHEON portfolio of businesses, which is part of Nova's Performance Styrenics segment, includes SYNTHEON Inc.; Accelerated Building Technologies LLC; NCE Inc.; NOVA Chemicals Chile Limitada; and the 50% interest in both Novidesa S.A. de C.V. and Reliance Innovative Building Solutions Pvt. Ltd (both joint ventures). Also included in the proposed sale is intellectual property relating to both the building and construction products and the Elemix concrete additive.

Included in other comprehensive income:

	Six months ended 30 June	
	2011	**2010**
	US$'000	**US$'000**
Foreign currency translation reserve	**(573)**	(54,595)
Reserve for cash flow hedge	**—**	(18,025)
Reserve of disposal group classified as held-for-sale	**(573)**	(72,620)
The net cash flows incurred by discontinued operations are as follows:		
Operating	**714**	10,701
Investing	**(245)**	(65,312)
Financing	**—**	112,034
Net cash inflows	**469**	57,423

9 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holder of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding during the period, adjusted for the effects of dilutive information.

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

	Six months ended 30 June	
	2011	**2010**
	US$'000	**US$'000**
Profit attributable to ordinary equity holder of the parent from continuing operations	**980,322**	160,158
Profit attributable to ordinary equity holders of the parent from discontinued operations	**8,104**	168,201
Net profit attributable to ordinary equity holders of the parent for basic earnings	**988,426**	328,359
Weighted average number of ordinary shares for basic earnings per share (in thousands)	**3,500**	3,500
	US$	**US$**
Basic and diluted earnings per share	**282**	94
Basic and diluted earnings per share from continuing operations	**280**	46

10 PROPERTY, PLANT AND EQUIPMENT

At 30 June 2011, included in property, plant and equipment are assets under construction which include an amount of US$ 2,909,302 thousand (31 December 2010: US$ 2,681,953 thousand) relating to the construction of an oil pipeline (ADCOP project).

11 INVESTMENTS IN FINANCIAL INTRUMENTS

	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000
Non-derivative financial instruments:		
Held-to-maturity financial assets (Note 11.1)	—	240,256
Financial assets at fair value through profit or loss (Note 11.2)	**9,599,766**	8,673,887
Available-for-sale financial assets (Note 11.3)	**2,443,788**	1,526,183
	12,043,554	10,440,326
Derivative financial instruments	**2,026,117**	805,175
	14,069,671	11,245,501
Non-current	**13,660,945**	10,819,947
Current	**408,726**	425,554
	14,069,671	11,245,501

11.1 HELD-TO-MATURITY FINANCIAL ASSETS

In 2010, held-to-maturity financial assets represented mainly investments in Government treasury securities and corporate bonds. They were predominantly denominated in CHF and were investment grade assets. During the period ended 30 June 2011, these financial assets, which amounted to USD 160,137 thousand on the date of transfer, have been transferred from "Held to maturity" financial assets to "Available for sale". The transfer was made in an effort of one the Company's subsidiaries to pursue its strategy of actively managing its investments.

11.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000
Daimler AG shares (i)	**7,200,380**	6,483,793
CASHES of Unicredit SpA. (ii)	**41,905**	40,581
Unicredit SpA (iii)	**2,021,170**	1,974,228
Others (iv)	**336,311**	175,285
	9,599,766	8,673,887
Non-current	**9,320,020**	8,517,201
Current	**279,746**	156,686
	9,599,766	8,673,887

i) This represents an equity investment in Daimler AG shares. Aabar has two collar and put option agreements that fix the floor and cap price for movements in the share price of Daimler AG expiring between 1 October 2012 and 19 November 2012. Shares in Daimler AG are pledged as collateral against certain term loans of Aabar.

ii) This represents an investment in the Convertible and Subordinated Hybrid Equity-Linked Securities ("CASHES") of Unicredit SpA. These convertible bonds, due on 15 December 2050 are exchangeable into ordinary shares of Unicredit SpA. If at any time, between 23 February 2016 and 15 December 2050, the exchange security price of Unicredit SpA shares, for 20 out of 30 consecutive trading days, exceeds 150% of the exchange price (Euro 3.83), the bonds will be automatically redeemed.

iii) This represents an equity investment in Unicredit SpA. Aabar acquired a 4.99% stake in Unicredit SpA in 2010. Aabar has taken collar and put options to fix the floor and cap price for movements in the share price of Unicredit SpA that expire between 3 April 2013 and 12 June 2013. Shares in Unicredit SpA are pledged as collateral against certain term loans of Aabar.

iv) This balance represents mainly investments in government treasury securities and corporate bonds. These are investment grade assets predominantly denominated in CHF. Also included in this balance is an investment of US$ 18.9 million into two investment funds: Blue Orchard Private Equity Funds SCA and Oasis Fund SCA with a commitment to invest a further US$ 35.3 million at a later date.

11.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000
Quoted investments	1,904,200	1,163,503
Unquoted investments	539.588	362,680
	2,443,788	1,526,183

Quoted investments

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

Unquoted investments

The fair value of the majority 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.

12 RESTRICTED CASH

Restricted cash represents cash deposited in an escrow account which is to be used for the payment of acquisition of the entire issued share capital of CEPSA not already owned by the Company, amounting to 141,648,565 shares, or 52.9 % of the share capital of CEPSA at EUR 28 per share.

13 SHARE CAPITAL

	Authorised		Issued and fully paid	
	30 June 2011	(Audited) 31 December 2010	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000	US$'000	US$'000
Ordinary shares of US $1,000 each	5,000,000	5,000,000	3,500,000	3,500,000

14 SHAREHOLDER LOAN

During the year ended 31 December 2010, the Company received US$ 500 million from the Department of Finance of Abu Dhabi on behalf of the Government of Abu Dhabi. The funds are to be used to meet the Company's obligations in the investment in Qatar and Abu Dhabi Investment Company QSC. An amount of US$ 50 million was injected in Qatar and Abu Dhabi Investment Company QSC in July 2010.

The funds received are interest-free with no repayment terms. Accordingly management has classified the funds as a shareholder loan within equity.

15 OTHER RESERVES

	Cumulative changes in fair value of available for-sale investments	Foreign currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gains and losses	Reserves for disposal group held-for-sale	Share of reserves of associates	Other reserves	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2010	3,097,967	138,196	(21,630)	(2,866)	(81,580)	104,138	103,609	3,337,834
Other comprehensive (loss) for the period	54,088	(390,386)	(32,898)	(43,076)	—	(1,050,129)	(259)	(1,462,660)
Reserves for disposal group held-for-sale	—	54,595	18,025	—	(72,620)	—	—	—
Balance at 30 June 2010	3,152,055	(197,595)	(36,503)	(45,942)	(154,200)	(945,991)	103,350	1,875,174
Balance at 1 January 2011	3,341,996	58,908	14,369	(124,612)	—	(416,058)	98,760	2,973,363
Other comprehensive income for the period	(101,980)	(59,024)	(3,609)	6,100	—	867,358	—	708,845
Transfers of other reserves	—	(73)	—	—	—	—	18,405	18,332
Reserves for disposal group held-for-sale	—	(1,351)	—	—	19,821	—	—	18,470
Balance at 30 June 2011	3,240,016	(1,540)	10,760	(118,512)	19,821	451,300	117,165	3,719,010

Other reserves comprise of special purpose reserves provided by Group companies from their profits. These reserves are not available for distribution to shareholders.

16 BORROWINGS

	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000
Overdrafts	**126,527**	39,941
Obligations under finance leases and hire purchase contracts	**1,535**	11,435
Listed notes and other borrowing instruments	**10,412,532**	4,241,470
Unlisted borrowings	**21,245,987**	16,748,395
	31,786,581	21,041,241
Non-current	**26,578,455**	19,161,098
Current	**5,208,126**	1,880,143
	31,786,581	21,041,241

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

	30 June 2011	(Audited) 31 December 2010
	US$'000	US$'000
The Company	**17,754,329**	10,040,024
Aabar	**10,444,936**	7,772,109
Nova	**1,720,707**	1,695,277
Borealis	**1,818,549**	1,497,186
Ferrostaal	**48,060**	36,645
	31,786,581	21,041,241

17 PROVISIONS

	Restructuring	Decommissioning	Legal disputes	Environmental	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2011	55,539	78,780	168,045	6,412	290,322	599,098
Additions	—	—	14,498	70	55,483	70,051
Interest expenses	—	2,904	23	—	6	2,933
Utilised	(8,049)	(591)	(16,572)	(652)	(76,811)	(102,675)
Reversed	(57)	—	(3,403)	—	(9,696)	(13,156)
Exchange adjustments	4,218	5,313	5,972	2,202	13,764	31,469
Balance at 30 June 2011	**51,651**	**86,406**	**168,563**	**8,032**	**273,068**	**587,720**

	30 June 2011	31 December 2010
	US$'000	US$'000
Non-current	**233,832**	321,527
Current	**353,888**	277,571
	587,720	599,098

(i) Provision for restructuring relates mainly to ongoing restructuring programmes of companies of Borealis group.

(ii) Provision for decommissioning mainly covers environmental exposures of Borealis and NOVA.

(iii) Provision for legal disputes includes the following:

a. Provision related to Ferrostaal in respect of an investigation relating to transactions concluded prior to the Company owning any interest in Ferrostaal. At this time the outcome of the investigation is highly uncertain.

b. Provision related to NOVA in respect to the patent infringement lawsuit filed by Dow Chemical Company ("DOW") in 2005. On 15 June 2010, the court has assessed that NOVA has infringed DOW patents and awarded the latter certain amounts for damages including interest and related costs. NOVA is currently in the process of making an appeal for certain grounds and has to post a security in an amount equivalent the jury verdict plus interest and costs.

(iv) Other provisions mainly cover risk and warranty provisions under construction contracts.

18 COMMITMENTS AND CONTINGENCIES

	30 June 2011 US$'000	(Audited) 31 December 2010 US$'000
Guarantees		
Guarantees and letter of credit	**264,791**	357,701
Guarantees in favour of associated companies	**90,206**	88,379
	354,997	446,080
Feedstock purchase commitments		
Up to 1 year	**1,631,000**	1,294,000
1 to 5 years	**2,805,000**	2,242,000
Beyond 5 years	**3,503,000**	1,669,992
	7,939,000	5,205,992
Operating lease commitments		
Up to 1 year	**79,054**	74,513
1 to 5 years	**245,000**	201,195
Beyond 5 years	**172,291**	177,107
	496,345	452,815
Capital commitments		
Property, plant and equipment	**974,214**	1,262,478
Investments in financial instruments	**2,416,961**	138,948
Investment property	**620,713**	1,907,297
	4,011,888	3,308,723

Investment commitments

a) In July 2010, Aabar committed to invest US$ 54.2 million into two global base pyramid investment funds, Blue Orchard Private Equity Funds SCA and Oasis Fund SCA. As of 30 June 2011, Aabar has contributed US$ 20.2 million. The remaining US$ 34 million will be paid upon subsequent capital calls.

b) On 3 March 2010, pursuant to an announcement on 10 August 2009, Aabar signed a shareholders' agreement and articles of association in relation to the creation of a joint venture with the Government of Algeria and others to build the first of three vehicle and engine manufacturing plants in Algeria, in cooperation with Ferrostaal AG and Daimler AG. Aabar's stake in the joint venture is 24.5% of the share capital for which it plans to make an initial capital contribution of approximately EUR 4 million.

c) On 21 June 2011, Aabar entered into a sale and purchase agreement to acquire an aircraft for consideration of US$ 400 million from which a deposit of US$ 100 million has been paid as at 30 June 2011.

d) On 17 June 2011, Aabar entered into a sale and purchase agreement to acquire a 24.9% stake in RHB Capital Berhad—a Malaysian bank—from Abu Dhabi Commercial Bank PJSC for consideration of AED 7,113 million. The transaction has not been completed as at 30 June 2011.

e) On 30 June 2011, Aabar signed a sale and purchase agreement to acquire a 16.32% stake in Bandirma Vitaminli Yem Sanayii Anonim Şirketi ("Banvit") for consideration of AED 169 million. The transaction has not been completed as at 30 June 2011.

f) In June 2011, management of Aabar entered into an agreement to purchase land and building in the area of Shams Development, Reem Island, Abu Dhabi for consideration of AED 1 billion. In July 2011, Aabar paid AED 500 million. The transaction is expected to be completed in the second half of 2011.

Legal proceedings

(i) Relating to Ferrostaal

In July 2009, inter alia, Ferrostaal's offices in Essen, Germany were searched by the Munich public prosecution authorities based on suspicion of criminal conduct and corrupt practices of Ferrostaal during a period prior to the Company's acquisition of its 70% stake in Ferrostaal. As at 30 June 2011, the investigations of the Munich public prosecutor were ongoing.

The Company is also actively seeking a settlement with the other shareholder of Ferrostaal and seller of the 70% stake in respect of the arbitration filed by the Company. However, the Company remains prepared to enforce its legal rights through arbitration if an acceptable settlement cannot be reached.

(ii) Relating to Nova

The Group has made a provision of U.S.$ 101 million related to Nova Chemicals in respect of a patent infringement lawsuit filed by Dow Chemical Company ("Dow") in 2005. On 15 June 2010, a U.S. court assessed that Nova Chemicals had infringed Dow's patents and awarded Dow certain amounts for damages, including interest and related costs. Nova Chemicals is currently in the process of making an appeal on certain grounds and has posted security in an amount equivalent to the jury verdict plus interest and costs. A decision is expected before the end of the first quarter of 2012. Of the U.S.$ 101 million, U.S.$ 76 million relates to the award while U.S.$ 25 million relates to sales and interest through 30 June 2011.

In addition, in December 2010, a Dow affiliate filed a second suit alleging infringement of the corresponding Canadian patent. Nova Chemicals will defend this suit vigorously as it is thought to lack merit. This litigation is in its early stages and no amount has been accrued by the Group as of June 30, 2011 with respect to this claim."

19 SEASONALITY OF RESULTS

No income of a seasonal nature was recorded in the interim condensed consolidated statement of income for the six months ended 30 June 2011 and 30 June 2010.

20 EVENTS AFTER THE REPORTING PERIOD

i) In February 2011, in compliance with Article 82 of the Securities Market Law 24/1988, of July 28, CEPSA announced that it entered into an agreement with the American multinational CHEVRON to acquire all the shares of its subsidiary in Spain, CHEVRON España S.A. The transaction cannot be carried out until the competent organizations give the necessary authorizations, which at the date of preparing these interim condensed financial statements had not been granted.

ii) In June 2011, management of Aabar has entered into an agreement to purchase land and building in the area of Shams Development, Reem Island, Abu Dhabi for consideration of AED 1 billion. In July 2011, Aabar paid AED 500 million. The transaction is expected to be completed in the second half of 2011.

iii) In June 2011, Aabar signed an SPA to acquire 16.32% of Banvit, a leading Turkish poultry and processed food company. The acquisition has been completed in August 2011.

iv) In July 2011, Aabar invested USD 110 million in Galactic Ventures LLC to develop orbital launches of small satellites. This is the second phase after Aabar's initial investment of USD 280 million in the company which will provide sub-orbital space flights to the public.

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

vi) In July 2011, Nova signed a memorandum of understanding with Statoil Marketing Trading Inc. ("Statoil") for a long-term supply of ethane from the Marcellus Shale Basin. In addition to finalizing a definitive purchase and sale agreement with Statoil, and customary reviews and approvals, the arrangement is subject to the management finalizing a pipeline transportation agreement to transport ethane from the Marcellus Shale Basin into the Sarnia, Ontario petrochemical market.

vii) Ferrostaal has an agreement with a bank syndicate granting guarantee lines to Ferrostaal. In July 2011 the bank syndicate obligated Ferrostaal to collaterized 50% of the outstanding guarantees by cash. As a result, a cash amount of approximately EUR 127 million is locked for the said underlying guarantees.

viii) During the period July to September 2011, the Company acquired additional 4% stake in OMV from the market, which brought its ownership interest in OMV to 24.90%.

21 RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	Six months ended 30 June	
	2011	2010
	US$'000	US$'000
Short-term benefits	2,371	2,296
Board of Directors remuneration	980	1,143

	Goods and services		Financing	
	Purchases from	Sales to	Interest received	Interest paid
	US$'000	US$'000	US$'000	US$'000
Business relationship				
Transactions				
Six months ended 30 June 2011				
Associates	**1,173,114**	**363,305**	**—**	**504**
Jointly controlled entities	**27,567**	**65,929**	**348**	**—**
	1,200,681	**429,234**	**348**	**504**
Six months ended 30 June 2010				
Associates	960,913	416,407	—	384
Jointly controlled entities	72,795	187,433	1,281	—
	1,033,708	603,840	1,281	384

	Receivables from	Payables to	Loans to	Borrowings to
	US$'000	US$'000	US$'000	US$'000
Balances				
At 30 June 2011				
Associates	**375,122**	**133,097**	**278,480**	**52,433**
Jointly controlled entities	**9**	**—**	**—**	**—**
	375,131	**133,097**	**278,480**	**52,433**
At 31 December 2010 (audited)				
Associates	311,754	181,951	—	48,262
Jointly controlled entities	48,905	2,076	48,963	22,028
	360,659	184,027	48,963	70,290

22 SUBSIDIARIES

The interim condensed consolidated financial statements include the interim financial statements of the Company and each of its subsidiaries as at 30 June 2011. The significant subsidiaries are listed in the following table:

	Country of registration	Percentage holding 30 June 2011	(Audited) 31 December 2010
Borealis	Austria	**64%**	64%
Nova	New Brunswick Canada	**100%**	100%
Ferrostaal (i)	Germany	**70%**	70%
Aabar (ii)	UAE	**95.23%**	86.17%

(i) At acquisition, a put and call arrangement with the minority shareholder was entered into for the acquisition of the remaining 30%.

(ii) During the period, the Company's shareholding in Aabar increased through (i) conversion of a shareholder loan provided to Aabar into equity, (ii) conversion of mandatory convertible bonds into equity, and (iii) acquisitions made by the Company from the public, increasing ownership of the Company from 86.17% to 95.23%. At the date of these financial statements, the Company's shareholding in Aabar was 95.29%

23 CORRESPONDING FIGURES

Certain comparative figures were reclassified to conform to the current period presentation. These reclassifications had no effect on the reported profit or the equity of the Group and are not deemed material to these interim condensed consolidated financial statements.

(i) Reclassifications made to the period ended 30 June 2010 consolidated income statement were as follows:

	2010 As previously reported	Reclassified		2010 As reclassified
	US$'000	US$'000	US$'000	US$'000
Finance income	814,681	(682,493)	—	132,188
Finance costs	(2,155,171)	—	1,752,986	(402,185)
Gains on acquisitions and disposals	—	13,571	—	13,571
Other (losses) gains on financial instruments	—	668,922	(1,752,986)	(1,084,064)
		—	—	

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ERNST & YOUNG

P.O. Box 136
11th Floor - Al Ghaith Tower
Hamdan Street
Abu Dhabi, United Arab Emirates
Tel: +971 2 417 4400
+971 2 627 7522
Fax: +971 2 627 3383
www.ey.com/me

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 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

A member firm of Ernst & Young Global Limited

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2010 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

Ernst & Young

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

12 May 2011
Abu Dhabi

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	2010	2009
		US$'000	US$'000 Reclassified *
CONTINUING OPERATIONS			
Revenues		**15,366,952**	9,917,370
Cost of sales	11	**(12,468,481)**	(8,392,547)
Gross profit		**2,898,471**	1,524,823
Share of post tax profits of associates and jointly controlled entities	5	**704,441**	140,965
Selling and distribution costs	11	**(940,154)**	(810,508)
General and administrative expenses	11	**(916,877)**	(613,260)
Research and development expenses	11	**(149,737)**	(128,276)
Operating profit		**1,596,144**	113,744
Net foreign exchange gain (loss)		**345,663**	(108,971)
Finance income	6	**257,059**	613,984
Finance costs	7	**(833,331)**	(715,610)
Other income		**146,972**	185,007
Other expenses	11	**(692,399)**	(32,272)
Gains on acquisitions and disposals	8	**137,138**	3,119,182
Other (losses) gains on financial instruments	9	**(336,851)**	727,503
Profit before tax from continuing operations		**620,395**	3,902,567
Tax expense	10	**(471,260)**	(37,893)
Profit for the year from continuing operations		**149,135**	3,864,674
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	12	**1,199,038**	284,592
PROFIT FOR THE YEAR		**1,348,173**	4,149,266
Profit for the year attributable to:			
Equity holder of the parent		**1,245,187**	3,828,797
Non-controlling interests		**102,986**	320,469
		1,348,173	4,149,266
		US$	US$
Basic and diluted earnings per share attributable to equity holder of the parent	13	**356**	1,094
Basic and diluted earnings per share from continuing operations attributable to equity holder of the parent	13	**39**	1,037

* Certain amounts shown here do not correspond to the 2009 consolidated financial statements, as disclosed in Note 41.

The attached notes 1 to 41 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	2010	2009
	US$'000	US$'000
PROFIT FOR THE YEAR	**1,348,173**	4,149,266
Exchange (loss) gain on translation of foreign operations	**(162,108)**	261,658
Gains arising during the year on hedge of net investment	**11,459**	18,796
Reclassification during the year to the consolidated income statement	**8,130**	—
Deferred tax expense from hedge of net investment	**(6,780)**	(5,316)
	12,809	13,480
Actuarial losses on defined benefit plans	**(148,557)**	(25,799)
Deferred tax credit from defined benefit plans	**15,457**	12,736
	(133,100)	(13,063)
Gains (losses) arising during the year on cash flow hedges	**492**	(81,513)
Reclassification during the year to the consolidated income statement	**48,142**	64,295
Deferred tax (expense) credit from cash flow hedges	**(19,804)**	509
	28,830	(16,709)
Gains (losses) arising during the year on available-for-sale financial assets	**319,025**	(30,145)
Reclassification during the year to the consolidated income statement	**(93,619)**	—
Deferred tax expense from available-for-sale financial assets	**(114)**	—
	225,292	(30,145)
Share of other comprehensive (loss) income of associates and jointly controlled entities	**(523,775)**	108,987
OTHER COMPREHENSIVE (LOSS) INCOME FOR THE YEAR	**(552,052)**	324,208
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**796,121**	4,473,474
Total comprehensive income for the year attributable to:		
Equity holder of the parent	**727,268**	4,050,239
Non-controlling interests	**68,853**	423,235
	796,121	4,473,474

The attached notes 1 to 41 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	At 31 December 2010 US$'000	At 31 December 2009 US$'000 Reclassified *	At 1 January 2009 US$'000 Reclassified *
ASSETS				
Non-current assets				
Property, plant and equipment	14	**9,842,760**	9,271,973	5,265,478
Intangible assets	15	**1,330,902**	1,548,546	324,523
Investment properties	17	**1,292,574**	18,547	—
Investments in associates and jointly controlled entities	5	**10,922,636**	10,300,463	1,115,351
Deferred tax assets	10	**335,391**	396,103	281,168
Investments in financial instruments	18	**10,819,947**	7,924,380	5,382,811
Trade and other receivables	19	**74,063**	71,429	—
Other non-current assets	20	**3,981,649**	3,992,192	262,777
		38,599,922	33,523,633	12,632,108
Current assets				
Inventories	21	**2,052,522**	2,346,665	1,760,865
Trade and other receivables	19	**2,847,167**	2,219,727	882,421
Investments in financial instruments	18	**425,554**	48,892	5,072,281
Other current assets	20	**743,302**	760,422	940,061
Cash and short-term deposits	22	**3,150,931**	2,533,118	1,957,868
		9,219,476	7,908,824	10,613,496
Assets included in disposal groups held-for-sale	12	**59,179**	4,838,944	22,496
TOTAL ASSETS		**47,878,577**	46,271,401	23,268,100
EQUITY AND LIABILITIES				
Equity attributable to equity holder of the parent				
Share capital	23	**3,500,000**	3,500,000	3,500,000
Shareholder loan	24	**500,000**	—	—
Retained earnings		**7,360,086**	5,935,462	2,122,073
Other reserves	25	**2,973,363**	3,337,834	3,100,984
		14,333,449	12,773,296	8,723,057
Non-controlling interests		**1,672,429**	2,545,085	1,530,673
Total equity		**16,005,878**	15,318,381	10,253,730

* Certain amounts shown here do not correspond to the 2009 consolidated financial statements, as disclosed in Note 41.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued
At 31 December 2010

	Notes	*At 31 December 2010 US $ '000*	*At 31 December 2009 US $ '000 Reclassified**	*At 1 January 2009 US $ '000 Reclassified**
EQUITY AND LIABILITIES continued				
Non-current liabilities				
Borrowings	26	**19,161,098**	10,382,235	2,840,603
Defined benefit plan deficit	27	**723,599**	654,882	264,459
Deferred tax liabilities	10	**1,525,668**	1,398,991	461,441
Derivative financial liabilities	31	**2,377,638**	1,192,325	-
Provisions	28	**321,527**	177,876	104,758
Trade and other payables	29	**48,249**	70,487	-
Other non-current liabilities	30	**148,940**	157,531	89,234
		24,306,719	14,034,327	3,760,495
Current liabilities				
Trade and other payables	29	**3,314,140**	3,025,713	1,088,541
Borrowings	26	**1,880,143**	7,052,681	6,889,000
Other current liabilities	30	**1,720,680**	2,582,353	1,059,435
Derivative financial liabilities	31	**373,446**	393,688	159,914
Provisions	28	**277,571**	395,490	35,895
		7,565,980	13,449,925	9,232,785
Liabilities included in disposal groups held-for-sale	12	**-**	3,468,768	21,090
Total liabilities		**31,872,699**	30,953,020	13,014,370
TOTAL EQUITY AND LIABILITIES		**47,878,577**	46,271,401	23,268,100

CHAIRMAN DEPUTY CHAIRMAN MANAGING DIRECTOR

*Certain amounts shown here do not correspond to the 2009 consolidated financial statements, as disclosed in Note 41

The attached notes 1 to 41 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 2010

	Attributable to equity holder of the parent					Non-controlling interests	Total
	Share capital	Shareholder loan	Retained earnings	Other reserves	Total		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2009	3,500,000	—	2,122,073	3,100,984	8,723,057	1,530,673	10,253,730
Profit for the year	—	—	3,828,797	—	3,828,797	320,469	4,149,266
Other comprehensive income for the year	—	—	—	221,442	221,442	102,766	324,208
Total comprehensive income for the year	—	—	3,828,797	221,442	4,050,239	423,235	4,473,474
Movement in other reserves	—	—	(15,408)	15,408	—	—	—
Share capital increase	—	—	—	—	—	1,848	1,848
Dividends paid to non-controlling shareholders	—	—	—	—	—	(13,977)	(13,977)
Acquisition of interest in a subsidiary	—	—	—	—	—	603,306	603,306
Balance at 31 December 2009	3,500,000	—	5,935,462	3,337,834	12,773,296	2,545,085	15,318,381
Profit for the year	—	—	1,245,187	—	1,245,187	102,986	1,348,173
Other comprehensive loss for the year	—	—	—	(517,919)	(517,919)	(34,133)	(552,052)
Total comprehensive income for the year	—	—	1,245,187	(517,919)	727,268	68,853	796,121
Dividends paid to non-controlling shareholders	—	—	—	—	—	(22,136)	(22,136)
Acquisition of additional interest in a subsidiary	—	—	229,798	—	229,798	(459,571)	(229,773)
Disposal of interest in a subsidiary (Note 38)	—	—	(50,361)	153,448	103,087	(459,802)	(356,715)
Shareholder loan	—	500,000	—	—	500,000	—	500,000
Balance at 31 December 2010	**3,500,000**	**500,000**	**7,360,086**	**2,973,363**	**14,333,449**	**1,672,429**	**16,005,878**

The attached notes 1 to 41 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC and its subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2010

	Notes	2010 US$'000	2009 US$'000 Reclassified *
OPERATING ACTIVITIES			
Profit before tax		**2,094,098**	4,116,714
Adjustments for:			
Depreciation of property, plant and equipment	14	**544,757**	564,272
Depreciation of investment properties	17	**69**	747
Amortisation of intangible assets	15	**160,156**	141,738
Impairment of property, plant and equipment		**37,456**	774
Impairment of investment properties		**514,810**	50
Impairment of intangible assets		**3,978**	7,378
Impairment of goodwill		**97,533**	—
Gains on disposals and acquisitions		**(1,536,032)**	(3,119,182)
Other gains (losses) on financial instruments		**336,851**	(727,503)
Finance income		**(348,663)**	(613,984)
Finance expense		**922,118**	715,610
Unrealised exchange difference		**(478,107)**	17,657
Share of post tax profits of associates and jointly controlled entities		**(743,197)**	(140,965)
Other non-cash adjustments		**136,282**	1,630
		1,742,109	964,936
Working capital changes:			
Inventories		**(187,725)**	(185,389)
Trade and other receivables		**(858,327)**	(401,764)
Accounts payable and accruals		**505,683**	597,787
Other assets and liabilities		**(512,781)**	(489,230)
		688,959	486,340
Income tax paid		**(171,870)**	(10,560)
Net cash from operating activities		**517,089**	475,780
INVESTING ACTIVITIES			
Purchase of subsidiaries, net of cash acquired		**—**	(1,771,758)
Purchase of financial investments		**(2,416,185)**	(1,473,058)
Acquisition of associates and jointly controlled entities		**(392,168)**	(4,865,363)
Purchase of property, plant and equipment		**(1,987,882)**	(2,367,955)
Purchase of intangible assets		**(54,708)**	(56,206)
Purchase of derivative financial instruments		**(550,365)**	(627,701)
Advances on investment properties		**(671,732)**	(1,377,672)
Acquisition of additional interest in a subsidiary		**(229,773)**	—
Proceeds on disposal of a subsidiary		**1,782,318**	—
Proceeds on the sale of property, plant and equipment		**606,764**	58,013
Proceeds on the sale of investment property		**14,563**	—
Proceeds on the sale of financial investments		**969,389**	7,148,994
Proceeds on disposal of and associate		**19,958**	—
Interest received		**124,472**	399,048
Dividend received		**311,832**	278,261
Income tax paid		**(236,443)**	—
Repayment of loan from associates		**93,232**	—
Capital contribution to associates		**(282,756)**	—
Payments on other assets		**(718,172)**	—
Other investing activities		**—**	1,796
Net cash used in investing activities		**(3,617,656)**	(4,653,601)
FINANCING ACTIVITIES			
Proceeds from borrowings		**15,638,350**	15,361,258
Repayments of borrowings		**(11,976,464)**	(9,775,521)
Interest paid		**(675,812)**	(533,404)
Proceeds from issue of share capital		**—**	1,848
Proceeds from shareholder loan		**500,000**	—
Dividends paid to minority interests		**(22,136)**	(13,977)
Net cash from financing activities		**3,463,938**	5,040,204
INCREASE IN CASH AND CASH EQUIVALENTS		**363,371**	862,383
Net foreign exchange difference		**(102,269)**	68,666
Cash and cash equivalents at 1 January		**2,888,917**	1,957,868
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**3,150,019**	2,888,917
Analysed as follows:			
Bank balances and cash		**3,150,019**	2,533,118
Bank balances and cash from assets held-for-sale		**—**	355,799
		3,150,019	2,888,917

* Certain amounts shown here do not correspond to the 2009 consolidated financial statements, see Note 41

The attached notes 1 to 41 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010

1 CORPORATE INFORMATION

International Petroleum Investment Company PJSC (the "Company") is a public joint stock company established on 24 May 1984 in Abu Dhabi, United Arab Emirates ("UAE") by Emiri Decree No 3/1984 (subsequently replaced by Emiri Decree No 2/1986). The Company is wholly owned by the Government of Abu Dhabi. The Company's registered head office is P O Box 7528, Abu Dhabi, UAE.

The principal activity of the Company is to invest, on a long-term basis, in overseas energy and energy-related companies concentrating on petroleum refining and related upstream and downstream distribution and service networks. The Company has control over Aabar Investments PJS ("Aabar"), which is engaged in investing activities in various growth industries.

As of 31 December 2010, the Company had control over four significant operating companies either directly or through its special purpose vehicles: Borealis AG ("Borealis") (based in Austria); Aabar (based in UAE); Ferrostaal AG ("Ferrostaal") (based in Germany); and Nova Chemicals Corporation ("Nova") (based in Canada). Further, the Company has minority stakes in two other significant operating companies: OMV AG ("OMV") (based in Austria); and Compañía Española de Petróleos SA ("CEPSA") (based in Spain). On 16 February 2011, the Company made a voluntary offer to acquire the entire share capital of CEPSA not already owned by the Company (see Note 36 for further information).

On 12 August 2010, the Company disposed of its investment in Hyundai Oilbank Company Ltd ("HDO") (based in South Korea) (see Note 38 for further information).

The principal activities of the Company and its subsidiaries (the "Group") are described in Note 4.

The consolidated financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 12 May 2011.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost convention basis, except for financial assets at fair value through profit or loss, available-for-sale investments and derivative financial instruments. The carrying values of recognised assets and liabilities that are 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

Basis of consolidation from 1 January 2010

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Company has, directly or indirectly through its subsidiaries, the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 has not been restated.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The Group has adopted the following new and amended IFRS and IFRIC interpretation as of 1 January 2010:

- IFRS 2 *Shared-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009 including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31, and IAS 39
- IAS 24 *Related Party Disclosures (Amendment)* effective 1 January 2011 (early adopted for partial exemption)
- IAS 39 *Financial Instruments: Recognition and Measurement—Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distribution of Non-cash Assets to Owner*s effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

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

IFRS 2 Share-based Payment (Revised)

This amendment clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. The adoption of this change had no material impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 *Consolidated and Separate Financial Statements (Amended)*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The adoption of these changes had no material impact on the financial position or performance of the Group.

IAS 24 Related Party Disclosures (Amendment)

This amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Group has adopted the amendment in 2010 for the partial exemption for government related entities in advance of its effective date.

IAS 39 Financial Instruments: Recognition and Measurement—Eligible Hedged Items

This amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of this change had no material impact on the financial position or performance of the Group.

Improvements to IFRS

In May 2008 and April 2009, the IASB issued various amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

2.4 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

Improvements to IFRS continued

Issued in May 2008:

IFRS 5 Non-current Assets Held-for-Sale and Discontinued Operations

The adoption of these changes had no material impact on the financial position or performance of the Group.

Issued in April 2009:

- IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*
- IFRS 8 *Operating Segments*
- IAS 7 *Statement of Cash Flows*
- IAS 36 *Impairment of Assets*

The adoption of these changes had no material impact on the financial position or performance of the Group.

Other changes, resulting from improvements to IFRS, included:

Issued in April 2009:

- IFRS 2 *Share-based Payment*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

The adoption of these changes had no material impact on the financial position or performance of the Group.

2.5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

- IAS 32 *Financial Instruments: Presentation—Classification of Rights Issues (Amendment) effective 1 February 2010*
- IFRS 9 *Financial Instruments effective 1 January 2013*
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment) effective 1 January 2011*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010*
- Improvements to IFRSs (May 2010)

Management is currently assessing the impact of adoption of the above standards, on the consolidated financial position and performance of the Group, including the following:

IAS 32 Financial Instruments: Presentation—Classification of Rights Issues (Amendment) effective 1 February 2010

This amendment changed the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement

This standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013, with early adoption permitted. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are to be added to IFRS 9 *Financial Instruments*. The standard retains a mixed-measurement model, with some assets measured at amortised cost and others at fair value. The distinction between the two models is based on the business model of each entity and a requirement to assess whether the cash flows of the instrument are only principal and interest.

All recognised financial assets that are in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* will be measured at either amortised cost or fair value. The standard contains only the two primary measurement categories for financial assets, unlike IAS 39 *Financial Instruments: Recognition and Measurement* where there were multiple measurement categories. Thus the existing IAS 39 *Financial Instruments: Recognition and Measurement* categories of held-to-maturity, loans and receivables and available-for-sale are eliminated, as are the tainting provisions of the standard. IFRS 9 *Financial Instruments* contains an option to classify financial assets that meet the amortised cost criteria as financial assets at fair value through profit or loss if doing so eliminates or reduces an accounting mismatch.

All equity investments within the scope of IFRS 9 *Financial Instruments* are to be measured in the consolidated statement of financial position at fair value with the default recognition of gains and losses in profit or loss. Only if the equity investment is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income with only dividend income recognised in profit or loss. The amounts recognised in other comprehensive income are not recycled to profit or loss on disposal of the investment although they may be reclassified in equity.

All derivatives within the scope of IFRS 9 *Financial Instruments* are required to be measured at fair value. IFRS 9 *Financial Instruments* does not retain IAS 39 *Financial Instruments: Recognition and Measurement* approach to accounting for embedded derivatives. Consequently, embedded derivatives that would have been separately accounted for as financial assets at fair value through profit or loss under IAS 39 *Financial Instruments: Recognition and Measurement* because they were not closely related to the financial asset host will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed as a whole and are measured as financial assets at fair value through profit or loss if any of its cash flows do not represent payments of principal and interest. Some financial assets that are currently disaggregated into host financial assets that are not financial assets at fair value through profit or loss will instead be measured as financial assets at fair value through profit or loss in their entirety. Assets that are classified as held-to-maturity are likely to continue to be measured at amortised cost as they are held to collect the contractual cash flows and often give rise to only payments of principal and interest.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

This amendment is effective for annual periods beginning on or after 1 January 2011 with retrospective application. This amendment provides guidance on assessing the recoverable amount of a net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation is effective for annual periods beginning on or after 1 July 2010. This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, the financial instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

Improvements to IFRSs

In May 2010, the IASB issued various amendments to its standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

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.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 10.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing 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 37.

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. Where 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 determined using valuation techniques including discounted cash flows models. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Useful lives of property, plant and equipment

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

Impairment of non financial assets

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

Impairment of goodwill

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

Impairment of inventories

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

Impairment of trade and other receivables

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

Impairment of advances on investment properties and investment properties

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

Fair value of financial instruments

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

Percentage of completion

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

Pensions and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of pension obligations is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuations, significant judgments regarding the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Further details of key assumptions are given in Note 27.

Development costs

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

Provision for environmental and legal expenses

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

Contingencies

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

2.7 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations from 1 January 2010

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which are deemed to be an asset or liability will be recognised, in accordance with IAS 39, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

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.

Business combinations prior to 1 January 2010

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Investments in jointly controlled assets

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

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

Investment in associates and jointly controlled entities

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

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

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

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

The financial statements of the associates and the jointly controlled entities are prepared for the same reporting period as the Company, except for MFH Holding GesmbH and MAN Solar Millennium GmbH which are prepared as of 31 October each year, and Coutinho & Ferrostaal GmbH & Co KG which are prepared as of 30 September each year. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Non-current assets held-for-sale and discontinued operations

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

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

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

Foreign currency translation

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

Transactions and balances

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

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

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

Non-monetary items that are measured at 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 was determined.

Group companies

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

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

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.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Dividend income

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

Interest income

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

Rental income

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

Construction contracts

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

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

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

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

Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

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

Sales tax

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- 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 and equipment and borrowing costs for long-term projects, if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The cost of property, plant and equipment acquired in a business combination is 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 28 for further information about the measurement of the decommissioning provision.

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

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

Land is not depreciated.

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

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

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

Assets under construction

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

Leases

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

Group as a lessee

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

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

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

Group as a lessor

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

Borrowing costs

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

Investment properties

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

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

Commercial properties	25 to 67 years

Land is not depreciated.

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

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

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

Amounts paid to purchase investment properties are recorded as advances on investment properties and the related capital commitments are disclosed in the commitments and contingencies (refer to Note 35). When the investment property recognition criteria are met, advances on investment properties are reclassified to investment properties.

Intangible assets

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

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

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

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

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.

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

Research and development costs

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

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

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

Inventories

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

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

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

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

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

Cash and cash equivalents

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

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

Government grants

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

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

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

Provisions

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

Pensions and other post employment benefits

Employees' end of service benefits

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

Defined benefit plans

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

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

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

Financial assets

Initial recognition and measurement

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

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

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

The Group's financial assets include held-to-maturity financial assets, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, trade and other receivables, cash and short-term deposits and certain other financial assets.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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 method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include 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 (Revised).*

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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

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 investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

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

Amortised cost of financial instruments

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

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

Loans, receivables and advances to customers

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement.

Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The Group suspends accruing interest when banking assets become impaired. 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 recognised in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale investments

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

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay the received cash flows 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

Financial liabilities

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

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

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cashflow hedges

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

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

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

Hedges of a net investment

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

Impairment of non-financial assets

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

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

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

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

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

Goodwill

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

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

Associates and jointly controlled entities

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

Client and fiduciary assets

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

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

3 INTEREST IN JOINTLY CONTROLLED ASSETS

The Group has a 50% interest in an ethylene plant and a 20% interest in a cogeneration facility located in Alberta, Canada.

The Group's share of the assets and liabilities as at 31 December 2010 and income and expenses of the jointly controlled assets for the period ended 31 December 2010, which are proportionately consolidated in the consolidated financial statements, are as follows:

	2010	**2009**
	US$'000	**US$'000**
Share of the jointly controlled assets' assets and liabilities:		
Plant and equipment	**1,018,698**	865,224
Current assets	**68,760**	40,905
Current liabilities	**(13,566)**	(27,731)
Non-current liabilities	**(23,837)**	(19,316)
Net assets	**1,050,055**	859,082
Share of the jointly controlled assets' revenue and profit:		
Revenue	**364,142**	154,996
Cost of sales	**(233,675)**	(65,493)
Administrative expenses	**(19,606)**	(33,664)
Profit before income tax	**110,861**	55,839
Income tax expense	**(31,429)**	(16,472)
Profit for the year from continuing operations	**79,432**	39,367

The Group has no share of any contingent liabilities or capital commitments in respect of the jointly controlled assets as at 31 December 2010.

4 OPERATING SEGMENT REPORTING

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

Plastic solutions—Europe

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

Plastic solutions—North America

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

Petroleum refinery products

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

Industrial engineering services

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

Diversified investments

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

Others

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

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

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

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

	Plastic solutions Europe	Plastic solutions North America	Petroleum refinery products	Industrial engineering services	Diversified investments	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2010							
Results							
Revenue from external customers	8,324,538	4,590,003	—	2,377,421	74,990	—	15,366,952
Share of post tax profits of associates and jointly controlled entities	159,716	(507)	—	45,842	(18,473)	517,863	704,441
Depreciation for the year	(292,096)	(214,508)	—	(34,988)	(2,839)	(395)	(544,826)
Amortisation for the year	(40,212)	(32,388)	—	(66,912)	(20,644)	—	(160,156)
Impairment for the year of long lived-assets	(14,232)	(20,300)	—	(6,812)	(514,900)	—	(556,244)
Impairment of goodwill	—	—	—	(97,533)	—	—	(97,533)
Finance income	10,733	6,059	—	35,905	36,368	167,994	257,059
Finance costs	(75,728)	(200,760)	—	(25,789)	(156,649)	(374,405)	(833,331)
Gains on acquisitions and disposals	—	(3,544)	—	4,624	122,487	13,571	137,138
Other losses on financial instruments	(15,581)	(8,000)	—	(19,086)	(84,574)	(209,610)	(336,851)
Tax expense	(95,706)	(123,181)	—	(62,461)	(161,222)	(28,690)	(471,260)
Profit for the year from continuing operations	442,792	223,426	—	30,710	(904,385)	356,592	149,135
Profit for the year from discontinuing operations	—	38,756	1,160,282	—	—	—	1,199,038
Profit for the year	442,792	262,182	1,160,282	30,710	(904,385)	356,592	1,348,173
Assets and liabilities							
Investments in associates and jointly controlled entities	1,340,162	3,885	—	570,902	447,393	8,560,294	10,922,636
Assets included in disposal groups held-for-sale	—	59,179	—	—	—	—	59,179
Other segment assets	6,220,795	5,513,860	—	2,512,814	14,877,946	7,771,347	36,896,762
Total assets	7,560,957	5,576,924	—	3,083,716	15,325,339	16,331,641	47,878,577
Liabilities included in disposal groups held-for-sale	—	—	—	—	—	—	—
Segment liabilities	3,651,601	3,604,074	—	2,113,903	12,167,323	10,335,798	31,872,699
Total liabilities	3,651,601	3,604,074	—	2,113,903	12,167,323	10,335,798	31,872,699
Other segment information							
Additions during the year *							
Property, plant and equipment	162,110	148,474	—	23,346	2,157	980,812	1,316,899
Investment properties **	—	—	—	—	—	—	—
Intangible assets	117,730	5,072	—	1,405	8,071	—	132,278

* Additions during the year include additions from business combinations

** At 31 December 2010 the balance of advances made on investment properties amounted to US$ 1,000,108 thousand (31 December 2009: US$ 2,128,513 thousand) which are reported under other assets as disclosed in Note 20.

	Plastic solutions Europe	Plastic solutions North America	Petroleum refinery products	Industrial engineering services	Diversified investments	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2009							
Results							
Revenue from external customers	6,574,067	1,639,059	—	1,650,415	53,829	—	9,917,370
Share of post tax profits of associates and jointly controlled entities	60,845	(3,892)	—	18,569	2,741	62,702	140,965
Depreciation for the year	(282,700)	(109,627)	—	(25,884)	(2,894)	(227)	(421,332)
Amortisation for the year	(40,630)	(17,078)	—	(81,314)	(880)	—	(139,902)
Impairment for the year of long-lived assets	(6,280)	—	—	—	(1,922)	—	(8,202)
Finance income	14,412	3,208	—	31,218	34,071	531,075	613,984
Finance costs	(25,237)	(86,174)	—	(22,127)	(77,566)	(504,506)	(715,610)
Gains on acquisitions and disposals	—	925,797	—	—	1,037	2,192,348	3,119,182
Other gains on financial instruments	(39,150)	48,028	—	(133)	951,712	(232,954)	727,503
Tax expense	6,008	(6,658)	—	(27,773)	(9,470)	—	(37,893)
Profit for the year from continuing operations	52,481	923,040	—	20,758	717,433	2,150,962	3,864,674
Profit for the year from discontinuing operations	—	—	284,592	—	—	—	284,592
Profit for the year	52,481	923,040	284,592	20,758	717,433	2,150,962	4,149,266
Assets and liabilities							
Investments in associates and jointly controlled entities	888,876	33,564	—	531,874	144,086	8,702,063	10,300,463
Assets included in disposal groups held-for-sale	—	—	4,735,206	97,350	—	6,388	4,838,944
Other segment assets	6,093,869	5,320,339	—	3,554,164	10,331,438	5,832,184	31,131,994
Total assets	6,982,745	5,353,903	4,735,206	4,183,388	10,475,524	14,540,635	46,271,401
Liabilities included in disposal groups held-for-sale	—	—	3,431,482	37,286	—	—	3,468,768
Segment liabilities	3,492,205	3,560,557	—	3,151,347	6,701,961	10,578,182	27,484,252
Total liabilities	3,492,205	3,560,557	3,431,482	3,188,633	6,701,961	10,578,182	30,953,020
Other segment information							
Additions during the year *:							
Property, plant and equipment	448,485	3,669,380	546,974	276,790	44,616	1,374,165	6,360,410
Investment properties **	—	—	—	9,251	9,549	—	18,800
Intangible assets	99,546	509,378	758	269,840	104,022	425,702	1,409,246

* Additions during the year include additions from business combinations

** At 31 December 2009 the balance of advances made on investment properties amounted to US$ 2,128,513 thousand which were reported under other assets, as disclosed in Note 20.

Geographical information

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

	UAE	Europe	North America	Rest of the World	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
*Revenues from external customers **					
Year ended 31 December 2010	**273,568**	**8,049,253**	**4,579,587**	**2,464,544**	**15,366,952**
Year ended 31 December 2009	53,579	6,013,736	1,604,815	2,245,240	9,917,370
2010					
Non-current assets					
Property, plant and equipment	**2,834,558**	**3,460,782**	**3,467,325**	**80,095**	**9,842,760**
Intangible assets	**—**	**895,873**	**434,164**	**865**	**1,330,902**
Investment properties	**1,285,328**	**7,246**	**—**	**—**	**1,292,574**
2009					
Non-current assets					
Property, plant and equipment	1,852,609	3,859,729	3,559,635	—	9,271,973
Intangible assets	—	1,056,246	492,300	—	1,548,546
Investment properties	—	18,547	—	—	18,547

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

5 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	2010	2009
	US$'000	US$'000
Share of net assets:		
Associates	**10,361,587**	9,756,167
Jointly controlled entities	**561,049**	544,296
	10,922,636	10,300,463
Share of post tax profits		
Associates	**657,258**	124,267
Jointly controlled entities	**47,183**	16,698
	704,441	140,965

5.1 Investments in associates

The Group has the following significant investments in associates:

Name of company	Country of incorporation	Percentage holding 2010	2009
Abu Dhabi Polymers Company Limited ("Borouge")	UAE	**40%**	40%
Borouge Pte Ltd	Singapore	**50%**	50%
Speciality Polymers Antwerp NV	Belgium	**33%**	33%
Borealis Financial Services Ltd	Jersey	**25%**	25%
Pak-Arab Refinery Limited ("PARCO")	Pakistan	**40%**	40%
Gulf Energy Maritime PJSC ("GEM")	UAE	**30%**	30%
CEPSA Maghreb SA	Morocco	**50%**	50%
Oasis International Power LLC	UAE	**36%**	36%
Ferro VAZ Gesellsch für Export, Import und Engineering mbH	Germany	**50%**	50%
SCG SILS Centre Gliwice Spzoo	Poland	**50%**	50%
Bank Zweiplus	Switzerland	**42.50%**	42.50%
Mercedes GP Ltd	England	**30%**	30%
Solar Power Group GmbH	Germany	**42.80%**	42.80%
Oman Polypropylene LLC	Oman	**—**	20%
Intermesa Group	Brazil	**42.80%**	42.80%
Abu Dhabi National Chemicals Company ("ChemaWEyaat")	UAE	**40%**	40%
Compañia Española de Petróleoş SA ("CEPSA")	Spain	**47.06%**	47.06%
OMV AG	Austria	**20.01%**	20.01%
Falah Growth Fund (GP) Ltd	British Virgin Islands	**50%**	50%
Falah Growth Fund LP	British Virgin Islands	**50%**	50%
Dead Sea Resorts PSC	Jordan	**45%**	—
Galactic Ventures LLC ("Virgin Galactic")	British Virgin Islands	**31.80%**	—
Qatar and Abu Dhabi Investment Company QSC ("QADIC")	Qatar	**50%**	—

	2010 US$'000	2009 US$'000
Shares of the associates' statements of financial position		
Assets	**21,405,523**	17,329,385
Liabilities	**(11,567,280)**	(10,112,287)
	9,838,243	7,217,098
Goodwill *	**529,587**	2,540,942
Impairment	**(6,243)**	(1,873)
Net assets	**10,361,587**	9,756,167
Shares of the associates' revenues and profits		
Revenue	**22,291,939**	7,021,366
Net profit	**662,482**	126,115
Net other comprehensive income	**(523,775)**	108,987
Impairment recognised during the year	**(5,224)**	(1,848)

* In 2009, the Company acquired certain investments in associates, namely in CEPSA and OMV. The allocation of the cost of business combinations to the different assets, liabilities and contingent liabilities was completed after 31 December 2009 but within a period of twelve months of the acquisition date. Accordingly in 2010, following the completion of the purchase price allocation, the purchase price was allocated to the fair value of identifiable assets and liabilities which resulted in a lower residual goodwill amount.

5.2 Investments in jointly controlled entities

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

Name of company	Country of incorporation	Percentage holding 2010	Percentage holding 2009
INEOS Nova Joint Venture *	North America/Europe	**50%***	50%
NOVIDESA Joint Venture	Mexico	**50%**	50%
Consolidated Energy Limited	Trinidad and Tobago	**45%**	45%
Coutinho & Ferrostaal GmbH & Co KG	Germany	**33%**	33%
MAN Solar Millennium GmbH	Germany	**25%**	25%
MAN Solar Millennium LLC	United States of America	**50%**	50%
Solar Trust of America LLC	United States of America	**30%**	30%
ABAG Aktiengesellschaft	Germany	**66.7%**	—

* INEOS Nova Joint Venture has been classified as a disposal group held-for-sale at 31 December 2010.

	2010 US$'000	2009 US$'000
Share of the jointly controlled entities' statements of financial position		
Current assets	**311,419**	758,116
Non-current assets	**492,698**	36,748
Current liabilities	**(214,425)**	(137,877)
Non-current liabilities	**(23,773)**	(106,243)
	565,919	550,744
Accumulated impairment	**(4,870)**	(6,448)
	561,049	544,296
Share of the jointly controlled entities' revenues and profits		
Revenue	**519,609**	1,568,645
Cost of sales	**(440,311)**	(617,515)
	79,298	951,130
Operating expenses	**(25,892)**	(933,985)
Other (expense) income	**(5,659)**	—
Impairment recognised during the year	**—**	—
Income tax (expense) credit	**(564)**	(447)
Net profit	**47,183**	16,698

6 FINANCE INCOME

	2010 US$'000	2009 US$'000
Dividend income	**81,948**	201,509
Interest income	**175,111**	412,475
	257,059	613,984

7 FINANCE COSTS

	2010 US$'000	2009 US$'000
Interest expense	**(739,004)**	(567,521)
Amortisation of arrangement fees on financing	**(94,327)**	(148,089)
	(833,331)	(715,610)

8 GAINS ON ACQUISITIONS AND DISPOSALS

	2010 US$'000	2009 US$'000
Gain on disposal of associates	**13,571**	—
Gain on disposal of property, plant and equipment	**3,087**	—
Gain on disposal of investment property	**1,590**	—
Gain (loss) on disposal of available-for-sale financial instruments (i)	**100,538**	(4,689)
Gain on disposal of financial instruments at fair value through profit or loss (ii)	**21,061**	2,198,074
Excess of fair value over cost of business combinations (iii)	**—**	925,797
Other losses	**(2,709)**	—
	137,138	3,119,182

(i) In 2010, gain on disposal of available-for-sale financial instruments mainly relates to gain on disposal of financial instruments of Atlantia SpA by Aabar amounting to US$ 93,549 thousand.

(ii) In 2010, gain on disposal of financial instruments at fair value through profit or loss amounting to US$ 21,061 thousand relates to gain on disposal of financial instruments of Banco Santander by Aabar. In 2009 gain on disposal includes gain on disposal of the Company's investment in certain financial instruments of Barclays PLC amounting to US$ 2,192,348 thousand.

(iii) In 2009, the Group recorded a negative goodwill on the acquisition of Nova amounting to US$ 925,797 thousand.

9 OTHER (LOSSES) GAINS ON FINANCIAL INSTRUMENTS

	2010 US$'000	2009 US$'000
Fair value gain on non-derivative financial instruments at fair value through profit or loss (i)	**1,339,648**	2,804,171
Fair value loss on non-derivative financial instruments at fair value through profit or loss (ii)	**(241,924)**	—
Gain on hedged instruments in fair value hedges	**1,169**	3,874
Loss on hedging instruments in fair value hedges	**(8,436)**	—
Loss on ineffective portion of cash flow hedges	**—**	(13,513)
Gain on ineffective portion of cash flow hedges	**—**	25,561
Fair value gain on derivative financial instruments (iii)	**290,679**	65,074
Fair value loss on derivative financial instruments (iii)	**(1,447,504)**	(1,973,810)
Impairment loss on financial instruments at amortised cost	**(8,000)**	(7,578)
Impairment loss on available-for-sale financial instruments	**(262,518)**	(163,066)
Others	**35**	(13,210)
	(336,851)	727,503

(i) Included in fair value gain on non-derivative financial instruments at fair value through profit or loss is an amount of US$ 1,338,954 thousand (2009: US$ 2,790,820 thousand) relating to revaluation gain on investment in Daimler AG shares.

(ii) Fair value loss on non-derivative financial instruments at fair value through profit or loss includes revaluation loss on Unicredit SpA shares amounting US$ 239,315 thousand (2009: US$ nil).

(iii) The Group entered into funded collar transactions upon purchase of equity shares in both Daimler AG and Unicredit SpA. The rationale for entering into such funded collar transactions was to raise long term, non-recourse, high loan-to-value financing to fund the purchase of the shares and to protect the Group against adverse movements in the value of the shares. The funded collar transactions include call and put options that restrict the revaluation gains and losses on the Daimler AG and Unicredit SpA shares within a certain range. However, the Group still maintains significant exposure to the share price on both the investments. See Note 31 for the Group position at 31 December 2010. The analysis of the fair value gain and losses during the year is as follows:

(a) Included in fair value gain on derivative financial instruments are:

	2010 US$'000	2009 US$'000
Call and put options on Unicredit SpA	**199,384**	—
Call and put options on Atlantia SpA shares	**12,643**	—
CASHES of Unicredit SpA	**—**	11,119

(b) Included in fair value loss on derivative financial instruments are:

Call and put options on Atlantia SpA shares	**—**	(42,112)
Collars and put options on Daimler AG shares	**(1,371,646)**	(1,803,165)
CASHES of Unicredit SpA	**(33,228)**	—

10 TAX EXPENSE

The major components of tax expense for the years ended 31 December 2010 and 2009 are:

	2010 US$'000	2009 US$'000
Consolidated income statement		
Current income tax expense:		
Corporation tax	**(271,179)**	(101,616)
Prior year charges	**(26,123)**	(16,204)
Total current income tax expense	**(297,302)**	(117,820)
Deferred tax (charge) credit:		
Origination and reversal of temporary differences *	**(178,717)**	58,338
Impact of change in tax laws	**4,759**	21,589
Total deferred tax (charge) credit	**(173,958)**	79,927
Tax expense reported in the consolidated income statement relating to continuing operations	**(471,260)**	(37,893)

* Included in deferred tax charge for the year is an amount of US$ 163,720 thousand relating to deferred tax liabilities on the capital gains relating to its net investment gains on Daimler AG shares, after considering the offsetting impact of the collar arrangements, which economically hedge a portion of the investment, in accordance with the requirements of IAS 12 Income Taxes. The recognition of such deferred tax liabilities are highly judgmental because they depend on the manner in which the management expects, at the end of the reporting period, to recover or settle the carrying amounts of the financial instruments. No such deferred tax liability was recognised in the prior year based on management's expectations for recovering or settling the carrying amounts of the financial instruments at that time. The impact of the change in management's estimates was recognised prospectively. It is not practicable to estimate the impact on future periods because it will be affected by movements in the Daimler AG share price, in addition to management's future expectations and actions.

	2010	2009
	US$'000	US$'000
Accounting profit before tax from continuing operations	**620,395**	3,902,567
At average income tax rate of 28%	**(173,711)**	(1,092,719)
Expenses not deductible for tax purposes	**(24,954)**	(12,490)
Effect of share from the profit of investment accounted under equity method	**197,243**	39,470
Non-taxable net (loss) income	**(391,416)**	1,055,636
Higher taxes on overseas earnings	**(5,545)**	(792)
Unrecognised tax losses	**(6,118)**	(20,318)
Tax credit previously not recognised	**1,744**	—
Prior year charges	**(26,123)**	(16,201)
Unrecognised deferred tax assets	**8,555**	27,687
Uncertain tax positions	**—**	(22,480)
Difference in tax rates	**(29,701)**	23,861
Others	**(21,234)**	(19,547)
Income tax charge for the year	**(471,260)**	(37,893)
Consolidated statement of other comprehensive income		
Deferred tax related to items charged or credited directly to equity during the year:		
Cash flow hedges	**(19,804)**	509
Defined benefit pension scheme	**15,457**	12,736
Available-for-sale investments	**(114)**	—
Net gains on hedge of net investments	**(6,780)**	(5,316)
Income tax charged directly to equity	**(11,241)**	7,929

Deferred tax

Deferred tax assets from continuing operations relate to the following:

	1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Acquisitions and disposals	Transfers *	Exchange differences	31 December 2009	Recognised in profit or loss	Recognised in other comprehensive income	Acquisitions and disposals	Transfers	Exchange differences	31 December 2010
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Derivative contracts	18,045	5,236	(824)	1,644	(18,045)	157	6,213	**(9,825)**	**(20,431)**	**—**	**—**	**(647)**	**(24,690)**
Impairment	—	(1,926)	—	7,005	—	392	5,471	**11,492**	**—**	**—**	**—**	**(320)**	**16,643**
Other timing differences	31,791	12,873	13,740	—	—	(55,375)	3,029	**(12,333)**	**(6,142)**	**—**	**(2,092)**	**2,961**	**(14,577)**
Pension and post-employment medical benefits	26,947	(1,825)	13,235	11,611	—	5,218	55,186	**(2,004)**	**15,331**	**—**	**495**	**(2,635)**	**66,373**
Tax losses carried forward	135,128	122,258	—	31,768	(57,740)	6,305	237,719	**5,501**	**—**	**—**	**—**	**(16,496)**	**226,724**
Temporary differences on accrued expenses	—	(15,593)	—	55,393	(39,800)	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Others	69,257	(15,676)	—	132,685	(99,292)	1,511	88,485	**(16,396)**	**1**	**—**	**(962)**	**(6,210)**	**64,918**
	281,168	105,347	26,151	240,106	(214,877)	(41,792)	396,103	**(23,565)**	**(11,241)**	**—**	**(2,559)**	**(23,347)**	**335,391**

Deferred tax liabilities from continuing operations relate to the following:

	1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Acquisitions and disposals	Transfers *	Exchange differences	31 December 2009	Recognised in profit or loss	Recognised in other comprehensive income	Acquisitions and disposals	Transfers	Exchange differences	31 December 2010
Accelerated capital allowances	(296,244)	(23,815)	—	(900,010)	—	(15,059)	(1,235,128)	**114,564**	**—**	**—**	**—**	**(2,731)**	**(1,123,295)**
Acquisition fair value adjustment on intangibles	—	25,918	—	(84,419)	—	(4,684)	(63,185)	**(81,623)**	**—**	**(8,301)**	**—**	**4,037**	**(149,072)**
Gain (loss) on revaluation of other assets	—	738	—	(11,138)	—	(654)	(11,054)	**(2,163)**	**—**	**—**	**—**	**783**	**(12,434)**
Gain (loss) on revaluation of non-derivative financial instruments	—	—	—	—	—	—	—	**(156,245)**	**—**	**—**	**—**	**—**	**(156,245)**
Inventories	—	(14,724)	—	(29,864)	—	(1,980)	(46,568)	**28,457**	**—**	**—**	**(4,946)**	**3,512**	**(19,545)**
Other timing differences	(15,219)	(9,389)	(17,723)	(12,075)	8,882	4,268	(41,256)	**2,746**	**—**	**—**	**—**	**1,828**	**(36,682)**
Temporary differences on accrued expenses	—	—	—	—	39,800	—	39,800	**29,658**	**—**	**—**	**—**	**—**	**69,458**
Uncertain tax provisions	—	22,480	—	—	—	—	22,480	**(63,323)**	**—**	**—**	**—**	**—**	**(40,843)**
Others	(149,978)	(26,630)	(499)	(80,070)	196,513	(3,416)	(64,080)	**(22,464)**	**—**	**—**	**25,759**	**3,775**	**(57,010)**
	(461,441)	(25,422)	(18,222)	(1,117,576)	245,195	(21,525)	(1,398,991)	**(150,393)**	**—**	**(8,301)**	**20,813**	**11,204**	**(1,525,668)**

* Transfers include deferred tax from discontinued operations of HDO.

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 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 tax losses in some jurisdictions amounting to US$ 206,134 thousand (31 December 2009: US$ 229,813 thousand). However, these losses relate to subsidiaries that have history of losses, do not expire and may not be used to offset taxable income elsewhere in the Group.

Unrecognised deferred liabilities

The temporary differences associated with investments in associates and subsidiaries, for which a deferred tax liability has not been recognised, aggregate to US$ 900,868 thousand (31 December 2009: US$ 724,572 thousand).

11 PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2010 US$'000	2009 US$'000
Included in cost of sales		
Costs of inventories recognised as an expense	**10,446,764**	6,674,606
Staff costs	**633,561**	538,641
Depreciation of property, plant and equipment	**478,966**	348,573
Impairment of property, plant and equipment	**27,773**	—
Amortisation of intangible assets	**105,551**	106,004
Included in selling and distribution costs		
Staff costs	**278,112**	206,140
Distribution and transportation costs	**402,876**	368,406
Depreciation of property, plant and equipment	**19,519**	22,611
Impairment of property, plant and equipment	**20**	—
Amortisation of intangible assets	**70**	40
Included in general and administrative expenses		
Staff costs	**413,802**	328,420
Consultancy and advisory costs	**166,131**	89,723
Depreciation of property, plant and equipment	**31,804**	37,050
Amortisation of intangible assets	**40,471**	18,923
Impairment of property, plant and equipment	**9,663**	774
Impairment of intangible assets	**3,978**	7,378
Included in research and development expenses		
Staff costs	**88,528**	67,029
Depreciation of property, plant and equipment	**14,468**	12,351
Amortisation of intangible assets	**14,064**	14,935
Included in other expenses		
Impairment of investment properties	**514,810**	50
Impairment of goodwill	**97,533**	—
Net provisions	**70,241**	22,853

12 DISCONTINUED OPERATIONS

	2010 US$'000	2009 US$'000
Included in the consolidated statement of financial position:		
Certain discontinued operations of Ferrostaal:		
Total assets	—	97,350
Total liabilities	—	(37,286)
HDO (Note 38)		
Total assets	—	4,735,206
Total liabilities	—	(3,431,482)
INEOS Nova Joint Venture *	**59,179**	—
Classified as:		
Assets included in disposal groups held-for-sale	**59,179**	4,838,944
Liabilities included in disposal groups held-for-sale	—	(3,468,768)
Included in the consolidated income statement:		
Profit from HDO operations	**388,298**	284,592
Profit on disposal of HDO	**771,984**	—
	1,160,282	284,592
Share of profit of INEOS Nova Joint Venture *	**38,756**	—
	1,199,038	284,592

* On February 28, 2011, the Group completed the sale of its 50% interest in the INEOS Nova Joint Venture to INEOS itself.

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

	2010 US$'000	2009 US$'000
Net profit attributable to ordinary equity holders of the parent from continuing operations	**135,578**	3,629,583
Profit attributable to ordinary equity holders of the parent from discontinued operations	**1,109,609**	199,214
Net profit attributable to ordinary equity holders of the parent for basic earnings	**1,245,187**	3,828,797
Weighted average number of ordinary shares for basic earnings per share (in thousands)	**3,500**	3,500
	US$	US$
Basic and diluted earnings per share	**356**	1,094
Basic and diluted earnings per share from continuing operations	**39**	1,037

14 PROPERTY, PLANT AND EQUIPMENT

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

	Land and land improvements	Buildings, structures and production plants	Machinery, tools and technical equipment	Information system hardware	Motor vehicles	Office furniture and fittings	Assets under construction	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009								
Cost:								
At 1 January 2009	731,866	6,251,878	1,606,272	—	11,871	122,562	1,179,319	9,903,768
Additions	7,401	45,182	10,222	3,995	4,905	12,719	2,381,992	2,466,416
Acquisition through business combinations	115,323	3,568,663	54,074	33,345	12,690	38,368	71,531	3,893,994
Disposals	(869)	(41,167)	(16,576)	(1,315)	(3,281)	(6,846)	(89)	(70,143)
Held for sale	(429,457)	(751,097)	(1,544,694)	—	(11,440)	(126,603)	(732,345)	(3,595,636)
Transfers	51,767	231,921	49,239	310	926	2,871	(337,034)	—
Exchange adjustments	38,548	210,589	103,313	1,810	2,287	13,370	94,897	464,814
At 31 December 2009	514,579	9,515,969	261,850	38,145	17,958	56,441	2,658,271	13,063,213
Depreciation:								
At 1 January 2009	143,491	3,325,800	1,081,285	—	10,166	77,548	—	4,638,290
Charge for the year	11,958	387,034	130,802	6,649	2,457	25,372	—	564,272
Impairment	—	680	—	25	—	69	—	774
Disposals	—	(33,329)	(14,338)	(1,315)	(2,589)	(6,576)	—	(58,147)
Held for sale	—	(277,677)	(1,125,023)	—	(9,758)	(95,440)	—	(1,507,898)
Transfers	—	(6)	(999)	11	440	555	—	1
Exchange adjustments	(5,907)	76,110	72,408	1,219	1,141	8,977	—	153,948
At 31 December 2009	149,542	3,478,612	144,135	6,589	1,857	10,505	—	3,791,240
Net carrying amount								
At 31 December 2009	365,037	6,037,357	117,715	31,556	16,101	45,936	2,658,271	9,271,973

a) Additions in assets under construction include an amount of US$ 910,686 thousand (2009: US$ 1,319,136 thousand) relating to the construction of an oil pipeline (ADCOP project).

b) The amount of borrowing costs capitalised during the year ended 31 December 2010 was US$ 72,455 thousand (2009: US$ 51,557 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was 2.1% (2009: 2.1%) which is the effective interest rate of the specific borrowing.

c) The carrying value of plant and equipment held under finance leases at 31 December 2010 was US$ 4,588 thousand (31 December 2009: US$ 928 thousand). Leased assets are pledged as security for the related finance lease liabilities.

d) Land includes a plot received in 2008 from the Municipality of Abu Dhabi at no cost. The Group has recorded this parcel at the nominal value of US$ 1.

e) Property, plant and equipment with a book value of US$ 2,358,924 thousand (31 December 2009: US$ 2,479,764 thousand) have been pledged as security for related borrowings and mortgages.

f) Depreciation charge for the year is reflected in the consolidated income statement as follows:

	2010	2009
	US$'000	US$'000
Continuing operations	**544,757**	420,585
Discontinued operations	**—**	143,687
	544,757	564,272

15 INTANGIBLE ASSETS

	Software	Patents and licences	Development costs	Customer contracts	Customer lists	Goodwill	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010								
Cost:								
At 1 January 2010	98,973	309,620	225,056	60,393	1,000	613,380	568,488	1,876,910
Additions	12,673	50,188	61,116	—	—	—	—	123,977
Acquisition through business combinations	—	—	—	—	—	8,301	—	8,301
Disposals	(10,686)	(40,212)	(4,612)	—	(1,000)	—	—	(56,510)
Transfers	253	24,793	(25,544)	30,004	—	(39,526)	9,522	(498)
Exchange adjustments	(4,751)	(10,969)	(11,810)	(13,158)	—	(20,398)	575	(60,511)
At 31 December 2010	**96,462**	**333,420**	**244,206**	**77,239**	**—**	**561,757**	**578,585**	**1,891,669**
Accumulated amortisation:								
At 1 January 2010	55,567	100,676	77,065	11,490	1,000	—	82,566	328,364
Charge	17,310	15,780	21,820	22,778	—	—	82,468	160,156
Impairment	15	1,591	2,372	—	—	97,533	—	101,511
Disposal	(9,311)	—	(4,195)	—	(1,000)	—	—	(14,506)
Transfers	11	—	(11)	—	—	—	—	—
Exchange adjustments	(2,755)	(6,955)	(2,803)	1,201	—	—	(3,446)	(14,758)
At 31 December 2010	**60,837**	**111,092**	**94,248**	**35,469**	**—**	**97,533**	**161,588**	**560,767**
Net carrying amount:								
At 31 December 2010	**35,625**	**222,328**	**149,958**	**41,770**	**—**	**464,224**	**416,997**	**1,330,902**
2009								
Cost:								
At 1 January 2009	65,550	162,552	190,067	—	—	78,736	15,727	512,632
Additions	9,732	50,565	15,546	—	—	—	—	75,843
Internal development	—	—	34,077	—	—	—	—	34,077
Acquisitions through business combinations	20,751	145,817	440	55,799	1,000	518,667	556,852	1,299,326
Disposals	9	(56,360)	(10,280)	—	—	—	—	(66,631)
Held for sale	—	—	(12,574)	—	—	—	(19,610)	(32,184)
Exchange adjustments	2,931	7,046	7,780	4,594	—	15,977	15,519	53,847
At 31 December 2009	98,973	309,620	225,056	60,393	1,000	613,380	568,488	1,876,910
Accumulated amortisation:								
At 1 January 2009	38,390	87,253	52,492	—	—	—	9,974	188,109
Charge	15,171	11,027	22,723	8,400	1,000	—	83,417	141,738
Impairment	67	—	6,306	1,005	—	—	—	7,378
Disposal	—	—	(4,038)	—	—	—	—	(4,038)
Held for sale	—	—	(4,515)	—	—	—	(9,442)	(13,957)
Exchange adjustments	1,939	2,396	4,097	2,085	—	—	(1,383)	9,134
At 31 December 2009	55,567	100,676	77,065	11,490	1,000	—	82,566	328,364
Net carrying amount:								
At 31 December 2009	43,406	208,944	147,991	48,903	—	613,380	485,922	1,548,546

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

	2010	2009
	US$'000	US$'000
Continuing operations	**160,156**	139,902
Discontinued operations	**—**	1,836
	160,156	141,738

16 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:

	Plastics solutions Europe	Diversified investments	Private banking	Total
	US$'000	US$'000	US$'000	US$'000
Carrying amount at 31 December 2010	74,850	326,554	62,820	464,224

Plastics solutions—Europe

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

The recoverable amount of Borealis has been determined based on a value in use calculation derived from financial budgets approved by senior management covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 10% (2009: 9%) and cash flows beyond the 5-year period are extrapolated using an average growth rate of 2% (2009: 2%).

Key assumptions used in value in use calculations

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

- Gross margin
- Discount rates
- Raw materials price inflation
- Market share during the budget period

Gross margins: These are increased over the budget period for anticipated efficiency improvements. Gross margins beyond the 5-year period are extrapolated using an average growth rate of 1%.

Discount rates: Discount rates reflect management's estimate of the risks. The discount rate is derived from the Group's post-tax weighted average cost of capital.

Raw materials price inflation: Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available (principally for olefins and feedstock); otherwise past actual raw material price movements have been used as an indicator of future price movements.

Market share assumptions: These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the plastic solutions market to be stable over the budget period.

Private banking

Goodwill acquired through business combinations of US$ 62,820 thousand (31 December 2009: US$ 101,840 thousand based on provisional purchase price allocation) has been allocated to Falcon Bank (private banking cash generating unit which constitutes the lowest aggregation of assets that generate largely independent cash inflows).

The Group performed its annual impairment test as at 31 December 2010. The recoverable amount of Falcon Bank has been determined based on a value in use calculation derived from financial budgets covering a 5-year period. The pre-tax discount rate applied to cash flow projections is 10% and cash flows beyond the 5-year period are extrapolated using an average growth rate of 2%.

Key assumptions used in value in use calculation

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

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

Diversified investments

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

The Group performed its annual impairment test as at 31 December 2010. As with any holding company valuation, the recoverable amount of Aabar has been determined as the sum of the values of the respective assets and liabilities. The value in use of the respective assets has been estimated based on the future cash flows expected to arise from the continuing use of the asset, and the estimated cash flows on potential disposal.

Key assumptions used in value in use calculation

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

- Estimates used in the value in use calculation of investment properties as disclosed in Note 17.
- Fluctuations in the market price of quoted investments of Aabar, and the degree to which those will vary within the current hedging strategy.
- Discount rate: The discount rate represents the current market assessment of the risks specific to Aabar.
- Growth rate to determine increase in assets under management: Assets under management increase was assumed at 8% for the years 2011 to 2015 and is based on management expectations and industry research.

17 INVESTMENT PROPERTIES

	Land	Commercial	Total
	US$'000	US$'000	US$'000
2010			
Cost:			
At 1 January 2010	4,614	14,355	18,969
Transfers	1,804,444	(2,313)	1,802,131
Disposals	(5,122)	(5,511)	(10,633)
Exchange adjustments	536	(296)	240
At 31 December 2010	**1,804,472**	**6,235**	**1,810,707**
Accumulated depreciation:			
At 1 January 2010	—	422	422
Charge for the year	—	69	69
Transfers		3,747	3,747
Impairment	514,810	—	514,810
Disposals		(265)	(265)
Exchange adjustments	—	(650)	(650)
At 31 December 2010	**514,810**	**3,323**	**518,133**
Net carrying amount:			
At 31 December 2010	**1,289,662**	**2,912**	**1,292,574**

	Land	Commercial	Total
	US$'000	US$'000	US$'000
2009			
Cost:			
At 1 January 2009	—	—	—
Additions	432	457	889
Acquisition through business combinations	4,182	13,729	17,911
Disposals	—	(378)	(378)
Exchange adjustments	—	547	547
At 31 December 2009	4,614	14,355	18,969
Accumulated depreciation:			
At 1 January 2009	—	—	—
Charge for the year	—	747	747
Impairment	—	50	50
Disposals	—	(378)	(378)
Exchange adjustments	—	3	3
At 31 December 2009	—	422	422
Net carrying amount:			
At 31 December 2009	4,614	13,933	18,547

Investment properties with a book value of US$ 204,221 thousand (31 December 2009: US$ 9,353 thousand) have been pledged as security for related borrowings and mortgages.

During the year ended 31 December 2010, plots of land with a carrying amount of US$ 1,804,444 thousand, prior to impairment charges, have been transferred from advances made on investment properties under other assets to investment properties.

In reviewing investment properties, the Group has considered whether the value of any of its investment properties is impaired. The recoverable amounts have been determined as the higher of the fair value less costs to sell, and value in use. The Group recognised an impairment loss of US$ 514,810 thousand on its investment properties during the year (2009: US$ Nil).

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

Fair value assessments have been performed based on transactions observable in the market or based on valuation models. The combined fair value of investment properties at 31 December 2010 amounted to US$ 941,548 thousand (31 December 2009: carrying amounts approximated fair values).

The determination of the value in use or the fair value of investment property requires the use of estimates such as future cash flows from assets (such as lettings, tenant's profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environment matters and the overall repair and condition of the property) and discount rates applicable to those assets. In addition, development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of investment properties under construction. These estimates are based on local market condition existing at reporting date.

Volatility in the global financial system is reflected in commercial real estate markets. There was a significant reduction in transaction volumes in 2009, and to a lesser extent, in 2010. In these circumstances, there was a greater degree of uncertainty than that which exists in a more active market in estimating the market values of investment property. Therefore, in arriving at estimates of market values as at 31 December 2010, management used their market knowledge and professional judgment and did not rely solely on historical transaction comparables.

The significant assumptions used were:

Key assumptions used for value in use assessments:

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

Key assumptions used for fair value assessments:

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

18 INVESTMENTS IN FINANCIAL INSTRUMENTS

	2010	2009	2008
	US$'000	US$'000	US$'000
Non-derivative financial instruments:			
Held-to-maturity financial assets (Note 18.1)	**240,256**	275,575	2,812
Financial assets at fair value through profit or loss (Note 18.2)	**8,673,887**	5,617,250	5,021,833
Available-for-sale financial assets (Note 18.3)	**1,526,183**	1,944,576	5,288,007
	10,440,326	7,837,401	10,312,652
Derivative financial instruments (Note 31)	**805,175**	135,871	142,440
	11,245,501	7,973,272	10,455,092
Non-current	**10,819,947**	7,924,380	5,382,811
Current	**425,554**	48,892	5,072,281
	11,245,501	7,973,272	10,455,092

18.1 HELD-TO-MATURITY FINANCIAL ASSETS

The balance represents mainly investments in government treasury securities and corporate bonds. They are predominantly denominated in CHF and are investment grade assets.

18.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010	2009	2008
	US$'000	US$'000	US$'000
Daimler AG shares (i)	**6,483,793**	5,144,838	—
CASHES of Unicredit SpA. (ii)	**40,581**	73,810	—
Banco Santander (Brasil) ADSs (iii)	**—**	341,632	—
Unicredit SpA (iv)	**1,974,228**	—	—
Instruments of Barclays Plc (v)	**—**	—	5,021,833
Others (vi)	**175,285**	56,970	—
	8,673,887	5,617,250	5,021,833
Non-current	**8,517,201**	5,617,250	—
Current	**156,686**	—	5,021,833
	8,673,887	5,617,250	5,021,833

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

ii) This represents an investment in the Convertible and Subordinated Hybrid Equity-Linked Securities ("CASHES") of Unicredit SpA. These convertible bonds, due on 15 December 2050 are exchangeable into ordinary shares of Unicredit SpA. If at any time, between 23 February 2016 and 15 December 2050, the exchange security price of Unicredit SpA shares, for 20 out of 30 consecutive trading days, exceeds 150% of the exchange price (Euro 3.83), the bonds will be automatically redeemed.

iii) This represents an investment in 24,500,000 American Depositary Shares ("ADS") of Banco Santander (Brasil) SA (a subsidiary of Banco Santander SA headquartered in Spain), which was sold in 2010. As a result, the Group recorded a gain of US$ 21,061 thousand during the year (see Note 8).

iv) This represents an equity investment in Unicredit SpA. The Group acquired a 4.99% stake in Unicredit SpA in 2010. The Group has taken collar and put options to fix the floor and cap price for movements in the share price of Unicredit SpA that expire between 3 April 2013 and 12 June 2013. Shares in Unicredit SpA are pledged as collateral against certain term loans of Aabar.

v) The Group purchased certain investments in mandatory convertible notes, reserve capital investments and warrants of Barclays Plc in 2008. During 2009, the Group disposed of these instruments for total net proceeds of approximately GBP 4.7 billion (US$ 7 billion) and realised a net gain of approximately US$ 2.2 billion.

vi) This balance includes an investment made in July 2010 of US$ 18.9 million into two investment funds: Blue Orchard Private Equity Funds SCA and Oasis Fund SCA with a commitment to invest a further US$ 35.3 million at a later date. The remaining balance represents mainly investments in government treasury securities and corporate bonds. These are investment grade assets predominantly denominated in CHF.

18.3 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	2009	2008
	US$'000	US$'000	US$'000
Quoted investments	**1,163,503**	1,535,704	5,028,435
Unquoted investments	**362,680**	408,872	259,572
	1,526,183	1,944,576	5,288,007

Quoted investments

The fair value of the quoted investments is determined by reference to published price quotations in an active market. During 2009, investments in CEPSA and OMV were increased to 47.06% and 20.01% respectively, and accordingly reclassified to investments in associates from the dates significant influence was obtained.

Unquoted investments

The fair value of the majority unquoted investments has been estimated using a valuation technique based on assumptions that are not supported by observable market prices. The valuation requires management to make estimates about the expected future cash flows of the shares which are discounted at current rates. See Note 32 for the Group's valuation hierarchy.

19 TRADE AND OTHER RECEIVABLES

	2010	2009	2008
	US$'000	US$'000	US$'000
Trade receivables	**1,206,983**	1,049,509	831,840
Loans and other amounts due from banking customers	**1,083,184**	621,084	—
Due from banks	**161,636**	183,158	—
Balance due from related parties	**360,659**	279,190	50,581
Receivable from construction contracts	**102,786**	157,818	—
Other receivables	**5,982**	397	—
	2,921,230	2,291,156	882,421
Non-current	**74,063**	71,429	—
Current	**2,847,167**	2,219,727	882,421
	2,921,230	2,291,156	882,421

At 31 December 2010, trade and other receivables amounting to US$ 147,075 thousand (31 December 2009: US$ 134,989 thousand) were impaired and fully provided for.

See Note 33 for ageing analysis and movements in the provision for impairment of trade and other receivables.

20 OTHER ASSETS

	2010	2009	2008
	US$'000	US$'000	US$'000
Long term receivable (i)	**1,858,432**	1,495,045	—
Taxes receivable	**279,516**	56,443	55,886
Loans from related parties	**48,963**	150,711	480,885
Loans and notes receivable	**529,409**	313,439	112,455
Advances made on investment properties	**1,000,108**	2,128,513	—
Advances made on investments	**516,497**	8,006	55,859
Prepaid expense	**35,011**	18,561	73,488
Accrued interest receivable	**29,523**	25,477	—
Other assets and receivables	**427,492**	556,419	424,265
	4,724,951	4,752,614	1,202,838
Non-current	**3,981,649**	3,992,192	262,777
Current	**743,302**	760,422	940,061
	4,724,951	4,752,614	1,202,838

(i) In 2009, the Company acquired an investment in mandatorily exchangeable bonds (the "Bonds") of Independent Public Business Corporation of Papua New Guinea. Upon maturity in March 2014, the Bonds will be converted into 196,604,177 shares of Oil Search Limited, a company listed on the Australian Stock Exchange. The Company has determined that the Bonds contain embedded derivatives and accordingly, the derivative components, amounting to US$ 106,059 thousand (31 December 2009: US$ 75,281 thousand), have been separated from the host contract and disclosed as derivative financial instruments in the consolidated financial statements (see Note 31). The long term receivable represents the carrying value of the host contract at 31 December 2010, and is carried at amortised cost.

21 INVENTORIES

	2010	2009
	US$'000	US$'000
Raw materials	**437,045**	535,134
Spare parts	**57,065**	56,624
Work in progress	**403,835**	896,450
Finished goods	**1,152,796**	882,211
In transit	**25,371**	13,874
	2,076,112	2,384,293
Allowance for obsolescence	**(23,590)**	(37,628)
	2,052,522	2,346,665

22 CASH AND CASH EQUIVALENTS

	2010	2009
	US$'000	US$'000
Cash and short term deposits	**3,150,931**	2,533,118
Bank overdrafts	**(912)**	—
	3,150,019	2,533,118

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

23 SHARE CAPITAL

	Authorised		Issued and fully paid	
	2010	2009	2010	2009
	US$'000	US$'000	US$'000	US$'000
Ordinary shares of US$ 1,000 each	**5,000,000**	5,000,000	**3,500,000**	3,500,000

24 SHAREHOLDER LOAN

During the year ended 31 December 2010, the Company received US$ 500 million from the Department of Finance of Abu Dhabi on behalf of the Government of Abu Dhabi. The funds are to be used to meet the Company's obligations in the investment in Qatar and Abu Dhabi Investment Company QSC. An amount of US$ 50 million was injected in Qatar and Abu Dhabi Investment Company QSC in July 2010.

The funds received are interest-free with no repayment terms. Accordingly management has classified the funds as a shareholder loan within equity.

25 OTHER RESERVES

	Cumulative changes in fair value of available for-sale investments	Foreign currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gains and losses	Reserves for disposal group held-for-sale	Share of reserves of associates	Other reserves	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2009	3,183,667	(193,101)	18,352	6,421	—	—	85,645	3,100,984
Other comprehensive profit (loss) for the year	(85,700)	219,111	(11,669)	(9,287)	—	104,138	4,849	221,442
Movement in other reserves	—	—	—	—	—	—	15,408	15,408
Reserves for disposal group held-for-sale	—	112,186	(28,313)	—	(81,580)	—	(2,293)	—
Balance at 31 December 2009	3,097,967	138,196	(21,630)	(2,866)	(81,580)	104,138	103,609	3,337,834
Other comprehensive profit (loss) for the year	244,029	(134,140)	18,983	(121,746)	—	(520,196)	(4,849)	(517,919)
Disposal of interest in a subsidiary	—	167,038	(11,297)	—	(2,293)	—	—	153,448
Reserves for disposal group held-for-sale	—	(112,186)	28,313	—	83,873	—	—	—
Balance at 31 December 2010	**3,341,996**	**58,908**	**14,369**	**(124,612)**	**—**	**(416,058)**	**98,760**	**2,973,363**

26 BORROWINGS

	2010	2009	2008
	US$'000	US$'000	US$'000
Overdrafts	**39,941**	63,121	50,544
Obligations under finance leases and hire purchase contracts	**11,435**	14,547	4,308
Listed notes and other borrowing instruments	**4,241,470**	1,709,156	936,608
Unlisted borrowings	**16,748,395**	15,648,092	8,738,143
	21,041,241	17,434,916	9,729,603
Non-current	**19,161,098**	10,382,235	2,840,603
Current	**1,880,143**	7,052,681	6,889,000
	21,041,241	17,434,916	9,729,603

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

	2010	2009	2008
The Company	**10,040,024**	10,040,544	6,680,180
Aabar	**7,772,109**	4,110,630	—
Nova	**1,695,277**	1,823,991	—
Borealis	**1,497,186**	1,435,716	1,569,033
Ferrostaal	**36,645**	24,035	—
HDO	**—**	—	1,480,390
	21,041,241	17,434,916	9,729,603

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

See Note 33 for the maturity analysis of borrowings (under liquidity risk disclosure).

Included in borrowings are obligations under finance leases as follows:

	2010 US$'000	2009 US$'000	2008 US$'000
Payable in one year	**10,224**	3,349	978
Payable between 1 to 5 years	**1,346**	10,584	3,338
Payable beyond 5 years	**21**	994	33
	11,591	14,927	4,349
Amounts representing finance charges	**(156)**	(380)	(41)
	11,435	14,547	4,308

27 EMPLOYEES' BENEFIT LIABILITIES

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

	2010 US$'000	2009 US$'000
Wages and salaries	**1,124,147**	1,066,898
Defined contribution plans	**32,255**	5,200
Defined benefit plans	**60,728**	35,365
Bonuses	**102,469**	9,483
Others	**94,404**	23,284
	1,414,003	1,140,230

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

	2010 US$'000	2009 US$'000
Employee end of service benefits	**2,084**	3,189
Pensions	**721,515**	651,693
	723,599	654,882

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

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

	2010 US$'000	2009 US$'000
Current service cost	**41,125**	33,011
Interest cost on benefit obligation	**82,759**	56,707
Expected return on plan assets	**(60,559)**	(54,586)
Past service cost	**1,307**	2,680
Others	**(3,904)**	(2,447)
Net defined benefit expense	**60,728**	35,365

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

	2010	2009
	US$'000	US$'000
Defined benefit obligation	**(1,812,568)**	(1,628,107)
Fair value of plan assets	**1,042,620**	986,139
	(769,948)	(641,968)
Unrecognised past service cost	**48,433**	(9,725)
Benefit liability	**(721,515)**	(651,693)

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

	2010	2009
	US$'000	US$'000
Benefit obligation at beginning of year	**(1,628,107)**	(353,062)
Current service costs	**(41,125)**	(33,011)
Current interest costs	**(82,759)**	(56,707)
Contributions by employees	**(3,300)**	(6,128)
Past service cost-vested immediately	**1,392**	(6,656)
Actuarial gains on obligation	**(185,013)**	(36,159)
Acquisition of businesses	**—**	(1,162,395)
Disposal of business	**114**	15,430
Reduction in liabilities resulting from curtailments	**208**	5,683
Benefits paid from plan	**118,039**	53,295
Liabilities extinguished on settlements	**9,148**	34,386
Foreign exchange differences	**(1,165)**	(82,783)
Benefit obligation at end of the year	**(1,812,568)**	(1,628,107)

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

	2010	2009
	US$'000	US$'000
Fair value of plan assets at beginning of year	**986,139**	121,589
Expected return on plan assets	**60,559**	54,586
Contributions by employees	**7,945**	6,128
Employer contribution	**84,916**	42,001
Actuarial (losses) gains	**25,623**	(4,817)
Acquisition of business	**—**	805,089
Disposal of business	**—**	(11,186)
Benefits paid from plan	**(118,039)**	(53,295)
Assets distributed on settlement	**(6,211)**	(26,900)
Foreign exchange differences	**1,688**	52,944
Fair value of plan assets at end of year	**1,042,620**	986,139

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

	2010	2009
	%	%
Equities	**41.0%**	39.7%
Bonds	**52.0%**	57.4%
Insurance contracts	**7.0%**	2.2%
Others	**0.0%**	0.7%

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

	2010	2009
	%	%
Rate of salary increases	**2.5% - 3.5%**	2.5% - 4.0%
Rate of increase in pensions payments	**0.3% - 2.1%**	0.3% - 2.2%
Discount rate	**3.3% - 5.1%**	3.3% - 6.0%

Amounts for the current and previous periods are as follows:

	2010	2009	2008	2007	2006
	US$'000	US$'000	US$'000	US$'000	US$'000
Fair value of scheme assets	**1,042,620**	986,139	121,589	110,349	139,076
Present value of defined benefit obligation	**(1,812,568)**	(1,628,107)	(353,062)	(381,720)	(345,701)
Deficit in the scheme	**(769,948)**	(641,968)	(231,473)	(271,371)	(206,625)
Experience adjustments arising on plan liabilities	**(136,547)**	(6,488)	581	12,190	(1,320)
Experience adjustments arising on plan assets	**23,578**	(10,141)	6,014	(13,394)	6,601

28 PROVISIONS

	Restructuring	Decommissioning	Legal disputes	Environmental	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2010	69,248	62,653	224,845	7,686	208,934	573,366
Additions	27,163	10,981	195,379	500	190,304	424,327
Through business combinations	—	227	—	505	15,466	16,198
Interest expenses	—	4,241	38	—	—	4,279
Utilised	(33,895)	(153)	(66,760)	(2,004)	(65,934)	(168,746)
Reversed	(988)	—	(169,529)	(33)	(40,475)	(211,025)
Exchange adjustments	(5,989)	831	(15,928)	(242)	(17,973)	(39,301)
Balance at 31 December 2010	**55,539**	**78,780**	**168,045**	**6,412**	**290,322**	**599,098**

	2010	2009
	US$'000	US$'000
Classified as:		
Non-current	**321,527**	177,876
Current	**277,571**	395,490
	599,098	573,366

(i) Provision for restructuring relates mainly to ongoing restructuring programmes of companies of Borealis.

(ii) Provision for decommissioning mainly relates to asset retirement obligations of Borealis and Nova.

(iii) Provision for legal disputes includes:

a. Provision related to Ferrostaal in respect of an investigation relating to transactions concluded prior to the Company owning any interest in Ferrostaal. At this time the outcome of the investigation is highly uncertain.

b. Provision related to Nova in respect to the patent infringement lawsuit filed by Dow Chemical Company ("DOW") in 2005. On 15 June 2010, the court has assessed that Nova has infringed DOW patents and awarded the latter certain amounts for damages including interest and related costs. Nova is currently in the process of making an appeal for certain grounds and posted a security in an amount equivalent to the jury verdict plus interest and costs.

(iv) Other provisions mainly cover risk and warranty provisions under construction contracts.

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

29 TRADE AND OTHER PAYABLES

	2010	2009	2008
	US$'000	US$'000	US$'000
Trade payables	**1,676,006**	1,776,385	1,088,541
Customers deposit and other amounts due to banking customers	**1,201,420**	892,139	—
Balance due to related parties	**184,027**	2,129	—
Due to banks	**258,616**	203,644	—
Other payables	**42,320**	221,903	—
	3,362,389	3,096,200	1,088,541
Non-current	**48,249**	70,487	—
Current	**3,314,140**	3,025,713	1,088,541
	3,362,389	3,096,200	1,088,541

30 OTHER LIABILITIES

	2010	2009	2008
	US$'000	US$'000	US$'000
Advances received (i)	**507,972**	1,376,966	42,543
Advances due on investment properties	**118,695**	118,695	—
Income tax and other taxes payable	**256,694**	92,057	27,025
Interest and other accruals	**615,489**	735,825	326,319
Loan from related parties	**70,290**	51,822	—
Government grant (ii)	**46,399**	42,586	47,579
Payables on investments	**140,745**	43,958	—
Other liabilities and payables	**113,336**	277,975	705,203
	1,869,620	2,739,884	1,148,669
Classified as:			
Non-current	**148,940**	157,531	89,234
Current	**1,720,680**	2,582,353	1,059,435
	1,869,620	2,739,884	1,148,669

(i) Advances received mainly relate to advances received on construction contracts.
(ii) The Group received government grants for the investment in new production plants, CO_2 emission allowances and research and development which were recognised in the consolidated income statement.

31 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The Group does not operate a centralised treasury and funding department. Each company within the Group has its own financial risk management, 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:

	Assets 2010 US$'000	Liabilities 2010 US$'000	Assets 2009 US$'000	Liabilities 2009 US$'000
Derivatives held-for-trading				
Interest rate swaps	**—**	**3,104**	—	4,807
Currency forwards	**68,668**	**70,053**	31,228	19,399
Currency futures	**65**	**68**	741	742
Currency options	**421**	**421**	371	271
Equity forwards	**—**	**—**	44	44
Equity futures	**—**	**—**	1,574	1,574
Equity options (see Note 9 (iii))	**547,346**	**2,605,099**	—	1,482,764
Commodity swaps	**19,214**	**26,210**	18,234	11,719
Commodity futures	**—**	**—**	108	108
Embedded derivative (see Note 20 (i))	**106,059**	**—**	75,281	—
	741,773	**2,704,955**	127,581	1,521,428
Derivatives used as fair value hedges				
Currency forwards	**544**	**10,732**	—	—
Commodity swaps	**—**	**3,837**	—	3,973
	544	**14,569**	—	3,973
Derivatives used as cash flow hedges				
Interest rate swaps	**—**	**25,856**	—	36,276
Currency forwards	**6,199**	**—**	7,164	7,990
Commodity swaps	**1,257**	**5,451**	1,126	—
Other swap arrangements	**55,402**	**253**	—	16,346
	62,858	**31,560**	8,290	60,612
	805,175	**2,751,084**	135,871	1,586,013
Non-current	**653,079**	**2,377,638**	86,979	1,192,325
Current	**152,096**	**373,446**	48,892	393,688
	805,175	**2,751,084**	135,871	1,586,013

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.

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

	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010						
Cash outflow						
Trading derivatives and economic hedges	**(596,428)**	**(278,339)**	**(2,380,227)**	**(54,350)**	**—**	**(3,309,344)**
Derivatives for cash flow hedges	**(96,102)**	**(386,195)**	**(660,316)**	**(423,330)**	**(54,832)**	**(1,620,775)**
Derivatives for fair value hedges	**(13,770)**	**(17,726)**	**(50,927)**	**(6,941)**	**(883)**	**(90,247)**
	(706,300)	**(682,260)**	**(3,091,470)**	**(484,621)**	**(55,715)**	**(5,020,366)**
Cash inflow						
Trading derivatives and economic hedges	**569,676**	**24,880**	**546,997**	**159,578**	**—**	**1,301,131**
Derivatives for cash flow hedges	**113,980**	**397,474**	**651,519**	**421,540**	**51,650**	**1,636,163**
Derivatives for fair value hedges	**6,229**	**2,596**	**4,574**	**—**	**—**	**13,399**
	689,885	**424,950**	**1,203,090**	**581,118**	**51,650**	**2,950,693**
	(16,415)	**(257,310)**	**(1,888,380)**	**96,497**	**(4,065)**	**(2,069,673)**

	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009						
Cash outflow						
Trading derivatives and economic hedges	(197,068)	(121,379)	(243,117)	—	—	(561,564)
Derivatives for cash flow hedges	(111,160)	(347,057)	(48,011)	(16,819)	(56,904)	(579,951)
Derivatives for fair value hedges	(6,367)	(89)	(540)	—	—	(6,996)
	(314,595)	(468,525)	(291,668)	(16,819)	(56,904)	(1,148,511)
Cash inflow						
Trading derivatives and economic hedges	183,968	125,336	1,204,024	75,281	—	1,588,609
Derivatives for cash flow hedges	101,206	321,753	26,952	16,542	57,449	523,902
Derivatives for fair value hedges	26,054	50,034	787	—	—	76,875
	311,228	497,123	1,231,763	91,823	57,449	2,189,386
	(3,367)	28,598	940,095	75,004	545	1,040,875

32 FINANCIAL INSTRUMENTS

Fair values

The fair values of the financial assets and liabilities of the Group are not materially different from their carrying amounts at the reporting date. Borrowings had a fair value of US$ 20,913,746 compared to a carrying amount of US$ 21,041,241 as 31 December 2010 (31 December 2009: carrying amounts approximated fair values).

Fair value hierarchy

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

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

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

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

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

	31 December 2010	Level 1	Level 2	Level 3
	US$'000	US$'000	US$'000	US$'000
Assets measured at fair value				
Available-for-sale financial assets	**1,526,183**	1,163,503	19,978	342,702
Derivative financial assets	**805,175**	—	805,175	—
Financial assets at fair value through profit or loss	**8,673,887**	8,614,707	59,180	—
	11,005,245	9,778,210	884,333	342,702
Liabilities measured at fair value				
Derivative financial liabilities	**2,751,084**	—	2,751,084	—
	2,751,084	—	2,751,084	—

	31 December 2009	Level 1	Level 2	Level 3
	US$'000	US$'000	US$'000	US$'000
Assets measured at fair value				
Available-for-sale financial assets	1,944,576	1,535,704	—	408,872
Derivative financial assets	135,871	75,281	60,590	—
Financial assets at fair value through profit or loss	5,617,250	5,543,440	73,810	—
	7,697,697	7,154,425	134,400	408,872
Liabilities measured at fair value				
Derivative financial liabilities	1,586,013	—	1,586,013	—
	1,586,013	—	1,586,013	—

There have been no significant transfers between level 1 and 2 or movements within level 3 of fair value hierarchy.

33 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 held-to-maturity financial assets, financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial assets, trade and other receivables, cash and short-term deposits and certain other financial assets, which arise directly from its operations.

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

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: interest rate risk, foreign currency risk, commodity price risk, equity price risk and other price risk. Financial instruments affected by market risk include held-to-maturity financial assets, 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 2010 and 2009.

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 2010.

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

Interest rate risk

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

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

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

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

	Decrease in basis points	Effect on profit before tax	Effect on equity
		US$'000	US$'000
2010			
USD	50 bps	**28,863**	**340**
AED	50 bps	**8,663**	**—**
EUR	50 bps	**123**	**2,214**
JPY	50 bps	**4,157**	**—**
Other	50 bps	**2,774**	**—**
		44,580	**2,554**
2009			
USD	50 bps	15,082	—
AED	50 bps	6,648	—
EUR	50 bps	14,861	—
JPY	50 bps	3,653	—
Other	50 bps	1,078	—
		41,322	—

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

Foreign currency risk

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

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	Effect on equity
	%	US$'000	US$'000
2010			
CHF	**+10%**	**(5,890)**	**—**
EUR	**+10%**	**112,866**	**49,420**
JPY	**+10%**	**(83,367)**	**(52,420)**
CAD	**+10%**	**(53,111)**	**(16,125)**
Other	**+10%**	**119,205**	**(7)**
		89,703	**(19,132)**

	Change	Effect on profit before tax	Effect on equity
	%	US$'000	US$'000
2009			
CHF	+10%	55,688	—
EUR	+10%	54,272	83,623
JPY	+10%	(34,604)	(18,575)
CAD	+10%	(98,064)	—
Other	+10%	87,073	(7)
		64,365	65,041

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

Commodity price risk

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

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

	2010			2009	
	Change	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		US$'000	US$'000	US$'000	US$'000
Crude oil	**+10%**	**(59,824)**	**—**	(29,624)	—
Natural gas	**+10%**	**(22,190)**	**(1,334)**	(27,500)	—
Electricity	**+10%**	**(2,330)**	**(15,103)**	(8,647)	—
Propylene	**+10%**	**(119,038)**	**—**	(95,672)	—
Polyethelene	**+10%**	**687,289**	**—**	558,728	—
Other petrochemical feedstock *	**+10%**	**(294,240)**	**—**	(200,242)	—

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

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

Equity price risk

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

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

		2010		2009	
	Change	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		US$'000	US$'000	US$'000	US$'000
Europe	**+10%**	**162,058**	**49,435**	176,159	116,419
Middle East (excluding UAE)	**+10%**	**—**	**30,000**	—	30,000
North America	**+10%**	**—**	**7,964**	34,163	—
Asia and Pacific and others	**+10%**	**17,726**	**57,662**	13,502	37,151

		2010		2009	
	Change	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
		US$'000	US$'000	US$'000	US$'000
Europe	**-10%**	**(7,030)**	**(49,435)**	(183,987)	(116,419)
Middle East (excluding UAE)	**-10%**	**—**	**(30,000)**	—	(30,000)
North America	**-10%**	**—**	**(7,964)**	(34,163)	—
Asia and Pacific and others	**-10%**	**(17,726)**	**(57,662)**	(13,502)	(37,151)

Credit risk

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

Trade and other receivables

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

Financial instruments and cash deposits

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

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

Risk concentrations: maximum exposure to credit risk

	2010		2009	
	Carrying value	Maximum credit exposure	Carrying value	Maximum credit exposure
	US$'000	US$'000	US$'000	US$'000
On balance sheet				
Held-to-maturity financial assets	**240,256**	**240,256**	275,575	275,575
Loans and other amounts due from banking customers	**1,083,184**	**1,887,341**	621,084	621,084
Derivative financial assets	**805,175**	**805,175**	135,871	135,871
Trade and other receivables	**1,676,410**	**1,676,410**	1,486,914	1,486,914
Other assets	**4,724,951**	**4,724,951**	4,752,614	4,752,614
Due from banks	**161,636**	**252,075**	183,158	183,158
Cash and short-term deposits	**3,150,931**	**3,150,931**	2,533,118	2,533,118
	11,842,543	**12,737,139**	9,988,334	9,988,334

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

	UAE	Europe	North America	South America	Asia	Australia New Zealand	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010								
Held-to-maturity financial assets	**—**	**174,002**	**—**	**—**	**66,254**	**—**	**—**	**240,256**
Loans and other amounts due from banking customers	**278,367**	**340,244**	**175,687**	**3,043**	**276,836**	**—**	**9,007**	**1,083,184**
Derivative financial instruments	**—**	**692,348**	**6,768**	**—**	**—**	**106,059**	**—**	**805,175**
Trade and other receivables	**1,068**	**1,077,937**	**475,997**	**99,321**	**9,551**	**8,511**	**4,025**	**1,676,410**
Other assets	**1,098,606**	**1,040,972**	**734,207**	**54,517**	**18,232**	**1,726,940**	**51,477**	**4,724,951**
Due from banks	**2,707**	**120,988**	**34,222**	**—**	**—**	**3,625**	**94**	**161,636**
Cash and short-term deposits	**484,026**	**1,779,381**	**298,058**	**103,413**	**478,197**	**3,189**	**4,667**	**3,150,931**
	1,864,774	**5,225,872**	**1,724,939**	**260,294**	**849,070**	**1,848,324**	**69,270**	**11,842,543**
2009								
Held-to-maturity financial assets	—	247,232	—	—	28,343	—	—	275,575
Loans and other amounts due from banking customers	—	570,490	—	—	50,594	—	—	621,084
Derivative financial instruments	75,281	42,381	18,209	—	—	—	—	135,871
Trade and other receivables	397	1,142,424	215,343	107,334	8,918	8,041	4,457	1,486,914
Other assets	2,147,368	693,743	322,774	60,910	7,488	1,517,652	2,679	4,752,614
Due from banks	67,741	94,737	—	—	20,680	—	—	183,158
Cash and short-term deposits	1,176,378	1,034,147	232,633	64,680	18,335	2,744	4,201	2,533,118
	3,467,165	3,825,154	788,959	232,924	134,358	1,528,437	11,337	9,988,334

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

	Consumer	Government	Banking	Energy	Chemicals	Real Estate	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010								
Held-to-maturity financial assets	**23,756**	**64,036**	**115,759**	**—**	**24,733**	**—**	**11,972**	**240,256**
Loans and other amounts due from banking customers	**1,083,184**	**—**	**—**	**—**	**—**	**—**	**—**	**1,083,184**
Derivative financial instruments	**—**	**106,059**	**615,896**	**—**	**82,072**	**—**	**1,148**	**805,175**
Trade and other receivables	**—**	**—**	**—**	**59,945**	**1,292,552**	**—**	**323,913**	**1,676,410**
Other assets	**—**	**1,726,359**	**—**	**32,709**	**721,946**	**1,649,585**	**594,352**	**4,724,951**
Due from banks	**—**	**—**	**161,636**	**—**	**—**	**—**	**—**	**161,636**
Cash and short-term deposits	**—**	**91,028**	**1,894,503**	**50,360**	**515,722**	**—**	**599,318**	**3,150,931**
	1,106,940	**1,987,482**	**2,787,794**	**143,014**	**2,637,025**	**1,649,585**	**1,530,703**	**11,842,543**
2009								
Held-to-maturity financial assets	—	59,669	142,839	—	2,881	—	70,186	275,575
Loans and other amounts due from banking customers	621,084	—	—	—	—	—	—	621,084
Derivative financial instruments	—	—	60,590	—	—	—	75,281	135,871
Trade and other receivables	—	—	—	92,892	972,332	—	421,690	1,486,914
Other assets	—	1,030,948	—	71,323	643,685	2,295,489	711,169	4,752,614
Due from banks	—	—	183,158	—	—	—	—	183,158
Cash and short-term deposits	—	78,393	1,138,107	84,292	286,655	—	945,671	2,533,118
	621,084	1,169,010	1,524,694	248,507	1,905,553	2,295,489	2,223,997	9,988,334

Credit quality by class of financial assets

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

	High	Medium	Low	Non classified	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
31 December 2010					
Held-to-maturity financial assets	**237,583**	**—**	**—**	**2,673**	**240,256**
Loans and other amounts due from banking customers	**1,079,471**	**—**	**3,713**	**—**	**1,083,184**
Trade and other receivables	**452,947**	**333,464**	**260,537**	**629,462**	**1,676,410**
Other assets	**1,903,378**	**—**	**—**	**2,821,573**	**4,724,951**
Due from banks	**161,542**	**94**	**—**	**—**	**161,636**
Cash and short-term deposits	**703,768**	**—**	**—**	**2,447,163**	**3,150,931**
	4,538,689	**333,558**	**264,250**	**5,900,871**	**11,037,368**

	High	Medium	Low	Non classified	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
31 December 2009					
Held-to-maturity financial assets	—	—	—	275,575	275,575
Loans and other amounts due from banking customers	4,660	—	616,424	—	621,084
Trade and other receivables	381,070	250,340	268,859	586,645	1,486,914
Other assets	2,128,513	—	194,590	2,429,511	4,752,614
Due from banks	—	2,191	180,967	—	183,158
Cash and short-term deposits	—	—	—	2,533,118	2,533,118
	2,514,243	252,531	1,260,840	5,824,849	9,852,463

Credit quality levels are defined based on estimated default probabilities.

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

	Neither past due nor impaired	Past due up to 1 month	Past due 1-3 months	Past due 3-6 months	Past due longer than 6 months	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010						
Held-to-maturity financial assets	**240,256**	**—**	**—**	**—**	**—**	**240,256**
Loans and other amounts due from banking customers	**1,083,184**	**—**	**—**	**—**	**—**	**1,083,184**
Trade and other receivables	**1,371,540**	**109,985**	**29,418**	**19,554**	**145,913**	**1,676,410**
Other assets	**4,449,425**	**153,729**	**160**	**143**	**121,494**	**4,724,951**
Due from banks	**161,636**	**—**	**—**	**—**	**—**	**161,636**
Cash and short-term deposits	**3,150,931**	**—**	**—**	**—**	**—**	**3,150,931**
	10,456,972	**263,714**	**29,578**	**19,697**	**267,407**	**11,037,368**
2009						
Held-to-maturity financial assets	275,575	—	—	—	—	275,575
Loans and other amounts due from banking customers	620,904	—	—	180	—	621,084
Trade and other receivables	1,216,186	154,611	62,268	20,589	33,260	1,486,914
Other assets	4,681,905	2,040	572	190	67,907	4,752,614
Due from banks	183,158	—	—	—	—	183,158
Cash and short-term deposits	2,533,118	—	—	—	—	2,533,118
	9,510,846	156,651	62,840	20,959	101,167	9,852,463

Movements in allowance for impairment are as follows:

	Opening	Additions/ acquired	Transfers	Interest	Written-off	Recoveries	Exchange difference	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
On balance sheet								
2010								
Loans and other banking receivables	**129**	**10,193**	**3,939**	**—**	**(1,001)**	**—**	**645**	**13,905**
Trade and other receivables	**14,497**	**35,562**	**116,424**	**—**	**(20,851)**	**(4,916)**	**(7,546)**	**133,170**
Other assets	**—**	**9,534**	**111,305**	**—**	**(6,232)**	**(2,138)**	**(4,592)**	**107,877**
	14,626	**55,289**	**231,668**	**—**	**(28,084)**	**(7,054)**	**(11,493)**	**254,952**
2009								
Loans and other banking receivables	—	—	—	202	—	(207)	134	129
Trade and other receivables	79	19,160	—	—	—	(5,291)	549	14,497
Other assets	—	—	—	—	—	—	—	—
	79	19,160	—	202	—	(5,498)	683	14,626

Collateral and other credit enhancements

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

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

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities excluding derivative financial instruments at 31 December, on a contractual undiscounted basis. The maturity profile of derivatives financial instruments are disclosed in Note 31. 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	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010							
Other liabilities	**170,842**	**966,874**	**537,291**	**78,643**	**253**	**115,717**	**1,869,620**
Trade and other payables	**192,584**	**1,383,108**	**336,017**	**22,590**	**—**	**4,368**	**1,938,667**
Borrowings	**1,416,140**	**98,121**	**752,612**	**15,344,329**	**1,969,633**	**3,661,661**	**23,242,496**
Customer deposits and other amounts due to banking customers	**736,982**	**286,163**	**277,858**	**459**	**—**	**—**	**1,301,462**
Due to banks	**79,150**	**111,678**	**19,998**	**—**	**43,013**	**—**	**253,839**
	2,595,698	**2,845,944**	**1,923,776**	**15,446,021**	**2,012,899**	**3,781,746**	**28,606,084**
Off balance sheet items	**—**	**9,141**	**28,608**	**35,790**	**—**	**—**	**73,809**
2009							
Other liabilities	41,418	1,674,089	880,171	27,501	3,004	23,903	2,650,086
Trade and other payables	316,576	1,706,463	3,738	909	418	859	2,028,963
Borrowings	533	790,163	6,654,776	8,929,056	803,668	1,424,379	18,602,575
Customer deposits and other amounts due to banking customers	524,173	255,923	83,049	28,994	—	—	892,139
Due to banks	42,705	57,774	60,151	—	43,014	—	203,644
	925,405	4,484,412	7,681,885	8,986,460	850,104	1,449,141	24,377,407
Off balance sheet items	—	—	—	34,686	—	—	34,686

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 2010 and 2009.

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.

	2010	2009
	US$'000	US$'000
Interest bearing loans and borrowings (Note 26)	**21,041,241**	17,434,916
Less cash and cash equivalents	**(3,150,931)**	(2,533,118)
Net debt	**17,890,310**	14,901,798
Total capital	**16,005,578**	15,318,381
Capital and net debt	**33,895,888**	30,220,179
Gearing ratio	**53%**	49%

34 ASSETS UNDER MANAGEMENT

	2010	2009
	US$'000	US$'000
Real estate (including mutual funds)	**2,840,760**	2,153,302
Cash and cash equivalents	**2,113,153**	1,605,500
Fixed income instruments (bonds, loans and mutual funds)	**1,094,987**	1,577,471
Equities (stocks and mutual funds)	**3,597,425**	2,196,133
Assets under management and custody by the Group	**9,646,325**	7,532,406
Assets not in the custody of the Group	**3,076,185**	3,226,372
	12,722,510	10,758,778

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

Of the assets not within the custody of the Group, US$ 2,605 million (31 December 2009: US$ 2,548 million) are related to client assets held by Bank Zweiplus, which is an associate of the Group. The client assets considered in this note equal 42.5% (the Group's share) of the total client assets reported by Bank Zweiplus. Earnings from managing or custody services with respect to these client assets are not included in the revenue of the Group but are captured in the share of profit of associate in the consolidated income statement.

35 COMMITMENTS AND CONTINGENCIES

	2010	2009
	US$'000	US$'000
Guarantees		
Guarantees and letter of credit	**357,701**	232,128
Guarantees in favour of associated companies	**88,379**	11,573
	446,080	243,701
Feedstock purchase commitments		
Up to 1 year	**1,294,000**	1,262,000
1 to 5 years	**2,242,000**	2,314,000
Beyond 5 years	**1,669,992**	1,729,000
	5,205,992	5,305,000
Operating lease commitments		
Up to 1 year	**74,513**	81,718
1 to 5 years	**201,195**	229,890
Beyond 5 years	**177,107**	214,461
	452,815	526,069
Capital commitments		
Property, plant and equipment	**1,262,478**	2,155,749
Investments in financial instruments	**138,948**	—
Investment property	**1,907,297**	1,705,982
	3,308,723	3,861,731

Investment commitments

a) On 7 October 2010, Aabar acquired a 31.8% stake in Galactic Ventures LLC for a consideration of US$ 280.2 million. It has also committed to invest a further US$ 98 million in Galactic Ventures LLC to develop the small spacecraft business. Galactic Ventures LLC intends to be a pioneer in space tourism, transporting people, and later small satellites, safely into space and back down to earth.

b) In July 2010, Aabar committed to invest US$ 54.2 million into two global base pyramid investment funds, Blue Orchard Private Equity Funds SCA and Oasis Fund SCA. As of 30 September 2010, Aabar has contributed US$ 18.9 million. The remaining US$ 35 million will be paid upon subsequent capital calls.

c) Aabar intends to invest US$ 20 million (out of which US$ 5 million was paid as an advance prior to 31 December 2009) to acquire a 40% stake in XOJET Inc, a US private airline company. Aabar also has plans to create a joint venture with XOJET Inc to provide first class private aviation services to various destinations in the Middle East and North Africa regions.

d) On 3 March 2010, pursuant to an announcement on 10 August 2009, Aabar signed a shareholders' agreement and articles of association in relation to the creation of a joint venture with the Government of Algeria and others to build the first of three vehicle and engine manufacturing plants in Algeria, in cooperation with Ferrostaal AG and Daimler AG. Aabar's stake in the joint venture is 24.5% of the share capital for which it plans to make an initial capital contribution of approximately EUR 4 million.

Legal proceedings

In July 2009, Ferrostaal's offices in Essen, Germany were searched by the Munich public prosecution authorities based on suspicion of criminal conduct and corrupt practices of Ferrostaal during a period prior to the Company's acquisition of its 70% stake in Ferrostaal. As at 31 December 2010, the investigations of the Munich public prosecutor were ongoing.

The Company is also actively seeking a settlement with the other shareholder of Ferrostaal in respect of the arbitration filed by the Company. However, the Company remains prepared to enforce its legal rights through arbitration if an acceptable settlement cannot be reached.

36 EVENTS AFTER THE REPORTING PERIOD

i) A shareholder loan amounting to US$ 350,000 thousand provided to Aabar by the Company has been converted into equity through the Company's subscription for mandatory convertible bonds issued by Aabar, increasing the ownership of the Company from 86.17% to 88.65%.

ii) Aabar entered into a loan agreement for EUR 200,000 thousand on 28 January 2011. The loan carries an interest of EURIBOR plus a margin and is to be repaid in full at the end of three years from the date of signing. The loan has been drawn on 31 January 2011.

iii) Aabar and Daimler AG acquired the remaining 24.9% stake in Mercedes GP Ltd. Accordingly, Aabar increased its stake from 30.04% to 40% and Daimler AG increased its stake from 45.60% to 60%. The acquisition is subject to clearance from the German Bundeskartellamt.

iv) On 1 February 2011, the Company entered into an AED 1.0 billion unsecured conventional loan, with an interest rate at a margin over EIBOR, amortising over fifteen years.

v) On 16 February 2011, the Company announced a voluntary offer to acquire the entire issued share capital of CEPSA not already owned by the Company, amounting to 141,648,565 shares, or 52.9% of the share capital of CEPSA (the "Offer"). The Offer is subject to the prior approval of the Spanish Securities Commission as CEPSA is listed on the principal stock exchanges of the Kingdom of Spain. The Company has confirmed that it will offer €28 per share to all CEPSA shareholders. This Offer price assumes that CEPSA will pay a dividend of €0.50 per share to its shareholders prior to the date on which the result of the Offer is announced (and, if such dividend is not paid, the Company will increase the Offer price by €0.50 per share). In the context of the Offer, the French oil and gas company, Total SA, has irrevocably agreed to sell its 48.8 % share in CEPSA to the Company. The Offer is conditional upon merger control approvals by the European Commission and, to the extent applicable, the competition authorities in Canada and the United States.

vi) On 9 March 2011, the Company issued: EUR 1,250,000 thousand of fixed rate notes maturing on 14 May 2016 with a coupon of 4.875%, EUR 1,250,000 thousand of fixed rate notes maturing on 14 March 2021 with a coupon of 5.875%, and GBP 550,000 thousand of fixed rate notes maturing on 14 March 2026 with a coupon of 6.875%. The proceeds of the issuance are to be used for the financing of the shares in CEPSA.

vii) On 9 March 2011, the Company entered into a cross currency swap transaction exchanging both coupon and principal into EUR in relation to its issued 2026 GBP 550,000 thousand fixed rate notes.

viii) In March 2011, Aabar acquired 100% of the share capital of Oxygen Capital Limited, a company incorporated in the British Virgin Island for a consideration of US$ 5 million. The acquiree is involved in the provision of aviation services.

ix) On 25 March 2011, the Company negotiated a reduction in its margin over LIBOR in respect of its GBP 150,000 thousand facility dated 25 November 2008.

x) On 5 April 2011, the Company entered into a US$ 1.4 billion unsecured conventional loan, with an interest rate at a margin over LIBOR, maturing on 5 April 2014.

xi) On 18 April 2011, the Company had subscribed and paid for the remaining mandatory convertible bonds available under the purchase agreement previously entered into with Aabar. Upon completion of the conversion mechanics, the Company's stake in Aabar will increase to 93.1%.

xii) On 4 May 2011, Aabar signed a cornerstone investment agreement with Glencore International plc and, inter alia, Citigroup Global Markets U.K. Equity Limited, Credit Suisse Securities (Europe) Limited, Morgan Stanley & Co. International plc, the Joint Global Coordinators of the initial public offering of Glencore International plc, pursuant to which it has agreed to commit US$ 850,000 thousand as cornerstone investor in the initial public offering.

37 2009 BUSINESS COMBINATIONS

The Group made several acquisitions during the year ended 31 December 2009, which are further described below.

37.1 Acquisition of Aabar

On 23 March 2009, the Group acquired 71.23% (2,228,000,000 ordinary shares) of Aabar through the conversion of mandatory convertible bonds, for an aggregate amount of US$ 1,820,872 thousand. Aabar operates as an investment company which has interest in equity and debt instruments of companies from different industries.

	Fair value amounts US$'000
Advances on investment properties	**601,166**
Financial assets at fair value through profit and loss	**2,419,818**
Derivatives	**21,815**
Available-for-sale financial assets	**287,118**
Other assets	**35,966**
Cash and short term deposits	**125,634**
Total assets	**3,491,517**
Borrowings	**(1,385,368)**
Other liabilities	**(8,271)**
Total liabilities	**(1,393,639)**
Net assets acquired	**2,097,878**
71.23% share acquired by the Group	**1,494,318**
Goodwill	**326,554**
Total acquisition costs	**1,820,872**

The total acquisition costs of US$ 1,820,872 thousand comprised of a cash payment of US$ 1,820,757 thousand and costs of US$ 115 thousand directly attributable to the acquisition.

The Company has performed a purchase price allocation exercise, and determined that the carrying values approximate the fair values at the date of acquisition. No significant intangible assets have been identified at the acquisition date.

Cash outflow on the acquisition of Aabar was as follows:

	US$'000
Consideration paid	**1,820,872**
Cash acquired with Aabar	**(125,634)**
Net cash outflow	**1,695,238**

From the date of acquisition until 31 December 2009, Aabar has contributed US$ 53,813 thousand to revenue and US$ 717,433 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of 2009, the contribution by Aabar to the profit for 2009 from continuing operations for the Group would have been US$ 432,636 thousand and the revenue would have been US$ 53,813 thousand.

The above goodwill is attributable to Aabar's technologies.

37.2 Acquisition of Ferrostaal

On 25 March 2009, the Group completed the acquisition of 70% interest in Ferrostaal, with a put and call arrangement with the minority shareholder for the acquisition of the remaining 30%. Ferrostaal is a global provider of industrial services through a worldwide presence with subsidiaries in 60 countries. The company focuses on being present in growth regions and the key markets of its operation include South America, Europe, South East Asia and the Middle East.

	Carrying amount US$'000	Fair value US$'000
Property, plant and equipment	146,883	**253,597**
Intangible assets	3,191	**268,943**
Investment properties	8,708	**9,252**
Investments in associates and jointly controlled entities	435,960	**561,026**
Deferred tax assets	68,339	**68,339**
Inventories	866,406	**866,406**
Other assets	765,192	**765,192**
Bank balances and cash	1,051,342	**1,051,342**
Total assets	3,346,021	**3,844,097**
Trade payables	(544,102)	**(544,102)**
Deferred tax liability	(76,460)	**(196,224)**
Provisions	(197,936)	**(361,065)**
Other liabilities	(1,917,033)	**(1,917,033)**
Total liabilities	(2,735,531)	**(3,018,424)**
Net assets before minority interest		**825,673**
Minority interest		**253**
Net assets acquired		**825,926**
100% effective share acquired by the Group		**825,926**
Goodwill		**99,193**
Total acquisition costs		**925,119**

The total acquisition costs of US$ 925,119 thousand comprised of a cash payment of US$ 685,851 thousand and costs of US$ 12,122 thousand directly attributable to the acquisition. The remaining amount US$ 227,146 thousand relates to the present value of the put and call arrangement over the 30% of Ferrostaal, which has been recognised as a financial liability at amortised cost. An amount of US$ 67,971 thousand (EUR 50,000 thousand), included in the cash payment, was payable at 31 December 2009.

Cash outflow on the acquisition of Ferrostaal was as follows:

	US$'000
Consideration paid	630,002
Cash acquired with Ferrostaal	(1,051,342)
Net cash inflow	(421,340)

Assets acquired and liabilities assumed

Property, plant and equipment

Property, plant and equipment was valued based on current market prices, specific units and yield for each property and replacement cost model as appropriate. The fair value adjustment amounted to US$ 78.9 million.

Intangible assets

The Company conducted a thorough review of the business documentation in order to identify potential intangible assets in accordance with IFRS 3 and IAS 38. A summary of the identified intangible assets are as follows:

Order backlog

The total fair value of the relevant order backlog amounted to EUR 116.8 million at the date of acquisition, with approximately 80% of the value being amortised over a 2 year period.

Customer and supplier relationships

The customer and supplier relationships were valued using the MEEM approach. The resulting fair values were EUR 31.1 million for customer relationships and EUR 26.6 million for supplier relationships.

Trademarks

The Company employed the relief from royalty method of the income approach to value the subject trademark. Based on the analysis and assumptions, the Company estimated the value of the acquired material trademark was EUR 20.9 million at the acquisition date. The trademark is estimated to have an indefinite useful life.

Deferred taxes

Deferred taxes have been recorded based on the statutory tax rate of the various tax jurisdictions to which temporary differences are attributable.

From the date of acquisition to 31 December 2009, Ferrostaal has contributed US$ 1,650,415 thousand to revenue and US$ 85,069 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of 2009, the contribution by Ferrostaal to the profit for 2009 from continuing operations for the Group would have been US$ 91,771 thousand and the revenue would have been US$ 2,225,810 thousand.

37.3 Acquisition of Falcon Bank

On 16 April 2009, the Group acquired 100% of the net assets and the related business of Falcon Private Bank Limited (renamed from AIG Private Bank Limited) ("Falcon Bank") registered in Switzerland and headquartered in Zurich. Falcon Bank primarily provides investment advisory and asset management services and has branches and representative offices in Geneva, Hong Kong, Singapore and Dubai. In addition, Falcon Bank has subsidiaries operating in Switzerland and Luxembourg.

The fair value of the identifiable assets and liabilities of Falcon Bank as at the date of acquisition were as follows:

	Carrying amounts and provisional fair values	Fair values after purchase price allocation
	US$'000	US$'000
Property and equipment	43,264	**43,264**
Intangible assets	2,442	**41,968**
Investment properties	8,659	**8,659**
Investments in associates	66,406	**66,406**
Deferred tax asset	5,909	**5,909**
Held-to-maturity financial assets	312,371	**312,371**
Other non-current assets	25,764	**25,764**
Loans and other banking receivables due from banking customers	561,678	**561,678**
Due from banks	356,123	**356,123**
Other current assets	108,292	**108,292**
Total assets	1,490,908	**1,530,434**
Employees end of service benefits	(11,219)	**(11,219)**
Deferred tax liability	(9,267)	**(17,568)**
Customer deposits and other amounts due to banking customers	(989,103)	**(989,103)**
Due to banks	(195,583)	**(195,583)**
Other current liabilities	(68,266)	**(68,266)**
Total liabilities	(1,273,438)	**(1,281,739)**
Net assets before non-controlling interest		**248,695**
Non-controlling interest		**(784)**
Net assets acquired		**247,911**
100% shareholding acquired by the Group		**247,911**
Goodwill arising on acquisition		**61,694**
Total acquisition cost		**309,605**

The total acquisition cost of US$ 309,605 thousand comprised of a cash payment of US$ 294,717 thousand and costs of US$ 8,496 thousand directly attributable to the acquisition. Furthermore, a payable of US$ 6,392 thousand was recorded at 31 December 2009 which was settled in 2010.

Cash outflow on acquisitions was as follows:

	US$'000
Consideration paid	**303,213**
Cash acquired with Falcon Bank	**(64,114)**
Net cash outflow	**239,099**

The Group had not finalised the purchase price allocation in relation to this acquisition before the 2009 consolidated financial statements were issued due to the timing of the transaction. Consequently, the fair values of acquired assets and liabilities disclosed in the 2009 consolidated financial statements represented provisional amounts that represented carrying values determined in accordance with IFRS and the Group accounting policies at the date of the acquisition.

The purchase price allocation was completed in 2010 and showed that no material adjustments were required to 2009 consolidated financial statements. Consequently, management recorded these adjustments in 2010.

From the date of acquisition to 31 December 2009, Falcon Bank contributed a loss of US$ 9 million to the results of the Group. If the combination had taken place at the beginning of the year, the consolidated profit of the Group would have been lower by US$ 10 million and revenue from continuing operations would have been higher by US$ 2 million.

The goodwill of US$ 61,694 thousand is attributable to the expected synergies and expected growth in revenues from the private banking customers.

37.4 Acquisition of Nova

On 6 July 2009, the Group acquired 100% of Nova. Nova's principal business is the production and marketing of plastics and chemicals. Nova is registered in Canada, and operates in North America.

	Carrying amount	Fair value amount
	US$'000	US$'000
Property, plant and equipment	2,415,529	**3,597,133**
Intangible assets	152,698	**509,274**
Inventories	383,461	**374,183**
Trade and accounts receivables	172,281	**173,296**
Other assets	555,518	**315,812**
Cash and short-term deposits	243,792	**243,792**
	3,923,279	**5,213,490**
Borrowings	(2,108,902)	**(2,002,886)**
Deferred benefit plant deficit	(100,722)	**(320,942)**
Deferred tax liabilities	(330,581)	**(806,227)**
Trade and other payables	(320,952)	**(327,712)**
Other liabilities	(387,225)	**(327,373)**
Total liabilities	(3,248,382)	**(3,785,140)**
Net assets acquired		**1,428,350**
100% share acquired by the Group		**1,428,350**
Negative goodwill arising on acquisition		**(925,797)**
Total acquisition costs		**502,553**

Due to the unique circumstances specific to Nova's liquidity, a significant drop in commodity prices during the fourth quarter of 2008, and the global credit crisis, IPIC acquired Nova at a bargain purchase price, which resulted in negative goodwill of US$ 926 million.

The total acquisition costs of US$ 502,553 thousand comprised of a cash payment of US$ 499,200 thousand and costs of US$ 3,353 thousand directly attributable to the acquisition.

Cash outflow on acquisitions is as follows:

	US$'000
Consideration paid	**502,553**
Cash acquired with Nova	**(243,792)**
Net cash outflow	**258,761**

Assets acquired and liabilities assumed

Property, plant and equipment

Most of the property, plant and equipment were valued using depreciated replacement cost, however some of the property, plant and equipment were valued using the income approach.

Intangible assets

The Company identified intangible assets of US$ 510 million which consisted mainly of licenses and technology of US$ 117 million, contracts of US$ 376 million and software of US$ 17 million. All identified intangible assets were determined by management to have finite lives.

Trade receivables

The fair value of trade receivables acquired by the Company on 6 July 2009 was US$ 316 million (US$ 332 million of gross contractual amounts receivable less US$ 16 million estimated contractual cash flows not expected to be collected).

Pension plans

Accrued pension benefit assets and obligations were calculated using best estimate assumptions and all plan assets were valued at fair value. Any existing unamortised net actuarial gain (loss), unamortised past service cost, unamortised transitional obligation or unamortised transitional asset were eliminated, resulting in the accrued benefit asset or liability being the difference between the accrued benefit obligation and the fair value of plan assets.

Deferred taxes

Deferred taxes have been recorded based on the statutory tax rate of the various tax jurisdictions to which temporary differences are attributable.

From the date of acquisition to 31 December 2009, Nova has contributed US$ 1,639,059 thousand to revenue and a loss of US$ 2,757 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of 2009, the contribution by Nova to the profit for 2009 from continuing operations for the Group would have been a loss of US$ 241,298 thousand and the revenue would have been US$ 3,046,874 thousand.

38 DISPOSAL OF SUBSIDIARY

Pursuant to an arbitration award dated 12 November 2009, each of Hanocal Holding BV and IPIC International BV (which together held a 70% interest in HDO) were directed to sell their respective interests in HDO to the claimants of the arbitration for a fixed amount of KRW 15,000 per share (number of shares: 171,557,696). The sale was concluded on 12 August 2010, for KRW 2,314 billion (net of taxes and charges). The Group realised a net profit of US$ 771,986 thousand on the sale.

The results from HDO for the period ended 12 August 2010 and year ended 31 December 2009 are presented below:

	Period from 1 January 2010 to 12 August 2010	Year ended 31 December 2009
	US$'000	US$'000
Revenue	**6,255,969**	8,591,046
Cost of sales of goods and services	**(5,968,925)**	(8,170,573)
Gross profit	**287,044**	420,473
Other income	**436,754**	15,707
Sales and marketing expenses	**(90,039)**	(192,997)
General administrative expenses	**(48,867)**	(52,814)
Other expense	**(114,668)**	(50,452)
Foreign exchange (loss) gain	**(17,831)**	38,623
Finance income	**91,604**	204,420
Finance costs	**(88,787)**	(168,813)
Profit before tax	**455,210**	214,147
Gain on disposal of the discontinued operation	**979,737**	—
Tax (charge) credit	**(274,665)**	70,445
Profit for the year from a discontinued operation	**1,160,282**	284,592

	Period from 1 January 2010 to 12 August 2010	Year ended 31 December 2009
	US$'000	US$'000
Profit for the year attributable to:		
Equity holder of the parent	**1,070,853**	199,214
Non-controlling interest	**89,429**	85,378
	1,160,282	284,592
	US$	US$
Basic and diluted earnings per share from a discontinued operation attributable to equity holder of the parent	**306**	57

Cash inflow on sale:

	US$'000
Total consideration received	**2,158,970**
Less: bank balances and cash disposed of	**(376,652)**
	1,782,318

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

	12 August 2010	31 December 2009
	US$'000	US$'000
Assets		
Property, plant and equipment	**2,395,343**	2,087,738
Inventories	**1,160,337**	1,127,085
Trade and accounts receivables	**1,049,814**	685,296
Other assets	**345,101**	479,288
Cash and short-term deposits	**376,652**	355,799
Assets classified as held-for-sale	**5,327,247**	4,735,206
Liabilities		
Borrowings	**2,143,669**	2,074,739
Trade and accounts payables	**828,619**	626,256
Other current liabilities	**915,649**	730,487
Liabilities directly associated with assets classified as held-for-sale	**3,887,937**	3,431,482
Net assets directly associated with disposal group	**1,439,310**	1,303,724

Included in other comprehensive income

	Period from 1 January 2010 to 12 August 2010	Year ended 31 December 2009
	US$'000	US$'000
Foreign currency translation reserve	**(54,852)**	81,274
Reserve for cash flow hedge	**(17,014)**	(30,124)
Reserve of disposal group classified as held-for-sale	**(71,866)**	51,150

The net cash flows incurred by HDO are as follows:

	Period from 1 January 2010 to 12 August 2010	Year ended 31 December 2009
	US$'000	US$'000
Operating	**114,498**	175,562
Investing	**(165,298)**	(568,217)
Financing	**90,155**	482,908
Net cash inflow	**39,355**	90,253

39 RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2010	2009
	US$'000	US$'000
Short-term benefits	**5,938**	4,594
Board of directors' remuneration	**1,471**	20,348
	7,409	24,942

	Goods and services				Financing			
Business relationship	**Purchases from**	**Sales to**	**Receivables from**	**Payables to**	**Loans**	**Borrowings**	**Interest received**	**Interest paid**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
2010								
Jointly controlled entities	**140,190**	**356,005**	**48,905**	**2,076**	**48,963**	**22,028**	**2,481**	**—**
Associates	**1,981,150**	**861,698**	**311,754**	**181,951**	**—**	**48,262**	**—**	**789**
	2,121,340	**1,217,703**	**360,659**	**184,027**	**48,963**	**70,290**	**2,481**	**789**
2009								
Jointly controlled entities	55,846	141,156	43,537	1,812	58,328	—	881	—
Associates	1,663,757	4,035,858	235,653	317	92,383	51,822	—	—
	1,719,603	4,177,014	279,190	2,129	150,711	51,822	881	—

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: US$ nil). This assessment is undertaken at the end of each financial year through examining the financial position of the related party and the market in which the related party operates.

40 SUBSIDIARIES

The consolidated financial statements include financial statements of the Company and each of its subsidiaries as at 31 December 2010. The significant subsidiaries are listed in the following table:

	Country of registration	Percentage holding	
		31 December 2010	**31 December 2009**
Borealis	Austria	**64%**	64%
Nova	New Brunswick Canada	**100%**	100%
Ferrostaal (i)	Germany	**70%**	70%
Aabar	UAE	**86.17%**	71.23%
HDO (ii)	South Korea	**—**	70%

(i) At acquisition a put and call arrangement with the minority shareholder was entered into for the acquisition of the remaining 30%.

(ii) The Group sold its interest in HDO during the year (see Note 38).

41 CORRESPONDING FIGURES

Certain comparative figures were reclassified to conform to the current year presentation. These reclassifications had no effect on the reported profit or the equity of the Group and are not deemed material to these consolidated financial statements.

(i) Reclassifications made to the 2009 consolidated income statement were as follows:

	2009 As previously reported	Reclassified			2009 As reclassified
	US$'000	US$'000	US$'000	US$'000	US$'000
Selling and distribution costs	(789,314)	(21,194)	—	—	(810,508)
General and administrative expenses	(666,726)	53,466	—	—	(613,260)
Other expenses	—	(32,272)	—	—	(32,272)
Finance income	5,715,039	—	(5,101,055)	—	613,984
Finance costs	(2,895,777)	—	—	2,180,167	(715,610)
Excess of fair value over cost of business combinations	925,797	—	(925,797)	—	—
Gains on acquisitions and disposals	—	—	3,125,746	(6,564)	3,119,182
Other (losses) gains on financial instruments	—	—	2,901,106	(2,173,603)	727,503
		—	—	—	

(ii) Reclassifications made to the 2009 consolidated statement of financial position were as follows:

	At 31 December 2009	Reclassifications						At 31 December 2009
	US$'000 As previously reported	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000 As reclassified
ASSETS								
Non-current assets								
Loans and other amounts due from banking customers	71,429	(71,429)	—	—	—	—	—	—
Trade and other receivables	—	71,429	—	—	—	—	—	71,429
Held-to-maturity financial assets	275,575	—	(275,575)	—	—	—	—	—
Financial assets at fair value through profit or loss	5,617,250	—	(5,617,250)	—	—	—	—	—
Available-for-sale financial assets	1,944,576	—	(1,944,576)	—	—	—	—	—
Derivative financial instruments	86,979	—	(86,979)	—	—	—	—	—
Investments in financial instruments	—	—	7,924,380	—	—	—	—	7,924,380
		—	—	—	—	—	—	
Current assets								
Loans and other amounts due from banking customers	549,655	(549,655)	—	—	—	—	—	—
Trade and other receivables	1,256,072	549,655	—	414,000	—	—	—	2,219,727
Derivative financial instruments	48,892	—	(48,892)	—	—	—	—	—
Due from banks	183,158	—	—	(183,158)	—	—	—	—
Investments in financial instruments	—	—	48,892	—	—	—	—	48,892
Other current assets	991,264	—	—	(230,842)	—	—	—	760,422
		—	—	—	—	—	—	

	At 31 December 2009	Reclassifications						At 31 December 2009
	US$'000 As previously reported	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000 As reclassified
EQUITY AND LIABILITIES								
Equity attributable to equity holder of the parent								
Cumulative changes in fair value of available-for-sale investments	3,097,967	—	—	—	(3,097,967)	—	—	—
Foreign currency translation reserve	138,196	—	—	—	(138,196)	—	—	—
Reserve for cash flow hedges	(21,630)	—	—	—	21,630	—	—	—
Reserve for actuarial gain and losses	(2,866)	—	—	—	2,866	—		—
Other reserves	207,747	—	—	—	(207,747)	—	—	—
Reserves of disposal groups classified as held-for-sale	(81,580)	—	—	—	81,580	—	—	—
Other reserves	—	—	—	—	3,337,834	—	—	3,337,834
		—	—	—	—	—	—	
Non-current liabilities								
Borrowings	10,434,057	—	—	—	—	—	(51,822)	10,382,235
Government grants	42,586	—	—	—	—	—	(42,586)	—
Customer deposits and other amounts due to banking customers	25,905	—	—	—	—	(25,905)	—	—
Due to banks	44,582	—	—	—	—	(44,582)	—	—
Trade and other payables	—	—	—	—	—	70,487	—	70,487
Other non-current liabilities	63,123	—	—	—	—	—	94,408	157,531
		—	—	—	—	—	—	
Current liabilities								
Trade payables	2,382,590	`—	—	—	—	1,025,296	(382,173)	3,025,713
Other current liabilities	2,119,737	—	—	—	—	—	462,616	2,582,353
Income tax payable	80,443	—	—	—	—	—	(80,443)	—
Customer deposits and other amounts due to banking customers	866,234	—	—	—	—	(866,234)	—	—
Due to banks	159,062	—	—	—	—	(159,062)	—	—
		—	—	—	—	—	—	

International Petroleum Investment Company PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

ERNST & YOUNG

P.O. Box 136
11th Floor - Al Ghaith Tower
Hamdan Street
Abu Dhabi, United Arab Emirates
Tel: +971 2 417 4400
+971 2 627 7522
Fax: +971 2 627 3383
www.ey.com/me

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 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 for 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.

A member firm of Ernst & Young Global Limited

ERNST & YOUNG

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2009 and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; and the contents of the Chairman's report relating to these consolidated financial statements are consistent with the books of account. We 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.

Ernst & Young

5 May 2010
Abu Dhabi

International Petroleum Investment Company PJSC

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2009

	Notes	2009 US$'000	2008 US$'000
CONTINUING OPERATIONS			
Revenues		**9,917,370**	9,851,870
Cost of sales	11	**(8,392,547)**	(8,408,295)
Gross profit		**1,524,823**	1,443,575
Share of post tax profits of associates and jointly controlled entities	6	**140,965**	280,961
Other income	7	**185,007**	2,507
Selling and distribution costs	11	**(789,314)**	(792,863)
General and administrative expenses	11	**(666,726)**	(399,474)
Research and development expenses	11	**(128,276)**	(131,807)
Net foreign exchange (loss) gain		**(108,971)**	142,005
Finance income	8	**5,715,039**	320,109
Finance costs	9	**(2,895,777)**	(524,111)
Excess of fair value over cost of business combinations	3.4	**925,797**	—
Profit before tax from continuing operations		**3,902,567**	340,902
Tax expense	10	**(37,893)**	(35,400)
Profit for the year from continuing operations		**3,864,674**	305,502
DISCONTINUED OPERATIONS			
Profit (loss) for the year from discontinued operations	12	**284,592**	(256,215)
PROFIT FOR THE YEAR		**4,149,266**	49,287
Profit (loss) for the year attributable to:			
Equity holder of the parent		**3,828,797**	(15,639)
Minority interests		**320,469**	64,926
		4,149,266	49,287
		US$	**US$**
Basic and diluted earnings per share attributable to equity holder of the parent	13	**1,094**	(6)
Basic and diluted earnings per share from continuing operations attributable to equity holder of the parent	13	**1,037**	63

The attached notes 1 to 40 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2009

	2009	2008
	US$'000	US$'000
Profit for the year	**4,149,266**	49,287
Exchange gain (loss) on translation of foreign operations	**261,658**	(580,753)
Gains (losses) arising during the year on hedge of net investment	**18,796**	(38,597)
Deferred tax (expense) credit from hedge of net investment	**(5,316)**	16,700
	13,480	(21,897)
Actuarial (losses) gains on defined benefit plans	**(25,799)**	9,977
Deferred tax credit (expense) from defined benefit plans	**12,736**	(2,494)
	(13,063)	7,483
Losses arising during the year on cash flow hedges	**(81,513)**	(17,027)
Reclassification during the year to the consolidated income statement	**64,295**	14,603
Deferred tax credit from cash flow hedges	**509**	726
	(16,709)	(1,698)
Losses arising during the year on available for sale financial assets	**(30,145)**	(3,134,114)
Share of other comprehensive income of associates and jointly controlled entities	**108,987**	—
Other comprehensive income (expense) for the year	**324,208**	(3,730,979)
Total comprehensive income (expense) for the year	**4,473,474**	(3,681,692)
Total comprehensive income (loss) for the year attributable to:		
Equity holder of the parent	**4,050,239**	(3,542,640)
Minority interests	**423,235**	(139,052)
	4,473,474	(3,681,692)

The attached notes 1 to 40 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	Notes	2009	2008
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**9,271,973**	5,265,478
Intangible assets	15	**1,548,546**	324,523
Investment properties	17	**18,547**	—
Investments in associates and jointly controlled entities	6	**10,300,463**	1,115,351
Loans and other amounts due from banking customers	18	**71,429**	—
Deferred tax assets	10	**396,103**	281,168
Held-to-maturity financial assets	19	**275,575**	2,812
Financial assets at fair value through profit or loss	20	**5,617,250**	—
Available-for-sale financial assets	21	**1,944,576**	5,288,007
Derivative financial instruments	32	**86,979**	91,992
Other non-current assets	22	**3,992,192**	262,777
		33,523,633	12,632,108
Current assets			
Inventories	23	**2,346,665**	1,760,865
Loans and other amounts due from banking customers	18	**549,655**	—
Trade receivables		**1,256,072**	831,840
Financial assets at fair value through profit or loss	20	**—**	5,021,833
Derivative financial instruments	32	**48,892**	50,448
Due from banks		**183,158**	—
Other current assets	22	**991,264**	990,642
Cash and short-term deposits	24	**2,533,118**	1,957,868
		7,908,824	10,613,496
Assets included in disposal groups held for sale	12	**4,838,944**	22,496
TOTAL ASSETS		**46,271,401**	23,268,100
EQUITY AND LIABILITIES			
Equity attributable to equity holder of the parent			
Share capital	25	**3,500,000**	3,500,000
Retained earnings		**5,935,462**	2,122,073
Cumulative changes in fair value of available-for-sale investments		**3,097,967**	3,183,667
Foreign currency translation reserve		**138,196**	(193,101)
Reserve for cash flow hedges		**(21,630)**	18,352
Reserve for actuarial gain and losses		**(2,866)**	6,421
Other reserves	26	**207,747**	85,645
Reserves of disposal groups classified as held for sale	12	**(81,580)**	—
		12,773,296	8,723,057
Minority interests		**2,545,085**	1,530,673
Total equity		**15,318,381**	10,253,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued
At 31 December 2009

	Notes	2009 US $'000	2008 US $'000
EQUITY AND LIABILITIES continued			
Non-current liabilities			
Borrowings	27	**10,434,057**	2,840,603
Defined benefit plan deficit	28	**654,882**	264,459
Deferred tax liabilities	10	**1,398,991**	461,441
Government grants	29	**42,586**	47,579
Derivative financial instruments	32	**1,192,325**	-
Provisions	30	**177,876**	104,758
Customer deposits and other amounts due to banking customers		**25,905**	-
Due to banks		**44,582**	-
Other non-current liabilities	31	**63,124**	41,655
		14,034,328	3,760,495
Current liabilities			
Trade payables		**2,382,590**	1,141,246
Borrowings	27	**7,052,681**	6,889,000
Other current liabilities	31	**2,119,736**	979,705
Derivative financial instruments	32	**393,688**	159,914
Provisions	30	**395,490**	35,895
Income tax payable		**80,443**	27,025
Customer deposits and other amounts due to banking customers		**866,234**	-
Due to banks		**159,062**	-
		13,449,924	9,232,785
Liabilities included in disposal groups held for sale	12	**3,468,768**	21,090
Total liabilities		**30,953,020**	13,014,370
TOTAL EQUITY AND LIABILITIES		**46,271,401**	23,268,100

CHAIRMAN DEPUTY CHAIRMAN MANAGING DIRECTOR

The attached notes 1 to 40 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2009

	Attributable to equity holder of the parent										
	Share Capital	Retained earnings	Cumulative changes in fair value of available for sale investments	Foreign currency translation reserve	Reserve for cash flow hedges	Reserve for actuarial gain and losses	Other reserves	Reserves of disposal group held for sale	Total	Minority interests	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 January 2008	1,500,000	2,137,712	6,317,781	208,312	16,132	1,714	84,046	—	10,265,697	1,733,475	11,999,172
Profit for the year	—	(15,639)	—	—	—	—	—	—	(15,639)	64,927	49,288
Other comprehensive loss for the year	—	—	(3,134,114)	(401,413)	2,220	4,707	1,599	—	(3,527,001)	(203,979)	(3,730,980)
Total comprehensive loss for the year	—	(15,639)	(3,134,114)	(401,413)	2,220	4,707	1,599	—	(3,542,640)	(139,052)	(3,681,692)
Dividend paid during the year	—	—	—	—	—	—	—	—	—	(63,750)	(63,750)
Increase in share capital	2,000,000	—	—	—	—	—	—	—	2,000,000	—	2,000,000
Balance at 31 December 2008	**3,500,000**	**2,122,073**	**3,183,667**	**(193,101)**	**18,352**	**6,421**	**85,645**	**—**	**8,723,057**	**1,530,673**	**10,253,730**
Profit for the year	—	3,828,797	—	—	—	—	—	—	3,828,797	320,469	4,149,266
Other comprehensive income for the year	—	—	(85,700)	219,111	(11,669)	(9,287)	108,987	—	221,442	102,766	324,208
Total comprehensive income (loss) for the year	—	3,828,797	(85,700)	219,111	(11,669)	(9,287)	108,987	—	4,050,239	423,235	4,473,474
Movement in other reserves	—	(15,408)	—	—	—	—	15,408	—	—	—	—
Reserves of disposal group held for sale	—	—	—	112,186	(28,313)	—	(2,293)	(81,580)	—	—	—
Share capital increase	—	—	—	—	—	—	—	—	—	1,848	1,848
Acquisition of interest in a subsidiary	—	—	—	—	—	—	—	—	—	603,306	603,306
Dividend paid to minority shareholders	—	—	—	—	—	—	—	—	—	(13,977)	(13,977)
Balance at 31 December 2009	**3,500,000**	**5,935,462**	**3,097,967**	**138,196**	**(21,630)**	**(2,866)**	**207,747**	**(81,580)**	**12,773,296**	**2,545,085**	**15,318,381**

The attached notes 1 to 40 form part of these consolidated financial statements.

International Petroleum Investment Company PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2009

	Notes	2009	2008
		US$'000	US$'000
OPERATING ACTIVITIES			
Profit before tax		**4,116,714**	14,575
Adjustments for:			
Depreciation and impairment of property, plant and equipment	14	**565,046**	523,490
Depreciation and impairment of investment properties	17	**797**	—
Amortisation and impairment of intangible assets	15	**149,116**	34,165
Gain (Loss) on disposal of property, plant and equipment		**554**	2,629
Impairment of available for sale investments		**163,066**	250,481
Excess of fair values over cost of business combinations	3.4	**(925,797)**	—
Finance income		**(5,306,442)**	(322,044)
Finance expense		**2,344,148**	279,973
Unrealised exchange difference		**17,657**	32,587
Share of post tax profits of associates and jointly controlled entities		**(140,965)**	(292,186)
Others		**(18,958)**	20,449
		964,936	544,119
Working capital changes:			
Inventories		**(185,389)**	358,883
Trade and other receivables		**(401,764)**	735,493
Other assets		**128,043**	(375,152)
Accounts payable and accruals		**597,787**	(839,819)
Other liabilities		**(617,273)**	(221,456)
Cash from operations		**486,340**	202,068
Income tax paid		**(10,560)**	(126,888)
Interest paid		**(533,404)**	(161,597)
Net cash used in operating activities		**(57,624)**	(86,417)
INVESTING ACTIVITIES			
Purchase of subsidiaries, net of cash acquired		**(1,771,758)**	—
Purchase of associates and jointly controlled entities		**(4,865,363)**	—
Purchase of financial investments		**(1,473,058)**	(5,933,277)
Purchase of property, plant and equipment		**(2,367,955)**	(1,365,407)
Purchase of intangible assets		**(56,206)**	(47,255)
Purchase of derivative financial instruments		**(627,701)**	—
Advances on investment properties		**(1,377,672)**	—
Proceeds from the sale of property, plant and equipment		**58,013**	30,875
Proceeds from the sale of financial investments		**7,148,994**	11,177
Interest received		**399,048**	102,022
Dividend received		**278,261**	252,547
Others		**1,796**	(13,400)
Net cash used in investing activities		**(4,653,601)**	(6,962,718)
FINANCING ACTIVITIES			
Proceeds from borrowings		**15,361,258**	7,648,702
Repayments of borrowings		**(9,775,521)**	(1,122,953)
Proceeds from issue of share capital		**1,848**	2,000,000
Dividends paid to minority interests		**(13,977)**	(63,750)
Net cash from financing activities		**5,573,608**	8,461,999
INCREASE IN CASH AND CASH EQUIVALENTS		**862,383**	1,412,864
Net foreign exchange difference		**68,666**	(114,703)
Cash and cash equivalents at 1 January		**1,957,868**	659,707
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**2,888,917**	1,957,868

The attached notes 1 to 40 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

International Petroleum Investment Company PJSC ("IPIC" or the "Company") is a public joint stock company established on 24 May 1984 in Abu Dhabi, United Arab Emirates ("UAE") by Amiri Decree No. 3/1984 (subsequently replaced by Amiri Decree No. 2/1986). The Company is wholly owned by the Government of Abu Dhabi. The Company's registered head office is P O Box 7528, Abu Dhabi, UAE.

The principal activity of the Company is to invest, on a long-term basis, in overseas energy and energy-related companies concentrating on petroleum refining and related upstream and downstream distribution and service networks. The Company has control over Aabar, which is engaged in investing activities in various growth industries.

As of 31 December 2009, IPIC had control over five significant operating companies through its special purpose vehicles: Borealis AG ("Borealis") (based in Austria); Hyundai Oilbank Company Ltd ("HDO") (based in South Korea); Aabar Investments PJSC ("Aabar") (based in UAE); Ferrostaal AG (formerly MAN Ferrostaal AG ("Ferrostaal")) (based in Germany); and NOVA Chemicals Corporation ("NOVA") (based in Canada).

During the year ended 31 December 2009 the Company acquired its interest in Aabar, Ferrostaal and NOVA (see Note 3 for further information).

The Company has also classified HDO as a disposal group held for sale as of 31 December 2009 (see Note 12 for further information).

The principal activities of the Company and its subsidiaries (the "Group") are described in Note 5.

The consolidated financial statements for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 5 May 2010.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The consolidated financial statements are prepared under the historical cost convention basis, except for financial assets at fair value through profit or loss, available-for-sale investments and derivative financial instruments. The carrying values of recognised assets and liabilities that are 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 FUNDAMENTAL ACCOUNTING CONCEPT

Although at 31 December 2009, the Group's current liabilities exceeded its current assets by US$ 5,541,100 thousand, the Group's total assets exceeded its total liabilities by US$ 15,318,381 thousand. The consolidated financial statements have been prepared under the going concern concept as in March 2010, the Company refinanced certain of its short term debts which were due in 2010. The tenor of the facility is three years payable in bullet payment at the end of the term.

2.3 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).

2.4 BASIS OF CONSOLIDATION

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Company has, directly or indirectly through its subsidiaries, the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholder's equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized in goodwill.

2.5 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* effective 1 January 2009
- IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* effective 1 January 2009
- IFRS 7 *Financial Instruments: Disclosures* effective 1 January 2009
- IFRS 8 *Operating Segments* effective 1 January 2009
- IAS 1 *Presentation of Financial Statements (Revised)* effective 1 January 2009
- IAS 23 *Borrowing Costs (Revised)* effective 1 January 2009
- IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements (Revised)—Puttable Financial Instruments and Obligations Arising on Liquidation* effective 1 January 2009
- IFRIC 9 *Reassessment of Embedded derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* effective for periods ending on or after 30 June 2009
- IFRIC 13 *Customer Loyalty Programmes* effective 1 July 2008
- IFRIC 15 *Agreements for the Construction of Real Estate* effective 1 January 2009
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* effective 1 October 2008
- IFRIC 18 *Transfers of Assets from Customers* effective 1 July 2009
- Improvements to IFRSs (May 2008) effective 1 January 2009

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

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 33. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 34.

IFRS 8 Operating Segments

IFRS 8 *Operating Segments* replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14 except for the new acquisitions during the year in different operating segments from the prior year. IFRS 8 disclosures are shown in Note 5.

IAS 1 Presentation of Financial Statements

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* requires an entity to assess whether an embedded derivative must be separate from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 Financial Instruments: Recognition and Measurement now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Interpretation is to be applied prospectively. IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

Improvements to IFRSs

In May 2008, the IASB issued various amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of May 2008 amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below.

- IFRS 2 *Shared-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010

- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31, and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement—Eligible Hedged Items* effective 1 July 2009
- IFRS 9 *Financial Instruments* effective 1 January 2013
- IFRIC 17 *Distribution of Non-cash Assets to Owner*s effective 1 July 2009
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010
- Improvements to IFRSs (April 2009)

Management is currently assessing the impact of adoption of the above standards, on the consolidated financial position and performance of the Group, including the following:

IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R *Business Combinations* introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R *Consolidated and Separate Financial Statements* requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. The changes brought by IFRS 3R *Business Combinations* and IAS 27R *Consolidated and Separate Financial Statements* will affect future acquisitions or loss of control and transactions with minority interests.

IFRS 9 Financial Instruments

This standard introduces new requirements for the classification and measurement of financial assets and is effective from 1 January 2013, with early adoption permitted. New requirements for classification and measurement of financial liabilities, derecognition of financial instruments, impairment and hedge accounting are to be added to IFRS 9 *Financial Instruments*. The standard retains a mixed-measurement model, with some assets measured at amortised cost and others at fair value. The distinction between the two models is based on the business model of each entity and a requirement to assess whether the cashflows of the instrument are only principal and interest.

All recognised financial assets that are in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* will be measured at either amortised cost or fair value. The standard contains only the two primary measurement categories for financial assets, unlike IAS 39 *Financial Instruments: Recognition and Measurement* where there were multiple measurement categories. Thus the existing IAS 39 *Financial Instruments: Recognition and Measurement* categories of held to maturity, loans and receivables and available for sale are eliminated, as are the tainting provisions of the standard. IFRS 9 *Financial Instruments* contains an option to classify financial assets that meet the amortised cost criteria as at financial assets at fair value through profit or loss if doing so eliminates or reduces an accounting mismatch.

All equity investments within the scope of IFRS 9 *Financial Instruments* are to be measured in the statement of financial position at fair value with the default recognition of gains and losses in profit or loss. Only if the equity investment is not held for trading can an irrevocable election be made at initial recognition to measure it at fair value through other comprehensive income with only dividend income recognised in profit or loss. The amounts recognised in other comprehensive income are not recycled to profit or loss on disposal of the investment although they may be reclassified in equity.

All derivatives within the scope of IFRS 9 *Financial Instruments* are required to be measured at fair value. IFRS 9 *Financial Instruments* does not retain IAS 39 *Financial Instruments: Recognition and Measurement* approach to accounting for embedded derivatives. Consequently, embedded derivatives that would have been separately accounted for at financial assets at fair value through profit or loss under IAS 39 *Financial Instruments: Recognition and Measurement* because they were not closely related to the financial asset host will no longer be separated. Instead, the contractual cash flows of the financial asset are assessed as a whole and are measured at financial assets at fair value through profit or loss if any of its cashflows do not represent payments of principal and interest. Some financial assets that are currently disaggregated into host financial assets that are not at financial assets at fair value through profit or loss will instead by measured at financial assets at fair value through profit or loss in their entirety. Assets that are classified as held-to-maturity are likely to continue to be measured at amortised cost as they are held to collect the contractual cash flows and often give rise to only payments of principal and interest.

2.7 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.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in Note 10.

Discontinued operations

Pursuant to an arbitration award dated 12 November 2009, each of Hanocal Holding BV and IPIC International BV (which together hold a 70% interest in HDO) have been directed to sell their respective interests in HDO to the claimants of the arbitration for a fixed amount of KRW 15,000 per share. The Company's management is of the view that certain key factual and legal conclusions of the arbitral award are incorrect and, as a result, does not believe the award is enforceable in the Republic of Korea, and consequently the arbitral award has no legal effect unless and until the claimants obtain a final enforcement judgment from the Korean courts. However because of the impending nature of the judgment, the Group has classified HDO as a disposal group held for sale. Management expects negotiations to be finalised and the sale completed during 2010.

For more details of the discontinued operations refer to Note 12.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing 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.

Useful life of property, plant and equipment

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

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

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

Impairment of goodwill

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

Impairment of 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 receivables, and loans and banking receivables

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

Fair value of financial instruments

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

Percentage of completion

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

Pensions and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits as well as the present value of pension obligations is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuations, significant judgments regarding the underlying assumptions and the long term nature of these plans, such estimates are subject to significant uncertainty. Further details of key assumptions are given in Note 28.

Development costs

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

Provision for environmental and legal expenses

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

Contingencies

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

2.8 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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 synergies of 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.

Interest in jointly controlled assets

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

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

Investment in associates and jointly controlled entities

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

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

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

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

The financial statements of the associates and the jointly controlled entities are prepared for the same reporting period as the Company, except for MFH Holding GesmbH and MAN Solar Millennium GmbH which are prepared as of 31 October each year, and Coutinho & Ferrostaal GmbH & Co KG which are prepared as of 30 September each year. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Non-current assets held for sale and discontinued operations

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

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

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

Foreign currency translation

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

Transactions and balances

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

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

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

Non-monetary items that are measured at 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 was determined.

Group companies

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

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

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

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

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.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Dividend income

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

Interest income

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

Rental income

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

Construction contracts

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

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

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

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

Taxes

Current income tax

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

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

Deferred income tax

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

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

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

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

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

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

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

Sales tax

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

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- 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 and equipment and borrowing costs for long-term projects, if the recognition criteria are met. All other repair and maintenance costs are recognised in the consolidated income statement as incurred. The cost of property, plant and equipment acquired in a business combination is 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 30 Provisions for further information about the measurement of the decommissioning provision.

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

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

Land is not depreciated.

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

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

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

Assets under construction

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

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.

Group as a lessee

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

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

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

Group as a lessor

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

Borrowing costs

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

Investment properties

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

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

Commercial properties	25 to 67 years

Land is not depreciated.

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

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

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

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

Intangible assets

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

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

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

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

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 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.

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

Research and development costs

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

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

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

Inventories

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

- For plastics solutions segment, costs of all inventories are determined on first-in first-out (FIFO) basis, except for spare parts determined based on average cost;

- For petroleum refinery segment, costs of all inventories are determined on average cost; and
- For industrial engineering services, cost of inventories is determined based on FIFO.

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

Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

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

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

Government grants

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

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

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

Provisions

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

Pensions and other post employment benefits

Employees' end of service benefits

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

Defined benefit plans

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

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

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

Financial assets

Initial recognition and measurement

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

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

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

The Group's financial assets include loans and other amounts due from banking customers, loans to associates and jointly controlled entities, held-to-maturity financial assets, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, trade receivables, cash and short-term deposits and other.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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 method. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

Financial liabilities

Initial recognition and measurement

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

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

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

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 (Revised)*.

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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

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 investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

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

Amortised cost of financial instruments

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

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

Loans, receivables and advances to customers

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement.

Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The Group suspends accruing interest when banking assets become impaired. 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 recognised in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale investments

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

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay the received cash flows 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 and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. 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.

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 income statement.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

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

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

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

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Hedges of a net investment

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

Impairment of non-financial assets

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

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

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

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

Goodwill

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

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

Associates and jointly controlled entities

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

Client and fiduciary assets

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

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

3 BUSINESS COMBINATIONS

The Group made several acquisitions during the year ended 31 December 2009, which are further described below.

3.1 Acquisition of Aabar

On 23 March 2009, the Group acquired 71.23% (2,228,000,000 ordinary shares) of Aabar through the conversion of mandatory convertible bonds, for an aggregate amount of US$ 1,820,872 thousand. Aabar operates as an investment company which has interest in equity and debt instruments of companies from different industries.

	Fair value amounts
	US$'000
Advances on investment properties	601,166
Financial assets at fair value through profit and loss	2,419,818
Derivatives	21,815
Available-for-sale financial assets	287,118
Other assets	35,966
Cash and short term deposits	125,634
Total assets	3,491,517
Borrowings	(1,385,368)
Other liabilities	(8,271)
Total liabilities	(1,393,639)
Net assets acquired	2,097,878
71.23% share acquired by the Group	1,494,318
Goodwill	326,554
Total acquisition costs	1,820,872

The total acquisition costs of US$ 1,820,872 thousand comprised of a cash payment of US$ 1,820,757 thousand and costs of US$ 115 thousand directly attributable to the acquisition.

The Company has performed a purchase price allocation exercise, and determined that the carrying values approximate the fair values at the date of acquisition. No significant intangible assets have been identified at the acquisition date.

Cash outflow on the acquisition of Aabar is as follows:

	US$'000
Consideration paid	1,820,872
Cash acquired with Aabar	(125,634)
Net cash outflow	1,695,238

From the date of acquisition, Aabar has contributed US$ 53,813 thousand of revenue and US$ 717,433 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of the year, the contribution by Aabar to the profit for the year from continuing operations for the Group would have been US$ 432,636 thousand and the revenue would have been US$ 53,813 thousand.

The above goodwill is attributable to Aabar's strong position and projected investments mandate in advanced technologies.

3.2 Acquisition of Ferrostaal

On 25 March 2009, the Group completed the acquisition of 70% interest in Ferrostaal, with a put and call arrangement with the minority shareholder for the acquisition of the remaining 30%. Ferrostaal is a global provider of industrial services through a worldwide presence with subsidiaries in 60 countries. The company focuses on being present in growth regions and the key markets of its operation include South America, Europe, South East Asia and the Middle East.

	Carrying amount	Fair value
	US$'000	US$'000
Property, plant and equipment	146,883	**253,597**
Intangible assets	3,191	**268,943**
Investment properties	8,708	**9,252**
Investments in associates and jointly controlled entities	435,960	**561,026**
Deferred tax assets	68,339	**68,339**
Inventories	866,406	**866,406**
Other assets	765,192	**765,192**
Bank balances and cash	1,051,342	**1,051,342**
Total assets	3,346,021	**3,844,097**
Trade payables	(544,102)	**(544,102)**
Deferred tax liability	(76,460)	**(196,224)**
Provisions	(197,936)	**(361,065)**
Other liabilities	(1,917,033)	**(1,917,033)**
Total liabilities	(2,735,531)	**(3,018,424)**
Net assets before minority interest		**825,673**
Minority interest		**253**
Net assets acquired		**825,926**
100% effective share acquired by the Group		**825,926**
Goodwill		**99,193**
Total acquisition costs		**925,119**

The total acquisition costs of US$ 925,119 thousand comprised of a cash payment of US$ 685,851 thousand and costs of US$ 12,122 thousand directly attributable to the acquisition. The remaining amount US$ 227,146 thousand relates to the present value of the put and call arrangement over the 30% of Ferrostaal, which has been recognised as a financial liability at amortised cost. An amount of US$ 67,971 thousand (EUR 50,000 thousand), included in the cash payment, was payable at 31 December 2009.

Cash outflow on the acquisition of Ferrostaal is as follows:

	US$'000
Consideration paid	**630,002**
Cash acquired with Ferrostaal	**(1,051,342)**
Net cash inflow	**(421,340)**

Assets acquired and liabilities assumed

Property, plant and equipment

Property, plant and equipment was valued based on current market prices, specific units and yield for each property and replacement cost model as appropriate. The fair value adjustment amounted to US$ 78.9 million.

Intangible assets

The Company conducted a thorough review of the business documentation in order to identify potential intangible assets in accordance with IFRS 3 and IAS 38. A summary of the identified intangible assets are as follows:

Order backlog

The total fair value of the relevant order backlog amounted to EUR 116.8 million at the date of acquisition, with approximately 80% of the value being amortised over a 2 year period.

Customer and supplier relationships

The customer and supplier relationships were valued using the MEEM approach. The resulting fair values were EUR 31.1 million for customer relationships and EUR 26.6 million for supplier relationships.

Trademarks

The Company employed the relief from royalty method of the income approach to value the subject trademark. Based on the analysis and assumptions, the Company estimated the value of the acquired material trademark was EUR 20.9 million at the acquisition date. The trademark is estimated to have an indefinite useful life.

Deferred taxes

Deferred taxes have been recorded based on the statutory tax rate of the various tax jurisdictions to which temporary differences are attributable.

From the date of acquisition, Ferrostaal has contributed US$ 1,650,415 thousand of revenue and US$ 85,069 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of the year, the contribution by Ferrostaal to the profit for the year from continuing operations for the Group would have been US$ 91,771 thousand and the revenue would have been US$ 2,225,810 thousand.

3.3 Acquisition of Falcon Bank

On 16 April 2009, the Group acquired 100% of the net assets and the related business of Falcon Private Bank Limited (previously AIG Private Bank Limited) (“Falcon Bank”). Falcon Bank is registered in Switzerland and primarily provides investment advisory and asset management services. Falcon Bank has branches and representative offices in Hong Kong, Singapore, and Dubai. In addition, Falcon Bank has subsidiaries operating in Switzerland, Cyprus, Luxembourg and United Kingdom.

The Company has performed a purchase price allocation exercise, and determined that the carrying values approximate the fair values at the date of acquisition.

	Carrying amount
	US$'000
Property and equipment	43,264
Intangible assets	2,442
Investment properties	8,659
Held-to-maturity financial assets	312,371
Investment in associates	66,406
Other non-current assets	139,965
Loans and other amounts due from banking customers	561,678
Due from banks	356,123
Total assets	1,490,908
Customer deposits and other amounts due to banking customers	(989,103)
Due to banks	(195,583)
Other liabilities	(88,752)
Total liabilities	(1,273,438)
Net assets before minority interest	217,470
Minority interest	(784)
Net assets acquired	216,686
100% share acquired by the Group	216,686
Difference of acquisition costs over carrying values	92,919
Total acquisition cost	309,605

The total acquisition cost of US$ 309,605 thousand comprised of a cash payment of US$ 294,717 thousand and costs of US$ 8,496 thousand directly attributable to the acquisition. An amount of US$ 6,392 thousand is payable and classified as other liabilities.

Cash outflow on acquisitions is as follows:

	US$'000
Consideration paid	303,213
Cash acquired with Falcon Bank	(64,114)
Net cash outflow	239,099

The goodwill recognised above is attributable to the expected synergies and expected revenues from the private banking customers.

From the date of acquisition, Falcon Bank has contributed US$ 53,813 thousand of revenue and US$ 9,122 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of the year, the contribution by Falcon Bank to the profit for the year from continuing operations for the Group would have been US$ 9,939 thousand and the revenue would have been US$ 76,958 thousand.

3.4 Acquisition of NOVA

On 6 July 2009, the Group acquired 100% of NOVA. NOVA's principal business is the production and marketing of plastics and chemicals. NOVA is registered in Canada, and operates in North America.

	Carrying amount	Fair value amount
	US$'000	US$'000
Property, plant and equipment	2,415,529	**3,597,133**
Intangible assets	152,698	**509,274**
Inventories	383,461	**374,183**
Trade and accounts receivables	172,281	**173,296**
Other assets	555,518	**315,812**
Cash and short-term deposits	243,792	**243,792**
	3,923,279	**5,213,490**
Borrowings	(2,108,902)	**(2,002,886)**
Deferred benefit plant deficit	(100,722)	**(320,942)**
Deferred tax liabilities	(330,581)	**(806,227)**
Trade and other payables	(320,952)	**(327,712)**
Other liabilities	(387,225)	**(327,373)**
Total liabilities	(3,248,382)	**(3,785,140)**
Net assets acquired		**1,428,350**
100% share acquired by the Group		**1,428,350**
Negative goodwill arising on acquisition		**(925,797)**
Total acquisition costs		**502,553**

Due to the unique circumstances specific to NOVA's liquidity, a significant drop in commodity prices during the fourth quarter of 2008, and the global credit crisis, IPIC acquired NOVA at a bargain purchase price, which resulted in negative goodwill of US$ 926 million.

The total acquisition costs of US$ 502,553 thousand comprised of a cash payment of US$ 499,200 thousand and costs of US$ 3,353 thousand directly attributable to the acquisition.

Cash outflow on acquisitions is as follows:

	US$'000
Consideration paid	**502,553**
Cash acquired with NOVA	**(243,792)**
Net cash outflow	**258,761**

Assets acquired and liabilities assumed

Property, plant and equipment

Most of the property, plant and equipment were valued using depreciated replacement cost, however some of the property, plant and equipment were valued using the income approach.

Intangible assets

The Company identified intangible assets of US$ 510 million which consisted mainly of licenses and technology of US$ 117 million, contracts of US$ 376 million and software of US$ 17 million. All identified intangible assets were determined by management to have finite lives.

Trade receivables

The fair value of trade receivables acquired by the Company on 6 July 2009 was US$ 316 million (US$ 332 million of gross contractual amounts receivable less US$ 16 million estimated contractual cash flows not expected to be collected).

Pension plans

Accrued pension benefit assets and obligations were calculated using best estimate assumptions and all plan assets were valued at fair value. Any existing unamortised net actuarial gain (loss), unamortised past service cost, unamortised transitional obligation or unamortised transitional asset were eliminated, resulting in the accrued benefit asset or liability being the difference between the accrued benefit obligation and the fair value of plan assets.

Deferred taxes

Deferred taxes have been recorded based on the statutory tax rate of the various tax jurisdictions to which temporary differences are attributable.

From the date of acquisition, NOVA has contributed US$ 1,639,059 thousand of revenue and a loss of US$ 2,757 thousand to profit from continuing operations of the Group. If the combination had taken place at the beginning of the year, the contribution by NOVA to the profit for the year from continuing operations for the Group would have been a loss of US$ 241,298 thousand and the revenue would have been US$ 3,046,874 thousand.

4 INTEREST IN JOINTLY CONTROLLED ASSETS

The Group has a 50% interest in an ethylene plant and a 20% interest in a cogeneration facility located in Alberta, Canada.

The Group's share of the assets and liabilities as at 31 December 2009 and income and expenses of the jointly controlled assets for the period ended 31 December 2009, which are proportionately consolidated in the consolidated financial statements, are as follows:

	2009 US$'000
Share of the jointly controlled assets' statement of financial position:	
Plant and equipment	**865,224**
Current assets	**40,905**
Current liabilities	**(27,731)**
Non-current liabilities	**(19,316)**
Net assets	**859,082**
Share of the jointly controlled assets' revenue and profit:	
Revenue	**154,996**
Cost of sales	**(65,493)**
Administrative expenses	**(33,664)**
Profit before income tax	**55,839**
Income tax expense	**(16,472)**
Profit for the year from continuing operations	**39,367**

The Group has no share of any contingent liabilities or capital commitments in respect of the jointly controlled assets as at 31 December 2009.

5 OPERATING SEGMENT REPORTING

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

Plastic solutions—Europe

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

Plastic solutions—North America

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

Petroleum products

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

Industrial engineering services

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

Diversified investments

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

Others

This segment is engaged and holds investments in operating entities in segments and provides financing.

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

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

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

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

	Plastic solutions Europe	Plastic solutions North America	Petroleum refinery products	Industrial engineering services	Diversified investments	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2009							
Results							
Revenue from external customers	**6,574,067**	**1,639,059**	**—**	**1,650,415**	**53,829**	**—**	**9,917,370**
Share of post tax profits of associates and joint ventures	**60,845**	**(3,892)**	**—**	**18,569**	**2,741**	**62,702**	**140,965**
Finance income	**28,640**	**51,236**	**—**	**57,943**	**2,853,797**	**2,723,423**	**5,715,039**
Finance costs	**(78,617)**	**(86,174)**	**—**	**(53,673)**	**(1,939,852)**	**(737,461)**	**(2,895,777)**
Excess of fair values over costs of business combinations	**—**	**925,797**	**—**	**—**	**—**	**—**	**925,797**
Income tax expense	**6,008**	**(6,658)**	**—**	**(27,773)**	**(9,470)**	**—**	**(37,893)**
Profit for the year from continuing operations	**52,481**	**923,040**	**—**	**20,758**	**717,433**	**2,150,962**	**3,864,674**
Profit for the year from discontinuing operations	**—**	**—**	**284,592**	**—**	**—**	**—**	**284,592**
Profit for the year	**52,481**	**923,040**	**284,592**	**20,758**	**717,433**	**2,150,962**	**4,149,266**
Assets and liabilities							
Investments in associates and jointly controlled entities	**888,876**	**33,564**	**—**	**531,874**	**144,086**	**8,702,063**	**10,300,463**
Assets included in disposal groups held for sale	**—**	**—**	**4,735,206**	**97,350**	**—**	**6,388**	**4,838,944**
Other segment assets	**4,805,153**	**5,320,339**	**—**	**3,554,164**	**8,102,126**	**9,350,212**	**31,131,994**
Total assets	**5,694,029**	**5,353,903**	**4,735,206**	**4,183,388**	**8,246,212**	**18,058,663**	**46,271,401**
Liabilities included in disposal groups held for sale	**—**	**—**	**3,431,482**	**37,286**	**—**	**—**	**3,468,768**
Segment liabilities	**3,492,205**	**3,560,557**	**—**	**3,151,347**	**6,701,961**	**10,578,182**	**27,484,252**
Total liabilities	**3,492,205**	**3,560,557**	**3,431,482**	**3,188,633**	**6,701,961**	**10,578,182**	**30,953,020**
Other segment information							
Capital expenditure *:							
Property, plant and equipment	**448,485**	**3,669,380**	**546,974**	**276,790**	**44,616**	**1,374,165**	**6,360,410**
Investment properties	**—**	**—**	**—**	**9,251**	**9,549**	**—**	**18,800**
Intangible assets	**99,546**	**509,378**	**758**	**269,840**	**104,022**	**425,702**	**1,409,246**
Depreciation for the year	**282,700**	**109,627**	**142,941**	**25,884**	**2,893**	**227**	**564,272**
Amortisation for the year	**40,630**	**17,078**	**1,833**	**81,314**	**883**	**—**	**141,738**
Impairment for the year on intangible assets	**6,280**	**—**	**—**	**—**	**1,098**	**—**	**7,378**

* Capital expenditure consists of additions including assets from the acquisition of subsidiaries.

	Plastic solutions Europe	Plastic solutions North America	Petroleum refinery products	Industrial engineering services	Diversified Investments	Others	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Year ended 31 December 2008							
Results							
Revenue from external customers	9,851,870	—	—	—	—	—	9,851,870
Share of post tax profits of associates and joint ventures	212,557	—	—	—	—	68,404	280,961
Finance income	70,671	—	—	—	—	249,438	320,109
Finance costs	(145,469)	—	—	—	—	(378,642)	(524,111)
Income tax expense	(35,400)	—	—	—	—	—	(35,400)
Profit for the year from continuing operations	351,602	—	—	—	—	(46,100)	305,502
Loss for the year from discontinuing operations	—	—	(256,215)	—	—	—	(256,215)
Profit for the year	351,602	—	(256,215)	—	—	(46,100)	49,287
Assets and liabilities							
Investments in associates and jointly controlled entities	822,457	—	—	—	—	292,894	1,115,351
Assets included in disposal groups held for sale	22,496	—	—	—	—	—	22,496
Segment assets	4,713,363	—	3,740,776	—	—	13,676,114	22,130,253
Total assets	5,558,316	—	3,740,776	—	—	13,969,008	23,268,100
Liabilities included in disposal groups held for sale	21,090	—	—	—	—	—	21,090
Segment liabilities	3,513,071	—	2,795,141	—	—	6,685,068	12,993,280
Total liabilities	3,534,161	—	2,795,141	—	—	6,685,068	13,014,370
Other segment information							
Capital expenditure:							
Property, plant and equipment	654,213	—	246,679	—	—	479,043	1,379,935
Intangible assets	83,638	—	184	—	—	—	83,822
Depreciation for the year	319,646	—	168,289	—	—	251	488,186
Amortisation for the year	28,371	—	2,040	—	—	—	30,411
Impairment for the year on intangible assets	3,754	—	—	—	—	—	3,754

Geographical information

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

	UAE	Europe	Middle East (excl UAE)	Commonwealth of independent states	North America	South America	Asia	Australia New Zealand	Africa	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
*Revenues from external customers **										
Year ended 31 December 2009	**53,579**	**6,013,736**	**143,293**	**58,378**	**1,604,815**	**1,130,391**	**616,790**	**37,957**	**258,431**	**9,917,370**
Year ended 31 December 2008	68,447	8,788,335	45,338	10,460	148,572	372,252	355,465	11,521	51,480	9,851,870
2009										
Non-current assets										
Property, plant and equipment	**588**	**5,711,750**	**—**	**—**	**3,559,635**	**—**	**—**	**—**	**—**	**9,271,973**
Intangible assets	**—**	**1,056,246**	**—**	**—**	**492,300**	**—**	**—**	**—**	**—**	**1,548,546**
Investment properties	**—**	**18,547**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**18,547**
2008										
Non-current assets										
Property, plant and equipment	479,102	3,212,738	—	—	9,690	24,822	1,539,126	—	—	5,265,478
Intangible assets	—	309,936	—	—	—	—	14,587	—	—	324,523
Investment properties	—	—	—	—	—	—	—	—	—	—

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

6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The Group has the following investments in associates**:**

Name of company	Country of incorporation	Percentage holding 2009	Percentage holding 2008
Abu Dhabi Polymers Company Limited	United Arab Emirates	**40%**	40%
Borouge Pte Ltd	Singapore	**50%**	50%
Speciality Polymers Antwerp NV	Belgium	**33%**	33%
Borealis Financial Services Ltd	Jersey	**25%**	25%
Pak-Arab Refinery Limited	Pakistan	**40%**	40%
Gulf Energy Maritime PJSC	United Arab Emirates	**30%**	30%
CEPSA Maghreb SA	Morocco	**50%**	50%
Oman Polypropylene LLC *	Oman	**—**	20%
Oasis International Power LLC	United Arab Emirates	**36%**	—
Ferro VAZ Gesellsch für Export, Import und Engineering mbH	Germany	**50%**	—
SCG SILS Centre Gliwice Sp.z.o.o	Poland	**50%**	—
Bank zweiplus	Switzerland	**43%**	—
Mercedes GP Ltd	United Kingdom	**30%**	—
Solar Power Group GmbH	Germany	**42.80%**	—
Intermesa Group	Brazil	**48.5%**	—
Abu Dhabi National Chemicals Company (ChemaWeyaat)	United Arab Emirates	**40%**	—
Compañia Española de Petróleoş SA	Spain	**47.06%**	—
OMV AG	Austria	**20.01%**	—
Falah Growth Fund (GP) Ltd	British Virgin Islands	**50%**	—
Falah Growth Fund LP	British Virgin Islands	**50%**	—

* Included in disposal groups held for sale (Note 12).

	2009 US$'000	2008 US$'000
Shares of the associates' statements of financial position		
Assets	**17,329,385**	2,979,754
Liabilities	**(10,112,287)**	(1,864,403)
	7,217,098	1,115,351
Goodwill	**2,540,942**	—
Impairment	**(1,873)**	—
Net assets	**9,756,167**	1,115,351
Shares of the associates' revenues and profits		
Revenue	**1,900,195**	2,497,268
Net profit	**124,267**	280,961
Net other comprehensive income	**108,987**	—
Impairment recognised during the year	**1,848**	—

The Group has the following investments in jointly controlled entities:

Name of company	Country of incorporation	Percentage holding 2009	Percentage holding 2008
INEOS NOVA Joint Venture	North America/Europe	**50%**	—
NOVIDESA Joint Venture	Mexico	**50%**	—
Consolidated Energy Limited	Trinidad and Tobago	**45%**	—
Coutinho & Ferrostaal GmbH & Co KG	Germany	**33%**	—
MAN Solar Millennium GmbH	Germany	**25%**	—
MAN Solar Millennium LLC	United States of America	**50%**	—
Solar Trust of America LLC	United States of America	**30%**	—

	2009 US$'000	2008 US$'000
Share of the jointly controlled entities' statements of financial position		
Current assets	**625,590**	—
Non-current assets	**36,748**	—
Current liabilities	**(137,877)**	—
Non-current liabilities	**(106,243)**	—
	418,218	—
Goodwill	**132,526**	—
Accumulated impairment	**(6,448)**	—
	544,296	—
Share of the jointly controlled entities' revenues and profits		
Revenue	**1,568,645**	—
Cost of sales	**(617,515)**	—
	951,130	—
Operating expenses	**(933,985)**	—
Income tax	**(447)**	—
Net profit	**16,698**	—
Impairment recognised during the year	**4,696**	—

7 OTHER INCOME

	2009 US$'000	2008 US$'000
Commitment fees received	**17,686**	—
Bad debts recovered	**23,062**	—
Reversal of previously recognised provisions	**43,490**	—
Income tax refund	**27,887**	—
Miscellaneous income	**72,882**	2,507
	185,007	2,507

8 FINANCE INCOME

	2009 US$'000	2008 US$'000
Dividend income	**201,509**	199,592
Interest income	**412,475**	56,481
Gain from disposal of available-for-sale financial instruments	**1,875**	—
Gain from disposal of financial instruments at fair value through profit or loss (i)	**2,198,074**	—
Fair value gain from non-derivative financial instruments at fair value through profit or loss (ii)	**2,815,290**	—
Fair value gain from derivative financial instruments	**53,955**	57,265
Gain on hedged instruments in fair value hedges	**3,874**	—
Gain on ineffective portion of cash flow hedges	**25,561**	—
Others	**2,426**	6,771
	5,715,039	320,109

(i) Gain from disposal of financial instruments at fair value through profit or loss includes US$ 2.2 billion on disposal of investment in financial instruments of Barclays PLC (See Note 20).

(ii) Included in fair value gain from non-derivative financial instruments at fair value through profit or loss is an amount of US$ 2,458 million relating to revaluation gain on investment in Daimler AG shares.

9 FINANCE COSTS

	2009 US$'000	2008 US$'000
Interest expense	**(567,521)**	(229,499)
Loss from disposal of available-for-sale financial instruments	**(6,564)**	—
Fair value loss from derivative financial instruments	**(1,973,810)**	(34,977)
Loss on ineffective portion of cash flow hedges	**(13,513)**	—
Impairment loss on financial instruments at amortised cost	**(7,578)**	—
Impairment loss on available-for-sale financial instruments	**(163,066)**	(250,481)
Amortisation of arrangement fees on financing	**(148,089)**	—
Others	**(15,636)**	(9,154)
	(2,895,777)	(524,111)

(i) Included in fair value loss from derivative financial instruments are:

Call and put option on Atlantia S.p.A shares	**42,112**	—
Collars and put options on Daimler AG shares	**1,803,165**	—

10 INCOME TAX

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

	2009 US$'000	2008 US$'000
Consolidated income statement		
Current income tax expense:		
Corporation tax	**(101,616)**	(75,049)
Prior year charges	**(16,204)**	2,882
Total current income tax expense	**(117,820)**	(72,167)
Deferred tax credit:		
Origination and reversal of temporary differences	**58,338**	36,767
Impact of change in tax laws	**21,589**	—
Total deferred tax credit	**79,927**	36,767
Income tax expense reported in the consolidated income statement relating to continuing operations	**(37,893)**	(35,400)

A reconciliation between tax expense and the product of accounting profit multiplied by the Group's implied tax rate for the years ended 31 December is as follows:

	2009 US$'000	2008 US$'000
Accounting profit before tax from continuing operations	**3,902,567**	340,902
Profit (loss) before tax from a discontinued operation	**214,147**	(326,327)
Accounting profit (loss) before income tax expense	**4,116,714**	14,575
At average income tax rate of 28% (2008: 28%)	**(1,152,680)**	(4,080)
Expenses not deductible for tax purposes	**(39,506)**	(65,421)
Effect of share from (profit) loss of investment accounted under equity method	**39,470**	78,669
Non-taxable net income	**1,105,716**	12,175
Higher taxes on overseas earnings	**(792)**	—
Unrecognised tax losses	**(12,892)**	1,293
Tax credit previously not recognised	**79,528**	8,617
Prior year charges	**(16,204)**	2,882
Unrecognised deferred tax assets	**23,852**	—
Uncertain tax positions	**(22,480)**	—
Difference in tax rates	**21,589**	—
Others	**6,951**	577
Income tax credit for the year	**32,552**	34,712
Income tax expense reported in the consolidated income statement	**(37,893)**	(35,400)
Income tax credit attributable to a discontinued operation	**70,445**	70,112
	32,552	34,712
Consolidated statement of other comprehensive income		
Deferred tax related to items charged or credited directly to equity during the year:		
Cash flow hedges	**(13,230)**	27,801
Defined benefit pension scheme	**12,736**	(2,494)
Net gain on hedge of net investment	**(5,316)**	16,700
Income tax (charged) credited directly to equity	**(5,810)**	42,007

Deferred tax

Deferred tax relates to the following:

	Opening balance	Foreign exchange adjustments	Recognised in profit or loss	Recognised in other comprehensive income	Acquisitions/ disposals	Closing balance
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009						
Accelerated depreciation for tax purposes	**(292,226)**	**(15,379)**	**(20,906)**	**—**	**(911,542)**	**(1,240,053)**
Fair value adjustments on intangible assets	**—**	**(4,684)**	**25,918**	**—**	**(84,419)**	**(63,185)**
Fair value adjustments on property, plant and equipment	**(86,753)**	**(2,941)**	**70,185**	**—**	**(35,633)**	**(55,142)**
Bad debt expense	**5,192**	**420**	**(2,041)**	**—**	**—**	**3,571**
Assets under construction	**(2,629)**	**(212)**	**(3,826)**	**—**	**—**	**(6,667)**
Derivative contracts	**14,547**	**16,195**	**(31,630)**	**575**	**1,401**	**1,088**
Net foreign exchange difference	**729**	**59**	**(3,263)**	**—**	**—**	**(2,475)**
Impairment on associates and jointly controlled entities	**—**	**(1,504)**	**(1,926)**	**—**	**67,005**	**63,575**
Inventories	**17,036**	**1,378**	**(16,839)**	**—**	**—**	**1,575**
Pension and post-employment benefits	**15,339**	**4,480**	**(2,602)**	**12,736**	**13,557**	**43,510**
Valuation inventories under percentage-of-completion method	**—**	**(1,981)**	**(14,724)**	**—**	**(29,864)**	**(46,569)**
Provisions	**15,596**	**2,049**	**7,120**	**—**	**22,168**	**46,933**
Tax losses carried forward	**135,128**	**9,334**	**77,593**	**—**	**31,768**	**253,823**
Other temporary differences	**(2,232)**	**(23,960)**	**47,476**	**(5,382)**	**48,088**	**63,990**
	(180,273)	**(16,746)**	**130,535**	**7,929**	**(877,471)**	**(936,026)**
2008						
Accelerated depreciation for tax purposes	(308,086)	28,950	(13,090)	—	—	(292,226)
Fair value adjustments on property, plant and equipment	(109,053)	22,300	—	—	—	(86,753)
Bad debt expense	8,970	(1,804)	(1,974)	—	—	5,192
Assets under construction	(3,594)	927	38	—	—	(2,629)
Derivative contracts	4,719	(1,120)	8,079	2,869	—	14,547
Net foreign exchange difference	—	(6,221)	6,950	—	—	729
Impairment on associates and jointly controlled entities	—	—	—	—	—	—
Inventories	1,302	(5,934)	21,668	—	—	17,036
Pension and post-employment benefits	(2,786)	4,153	16,466	(2,494)	—	15,339
Valuation inventories under percentage-of-completion method	—	—	—	—	—	—
Provisions	40,252	(7,156)	(17,500)	—	—	15,596
Tax losses carried forward	32,861	(17,651)	119,918	—	—	135,128
Other temporary differences	(4,166)	1,092	(13,716)	14,558	—	(2,232)
	(339,581)	17,536	126,839	14,933	—	(180,273)

Deferred tax balances are presented in the consolidated statement of financial position as follows:

	2009 US$'000	2008 US$'000
Continuing operations		
Deferred tax assets	**396,103**	281,168
Deferred tax liabilities	**(1,398,991)**	(461,441)
	(1,002,888)	(180,273)
Discontinued operations		
Deferred tax assets	**104,817**	—
Deferred tax liabilities	**(37,955)**	—
	66,862	—
	(936,026)	(180,273)

11 PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS

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

	2009 US$'000	2008 US$'000
Included in cost of sales		
Costs of inventories recognised as an expense	**6,674,606**	7,399,127
Staff costs	**538,641**	352,939
Depreciation of property, plant and equipment	**348,573**	261,392
Impairment of property, plant and equipment	**—**	35,304
Amortisation of intangible assets	**106,004**	3,530
Included in selling and distribution costs		
Staff costs	**206,140**	114,747
Depreciation of property, plant and equipment	**22,611**	25,815
Amortisation of intangible assets	**40**	—
Included in general and administrative expenses		
Staff costs	**328,420**	142,805
Tax penalty on restructuring	**—**	73,100
Depreciation of property, plant and equipment	**37,796**	21,435
Amortisation of intangible assets	**18,923**	24,675
Impairment of intangible assets	**7,378**	3,754
Included in research and development expenses		
Staff costs	**67,029**	50,694
Depreciation of property, plant and equipment	**12,351**	11,255
Amortisation of intangible assets	**14,938**	166

12 DISCONTINUED OPERATIONS

Included within disposal groups held for sale in the consolidated statement of financial position are:

(i) Assets of US$ 6,388 thousand relating to the carrying value of Oman Polypropylene LLC. The assets were sold in January 2010 for approximately US$ 20 million (see Note 37).

(ii) Assets of US$ 97,350 thousand and liabilities of US$ 37,286 thousand relating to certain discontinued operations of Ferrostaal.

(iii) Assets and liabilities of HDO described below:

Pursuant to an arbitration award dated 12 November 2009, each of Hanocal Holding BV and IPIC International BV (which together hold a 70% interest in HDO) have been directed to sell their respective interests in HDO to the claimants of the arbitration for a fixed amount of KRW 15,000 per share (number of shares: 171,557,696). The Group is of the view that certain key factual and legal conclusions of the arbitral award are incorrect and, as a result, does not believe the award is enforceable in the Republic of Korea, and consequently the arbitral award has no legal effect unless and until the claimants obtain a final enforcement judgment from the Korean courts. However because of the impending nature of the judgment, the Group has classified HDO as a disposal group held for sale. Management expects negotiations to be finalised and the sale completed during 2010.

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

	2009	2008
	US$'000	US$'000
Revenue	**8,591,046**	13,486,879
Cost of sales of goods and services	**(8,170,573)**	(13,148,026)
Gross profit	**420,473**	338,853
Other income	**15,707**	49,827
Sales and marketing expenses	**(192,997)**	(221,486)
General administrative expenses	**(52,814)**	(66,512)
Other expense	**(50,452)**	(48,949)
Foreign exchange gain	**336,106**	570,981
Foreign exchange loss	**(297,483)**	(969,006)
Finance income	**204,420**	242,629
Finance costs	**(168,813)**	(222,664)
Profit (loss) before tax	**214,147**	(326,327)
Tax credit	**70,445**	70,112
Profit (loss) for the year from a discontinued operation	**284,592**	(256,215)
Profit (loss) for the year attributable to:		
Equity holder of the parent	199,214	(179,351)
Minority interests	85,378	(76,864)
	284,592	(256,215)
	US$	US$
Basic and diluted earnings per share from a discontinued operation attributable to equity holder of the parent	**57**	(70)

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

	2009	2008
	US$'000	US$'000
Assets		
Property, plant and equipment	**2,087,738**	—
Intangible assets	**18,227**	—
Investments in associates and jointly controlled entities	**4,282**	—
Deferred tax assets	**104,817**	—
Derivatives	**25,970**	—
Inventories	**1,127,085**	—
Trade and accounts receivables	**685,296**	—
Other assets	**325,992**	—
Cash and short-term deposits	**355,799**	—
Assets classified as held for sale	**4,735,206**	—
Liabilities		
Borrowings	**2,074,739**	—
Defined benefit plan deficit	**23,972**	—
Deferred tax liability	**37,955**	—
Trade and accounts payables	**626,256**	—
Other current liabilities	**665,520**	—
Derivatives	**3,040**	—
Liabilities directly associated with assets classified as held for sale	**3,431,482**	—
Net assets directly associated with disposal group	**1,303,724**	—

Included in other comprehensive income

	2009	2008
	US$'000	US$'000
Foreign currency translation reserve	**81,274**	—
Reserve for cash flow hedge	**(30,124)**	—
Reserve of disposal group classified as held for sale	**51,150**	—

The net cash flows incurred by HDO are as follows:

	2009	2008
	US$'000	US$'000
Operating	**175,562**	(328,504)
Investing	**(568,217)**	(219,248)
Financing	**482,908**	423,565
Net cash inflow (outflow)	**90,253**	(124,187)

13 BASIC AND DILUTED EARNINGS PER SHARE

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

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

	2009	2008
	US$'000	US$'000
Net profit attributable to ordinary equity holder of the parent from continuing operations	**3,629,583**	163,712
Profit (loss) attributable to ordinary equity holders of the parent from discontinued operations	**199,214**	(179,351)
Net profit attributable to ordinary equity holders of the parent for basic earnings	**3,828,797**	(15,639)
Weighted average number of ordinary shares for basic earnings per share (in thousands)	**3,500**	2,579
	US$	US$
Basic and diluted earnings per share	**1,094**	(6)
Basic and diluted earnings per share for continuing operations	**1,037**	63

14 PROPERTY, PLANT AND EQUIPMENT

	Land and land improvements	Buildings, structures and production	Machinery, tools and technical equipment	Information system hardware	Motor vehicles	Office furniture and fittings	Assets under construction	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009								
Cost:								
At 1 January 2009	731,866	6,251,878	1,606,272	—	11,871	122,562	1,179,319	9,903,768
Additions	7,401	45,182	10,222	3,995	4,905	12,719	2,381,992	2,466,416
Acquisition through business combinations	115,323	3,568,663	54,074	33,345	12,690	38,368	71,531	3,893,994
Disposals	(869)	(41,167)	(16,576)	(1,315)	(3,281)	(6,846)	(89)	(70,143)
Held for sale	(429,457)	(751,097)	(1,544,694)	—	(11,440)	(126,603)	(732,345)	(3,595,636)
Transfers	51,767	231,921	49,239	310	926	2,871	(337,034)	—
Exchange adjustments	38,548	210,589	103,313	1,810	2,287	13,370	94,897	464,814
At 31 December 2009	**514,579**	**9,515,969**	**261,850**	**38,145**	**17,958**	**56,441**	**2,658,271**	**13,063,213**
Depreciation:								
At 1 January 2009	143,491	3,325,800	1,081,285	—	10,166	77,548	—	4,638,290
Charge for the year	11,958	387,034	130,802	6,649	2,457	25,372	—	564,272
Impairment	—	680	—	25	—	69	—	774
Disposals	—	(33,329)	(14,338)	(1,315)	(2,589)	(6,576)	—	(58,147)
Held for sale	—	(277,677)	(1,125,023)	—	(9,758)	(95,440)	—	(1,507,898)
Transfers	—	(6)	(999)	11	440	555	—	1
Exchange adjustments	(5,907)	76,110	72,408	1,219	1,141	8,977	—	153,948
At 31 December 2009	**149,542**	**3,478,612**	**144,135**	**6,589**	**1,857**	**10,505**	**—**	**3,791,240**
Net carrying amount								
At 31 December 2009	**365,037**	**6,037,357**	**117,715**	**31,556**	**16,101**	**45,936**	**2,658,271**	**9,271,973**

	Land and land improvements	Buildings, structures and production	Machinery, tools and technical equipment	Information system hardware	Motor vehicles	Office furniture and fittings	Assets under construction	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2008								
Cost:								
At 1 January 2008	903,110	6,714,957	2,058,976	—	16,900	144,831	294,412	10,133,186
Additions	785	29,404	16,118	—	320	3,307	1,330,001	1,379,935
Disposals	(13,283)	(128,919)	(7,413)	—	(1,216)	(9,282)	—	(160,113)
Disposal of a subsidiary	—	(7,355)	—	—	—	—	—	(7,355)
Transfers	6,795	276,600	49,840	—	54	22,603	(355,892)	—
Exchange adjustments	(165,541)	(632,809)	(511,249)	—	(4,187)	(38,897)	(89,202)	(1,441,885)
At 31 December 2008	731,866	6,251,878	1,606,272	—	11,871	122,562	1,179,319	9,903,768
Accumulated depreciation:								
At 1 January 2008	152,174	3,416,365	1,280,280	—	13,467	88,037	—	4,950,323
Charge for the year	11,633	319,680	132,836	—	1,188	22,849	—	488,186
Impairment charge	—	35,304	—	—	—	—	—	35,304
Disposals	—	(110,490)	(5,643)	—	(1,045)	(9,334)	—	(126,512)
Exchange adjustments	(20,316)	(335,059)	(326,188)	—	(3,444)	(24,004)	—	(709,011)
At 31 December 2008	143,491	3,325,800	1,081,285	—	10,166	77,548	—	4,638,290
Net carrying amount								
At 31 December 2008	588,375	2,926,078	524,987	—	1,705	45,014	1,179,319	5,265,478

a) In 2008, the US$ 35,304 thousand impairment loss represented the write down of certain property, plant and equipment in the plastics solutions segment to the recoverable amount. This has been recognised in the consolidated income statement in the line item 'Cost of sales'.

b) Assets under construction include an amount of US$ 1,319,136 thousand (2008: US$ 452,132 thousand) relating to the construction of an oil pipeline (ADCOP project).

c) The amount of borrowing costs capitalised during the year ended 31 December 2009 was US$ 51,557 thousand (2008: US$ 29,862 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was 2.1% (2008: 2.2%) which is the effective interest rate of the specific borrowing.

d) The carrying value of plant and equipment held under finance leases at 31 December 2009 was US$ 928 thousand (2008: US$ 3,822 thousand). Leased assets are pledged as security for the related finance lease liabilities.

e) Land includes a plot received in 2008 from the Municipality of Abu Dhabi at no cost. The Group has recorded this parcel at the nominal value of US$ 1.

f) Property, plant and equipment with a book value of US$ 2,479,764 thousand (2008: US$ 415,063 thousand) have been pledged as security for related borrowings and mortgages.

g) Depreciation charge for the year is reflected in the consolidated income statement as follows:

	2009	2008
	US$'000	US$'000
Continuing operations	**420,585**	319,356
Discontinued operations	**143,687**	168,830
	564,272	488,186

15 INTANGIBLE ASSETS

	Software	Patent and licences	Developments costs	Brands	Customer contracts	Customer lists	Goodwill	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009									
Cost:									
At 1 January 2009	65,550	162,552	190,067	135	—	—	78,736	15,592	512,632
Additions	9,732	50,565	15,546	—	—	—	—	—	75,843
Internal development	—	—	34,077	—	—	—	—	—	34,077
Acquisition through business combinations	20,751	145,817	440	—	55,799	1,000	518,667	556,852	1,299,326
Disposal	9	(56,360)	(10,280)	—	—	—	—	—	(66,631)
Held for sale	—	—	(12,574)	(135)	—	—	—	(19,475)	(32,184)
Exchange adjustments	2,931	7,046	7,780	—	4,594	—	15,977	15,519	53,847
At 31 December 2009	**98,973**	**309,620**	**225,056**	**—**	**60,393**	**1,000**	**613,380**	**568,488**	**1,876,910**
Accumulated amortisation:									
At 1 January 2009	38,390	87,253	52,492	130	—	—	—	9,078	187,343
Charge	15,171	11,027	22,723	3	8,400	1,000	—	83,414	141,738
Impairment	67	—	6,306	—	1,005	—	—	—	7,378
Disposal	—	—	(4,038)	—	—	—	—	—	(4,038)
Held for sale	—	—	(4,515)	(133)	—	—	—	(9,309)	(13,957)
Exchange adjustments	1,939	2,396	4,097	—	2,085	—	—	(617)	9,900
	55,567	**100,676**	**77,065**	**—**	**11,490**	**1,000**	**—**	**82,566**	**328,364**
Net carrying amount:									
At 31 December 2009	**43,406**	**208,944**	**147,991**	**—**	**48,903**	**—**	**613,380**	**485,922**	**1,548,546**
2008									
Cost:									
At 1 January 2008	56,901	124,015	173,597	136	—	—	81,704	13,756	450,109
Additions	11,211	45,476	—	—	—	—	—	—	56,687
Internal development	—	—	27,135	—	—	—	—	—	27,135
Disposal	—	—	(4,413)	—	—	—	—	—	(4,413)
Exchange adjustments	(2,562)	(6,939)	(6,252)	(1)	—	—	(2,968)	1,836	(16,886)
At 31 December 2008	65,550	162,552	190,067	135	—	—	78,736	15,592	512,632
Accumulated amortisation:									
At 1 January 2008	30,086	83,163	43,914	126	—	—	—	5,453	162,742
Charge	9,831	7,440	11,100	5	—	—	—	2,035	30,411
Impairment	—	—	3,754	—	—	—	—	—	3,754
Disposals	—	—	(4,359)	—	—	—	—	—	(4,359)
Exchange adjustments	(1,527)	(3,350)	(1,917)	(1)	—	—	—	2,356	(4,439)
At 31 December 2008	38,390	87,253	52,492	130	—	—	—	9,844	188,109
Net carrying amount:									
At 31 December 2008	27,160	75,299	137,575	5	—	—	78,736	5,748	324,523

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

	2009	2008
	US$'000	US$'000
Continuing operations	**139,902**	28,401
Discontinued operations	**1,836**	2,010
	141,738	30,411

16 IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to the following cash-generating units, which are also reportable operating segments, for impairment testing purposes:

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

	Plastics Solutions - Europe	Unallocated goodwill	Total
	US$'000	US$'000	US$'000
Carrying amount at 31 December 2009	**79,876**	**533,504**	**613,380**

Plastics solutions operating segment-Europe

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

The recoverable amount of Borealis has been determined based on a fair value less costs to sell derived from financial budgets approved by senior management covering a 15 year period. The pre-tax discount rate applied to cash flow projections is 9% (2008: 9%) and cash flows beyond the 5-year period are extrapolated using an average growth rate of 2% (2008: 1.8%).

Key assumptions used in value in use calculations

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

- Gross margin
- Discount rates
- Raw materials price inflation
- Market share during the budget period

Gross margins—These are increased over the budget period for anticipated efficiency improvements. Gross margins beyond the 5-year period are extrapolated using an average growth rate of 2%.

Discount rates—Discount rates reflect management's estimate of the risks. The discount rate is derived from the Group's post-tax weighted average cost of capital.

Raw materials price inflation—Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available (principally for olefins and feedstock); otherwise past actual raw material price movements have been used as an indicator of future price movements.

Market share assumptions—These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the plastic solutions market to be stable over the budget period.

Unallocated goodwill

Unallocated goodwill arose on acquisitions during the year ended 31 December 2009 as follows:

	2009
	US$'000
On acquisition of Aabar	**326,554**
On acquisition of Ferrostaal	**105,110**
On acquisition of Falcon Bank	**101,840**
	533,504

The allocation of the cost of the above business combinations to the different assets, liabilities and contingent liabilities was completed after 31 December 2009 but within a period of twelve months of the acquisition date, and before the issuance of these consolidated financial statements. Accordingly, the fair values were recorded in these consolidated financial statements. However, because the initial accounting for the business combinations determined provisionally at 31 December 2009, the Company has not been able to complete the initial allocation of the goodwill to cash generating units ("CGUs") or groups of CGUs for impairment purposes before the end of the annual period in which the combination was effected. In addition, as the Company is only required to allocate the goodwill to CGUs by the end of the financial year following the year of acquisitions, it will do so by December 2010.

In this case, at the time of carrying out its annual impairment tests at 31 December 2009, goodwill was not yet allocated and therefore no impairment test of that goodwill has been carried out at that time because an impairment test cannot be carried out on goodwill alone, as it does not generate cash flows independently of other assets.

However at the date of these consolidated financial statements, the Company has reviewed the unallocated goodwill and did not identify any indicators of impairment.

17 INVESTMENT PROPERTIES

	Land	Commercial	Total
	US$'000	US$'000	US$'000
2009			
Cost:			
At 1 January 2009	—	—	—
Additions	432	457	889
Acquisition through business combinations	4,182	13,729	17,911
Disposals	—	(378)	(378)
Exchange adjustments	—	547	547
At 31 December 2009	**4,614**	**14,355**	**18,969**
Accumulated depreciation:			
At 1 January 2009	—	—	—
Charge for the year	—	747	747
Impairment	—	50	50
Disposals	—	(378)	(378)
Exchange adjustments	—	3	3
At 31 December 2009	**—**	**422**	**422**
Net carrying amount:			
At 31 December 2009	**4,614**	**13,933**	**18,547**

The fair value of investment properties approximates their carrying value as at 31 December 2009. Fair value is determined by an accredited independent valuer as at 31 December 2009. The fair value of the properties has been determined on transactions observable in the market.

Investment properties with a book value of US$ 9,353 thousand (2008: US$ nil) have been pledged as security for related borrowings and mortgages.

18 LOANS AND OTHER AMOUNTS DUE FROM BANKING CUSTOMERS

	2009	2008
	US$'000	US$'000
Consumer lending	**620,076**	—
Corporate lending	**971**	—
Others	**37**	—
	621,084	—
Non-current	**71,429**	—
Current	**549,655**	—
	621,084	—

19 HELD-TO-MATURITY FINANCIAL ASSETS

The balance represents mainly investments in Government treasury securities and corporate bonds. They are predominantly denominated in CHF and are investment grade assets.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009	2008
	US$'000	US$'000
Instruments of Barclays Plc (i)	**—**	5,021,833
Daimler AG shares (ii)	**5,144,838**	—
CASHES of Unicredit S.p.A. (iii)	**73,810**	—
Banco Santander (Brasil) ADSs (iv)	**341,632**	—
Others	**56,970**	—
	5,617,250	5,021,833
Non-current	**5,617,250**	—
Current	**—**	5,021,833
	5,617,250	5,021,833

i) The Group purchased certain investments in mandatory convertible notes, reserve capital investments and warrants of Barclays Plc in 2008. During 2009, the Group disposed of these instruments for total net proceeds of approximately GBP 4.7 billion (US$ 7 billion) and realised a net gain of approximately US$ 2.2 billion (see Note 8).

ii) The Group has taken collars and put options to fix the floor and cap price for movements in the share price of Daimler AG. These collars are in the range of EUR 36.41 - EUR 24.71 and EUR 27.66 - EUR 18.72 per Daimler AG share for a period between 10 June 2010 and 24 September 2012. Shares in Daimler AG are pledged as collateral against term loans of Aabar.

iii) This represents an investment in the Convertible and Subordinated Hybrid Equity-Linked Securities ("CASHES") of Unicredit S.p.A., an Italian bank. These mandatory convertible bonds, due on 15 December 2050 are exchangeable into ordinary shares of Unicredit S.p.A, The bonds will be automatically redeemed, if at any time, between 23 February 2016 and 15 December 2050, the exchange security price of Unicredit S.p.A. shares, for each of 20 out of 30 consecutive trading days, exceeds 150% of the exchange price (EUR 3.83).

iv) This represents an investment in American depositary shares of Banco Santander (Brasil) S.A. (a subsidiary of Banco Santander S.A. headquartered in Spain). Shares are pledged as collateral against term loans of Aabar.

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009	2008
	US$'000	US$'000
Quoted investments	**1,535,704**	5,028,435
Unquoted investments	**408,872**	259,572
	1,944,576	5,288,007

Quoted investments

The fair value of the quoted investments is determined by reference to published price quotations in an active market. During 2009, investments in Compañia Española de Petróleoş S.A ("CEPSA") and OMV Aktiengesellschaft ("OMV") were increased to 47.06% and 20.01% respectively; and accordingly reclassified as investments in associates from the date significant influence was obtained. The cumulative changes in fair value up to that date remain in equity until the investments are disposed of or impaired.

Unquoted investments

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

22 OTHER ASSETS

	2009	2008
	US$'000	US$'000
Long term receivable (i)	**1,495,045**	—
Balance due from related parties	**388,731**	531,466
Tax receivables	**56,443**	55,886
Loans and notes receivable	**181,314**	112,455
Advances on investment properties	**2,128,513**	—
Other assets and receivables	**733,410**	553,612
	4,983,456	1,253,419
Non-current	**3,992,192**	262,777
Current	**991,264**	990,642
	4,983,456	1,253,419

(i) During the year, the Company acquired an investment in mandatorily exchangeable bonds ("the Bonds") of Independent Public Business Corporation. Upon maturity in March 2014, the Bonds will be converted into 196,604,177 shares of Oil Search Limited, a company listed on the Australian Stock Exchange. The Company has determined that the Bonds contain embedded derivatives and accordingly, the derivative components, amounting to US$ 75,281 thousand (net), have been separated from the host contract and disclosed as derivative financial instruments in the financial statements. The long term receivable represents the carrying value of the host contract at 31 December 2009, and is carried at amortised cost.

23 INVENTORIES

	2009	2008
	US$'000	US$'000
Raw materials	**535,134**	367,366
Spare parts	**56,624**	24,528
Work in progress	**604,536**	47,123
Finished goods	**882,211**	1,145,252
In transit	**13,874**	388,790
Others *	**291,914**	2,849
	2,384,293	1,975,908
Allowance for obsolescence	**(37,628)**	(215,043)
	2,346,665	1,760,865

* Others include work in progress relating to construction contracts.

24 CASH AND CASH EQUIVALENTS

	2009	2008
	US$'000	US$'000
Cash in hand	**1,252,865**	49,099
Saving deposits	**41,338**	88,281
Time deposits	**641,885**	1,817,782
Current accounts	**597,030**	2,706
	2,533,118	1,957,868

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

25 SHARE CAPITAL

	Authorised, issued and fully paid	
	2009	2008
	US$'000	US$'000
Ordinary shares of US$ 1,000 each	**3,500,000**	3,500,000

26 OTHER RESERVES

Other reserves comprise of special purpose reserves provided by Group companies from their profits. These reserves are not available for distribution to shareholders.

Also included in other reserves are the Group's share of other comprehensive income of associates and jointly controlled entities.

27 BORROWINGS

	2009	2008
	US$'000	US$'000
Overdrafts	**63,121**	50,544
Obligations under finance leases and hire purchase contracts	**14,547**	4,308
Listed bonds and other borrowing instruments	**1,709,156**	936,608
Unlisted borrowings	**15,699,914**	8,738,143
	17,486,738	9,729,603
Non-current	**10,434,057**	2,840,603
Current	**7,052,681**	6,889,000
	17,486,738	9,729,603

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

	2009	2008
	US$'000	US$'000
IPIC	**10,040,544**	6,680,180
Aabar	**4,110,630**	—
NOVA	**1,823,991**	—
Borealis	**1,487,538**	1,569,033
HDO *	**—**	1,480,390
Ferrostaal	**24,035**	—
	17,486,738	9,729,603

* Borrowings of HDO for 2009 have been included in "Liabilities of disposal group held for sale" in the consolidated statement of financial position.

Included in borrowings are obligations under finance leases as follows:

	2009	2008
	US$'000	US$'000
Payable in one year	**3,349**	978
Payable between 1 to 5 years	**10,584**	3,338
Payable beyond 5 years	**994**	33
	14,927	4,349
Amounts representing finance charges	**(380)**	(41)
	14,547	4,308

28 EMPLOYEES' BENEFIT LIABILITIES

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

	2009	2008
	US$'000	US$'000
Wages and salaries	**1,066,898**	652,485
Defined contribution plans	**5,200**	—
Defined benefit plans	**30,189**	8,701
Bonuses	**9,483**	—
Other	**28,460**	—
	1,140,230	661,186

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

	2009	2008
	US$'000	US$'000
Employee end of service benefits	**3,189**	31,742
Pensions	**651,693**	232,717
	654,882	264,459

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

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

	2009	2008
	US$'000	US$'000
Current service cost	**28,640**	15,096
Interest cost on benefit obligation	**53,424**	18,231
Expected return on plan assets	**(52,108)**	(5,016)
Past service cost	**2,680**	312
Other	**(2,447)**	(19,922)
Net defined benefit expense	**30,189**	8,701

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

	2009	2008
	US$'000	US$'000
Defined benefit obligation	**(1,628,107)**	(353,062)
Fair value of plan assets	**986,139**	121,589
	(641,968)	(231,473)
Unrecognised past service cost	**(9,725)**	(1,244)
Benefit liability	**(651,693)**	(232,717)

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

	2009	2008
	US$'000	US$'000
Benefit obligation at beginning of year	**353,062**	381,720
Current service costs	**33,011**	15,096
Current interest costs	**56,707**	18,231
Contributions by employees	**6,128**	26
Past service cost- vested immediately	**6,656**	146
Actuarial losses (gains) on obligation	**36,159**	(3,687)
Acquisition of business	**1,162,395**	—
Disposal of business	**(15,430)**	—
Reduction in liabilities resulting from curtailments	**(5,683)**	(233)
Benefits paid from plan	**(53,295)**	(16,345)
Liabilities extinguished on settlements	**(34,386)**	(19,759)
Exchange difference on foreign plans	**82,783**	(22,133)
Benefit obligation at end of the year	**1,628,107**	353,062

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

	2009	2008
	US$'000	US$'000
Fair value of plan assets at beginning of year	**121,589**	110,349
Expected return on plan assets	**54,586**	5,016
Contributions by employees	**6,128**	26
Employer contribution	**42,001**	34,229
Actuarial (losses) gains	**(4,817)**	6,292
Acquisition of business	**805,089**	—
Disposal of business	**(11,186)**	—
Benefits paid from plan	**(53,295)**	(16,345)
Assets distributed on settlement	**(26,900)**	(13,285)
Exchange difference on foreign plans	**52,944**	(4,693)
Fair value of plan assets at end of year	**986,139**	121,589

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

	2009	2008
	%	%
Equities	**39.7%**	15%
Bonds	**57.4%**	65%
Others	**3.0%**	20%

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 in the principal assumptions below:

The principal assumptions used in determining pension and post-employment medical obligations for the Group's plans are shown below:

	2009	2008
	%	%
Rate of salary increases	**2.5% - 4.0%**	3.6%
Rate of increase in pensions payments	**0.3% - 2.2%**	2.0%
Discount rate	**3.3% - 6.0%**	5.3%

Amounts for the current and previous periods are as follows:

	2009	2008	2007	2006	2005
	US$'000	US$'000	US$'000	US$'000	US$'000
Fair value of scheme assets	**986,139**	121,589	110,349	139,076	116,081
Present value of defined benefit obligation	**(1,628,107)**	(353,062)	(381,720)	(345,701)	(299,679)
Deficit in the scheme	**(641,968)**	(231,473)	(271,371)	(206,625)	(183,598)
Experience adjustments arising on plan liabilities	**(6,488)**	581	12,190	(1,320)	(14,214)
Experience adjustments arising on plan assets	**(10,141)**	6,014	(13,394)	6,601	—

29 GOVERNMENT GRANTS

The Group received government grants for the investment in new production plants, CO_2 emission allowances and research and development of EUR 25 million (2008: EUR 25 million) which were recognised in the consolidated income statement.

30 PROVISIONS

	Restructuring	Decommissioning	Legal disputes	Environmental	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At 1 January 2009	38,642	24,229	30,898	3,431	43,456	140,656
Additions	45,396	4,128	11,930	500	70,931	132,885
Through business combinations	16,417	32,227	195,088	4,709	175,443	423,884
Interest expenses	—	2,731	35	—	—	2,766
Utilised	(29,643)	(67)	(10,536)	(974)	(46,993)	(88,213)
Reversed	(6,657)	(4,194)	(14,753)	(174)	(48,379)	(74,157)
Exchange adjustments	2,064	615	12,175	180	12,474	27,508
Other	3,610	2,983	8	14	1,422	8,037
Balance at 31 December 2009	**69,829**	**62,652**	**224,845**	**7,686**	**208,354**	**573,366**
Classified as:						
Non-current						177,876
Current						395,490
						573,366

(i) Provision for restructuring includes an amount of US$ 52 million relating mainly to ongoing restructuring programmes of companies of Borealis group.

(ii) Provision for decommissioning mainly covers environmental exposures of Borealis and NOVA.

(iii) Provision for legal disputes includes a provision related to Ferrostaal in respect of an investigation relating to transactions concluded prior to the Company owing any interest in Ferrostaal. At this time it is unclear as to the outcome of the investigation.

(iv) Other provisions mainly cover risk provisions and warranty provisions under construction contracts.

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

31 OTHER LIABILITIES

	2009	2008
	US$'000	US$'000
Advances received	**1,376,966**	42,543
Balance due to related parties	**11,225**	—
Advances due on investment properties	**118,695**	—
Payables on investments	**43,958**	—
Other liabilities and payables	**632,016**	978,817
	2,182,860	1,021,360
Classified as:		
Non- current	**63,124**	41,655
Current	**2,119,736**	979,705
	2,182,860	1,021,360

Advances received mainly relate to advances received on construction contracts.

32 DERIVATIVE FINANCIAL INSTRUMENTS

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

	Assets 2009 US$'000	Liabilities 2009 US$'000	Assets 2008 US$'000	Liabilities 2008 US$'000
Derivatives held-for-trading				
Interest rate swaps	**—**	**4,807**	—	3,406
Currency forwards	**31,228**	**19,399**	—	2,729
Currency futures	**741**	**742**	—	—
Currency options	**371**	**271**	—	—
Equity forwards	**44**	**44**	—	—
Equity futures	**1,574**	**1,574**	—	—
Equity options	**—**	**1,482,764**	—	—
Commodity swaps	**18,234**	**11,719**	21,090	—
Commodity futures	**108**	**108**	—	—
Others	**75,281**	**—**	—	—
	127,581	**1,521,428**	21,090	6,135
Derivatives used as fair value hedges				
Interest rate swaps	**—**	**—**	—	477
Currency swaps	**—**	**—**	28,071	—
Currency forwards	**—**	**—**	2,615	36,328
Commodity swaps	**—**	**3,973**	—	—
Commodity forwards	**—**	**—**	6,870	38,240
Others	**—**	**—**	—	—
	—	**3,973**	37,556	75,045
Derivatives used as cash flow hedges				
Interest rate swaps	**—**	**36,276**	—	23,810
Currency swaps	**—**	**1,185**	—	18,368
Currency forwards	**7,164**	**6,805**	83,794	—
Commodity swaps	**1,126**	**—**	—	—
Others	**—**	**16,346**	—	36,556
	8,290	**60,612**	83,794	78,734
	135,871	**1,586,013**	142,440	159,914
Non-current	**86,979**	**1,192,325**	91,992	—
Current	**48,892**	**393,688**	50,448	159,914
	135,871	**1,586,013**	142,440	159,914

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

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

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

The Group general policies for derivative financial instruments are mostly:

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.

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.

	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
2009						
Cash Outflow						
Trading derivatives	**(197,068)**	**(121,379)**	**(243,117)**	**—**	**—**	**(561,564)**
Derivatives for economic cash flow hedges	**(111,160)**	**(347,057)**	**(48,011)**	**(16,819)**	**(56,904)**	**(579,951)**
Derivatives for economic fair value hedges	**(6,367)**	**(89)**	**(540)**	**—**	**—**	**(6,996)**
	(314,595)	**(468,525)**	**(291,668)**	**(16,819)**	**(56,904)**	**(1,148,511)**
Cash Inflow						
Trading derivatives	**183,968**	**125,336**	**1,204,024**	**75,281**	**—**	**1,588,609**
Derivatives for economic cash flow hedges	**101,206**	**321,753**	**26,952**	**16,542**	**57,449**	**523,902**
Derivatives for economic fair value hedges	**26,054**	**50,034**	**787**	**—**	**—**	**76,875**
	311,228	**497,123**	**1,231,763**	**91,823**	**57,449**	**2,189,386**
	(3,367)	**28,598**	**940,095**	**75,004**	**545**	**1,040,875**
2008						
Cash Outflow						
Trading derivatives	(171,467)	(50,005)	(3,884)	—	—	(225,356)
Derivatives for economic cash flow hedges	(97,788)	(340,612)	(77,085)	(18,974)	—	(534,459)
Derivatives for economic fair value hedges	(75,314)	—	—	—	—	(75,314)
	(344,569)	(390,617)	(80,969)	(18,974)	—	(835,129)
Cash Inflow						
Trading derivatives	178,410	65,657	1,227	—	—	245,294
Derivatives for economic cash flow hedges	86,835	329,647	98,945	11,859	—	527,286
Derivatives for economic fair value hedges	37,690	—	—	—	—	37,690
	302,935	395,304	100,172	11,859	—	810,270
	(41,634)	4,687	19,203	(7,115)	—	(24,859)

33 FINANCIAL INSTRUMENTS

Fair values

The fair values of the financial assets and liabilities of the Group are not materially different from their carrying values at the reporting date.

Fair value hierarchy

As at 31 December 2009, the Company held the following financial instruments measured at fair value:

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

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

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

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

	31 December 2009	Level 1	Level 2	Level 3
	US$'000	US$'000	US$'000	US$'000
Assets measured at fair value				
Available-for-sale financial assets	**1,944,576**	1,535,704	—	408,872
Derivative financial instruments	**135,871**	75,281	60,590	—
Financial assets at fair value through profit or loss	**5,617,250**	5,543,440	73,810	—
	7,697,697	7,154,425	134,400	408,872
Liabilities measured at fair value				
Derivative financial instruments	**1,586,013**	—	1,586,013	—
	1,586,013	—	1,586,013	—

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise borrowings, customer deposits and other amounts due to banking customers, due to banks, trade payables and other. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as loans and other amounts due from banking customers, loans to associates and jointly controlled entities, held-to-maturity financial assets, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, trade receivables, cash and short-term deposits and other, which arise directly from its operations.

The Group also enters into derivative transactions including interest rate swap and forward currency contracts. The purpose is to manage the 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 cash flow interest rate risk, foreign currency risk, liquidity risk, equity price risk and credit risk. The Board of Directors of each company within the Group reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: interest rate risk, currency risk, commodity price risk, equity price risk and other price risk. Financial instruments affected by market risk include loans and other amounts due from banking customers, held-to-maturity financial assets, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, deposits, borrowings and others.

The sensitivity analyses in the following sections relate to the position as at 31 December 2009 and 2008.

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 2009.

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

Interest rate risk

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

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

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

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

	Change in basis points	Effect on profit before tax
		US$'000
2009		
USD	**+50 bps**	**15,082**
AED	**+50 bps**	**6,648**
EUR	**+50 bps**	**14,861**
JPY	**+50 bps**	**3,653**
Other	**+50 bps**	**1,078**
		41,322
2008		
EUR	+50 bps	10,640
GBP	+50 bps	14,531
JPY	+50 bps	3,741
USD	+50 bps	3,650
KRW	+50 bps	67
		32,629

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 reasonable 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 USD is excluded from the sensitivity analysis.

	Change	Effect on profit	Effect on equity
	%	US$'000	US$'000
2009			
USD	**+10%**	**(156,379)**	**65,785**
CHF	**+10%**	**—**	**15,162**
EUR	**+10%**	**(7,178)**	**33,371**
JPY	**+10%**	**(34,606)**	**18,575**
CAD	**+10%**	**9,626**	**—**
Other	**+10%**	**65,920**	**108,091**
2008			
USD	+10%	(175,080)	—
JPY	+10%	(78,754)	56,272
EUR	+10%	(168,152)	449,380
KRW	+10%	(29,862)	32,518

Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase and manufacturing of mainly plastic raw materials. 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.

Commodity price sensitivity

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

	Change in year end price	Effect on profit before tax
		US$'000
2009		
Feedstock	**+10%**	**450,359**
Electricity	**+10%**	**8,646**
2008		
Feedstock	+10%	162,707
Electricity	+10%	7,522

Credit risk

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.

The Group has established procedures to minimise the risk of default by trade debtors including credit verification in order to be able to trade within the Group companies on credit terms and setting mandatory credit limits for each customer. Furthermore, receivable balances are monitored on an aged basis which keeps the exposure to bad debts at insignificant levels.

With respect to credit risk from other financial asset of the Group, which comprise loans and other amounts due from banking customers, loans to associates and jointly controlled entities, held-to-maturity financial assets, financial assets at fair value through profit and loss, available-for-sale financial assets, derivative financial instruments, trade receivables, due from banks, cash and short-term deposits and other. 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.

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 following tables show the maximum exposure to credit risk for the components of the 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

	2009		2008	
	Carrying value	Maximum credit exposure	Carrying value	Maximum credit exposure
	US$'000	US$'000	US$'000	US$'000
On balance sheet				
Held-to-maturity financial assets	**275,575**	**275,575**	2,812	2,812
Loans and other amounts due from banking customers	**621,084**	**621,084**	—	—
Derivative financial instruments	**135,871**	**135,871**	142,440	142,440
Trade receivables	**1,256,072**	**1,256,072**	831,840	831,840
Other assets	**2,854,943**	**2,854,943**	1,253,419	1,253,419
Financial assets at fair value through profit or loss	**—**	**—**	5,021,833	5,021,833
Due from banks	**183,158**	**183,158**	—	—
Cash and short-term deposits	**2,533,118**	**2,533,118**	1,957,868	1,957,868
	7,859,821	**7,859,821**	9,210,212	9,210,212

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

	UAE	Europe	North America	South America	Asia	Australia New Zealand	Africa	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009								
Held-to-maturity financial assets	**—**	**247,232**	**—**	**—**	**28,343**	**—**	**—**	**275,575**
Loans and other amounts due from banking customers	**—**	**570,490**	**—**	**—**	**50,594**	**—**	**—**	**621,084**
Derivative financial instruments	**75,281**	**42,381**	**18,209**	**—**	**—**	**—**	**—**	**135,871**
Trade receivables	**—**	**916,845**	**212,143**	**105,668**	**8,918**	**8,041**	**4,457**	**1,256,072**
Other assets	**93,679**	**870,527**	**322,729**	**63,540**	**6,141**	**1,496,470**	**1,857**	**2,854,943**
Due from banks	**67,741**	**94,737**	**—**	**—**	**20,680**	**—**	**—**	**183,158**
Cash and short-term deposits	**1,176,378**	**1,034,147**	**232,633**	**64,680**	**18,335**	**2,744**	**4,201**	**2,533,118**
	1,413,079	**3,776,359**	**785,714**	**233,888**	**133,011**	**1,507,255**	**10,515**	**7,859,821**
2008								
Held-to-maturity financial assets	—	2,812	—	—	—	—	—	2,812
Derivative financial instruments	—	21,090	—	—	121,350	—	—	142,440
Trade receivables	10,419	278,316	22,078	10,506	510,521	—	—	831,840
Other assets	22,103	815,304	34,013	14,198	367,801	—	—	1,253,419
Financial assets at fair value through profit or loss	—	5,021,833	—	—	—	—	—	5,021,833
Cash and short-term deposits	1,585,332	90,384	749	1,947	279,456	—	—	1,957,868
	1,617,854	6,229,739	56,840	26,651	1,279,128	—	—	9,210,212

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

	Consumer	Government	Banking	Energy	Chemicals	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009							
Held-to-maturity financial assets	**—**	**59,669**	**142,839**	**—**	**2,881**	**70,186**	**275,575**
Loans and other amounts due from banking customers	**621,084**	**—**	**—**	**—**	**—**	**—**	**621,084**
Derivative financial instruments	**—**	**—**	**60,590**	**—**	**—**	**75,281**	**135,871**
Trade receivables	**—**	**—**	**—**	**92,892**	**741,887**	**421,293**	**1,256,072**
Other assets	**—**	**—**	**—**	**1,559,641**	**866,307**	**428,995**	**2,854,943**
Due from banks	**—**	**—**	**183,158**	**—**	**—**	**—**	**183,158**
Cash and short-term deposits	**—**	**—**	**2,533,118**	**—**	**—**	**—**	**2,533,118**
	621,084	**59,669**	**2,919,705**	**1,652,533**	**1,611,075**	**995,755**	**7,859,821**

	Consumer	Government	Banking	Energy	Chemicals	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2008							
Held-to-maturity financial assets	—	—	—	—	2,812	—	2,812
Derivative financial instruments	—	—	142,440	—	—	—	142,440
Trade receivables	—	—	—	510,521	321,319	—	831,840
Other assets	—	—	—	367,801	885,618	—	1,253,419
Financial assets at fair value through profit or loss	—	—	—	5,021,833	—	—	5,021,833
Cash and short-term deposits	—	—	1,957,868	—	—	—	1,957,868
	—	—	2,100,308	5,900,155	1,209,749	—	9,210,212

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 gross of impairment allowances:

	High	Medium	Low	Non classified	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
31 December 2009					
Held-to-maturity financial assets	**—**	**—**	**—**	**275,575**	**275,575**
Loans and other amounts due from banking customers	**4,660**	**—**	**616,424**	**—**	**621,084**
Derivative financial instruments	**—**	**—**	**—**	**135,871**	**135,871**
Trade receivables	**—**	**—**	**—**	**1,256,072**	**1,256,072**
Other assets	**—**	**—**	**—**	**2,854,943**	**2,854,943**
Due from banks	**—**	**2,191**	**180,967**	**—**	**183,158**
Cash and short-term deposits	**—**	**—**	**—**	**2,533,118**	**2,533,118**
	4,660	**2,191**	**797,391**	**7,055,579**	**7,859,821**
31 December 2008					
Held-to-maturity financial assets	—	—	—	2,812	2,812
Derivative financial instruments	—	—	—	142,440	142,440
Trade receivables	—	—	—	831,840	831,840
Other assets	—	—	—	1,253,419	1,253,419
Financial assets at fair value through profit or loss	—	—	—	5,021,833	5,021,833
Cash and short-term deposits	—	—	—	1,957,868	1,957,868
	—	—	—	9,210,212	9,210,212

Credit quality levels are defined based on estimated default probabilities.

Aging analysis of past due but not impaired loans by class of financial asset

	Neither past due nor impaired	Past due up to 1 month	Past due 1-3 months	Past due 3-6 months	Past due longer than 6 months	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009						
Held-to-maturity financial assets	**275,575**	**—**	**—**	**—**	**—**	**275,575**
Loans and other amounts due from banking customers	**620,904**	**—**	**—**	**180**	**—**	**621,084**
Derivative financial instruments	**135,871**					**135,871**
Trade receivables	**987,271**	**154,611**	**62,268**	**18,662**	**33,260**	**1,256,072**
Other assets	**2,784,234**	**2,040**	**572**	**190**	**67,907**	**2,854,943**
Due from banks	**183,158**	**—**	**—**	**—**	**—**	**183,158**
Cash and short-term deposits	**2,533,118**	**—**	**—**	**—**	**—**	**2,533,118**
	7,520,131	**156,651**	**62,840**	**19,032**	**101,167**	**7,859,821**
2008						
Held-to-maturity financial assets	2,812	—	—	—	—	2,812
Derivative financial instruments	142,440					142,440
Trade receivables	687,607	86,523	28,887	9,077	19,746	831,840
Other assets	1,253,419	—	—	—	—	1,253,419
Financial assets at fair value through profit or loss	5,021,833	—	—	—	—	5,021,833
Cash and short-term deposits	1,957,868	—	—	—	—	1,957,868
	9,065,979	86,523	28,887	9,077	19,746	9,210,212

Movements in allowance for impairment are as follows:

	Opening	Additions	Acquired	Interest	Currency adjustment	Other	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
On balance sheet							
Loans and other banking receivables from banking	—	—	—	202	134	(207)	129
Trade receivables	79	22,031	(2,871)	—	549	(5,291)	14,497
	79	22,031	(2,871)	202	683	(5,498)	14,626

Collateral and other credit enhancements

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

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

Liquidity risk

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

The table below summarises the maturity profile of the Group's financial liabilities excluding derivatives financial instruments at 31 December, on a contractual undiscounted basis. 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	0-3 months	3-12 months	1-3 years	3-5 years	>5 years	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009							
LIABILITIES							
Liabilities included in disposal groups held for sale	**—**	**1,806,330**	**256,937**	**592,503**	**395,031**	**282,856**	**3,333,657**
Other liabilities	**41,418**	**1,300,519**	**680,763**	**765**	**11,536**	**23,903**	**2,058,904**
Trade payables	**303,703**	**1,800,724**	**26,414**	**27,645**	**1,824**	**859**	**2,161,169**
Borrowings	**533**	**790,163**	**6,652,008**	**8,929,056**	**793,730**	**1,424,379**	**18,589,869**
Customer deposits and other amounts due to banking customers	**524,173**	**255,924**	**83,049**	**28,994**	**—**	**—**	**892,140**
Due to banks	**42,705**	**57,776**	**60,151**	**—**	**43,014**	**—**	**203,646**
	912,532	**6,011,436**	**7,759,322**	**9,578,963**	**1,245,135**	**1,731,997**	**27,239,385**
Off balance sheet items	**—**	**—**	**—**	**34,686**	**—**	**—**	**34,686**
2008							
LIABILITIES							
Liabilities included in disposal groups held for sale	—	—	—	—	—	—	—
Other liabilities	—	979,726	—	—	—	—	979,726
Trade payables	—	1,088,665	—	—	—	—	1,088,665
Borrowings	4,982	1,251,427	5,373,212	2,477,000	647,561	350,953	10,105,135
Customer deposits and other amounts due to banking customers	—	—	—	—	—	—	—
Due to banks	—	—	—	—	—	—	—
	4,982	3,319,818	5,373,212	2,477,000	647,561	350,953	12,173,526
Off balance sheet items	—	—	—	—	—	—	—

Equity price risk

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

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

	Change	2009 Income statement	OCI	Change	2008 Income statement	OCI
		US$'000	US$'000		US$'000	US$'000
Europe	**+10%**	**140,687**	**116,419**	+10%	—	449,386
Middle East (excluding UAE)	**+10%**	**—**	**30,000**	+10%	—	24,000
North America	**+10%**	**34,163**	**—**	+10%	—	—
Asia and Pacific	**+10%**	**2,834**	**37,151**	+10%	—	53,457
Other	**+10%**	**10,668**	**—**	+10%	—	—

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 2009 and 2008.

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 minority interests.

	2009	2008
	US$'000	US$'000
Interest bearing loans and borrowings (Note 27)	**17,486,738**	9,729,603
Less cash and cash equivalents	**(2,533,118)**	(1,957,868)
Net debt	**14,953,620**	7,771,735
Total capital	**15,318,381**	10,253,730
Capital and net debt	**30,272,001**	18,025,465
Gearing ratio	**49%**	43%

35 ASSETS UNDER MANAGEMENT

	2009	2008
	US$'000	US$'000
Own managed mutual funds	**2,153,301**	—
Third party managed private label funds (the Group is custodian and fund administrator)	**588,582**	—
Assets with discretionary mandates	**813,770**	—
Cash and short term investments	**1,488,467**	—
Bonds including funds	**940,153**	—
Equities including funds	**1,613,806**	—
Strategy, Portfolio and special funds	**576,901**	—
Bank Zweiplus stake (42.5%)	**2,547,947**	—
Others	**35,849**	—
	10,758,776	—

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 which are under custody with third parties, US$ 2,548 million are related to client assets held by Bank Zweiplus, which is an associate of the Group. The client assets considered in this note equal 42.5% (the Group's share) of the total client assets reported by Bank Zweiplus. Earnings from these client assets are not included in the revenue of the Group but are captured in the share of profit of associate in the consolidated income statement.

36 COMMITMENTS AND CONTINGENCIES

	2009 US$'000	2008 US$'000
(i) Guarantees:		
Guarantees	**54,801**	—
Guarantees and letter of credit	**177,327**	1,774,649
Guarantees in favour of associated companies	**11,573**	—
	243,701	1,774,649
(ii) Feedstock purchase commitments		
Up to 1 year	**1,262,000**	—
1 to 5 years	**2,314,000**	—
Beyond 5 years	**1,729,000**	—
	5,305,000	—
(iii) Operating lease commitments:		
Up to 1 year	**81,718**	—
1 to 5 years	**229,890**	—
Beyond 5 years	**214,461**	—
	526,069	—

(iv) Capital commitments

Capital commitments relating to investment properties for which advances have been given.

(v) Other commitments

On 20 July 2009, Aabar has signed an agreement to invest AED 1 billion, in return for a 32% stake in Virgin Galactic LLC, subject to United States of America Government approval. It has also committed to investing a further AED 360 million in the company to develop the small satellite business. The Group intends to be a pioneer in space tourism, transporting people, and later small satellites, safely into space and back down to earth. The investment is pending the US Government approval.

37 EVENTS AFTER THE REPORTING PERIOD

i) Aabar intends to invest USD 20 million (out of which USD 5 million was paid as an advance prior to 31 December 2009) to acquire a 40% stake in XOJET Inc., a US private airline company. The Aabar also has plans to create a joint venture with XOJET Inc. to provide first class private aviation services to various destinations in the Middle East and North Africa regions.

ii) On 16 February 2010, Aabar's Board of Directors approved a 51% investment in a joint venture, Herrenknecht Tunnel—Boring International LLC. Aabar also committed to invest AED 12.75 million out of the total capital of the planned joint venture of AED 25 million.

iii) Aabar and Berndorf AG established a joint investment company, ABAG Aktiengesellschaft in Austria, in 2009. The company will be an investment vehicle to invest in medium-sized and internationally orientated technology based companies as well as a holder of real estate portfolios in Europe. The company will hold two-thirds of the share capital of the joint venture company through its equity funding of AED 500 million, where Berndorf AG will assume an important role in the management of the joint venture company. The Group paid an advance of EUR 2 million against the proposed investment prior to 31 December 2009.

iv) On 3 March 2010, pursuant to an announcement on 10 August 2009, Aabar has signed shareholders' agreement and articles of association in relation to creation of a joint venture with the Government of Algeria and others to build the first of three vehicle and engine manufacturing plants in Algeria, in cooperation with Ferrostaal and Daimler AG. The Company's stake in the joint venture is 24.5% of share capital for which it plans to make an initial capital contribution of approximately EUR 4 million.

v) In February 2010, NOVA entered into two new accounts receivable securitization program (one in the United States of America and one in Canada) to replace prior programs before they expired. The new programs expire in February 2012 and each allows for maximum funding of US$ 100 million.

vi) In March 2010, the Company entered into a new unsecured financing facility, the purpose of which was to refinance certain of its short term debts which were due in 2010. The facility is for a total amount of US$ 3.6 billion with lenders committing principally in USD and Euro and a small minority in Dirham (AED). The tenor of the facility is 3 years.

vii) On 13 January 2010, the Company sold the investment in Oman Polypropylene LLC for an amount of US$ 19,958 thousand, consequently realising gain on disposal amounting to US$ 13,570 thousand.

viii) In January 2010, MAN Ferrostaal Beteiligungs GmbH has expressed its intention to exercise its put option vis-à-vis IPIC Ferrostaal Holdings GmbH & Co KG with respect to the remaining 30% in Ferrostaal. However the transaction has not yet been concluded between the parties involved.

ix) On 21 April 2010 Aabar has created the joint venture company with Dead Sea Touristic and Real Estate investment company in Jordan. The joint venture company will own a convention centre in the Dead sea valley in Jordan and will shortly begin construction of a hotel which will be managed by leading hotel corporations. The total investment by Aabar will be JD 30 million.

x) On 24 January 2010 Aabar established a real estate subsidiary company Aabar Properties LLC holding 99.9%. Aabar Properties will drive the development of the real estate investments made by Aabar Investments.

38 RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2009	2008
	US$'000	US$'000
Short-term benefits	**4,594**	2,603
Board of directors' remuneration	**20,348**	1,634
Employees' end of service benefits	**—**	142
	24,942	4,379

Business relationship	Goods and services: Purchases from	Goods and services: Sales to	Goods and services: Receivables from	Goods and services: Payables to	Financing: Loans	Financing: Borrowings	Financing: Interest received	Financing: Interest paid
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2009								
Jointly controlled entities	**55,846**	**141,156**	**43,537**	**1,812**	**58,328**	**—**	**881**	**—**
Associates	**1,663,757**	**4,035,858**	**235,653**	**317**	**92,383**	**—**	**—**	**—**
Other related parties	**3,513**	**68,036**	**1,614**	**169,397**	**3,014**	**100,343**	**41**	**3,202**
	1,723,116	**4,245,050**	**280,804**	**171,526**	**153,725**	**100,343**	**922**	**3,202**
2008								
Associates	2,639,890	5,797,354	456,933	504	99,103	—	—	—
Other related parties	—	160,948	8,426	211,999	—	105,838	—	5,836
	2,639,890	5,958,302	465,359	212,503	99,103	105,838	—	5,836

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: US$ nil). This assessment is undertaken at the end of each financial year through examining the financial position of the related party and the market in which the related party operates.

39 SUBSIDIARIES

The consolidated financial statements include the financial statements of IPIC and its subsidiaries. Significant subsidiaries are listed below:

	Country of registration	Percentage holding 2009	2008
Borealis AG ("Borealis")	Austria	**64%**	64%
Hyundai Oilbank Co. Ltd	Korea	**70%**	70%
NOVA Chemicals Corporation	New Brunswick Canada	**100%**	—
Ferrostaal AG	Germany	**70%**	—
Aabar Investments PJSC	United Arab Emirates	**71.23%**	—
Abu Dhabi Petroleum Investments Company L.L.C	United Arab Emirates	**75%**	75%
IPIC Ferrostaal Contracting LLC	United Arab Emirates	**60%**	—

40 COMPARATIVE INFORMATION

During 2009, as a result of a series of acquisitions, the Company established a reporting framework for the consolidation process. Classifications and presentation of items were made consistent and formalized. Because of this, 2008 figures were reclassified to conform to the current year presentation. The reclassifications were several and impracticable to trace, but had no effect on the reported profit or the equity of the Group and are not deemed material to these consolidated financial statements.

Report on Limited Review

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.

Condensed Consolidated Interim Financial Statements and Consolidated Interim Management Report for the six-month period ended June 30, 2011

ERNST & YOUNG

Ernst & Young, S.L.
Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid
Tel.: 902 365 456
Fax: 915 727 300
www.ey.com/es

REPORT ON LIMITED REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Translation of a report and financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails (See Note 14)

To the Sole Shareholder of Compañia Española de Petróleos, S.A.,
at the request of the Management

1. We have performed a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Compañia Española de Petróleos, S.A. (the Parent or the Company) and subsidiaries, which consist of the balance sheet at June 30, 2011, the income statement, the statement of recognized income and expenses, the statement of changes in equity and the cash flow statement, all consolidated, as well as the explanatory notes to the interim financial statements for the six-month period ended thereon. The Parent's management is responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting", as adopted by the European Union concerning the preparation of condensed interim financial reports. Our responsibility is to express an opinion on these interim financial statements based on our limited review work.

2. Our review was carried out in accordance with the International Standard on Review Engagements (ISRE) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial information is planned and performed to obtain limited assurance that the financial statements are free of significant misstatements. It consists of inquiries, mainly addressed to personnel responsible for financial and accounting matters, and the application of certain analytical and other review procedures. The scope of a limited review is substantially less than that of a full audit. Therefore, we cannot assure that all the significant matters that might be identified in an audit are noted. Accordingly, we have not issued an audit opinion on the accompanying interim financial statements.

3. As explained in Note 2 of the accompanying notes, the interim financial statements do not contain all the information required of complete consolidated financial statements prepared in accordance with EU-adopted International Financial Reporting Standards. Accordingly, the interim financial statements should be read together with the Company's consolidated annual financial statements for the year ended December 31, 2010.

4. As a result of our limited review, which cannot be considered an audit report, no matters have come to our attention that would make us conclude that the accompanying interim financial statements for the six months ended June 30, 2011 have not been prepared, in all material respects, in accordance with EU-adopted IAS 34, "Interim Financial Information", to the preparation of interim financial information.

5. The consolidated interim management report for the six-month period ended June 30, 2011 contains such explanations as the Parent's directors consider appropriate concerning the events occurring during this period and their impact on the interim financial statements presented. We have checked that the accounting information included in the aforementioned management report agrees with the interim financial statements for the six-month period ended June 30, 2011. Our work is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of the consolidated companies.

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 12749, Libro 0, Folio 215, Sección 8ª,
Hoja M-23123, Inscripción 116, C.I.F. B-78970506

6. This report was prepared at the request of the management of Compañía Española de Petróleos, S.A. exclusively for its inclusion in the prospectus to be prepared by IPIC, the Company's sole shareholder. Accordingly, it should not be used for any other purpose without our prior written consent.

ERNST & YOUNG, S.L.

Basilio Gómez Salinas

October 6, 2011

Compañía Española de Petróleos, S.A. and subsidiaries (Cepsa Group)

Condensed Consolidated Interim Financial Statements and Consolidated Interim Management's Report for the six-month period ended June 30, 2011

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Condensed Consolidated Balance Sheets at June 30, 2011 and December 31, 2010

	06/30/2011	12/31/2010
	Thousands of euros	
ASSETS		
Non-current assets		
Intangible assets (Note 4)		
Intangible assets and rights	572,283	527,789
Impairment losses and depreciation	(264,478)	(258,044)
Total Intangible assets	307,805	269,745
Goodwill	65,101	65,941
Property, plant and equipment (Note 5)		
Tangible assets and rights	11,002,367	10,997,367
Impairment losses and depreciation	(6,099,728)	(5,927,968)
Total property, plant and equipment	4,902,639	5,069,399
Investments accounted for using the equity method	117,717	104,289
Non-current financial assets (Note 8)	133,013	150,979
Deferred tax assets	76,050	66,442
TOTAL NON-CURRENT ASSETS	**5,602,325**	**5,726,795**
Current assets		
Inventories (Note 6)	2,455,294	2,016,418
Trade and other receivables	2,955,178	2,739,714
Current Income tax assets	31,743	36,145
Other current financial assets (Note 8)	156,934	102,145
Other current assets	21,099	13,398
Cash and cash equivalents	1,071,304	841,080
TOTAL CURRENT ASSETS	6,691,552	5,748,900
TOTAL ASSETS	**12,293,877**	**11,475,695**

(The accompanying explanatory notes 1 to 14 are an integral part of the Consolidated Balance Sheet at June 30, 2011).

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Condensed Consolidated Balance Sheets—(Continued)
at June 30, 2011 and December 31, 2010

	06/30/2011	12/31/2010
	Thousands of euros	
EQUITY AND LIABILITIES		
Equity (Note 7)		
Share capital	267,575	267,575
Share premium	338,728	338,728
Revaluation reserve	90,936	90,936
Retained earnings	4,742,225	4,362,475
Profits attributable to the Shareholders of the Parent Company	396,170	633,946
Interim dividend	—	(120,409)
Total Equity	5,835,634	5,573,251
Adjustments for changes in value		
Translation differences	48,930	127,794
Other adjustments for changes in value	17,857	(12,544)
Total adjustments for changes in value	66,787	115,250
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT COMPANY	5,902,421	5,688,501
Minority Interests		
Equity attributable to minority interests	62,335	56,792
Profits attributable to minority interests	10,306	13,833
Total Minority Interests	72,641	70,625
TOTAL EQUITY	**5,975,062**	**5,759,126**
Non-current liabilities		
Bank borrowings (Note 8)	1,760,140	1,666,613
Other financial liabilities (Note 8)	140,153	161,779
Deferred tax liabilities	339,382	333,135
Grants related to assets	146,439	90,233
Provisions (Note 9)	153,146	156,064
Other non-current liabilities	44,755	23,845
TOTAL NON-CURRENT LIABILITIES	**2,584,015**	**2,431,669**
Current liabilities		
Bank borrowings (Note 8)	851,034	538,428
Other financial liabilities (Note 8)	101,593	90,463
Trade and other payables	2,648,284	2,632,719
Current income tax liabilities	126,627	15,427
Other current liabilities	7,262	7,863
TOTAL CURRENT LIABILITIES	**3,734,800**	**3,284,900**
TOTAL EQUITY AND LIABILITIES	**12,293,877**	**11,475,695**

(The accompanying explanatory notes 1 to 14 are an integral part of the Consolidated Balance Sheet at June 30, 2011).

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Condensed Consolidated Income Statements
for the six-month periods ended June 30, 2011 and 2010

	06/30/2011	06/30/2010
	Thousands of Euro	
Sales and services rendered related to the ordinary activity	12,124,875	9,400,583
Excise tax on oil and gas charged on sales	1,105,914	1,147,493
Revenues (Note 11)	**13,230,789**	**10,548,076**
Changes in inventories of finished goods and work in progress inventories	240,150	68,841
In-house work on non-current assets	23,816	24,125
Supplies	(10,224,869)	(7,568,982)
Other operating income	23,758	16,536
Personnel expenses	(289,178)	(282,978)
Changes in operating provisions	8,131	(6,603)
Other operating expenses:		
Excise tax on oil and gas	(1,105,704)	(1,148,054)
Other expenses	(951,553)	(909,599)
Depreciation and amortization	(340,976)	(323,170)
Allocation of Grants related to non-financial assets and other grants	47,200	35,891
Impairment losses and gains or losses on disposals of non-current assets	117	341
OPERATING INCOME (Note 11)	**661,681**	**454,424**
Share in profit of companies accounted for using the equity method	22,018	16,647
Finance income	25,320	17,420
Finance costs	(23,972)	(17,244)
Impairment and gains or losses on disposals of financial instruments	783	(218)
CONSOLIDATED PROFIT BEFORE TAX	**685,830**	**471,029**
Income tax	(279,354)	(184,746)
CONSOLIDATED PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**406,476**	**286,283**
CONSOLIDATED PROFIT FOR THE PERIOD	**406,476**	**286,283**
Attributable to:		
Shareholders of the Parent	396,170	280,308
Minority interests	10,306	5,975
Earnings per share:		
Basic	1.48	1.05
Diluted	1.48	1.05

(The accompanying explanatory notes 1 to 14 are an integral part of the Consolidated Income Statements)

Compañía Española de Petróleos, S.A. and subsidiaries (Consolidated Group)

Condensed Consolidated Statements of Recognized Income and Expenses for the six-month periods ended June 30, 2011 and 2010

	06/30/2011	06/30/2010
	Thousands of euros	
A) CONSOLIDATED PROFIT FOR THE PERIOD per the Income statement	406,476	286,283
B) INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY:	(48,987)	58,210
Cash flow hedges	43,414	(95,588)
Translation differences	(79,679)	125,248
Companies accounted for using the equity method	214	(970)
Tax effect	(12,936)	29,520
C) TRANSFERS TO INCOME STATEMENT:	(291)	1,077
Cash flow hedges	(416)	1,549
Tax effect	125	(472)
TOTAL RECOGNISED INCOME/(EXPENSES) (A+B+C)	**357,198**	**345,570**
a) Attributable to the Parent	347,707	336,180
b) Attributable to minority interests	9,491	9,390

(The accompanying explanatory notes 1 to 14 are an Integral part of the condensed consolidated statement of recognized income and expenses)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Condensed Consolidated Statements of Changes in Equity for the six-month periods ended 30 June 2011 and 2010

CURRENT PERIOD	Share capital	Share premium and reserves	Treasury shares	Profit for the period attributable to the Parent	Other equity Instruments	Adjustments due to changes In fair value	Minority Interests	Total equity
	Thousands of euros							
Ending balance at 31/12/2010	267,575	4,671,730		633,946		16,250	70,625	5,759,126
Adjustments due to changes in accounting policies								
Adjustments due to errors								
Adjustments beginning balance	267,575	4,671,730		633,946		16,250	70,625	5,759,126
Total recognised income/ (expenses)				396,170		(48,463)	9,491	357,198
Transactions with shareholders or owners		120,409		(254,196)			(7,475)	(141,262)
Distribution of dividends		120,409		(254,195)			(7,475)	(141,262)
Other changes In equity		379,750		(379,750)				
Transfers between equity items		379,750		(379,750)				
Ending balance at 30/06/2011	**267,575**	**5,171,889**		**396,170**		**66,787**	**72,641**	**5,975,062**

PRIOR PERIOD	Share capital	Share premium and reserves	Treasury shares	Profit for the period attributable to the Parent	Other equity Instruments	Adjustments duo to changes In fair value	Minority Interests	Total equity
	Thousands of euros							
Ending balance at 31/12/2009	267,575	4,524,481		374,688		120,812	65,236	5,352,792
Adjustments due to changes in accounting policies								
Adjustments due to errors								
Adjustments beginning balance	267,575	4,524,481		374,688		120,812	65,236	5,352,792
Total recognised income/(expenses)				280,308		55,872	9,390	345,570
Transactions with shareholders or owners		107,030		(214,060)			(3,609)	(110,039)
Distribution of dividends		107,030		(214,060)			(3,609)	(110,639)
Other changes in equity		160,628		(160,628)				
Transfers between equity items		160,628		(160,628)				
Ending balance at 31/12/2010	**267,675**	**4,792,139**		**280,308**		**176,684**	**71,017**	**5,587,723**

(The accompanying explanatory notes 1 to 14 are an Integral part of the condensed consolidated statements of changes In equity sheets)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Condensed Consolidated Cash Flow Statements for the six-month periods ended June 30, 2011 and 2010

	06/30/2011	06/30/2010
	Thousands of euros	
Cash flows from operating activities		
Profits before taxes for the year	685,830	471,029
Depreciation, impairment losses and results from disposals of assets	340,859	322,829
Change in provisions for contingencies and charges	39,098	42,742
Grants relating to assets and other deferred Income transferred to the income statement	(47,286)	(35,891)
Gains/(losses) on disposal of financial assets	(783)	220
Current provisions changes	(8,131)	4,984
Other changes	(22,434)	(15,097)
Cash flows from operating activities before change in working capital	987,153	790,816
Change in working capital	**(590,780)**	**(288,995)**
Interest Payments	(22,600)	(12,267)
Interest Collected	11,136	6,200
Dividends Collected	8,453	10,251
Tax Income (Payments)/Collections	(173,387)	(156,740)
Other cash flow from operation activities	(176,398)	(152,556)
Total cash flows from operating activities	**219,975**	**349,265**
Cash flows from Investing activities		
PAYMENTS		
Intangible assets	(14,965)	(11,538)
Property, plant and equipment	(217,396)	(346,230)
Non-current financial assets		
Associates and other investments	(24,476)	(596)
Other financial assets	(35,003)	(13,256)
Acquisition of consolidated shares	(7,972)	—
Grants collected	2,363	752
Total payments	(297,449)	(370,868)
COLLECTIONS		
Intangible assets	282	941
Property, plant and equipment	1,941	748
Non-current financial assets	7,257	12,772
Total collections	9,480	14,461
Total cash flows from Investing activities	**(287,969)**	**(356,407)**
Cash flows from financing activities		
DIVIDENDS PAID:		
To shareholders of the parent company	(133,787)	(107,030)
To minority interest	(7,475)	(3,609)
Total dividends paid	(141,262)	(110,639)
Net change in non-current financial liabilities	151,043	348,886
Net change in current financial liabilities	290,733	69,237
Net change in financial investments paid	3,820	(16,937)
Finance lease payments paid	(2,808)	(4,680)
Total cash flows from bank debt	442,788	396,506
Total cash flows from financing activities	301,526	285,867
Net change in cash and cash equivalents	**233,529**	**278,725**
Effect of changes in exchange rates	(3,305)	18,012
Beginning balance of cash and cash equivalents	841,080	598,537
Ending balance of cash and cash equivalents	**1,071,304**	**895,274**

(The accompanying explanatory notes 1 to 14 are an integral part of the condensed consolidated cash flow statements sheets)

Compañia Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Explanatory Notes to the Condensed Consolidated Financial Statements for the six-month period ended June 30, 2011

1.- CEPSA Group activities

Compañia Española de Petróleos, S.A. ("CEPSA"), whose registered office is at Avenida del Partenón 12 (Campo de las Naciones), Madrid, was incorporated for an unlimited period of time on 26 September 1929 and is registered in the Madrid Mercantile Register in Volume 206 of the Companies book, Page 100, Sheet 6045. Its employer identification number is A-28003119.

CEPSA and its subsidiaries (together "the CEPSA Group" or "The Group") compose an integrated business Group which operates in the oil and gas industry in Spain and abroad and engages in business activities relating to the exploration for and extraction of crude oil, the production of petrochemical and energy products, asphalts, lubricants and polymers and the distribution and marketing thereof; as well as the distribution of gas and the generation of electricity.

Table I, which forms part of the notes to CEPSA consolidated financial statements for 2010, shows the directly or indirectly owned subsidiaries, jointly controlled entities and associates which, together with CEPSA, compose the consolidated Group. The table lists these companies' registered offices and lines of business, together with the most significant economic and financial information thereon for 2010.

The Group's consolidated financial statements for 2010 were approved by the shareholders at the Annual General Meeting of the Company held on 27 April 2011.

2.- Basis of presentation and other Information

a) Basis of presentation

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of a European Union Member State and whose shares are listed on a regulated stock market of any of the Member States must present their consolidated financial statements for the years beginning on or after 1 January 2005 in accordance with International Financial Reporting Standards as previously adopted by the European Union (IFRSs)

The Group's consolidated financial statements for 2010 were formally prepared by the directors in accordance with International Financial Reporting Standards as adopted by the European Union, applying the consolidation bases, accounting policies and measurement bases described in Notes 2 and 3 to the aforementioned consolidated financial statements and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position at 31, December 2010 and the consolidated results of its operations, the changes in its consolidated equity and its consolidated cash flows in the year then ended.

These condensed consolidated half-yearly financial statements are presented In accordance with IAS 34, Interim Financial Reporting, and, pursuant to Article 12 of Royal Decree 1362/2007, they were authorized for Issue by the Group's directors on 2 August 2011.

In accordance with IAS 34, the interim financial information is prepared exclusively to update the content of the last annual consolidated financial statements prepared by the Group, focusing on new activities, events and circumstances arising during the six-month period, and does not duplicate the information previously reported in the consolidated financial statements for 2010. Consequently, in order to be able to properly comprehend the information included in these condensed consolidated half-yearly financial statements, they should be read together with the Group's consolidated financial statements for 2010.

Changes in accounting policies

EU-approved standards and interpretations applicable in the period

The accounting policies applied in the preparation of the consolidated financial statements for the interim period ended June 30, 2011 are the same as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2010, with the exception of the following amendments and interpretations:

Standard or Interpretation	Content	Effective date (*)
IAS 32 Amendment	Classification of Rights Issues	2/1/2010
IAS 24 Amendment	Related Party Disclosures	1/1/2011
IFRIC 14 (1)	Prepayments of a Minimum Funding Requirement	1/1/2011
IFRIC 19 (1)	Extinguishing Financial Liabilities with Equity Instruments	7/1/2010
Improvements to IFRS (published in May 2010)	Amendments to a number of standards	Multiple

(*) Years commencing on or after the effective date

(1) Date of mandatory application according to the approval published in the Official Journal of the European Union, which differs from the original IASB date.

Application of these amendments and interpretations has not had a significant impact on these interim consolidated financial statements.

Standards and interpretations published by the IASB not yet approved by the EU.

At the date of publication of these consolidated financial statements, the following new and amended standards had been published by the IASB but were not mandatory and had yet to be endorsed by the EU:

Standard or Interpretation	Content	Effective date (*)
Amendment to IFRS 7	Disclosures—Transfers of Financial Assets	7/1/2011
Amendment to IAS 12	Deferred Tax—Recovery of Underlying Assets	1/1/2012
Amendment to IAS 1	Presentation of items of other comprehensive income	7/1/2012
IFRS 9	Financial instruments	1/1/2013
IFRS 10	Consolidated financial statements	1/1/2013
IFRS 11	Joint Arrangements	1/1/2013
IFRS 12	Disclosure of Interests in Other Entitles	1/1/2013
IFRS 13	Fair Value Measurement	1/1/2013
IAS 19	Employee benefits	1/1/2013
IAS 27	Consolidated and Separate financial Statements	1/1/2013
IAS 28 (revised)	Investments in Associates	1/1/2013

(*) Years commencing after the effective date

The Group is currently analyzing the impact of applying these new and amended standards. Based on the analyses carried out to date, the Group considers that the application of these standards and amendments will not have a significant impact on the consolidated financial statements in the initial period.

All mandatory accounting principles and policies with a significant effect on the condensed consolidated interim financial statements were applied.

b) Use of estimates and assumptions

The information contained in these financial statements is the responsibility of the Group's Directors, who expressly state that all the principles and methods provided for in IFRSs have been applied.

The main accounting principles and policies and measurement basis are indicated in Notes 2 and 3 of CEPSA 2010 consolidated financial statements.

In the preparation of the consolidated financial statements In accordance with IFRSs, the Directors were required to make estimates and assumptions. The final figures might differ on the basis of these estimates and assumptions. These estimates and assumptions relate basically to the following:

- Determination of the recoverable amount for the calculation of impairment losses on certain assets,
- Estimation of the expected average weighted tax rate for the year which, in accordance with IAS 34, is used to calculate the income tax expense,
- Estimation of crude oil reserves, which mainly affects depreciation calculated using the unit-of-production method in the area of exploration and production, and the calculation of the recoverable amounts based on the analyses of impairment tests performed on exploration and production assets,
- Actuarial calculation of post-employment benefit liabilities and obligations;
- Useful life of property, plant and equipment and intangible assets;
- Measurement of liabilities relating to provisions.

Although these estimates were made on the basis of the best information available at the present date on the events analyzed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) at 2011 year-end or in subsequent years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognizing the effects of the change in estimates in the corresponding consolidated income statements.

In the six-month period ended June 30, 2011, there were no significant changes with respect to the estimates used at 2010 year-end.

c) Seasonality of the Group's transactions

In view of the business activities in which the Group companies engage, their transactions are not of a cyclical or seasonal nature. Therefore, no specific disclosures are included in these explanatory notes to the condensed consolidated half-yearly financial statements for the six-month period ended June 30, 2011.

d) Materiality

In accordance with IAS 34, in deciding the information to be disclosed on the various items in the financial statements or other matters in the notes to the financial statements, the Group took into account their materiality in relation to the condensed consolidated half-yearly financial statements.

e) Functional currency

The items included in the consolidated financial statements of each of the Group companies are measured using the functional currency, i.e., the currency of the main economic environment in which the company operates. The consolidated financial statements are presented in euros, which is the functional currency and the presentation currency of the Cepsa Group.

3. Comparative information and changes in the composition of the Group

a) Comparative information

The information contained in these condensed consolidated interim financial statements related to the first half of 2010 is presented solely for the purposes of comparison with the information for the six-month period ended June 30, 2011.

b) Changes in the composition of the Group

Tables I and II in the appendices to the consolidated financial statements for the year ended December 31, 2010 provide information on Group companies consolidated at that date and those accounted for using the equity method, as well as the main transactions and assets accounted for under joint control.

In the first half of 2011 the only significant investment in other entities was the purchase of all the shares of Artenius San Roque, S.A.U. ("ASR"), on January 5, 2011. This company's name was later changed to CQ PET, S.A. (see Note 5.a).

Based on the accounting of this transaction, which is still provisional, the fair value recognized in respect of this company's net assets (assets acquired less liabilities assumed) at the date of acquisition:

	Fair value at acquisition
	Thousands of euros
Assets	41,923
Liabilities	31,010
Net Assets	10,913
Goodwill	—
Acquisition cost of the combination	10,913

Changes in the scope of consolidation

The scope of consolidation at June 30, 2011 differs from the scope considered at the end of 2010 due to the following change:

Company	Full/proportionate Consolidation	Investments in companies accounted for using the equity method
CQ PET, S.A.	I	—
Servicios Energéticos de Alta Eflclencia, S.A.	I	—

I = Inclusion; E = Exclusion

On the other hand, the scope of consolidation at June 30, 2010 differs from the scope considered at the end of 2009 due to the following change:

Company	Full/proportionate consolidation	Investments in companies accounted for using the equity method
Lubricantes Turia, SA. (LUBRITURIA)	—	E

I = Inclusion; E = Exclusion

4. Intangible assets

At June 30, 2011 and 2010, the inclusions for the period related basically to the value of emission rights granted at zero cost under the National Allocation Plans in force each year, which amounted to EUR 106,216 thousand and EUR 80,390 thousand, respectively.

5. Property, plant and equipment

a) Changes in the period

The additions to property, plant and equipment in the first six months of 2011 and 2010 amounted to EUR 198,014 thousand and 321,070 thousand, respectively, and relate most notably to the following items:

- In the area of Exploration and Production, an increase in exploration activities in several countries.

- In the area of Refining and Marketing, investments in the construction of the new Asphalt Oxidation Unit, the replacement of the land section of the oil pipeline at "La Rábida" refinery, the updating of boilers and the plant of the Osmosis facility at the "Tenerife" refinery. In addition, general improvements to industrial facilities to minimize the environmental impact and improve the safety of the Group's activities.
- In the area of Petrochemicals, the most noteworthy is the inclusion of the fair value of the PP&E items from the newly acquired CQ PET. S.A. (see Note 3.b)
- The most notable investments in the area of Gas and Electricity were in the construction of the combined heat and power plants at the Lubrisur plant, as well as the replacement of turbines at various GEPESA-owned plants.

Disposals and retirements of tangible assets in the first half of 2011 and 2010, mainly included the derecognition technical installations, Practically all of these assets had been fully depreciated.

b) Impairment losses

There were no material impairment losses on items of property, plant and equipment in the first six months of 2011 and 2010.

c) Property, plant and equipment purchase commitments

At June 30, 2011 and at December 31, 2010, the Group had property, plant and equipment purchase commitments amounting to EUR 104,305 thousand and EUR 168,251 thousand, respectively, relating mainly to investments in course.

6. Inventories

The detail of "Inventories" at June 30, 2011 and December 31, 2010 is as follows:

	06/30/2011	12/31/2010
	Thousands of Euros	
Inventories	2,460,267	2,019,817
Provisions	(4,973)	(3,399)
Total	**2,455,294**	**2,016,418**

7. Equity

a) Share capital and share premium

The share capital amounts to EUR 267,575 thousand and consists of 267,574,941 fully subscribed and paid shares of EUR 1 par value each traded by the book-entry system.

Per the information provided by the members of the Board of Directors who are shareholders, at June 30, 2011, Total, S.A. and International Petroleum Investment Company (IPIC) directly and indirectly owned 48.83%, 47.06% respectively, of the share capital of CEPSA.

The Consolidated Spanish Companies Law expressly permits the use of the share premium account balance to increase share capital and does not establish any specific restrictions as to its use. At June 30, 2011 and December 31, 2010, the balance of this account amounted to EUR 338,728 thousand.

b) Revaluation reserve

In 1996 CEPSA and several consolidated Group companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996, of 7 June, thereby increasing their net assets by EUR 58,438 thousand respectively. This latter figure was recognized under "Consolidated Reserves" on consolidation, included under "Retained Earnings" in the accompanying condensed consolidated balance sheets.

The revaluation reserve also includes EUR 32,498 thousand relating to the revaluations made In 1979 and 1981 pursuant to State Budget Laws 1/1979 and 74/1980, respectively, which can now be transferred to unrestricted voluntary reserves. The balance of the "Revaluation Reserve, Royal Decree-Law 7/1996" account can be used, free of tax, to eliminate recognized losses and to increase capital. From 1 January 2007 (i.e. ten years after the date of the balance sheet reflecting the revaluation transactions), the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus will be deemed to have been realized in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognized. If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

c) Reserves in consolidated companies

The breakdown, by company, of "Retained Earnings", at June 30, 2011 and December 31, 2010 is as follows:

	06/30/2011	12/31/2010
	Thousands of euros	
Fully and proportionately consolidated companies:		
Cepsa Estaciones de Servicio, S.A.	221,032	220,064
Cepsa Lubricantes, S. A.	27,268	26,512
Cepsa Portuguesa, S.A.	8,947	9,025
Proas, S.A.	15,187	11,219
Cepsa Qulmica	741,792	699,645
Cepsa Colombia	40,905	11,962
Other companies	166,429	82,471
Total fully and proportionately consolidated companies	1,211,561	1,060,898
Companies accounted for using the equity method:		
Compania Logistica de Hidrocarburos CLH, S.A.	(13,299)	(12,723)
Other companies	22,631	18,202
Total companies accounted for using the equity method	9,332	5,479
TOTAL	1,230,893	1,066,377

d) Translation differences

The detail, by company, of the balance of "Translation Differences" is as follows:

Company	06/30/2011	12/31/2010
	Thousands of euros	
Cepsa International, B.V.	(5,105)	(1,955)
Deten Quimica, S.A.	42,808	45,687
Cepsa Colombia	26,811	78,506
Other companies	(15,584)	5,556
Total translation differences	48,930	127,794

The change in the balance of this heading at June 30, 2011 was basically due to the fluctuation of Initial and final exchange rates of the Brazilian Real and US dollar.

e) Dividends paid by the Company

"Interim Dividend Paid during the Period" in the condensed consolidated balance sheet at December 31, 2010 includes the dividend paid out of CEPSA's profit in 2010 which amounted to EUR 120,409 thousand.

At the Annual General Meeting held on April 27, 2011, the shareholders resolved to pay a dividend of EUR 0.95 per share out of the profit for 2010 which, after deducting the interim dividend already paid, gave rise to a final dividend of EUR 0.50 per share. The dividend was paid on May 9, 2011.

Also, the shareholders at the Annual General Meeting held on May 28, 2010 resolved to pay a dividend of EUR 0.80 per share out of the profit for 2009 which, after deducting the interim dividend already paid, gave rise to a final dividend of EUR 0.40 per share. This dividend was paid on June 21, 2010.

It is not necessary to calculate the diluted earnings per share of the CEPSA Group since there are no effects of financial instruments, such as potential ordinary shares, on capital.

8. Classification and breakdown of financial assets and liabilities

Following is a detail of the financial assets and liabilities at June 30, 2011 and December 31, 2010, by type and category for valuation purposes:

06/30/2011

FINANCIAL ASSETS by TYPE/CATEGORY	Hold for trading financial assets	Available-for-sale financial assets	Loans and receivables	Holding derivatives	Total
		Thousands of euros			
Equity Instruments		38,724			38,724
Debt Instruments			67,420		67,420
Other financial assets			26,869		26,869
Non-current		38,724	94,289		133,013
Debt Instruments			143,357		143,357
Derivellers	10,100			1,032	11,132
Other financial assets			2,445		2,445
Current	10,100		145,802	1,032	156,934
TOTAL	**10,100**	**38,724**	**240,091**	**1,032**	**289,947**

12/31/2010

FINANCIAL ASSETS by TYPE/CATEGORY	Hold for trading financial assets	Available-for-sale financial assets	Loans and receivables	Holding derivatives	Total
		Thousands of euros			
Equity Instruments		16,616			16,616
Debt Instruments			104,255		104,255
Other financial assets			30,108		30,108
Non-current		16,616	134,363		150,979
Debt Instruments			94,044		94,044
Derividends	4,418			1,347	5,765
Other financial assets			2,336		2,336
Current	4,418		96,380	1,347	102,145
TOTAL	**4,418**	**16,616**	**230,743**	**1,347**	**253,124**

06/30/2011

FINANCIAL LIABILITIES by TYPE / CATEGORY	Held for trading financial liabilities	Borrowings and payables assets	Hedging derivatives	Total
		Thousands of euros		
Bank borrowings		1,760,140		1,760,140
Other financial liabilities		140,153		140,153
Non-current		1,900,293		1,900,293
Bank borrowings		851,034		851,034
Derivatives	1,515		1,187	2,702
Other financial liabilities		98,891		98,891
Current	1,515	949,925	1,187	952,627
TOTAL	**1,515**	**2,850,218**	**1,187**	**2,852,920**

12/31/2010

FINANCIAL LIABILITIES by TYPE / CATEGORY	Held for trading financial liabilities	Borrowings and payables assets	Hedging derivatives	Total
		Thousands of euros		
Bank borrowings		1,666,613		1,666,613
Other financial liabilities		161,779		161,779
Non-current		1,828,392		1,828,392
Bank borrowings		538,428		538,428
Derivatives	12,723		1,121	13,844
Other financial liabilities		76,619		76,619
Current	12,723	615,047	1,121	628,891
TOTAL	**12,723**	**2,443,439**	**1,121**	**2,457,283**

9. Provisions and contingent liabilities

The main litigation of a tax and legal nature affecting the Group at December 31, 2010 is described in Notes 14,17 and 21 to the consolidated financial statements for the year then ended.

In the first half of 2011 there were no significant changes in the litigation in progress and no material additional claims were filed against the Group.

The tax inspections which commenced in July 2010 to review, inter alia, the 2005-2008 income tax returns of the CEPSA Tax Consolidation Group are on-going without exceptions. In fact, Group Management do not expect any discrepancies to be detected which would lead to unprovisioned liabilities.

10. Related parties and remuneration and other benefits of directors and senior executives

In addition to subsidiaries, associates and jointly controlled entities, the "key management personnel" of the Company (members of the Board of Directors and executives, together with their close relatives) and the companies controlled by key management personnel or over which they have significant influence are also deemed to be related parties.

The CEPSA Group did not perform any significant transactions with its directors and executives in the first half of 2011.

The Group's transactions with related parties in the first six months of 2011 and 2010, drawing a distinction between key shareholders and other related parties, are shown below. The conditions of the transactions with related parties are the same as those of transactions carried out on an arm's length basis and the corresponding compensation in kind was allocated to the transactions.

RELATED PARTY TRANSACTIONS					06/30/2011
EXPENSES AND INCOME	Substantial shareholdings	Directors and executive	Companies or entities in the group (*)	Other related parties	Total
		Thousands of euros			
Finance costs	50		151		201
Leases			276		276
Services received	1,328		71,195		72,523
Purchases of assets (finished or in progress)	519,075		96,771		615,846
Other expenses			148		148
EXPENSES	**520,453**		**168,541**		**688,994**
Finance income	76		3,045		3,121
Services rendered	269		5,969		6,238
Gains on the derecognition or disposal of assets	404,778		810,678		1,215,456
Other income	10				10
INCOME	**405,133**		**819,692**		**1,224,825**

OTHER TRANSACTIONS	Substantial shareholdings	Directors and executive	Companies or entities in the group (*)	Other related parties	Total
Dividends and other profits distributed	128,297				128,297

(*) Companies proportionately consolidated or accounted for using the equity method.

RELATED PARTY TRANSACTIONS					06/30/2011
EXPENSES AND INCOME	Substantial shareholdings	Directors and executive	Companies or entities in the group (*)	Other related parties	Total
		Thousands of euros			
Finance costs	31		110		141
Leases	—		115		115
Services received	2,078		62,332		64,410
Purchases of assets (finished or in progress)	446,997		105,121		552,118
Other expenses			428		428
EXPENSES	**449,106**		**168,106**		**617,212**
Finance income	—		2,146		2,146
Services rendered	1,024		4,910		5,934
Gains on the derecognition or disposal of assets	298,808		655,990		954,798
Other income	—		113		113
INCOME	**299,832**		**663,159**		**962,991**

OTHER TRANSACTIONS	Substantial shareholdings	Directors and executive	Companies or entities in the group (*)	Other related parties	Total
Dividends and other profits distributed	102,638				102,638

Remuneration and other benefits of directors

At June 30, 2010, the Board of Directors was composed of 13 members, including one woman and 12 men.

The remuneration earned by the directors of the consolidated Group at June 30, 2011 and 2010 was as follows:

Type of remunerations	06/30/2011	06/30/2010
	Thousands of Euros	
Fixed remuneration	415	405
Variable remuneration	501	170
Attendance fees	190	166
Remuneration per By-law	2,295	2,825
Pension funds and plans: contributions ; insurance premiums and other Items	558	483
Total	**3,959**	**4,049**

Remuneration and other benefits of senior executives

The number of members of senior management at June 30, 2011 remains at 15 people that were involved to June 30, 2010.

The detail of remuneration of the senior executives that are not executive directors of the consolidated Group at June 30, 2011 and 2010 is as follows:

Type of remunerations	06/30/2011	06/30/2010
	Thousands of Euros	
Fixed remuneration	2,447	2,340
Variable remuneration	1,304	598
Other concepts	125	123
Pension funds and plans: contributions and obligations	1,371	1,231
Total	**5,247**	**4,292**

11. Segment reporting

a) Business segment reporting:

The CEPSA Group organizes and manages its businesses through four business segments:

- Exploration and Production, which includes oil and gas exploration and production activities.
- Refining and Marketing, which includes supply, refining and distribution activities.
- Petrochemicals Derivatives, which includes their production, distribution and marketing.
- Gas and Electricity, which includes combined heat and power production and the distribution and retailing of electricity and natural gas.

The selling prices between the business segments approximate market prices and the amounts of income, expenses, assets and liabilities were determined before the eliminations on consolidation, except for the internal eliminations of each business segment.

The financial data shown below were obtained using the same methodology and internal reporting structures as those established to provide management information and to measure the profitability of the business segments on a basis consistent with that of 2010.

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

PRIMARY SEGMENT REPORTING

06/30/2011	Exploration Production	Refining & Distribution	Petrochemical	Gas & Power	Eliminations Intra-Group	Total	Non-Recurring Items	Consolidated Total
	Information excluding Non-Recurring Items							
	Thousands of Euros							
INCOME REVENUE								
Revenue from external customers	470,081	10,645,762	1,744,120	370,836	—	13,230,789		13,230,789
Intra-Group revenue	52,895	880,494	35,057	103,458	(1,071,904)	—		—
Total revenue	522,976	11,526,246	1,779,117	474,294	(1,071,904)	13,230,789	—	13,230,789
Excise tax on oil and gas charged on sales	—	(1,105,914)	—	—	—	(1,105,914)		(1,105,914)
Revenue without Excise tax on oil and gas	522,976	10,420,332	1,779,117	474,294	(1,071,904)	12,124,875	—	12,124,875
Procurements and changes in inventories of finished goods and work in progress	(18,412)	(9,333,563)	(1,400,391)	(419,182)	936,178	(10,235,370)	(250,651)	(9,984,719)
Other operating income and expenses	(121,730)	(891,844)	(244,522)	(29,491)	135,726	(1,151,881)	—	(1,151,881)
RESULT	382,834	195,125	134,264	25,620	—	737,843	250,651	988,495
Changes in operating allowances	—	(1,030)	11,177	(558)		9,590	(1,459)	8,131
Change in provisions for liabilities and charges	(1,284)	2,211	199	(80)		1,046		1,046
Depreciation and amortisation charge	(126,316)	(185,885)	(40,485)	(8,311)		(340,978)		(340,978)
Allocation to profit or loss of grants related to non-financial assets and others	—	789	4,079	—	—	4,868		4,868
Impairment and gains or losses on disposals of non-current assets	8	(419)	527	1		117	—	117
Profit from operations	266,243	30,792	190,701	18,674		412,489	249,192	661,681
Share in profits of equity companies	—	18,842	7999	2,377		22,018		22,018
Net-financial profit						1,348		1,348
Impairment and gains or losses on disposals financial instruments						783		783
Consolidated profit before tax						436,638	249,192	685,830
Income tax						(204,597)	(74,757)	(279,354)
Profit/loss for the year discontinuing operations						—	—	—
Consolidated net profit for the year						232,041	174,435	400,475
Minority Interest						(10,306)	—	(10,306)
Profit attributable to parent company						221,735	174,435	396,170

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

PRIMARY SEGMENT REPORTING

06/10/2010	Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Eliminations Intra-Group	Total	Non-Recurring Items	Consolidated Total
	Information excluding Non-Recurring Items							
	Thousands of Euros							
INCOME REVENUE								
Revenue from external customers	372,147	8,398,588	1,395,498	383,885	—	10,548,076		10,548,076
Intra-Group revenue	16,725	659,615	28,589	77,083	(782,012)	—		—
Total revenue	388,872	9,058,181	1,424,087	460,948	(782,012)	10,548,076	—	10,548,076
Excise tax on oil and gas charged on sales	—	(1,147,493)	—	—	—	(1,147,493)		(1,147,493)
Revenue without Excise tax on oil and gas	388,872	7,908,688	1,424,087	460,948	(782,012)	9,400,583	—	9,400,583
Procurements and changes in inventories of finished goods and work in progress	(14,182)	(6,757,650)	(1,106,815)	(407,993)	648,592	(7,638,028)	137,887	(7,500,141)
Other operating income and expenses	(68,642)	(923,153)	(222,093)	(30,297)	133,420	(1,110,785)	—	(1,110,785)
RESULT	306,068	227,885	95,179	22,658	—	651,790	137,887	789,677
Changes in operating allowances	—	(6,704)	(254)	23		(6,935)	332	(6,603)
Change in provisions for liabilities and changes	1,327	(5,171)	252	(7,209)		(10,791)		(10,791)
Depreciation and amortisation change	(142,064)	(132,435)	(41,214)	(7,457)		(323,170)		(323,170)
Allocation to profit or loss of grants related to non-financial assets and others	—	710	4,260	—	—	4,970		4,970
Impairment and gains or losses on disposals of non-current assets	(247)	502	(44)	—		341	—	341
Profit from operations	165,084	84,887	58,219	8,015	—	316,205	138,219	471,029
Shares in profits of equity companies	—	14,875	1972	—		18,847		18,847
Net financial profit						176		176
Impairment and gains or losses on disposes of financial instruments						(218)		(218)
Consolidated Profit before tax						332,810	138,219	471,029
income tax						(143,279)	(41,487)	(184,746)
Profits for the year discontinuing operations						—	—	—
Consolidated net profit for the year						189,531	96,752	286,283
Minority Interest						(5,975)	—	(5,975)
profit attribute to parent company						183,556	96,752	280,308

b) Geographical segment reporting:

The breakdown of revenue by geographical area is as follows:

	Revenue from sales to external customer	
	06/30/11	06/30/10
	Thousands of euros	
Spain (*)	8,319,714	7,438,971
Other EU Countries	1,813,154	1,742,615
Africa	527,243	335,055
America	1,362,823	819,716
Rest of the world	1,207,855	211,719
Consolidated total	**13,230,789**	**10,548,076**

(*) In Spain, the data relating to 2011 and 2010 included under "Revenue from Sales to External Customers" Includes excise taxes.

c) Information on non-recurring Items:

The breakdown, by business segment, of the main items composing this heading is as follows:

?/30/2011	Non-Recurring Items				
	Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Total
	Thousands of euros				
Profit from operations					
Difference from inventories measurement at LIFO cost	—	223,444	24,288	1,460	249,192
Total	**—**	**223,444**	**24,288**	**1,460**	**249,192**
Profit before tax					
Difference from inventories measurement at LIFO cost	—	223,444	24,288	1,460	249,192
Total	**—**	**223,444**	**24,288**	**1,460**	**249,192**
Consolidated profit					
Difference from inventories measurement at LIFO cost	—	156,411	17,002	1,022	174,435
Total	**—**	**156,411**	**17,002**	**1,022**	**174,435**

?/30/2010	Non-Recurring Items				
	Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Total
	Thousands of euros				
Profit from operations					
Difference from inventories measurement at LIFO cost	—	115,013	20,779	2,427	138,219
Total	**—**	**115,013**	**20,779**	**2,427**	**138,219**
Profit before tax					
Difference from inventories measurement at LIFO cost	—	115,013	20,779	2,427	138,219
Total	**—**	**115,013**	**20,779**	**2,427**	**138,219**
Consolidated profit					
Difference from inventories measurement at LIFO cost	—	80,509	14,545	1,698	96,752
Total	**—**	**80,509**	**14,545**	**1,698**	**96,752**

Non-recurring items include the difference in the value of inventories between the average cost method -used in the financial statements- and replacement cost -used to measure business segments-, thus facilitating the analysis of business segment performance and comparison between years.

12. Average headcount

The detail of the average number of employees at June 30, 2011 and 2010, by gender, is as follows:

	Labor Force by Gender	
	06/30/2011	06/30/2010
Men	7,975	7,845
Women	3,888	3,883
	11,863	11,728

13. Events after the balance sheet date

On February 4, 2011, in compliance with article 82 of the Securities Market Law 24/1988, of July 28, CEPSA announced that on February 3, 2011 it entered into an agreement with the American multinational CHEVRON to acquire all the shares of its subsidiary in Spain, CHEVRON Espana S.A. The transaction cannot be carried out until the competent organizations give the necessary authorizations, which at the date of preparing these condensed consolidated interim financial statements had not been granted.

On February 16, 2011, the Abu Dhabi Sovereign Fund, International Petroleum Investment Company (IPIC), at that time holding 47.06% of CEPSA's share capital, announced via a significant event published by the CNMV (National Securities Exchange Commission) its takeover bid for all of CEPSA's shares. CEPSA's major shareholder, TOTAL, confirmed that it would sell all its 48.83% holding to the bidder. The offer price per share was 28 euros, plus a dividend of 0.50 euros payable to shareholders in May 2011.

On July 6, 2011, the CNMV authorized IPIC's takeover bid and the cut-off date was July 22, 2011. Consequently, IPIC acquired 51,47% of CEPSA's share capital, the date of preparation of these interim consolidated financial statements, giving it an ownership interest of 98,53%.

On July 20, 2011, took place the closing of the purchase by CEPSA COLOMBIA, S.A. to TOTAL E&P HOLDINGS, of 100% of the shares of PETROCRUDO, owner of 5% of Oleoducto Central S.A, (OCENSA).

OCENSA operates the main pipeline of Colombia and the acquisition of the above-mentioned shareholding provides CEPSA COLOMBIA, S.A, a preferential right to transport through the pipeline the crude products in the area of "Los Llanos". The acquisition amounted to US dollar 270 million.

14. Explanation added for translation to English

These condensed consolidated half-yearly financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. AND SUBSIDIARIES (CEPSA GROUP)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 30). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

Deloitte, S.L.
Plaza Pablo Ruiz Picasso, 1
Torre Picasso
28020 Madrid
España

Tel.: +34 915 14 50 00
Fax: +34 915 14 51 80
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain. In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Compañía Española de Petróleos, S.A.:

We have audited the consolidated financial statements of Compañía Española de Petróleos, S.A. ("the Company") and Subsidiaries ("the Group"), which comprise the consolidated balance sheet at 31 December 2010 and the related consolidated income statement, consolidated statement of cash flows, consolidated statement of comprehensive income, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. As indicated in Note 2.a to the accompanying consolidated financial statements, the directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

In our opinion, the accompanying consolidated financial statements for 2010 present fairly, in all material respects, the consolidated equity and consolidated financial position of Compañía Española de Petróleos, S.A. and Subsidiaries at 31 December 2010, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group.

The accompanying consolidated directors' report for 2010 contains the explanations which the directors of Compañía Española de Petroleos, S.A. consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2010. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Compañía Española de Petróleos, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Fernando García Beato
25 February 2011

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Balance Sheets
at December 31, 2010 and 2009

	2010	2009
	Thousands of Euros	
ASSETS		
Non-current assets		
Intangible assets (Note 4)		
Intangible assets and rights	527,789	481,012
Impairment losses and amortisation charge	(258,044)	(234,158)
Total intangible assets	**269,745**	**246,854**
Goodwill in consolidation (Note 5)	**65,941**	**61,025**
Property, plant and equipment (Note 6)		
Tangible assets and rights	10,997,367	10,339,850
Impairment losses and depreciation charge	(5,927,968)	(5,227,585)
Total property, plant and equipment	***5,069,399***	***5,112,265***
Investments accounted for using the equity method (Note 7)	**104,289**	**88,926**
Non-current financial assets (Note 8)	**150,979**	**109,434**
Deferred tax assets (Note 14)	**66,442**	**88,837**
TOTAL NON-CURRENT ASSETS	**5,726,795**	**5,707,341**
Current assets		
Inventories (Note 9)	**2,016,418**	**1,448,512**
Trade and other receivables (Note 10)	**2,739,714**	**2,317,936**
Current income tax assets	**36,145**	**—**
Other current financial assets (Note 8)	**102,145**	**266,311**
Other current assets	**13,398**	**8,595**
Cash and cash equivalents (Note 11)	**841,080**	**598,537**
TOTAL CURRENT ASSETS	**5,748,900**	**4,639,891**
TOTAL ASSETS	**11,475,695**	**10,347,232**

(The accompanying Notes 1 to 30 are an integral part of these Consolidated Statements of Financial Position)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Balance Sheets—(Continued)
at December 31, 2010 and 2009

	2010	2009
	Thousands of Euros	
SHAREHOLDERS' EQUITY AND LIABILITIES		
Equity (Note 12)		
Share capital	267,575	267,575
Share premium	338,728	338,728
Revaluation reserve	90,936	90,936
Retained earnings	4,362,475	4,201,847
Profit attributable to the Parent	633,946	374,688
Interim dividend paid	(120,409)	(107,030)
Total equity	**5,573,251**	**5,166,744**
Adjustments for changes in value		
Translation differences	127,794	66,050
Other adjustments for changes in value	(12,544)	54,762
Total adjustments for changes in value	**115,250**	**120,812**
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**5,688,501**	**5,287,556**
Minority interests (Note 12.f)		
Equity attributed to minority interests	56,792	49,119
Profit attributed to minority interests	13,833	16,117
Total minority interests	**70,625**	**65,236**
TOTAL EQUITY	**5,759,126**	**5,352,792**
Non-current liabilities		
Bank borrowings (Note 13)	1,666,613	1,109,601
Other financial liabilities (Note 13)	161,779	150,926
Deferred tax liabilities (Note 14)	333,135	228,572
Grants related to assets (Note 15)	90,233	81,451
Provisions (Notes 16 and 17)	156,064	130,349
Other non-current liabilities (Note 18)	23,845	31,804
TOTAL NON-CURRENT LIABILITIES	**2,431,669**	**1,732,703**
Current liabilities		
Bank borrowings (Note 13)	538,428	740,628
Other financial liabilities (Note 13)	90,463	69,647
Trade and other payables (Note 18)	2,632,719	2,407,498
Current income tax liabilities	15,427	35,599
Other current liabilities	7,863	8,365
TOTAL CURRENT LIABILITIES	**3,284,900**	**3,261,737**
TOTAL EQUITY AND LIABILITIES	**11,475,695**	**10,347,232**

(The accompanying Notes 1 to 30 are an integral part of these Consolidated Balance Sheets)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Statements of Income
for the years ended December 31, 2010 and 2009

	2010	2009
	Thousands of Euros	
Sales and services relating to ordinary activity	19,744,045	16,084,145
Excise tax on oil and gas charged on sales	2,340,439	2,280,753
Revenue (Notes 3.n and 25)	**22,084,484**	**18,364,898**
Changes in inventories of finished goods and work in progress	249,539	(410,159)
In-house work on non-current assets	60,017	56,169
Procurements (Note 25)	(16,050,317)	(12,852,169)
Other operating income (Note 25)	45,330	43,948
Staff costs (Note 25)	(572,216)	(530,867)
Changes in operating allowances	(22,116)	524,842
Other operating expenses:		
Excise tax on oil and gas	(2,341,055)	(2,281,291)
Other expenses (Note 25)	(1,848,772)	(1,777,181)
Amortisation charge	(695,072)	(615,877)
Allocation to profit or loss of grants related to non-financial assets and other grants (Note 25)	70,677	85,821
Impairment and gains or losses on disposals of non-current assets (Note 25)	(5,154)	(33,677)
PROFIT FROM OPERATIONS (Note 24)	**975,345**	**574,457**
Share in profit of companies accounted for using the equity method (Note7)	31,969	35,600
Finance income (Note 27)	53,277	93,698
Finance costs (Note 27)	(37,978)	(42,140)
Impairment and gains or losses on disposals of financial instruments	(662)	1,646
CONSOLIDATED PROFIT BEFORE TAX	**1,021,951**	**663,261**
Income tax (Nota 3.m y 14)	(374,172)	(272,456)
CONSOLIDATED PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**647,779**	**390,805**
CONSOLIDATED PROFIT FOR THE PERIOD	**647,779**	**390,805**
Attributable to:		
Shareholders of the Parent	**633,946**	**374,688**
Minority interests	**13,833**	**16,117**
Earnings per share:		
Basic	**2.37**	**1.40**
Diluted	**2.37**	**1.40**

(The accompanying Notes 1 to 30 are an integral part of these Consolidated Statements of Income)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Cash Flow Statements
for the years ended 31 December, 2010 and 2009

	2010	2009
	Thousands of euros	
Cash flows from operating activities		
Net profit for the year	647,779	390,805
Depreciation and amortisation charge and impairment losses	700,226	649,554
Changes in provisions for contingencies and expenses	83,322	2,724
Grants related to assets and other deferred income	(70,844)	(85,821)
Changes in deferred taxes	148,566	(11,710)
Impairment and gains or losses on disposals of financial instruments	662	(1,646)
Current provisions changes	17,494	(524,842)
Other changes	(44,654)	8,627
Cash flows from operating activities before change in operating working capital	**1,482,551**	**427,691**
Change in operating working capital	**(631,117)**	**647,681**
Total cash flows from operating activities (a)	**851,434**	**1,075,372**
Cash flows from investing activities		
PAYMENTS		
Intangible assets	(37,268)	(24,748)
Property, plant and equipment	(663,523)	(895,095)
Financial assets		
Associates and other investments	(2,824)	(859)
Other financial assets	(17,174)	(65,394)
Grants received	2,972	7,347
Total payments	**(717,817)**	**(978,749)**
COLLECTIONS		
Intangible assets	977	2,803
Property, plant and equipment	5,745	34,767
Financial assets	15,679	25,576
Total collections	**22,401**	**63,146**
Total cash flows from investing activities	**(695,416)**	**(915,603)**
Cash flows from financing activities		
DIVIDENDS PAID		
To shareholders of the Parents	(227,439)	(267,575)
To minority interests	(11,572)	(24,557)
Total dividends paid	**(239,011)**	**(292,132)**
Net change in non-current financial liabilities	838,729	378,170
Net change in current financial liabilities	(498,629)	(135,961)
Net change in financial investments with returns	(12,996)	(5,718)
Finance lease payments	(8,122)	(23,184)
Total cash flows from bank borrowings	**318,982**	**213,307**
Total cash flows from financing activities	**79,971**	**(78,825)**
Net increase in cash and cash equivalents	**235,989**	**80,944**
Effect of exchange rate changes	6,554	36,639
Cash and cash equivalents at beginning of year	**598,537**	**480,954**
Cash and cash equivalents at end of year	**841,080**	**598,537**

(a) The net income tax payments in 2010 and 2009 amounted to EUR 281,922 and EUR 288,735 thousand, respectively.

The net interest payments for in 2010 and 2009 amounted to EUR 15,033 and EUR 1,588 thousand, respectively.

Detail of changes of operational working capital

	2010	2009
	Thousands of Euros	
Inventory	(567,132)	432,438
Trade and other receivables	(431,820)	(260,892)
Other current financial assets	132,282	58
Trade and other payables	300,107	564,373
Other changes	(64,554)	(88,296)
Total changes in operational working capital	**(631,117)**	**647,681**

(The accompanying Notes 1 to 30 are an integral part of these Consolidated Cash Flow Statements)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Statement of Comprehensive Income
for the years ended December 31, 2010 and 2009

	2010	2009
	Thousands of Euros	
A) CONSOLIDATED PROFIT FOR THE PERIOD of the income statement	**647,779**	**390,805**
B) INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY:	**35,646**	**47,769**
1. Measurement of financial instruments:	—	—
2. Cash flow hedges	(42,580)	37,119
3. Translation differences	64,871	19,146
4. Companies accounted for using the equity method	(187)	303
5. Tax effect	13,542	(8,799)
C) TRANSFERS TO PROFIT OR LOSS:	**(38,080)**	**1,278**
1. Cash flow hedges	(44,436)	1,826
2. Tax effect	6,356	(548)
TOTAL RECOGNISED INCOME/(EXPENSES) (A+B+C)	**645,345**	**439,852**
a) Attributable to the Parent	628,384	415,964
b) Attributable to minority interests	16,961	23,888

(The accompanying Notes 1 to 30 are an integral part of these Consolidated Statement of Comprehensive Income)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Statement of Changes in Equity for the years ended December 31, 2010 and 2009

	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Translation Differences	Interim Dividend	Reserve for Fair Value Accounting of Assets and Liabilities	Minority Interests	Total
				Thousands of Euros					
Balance at 01/01/09	**267,575**	**338,728**	**90,936**	**4,469,422**	**54,675**	**(107,030)**	**24,861**	**65,905**	**5,205,072**
Profit for the year				374,688				16,117	390,805
Gains (losses) recognised directly in equity					11,375		29,901	7,771	49,047
Total gains (losses) recognised directly in equity	—	—	—	374,688	11,375	—	29,901	23,888	439,852
Changes due to transactions with shareholders									
—Gross dividend				(267,575)		107,030		(15,471)	(176,016)
—Interim dividend						(107,030)		(9,086)	(116,116)
Total transactions with shareholders	—	—	—	(267,575)	—	—	—	(24,557)	(292,132)
Balance at 31/12/2009	**267,575**	**338,728**	**90,936**	**4,576,535**	**66,050**	**(107,030)**	**54,762**	**65,236**	**5,352,792**
Balance at 01/01/10	**267,575**	**338,728**	**90,936**	**4,576,535**	**66,050**	**(107,030)**	**54,762**	**65,236**	**5,352,792**
Profit for the year				633,946				13,833	647,779
Gains (losses) recognised directly in equity					61,744		(67,306)	3,128	(2,434)
Total gains (losses) recognised directly in equity	—	—	—	633,946	61,744	—	(67,306)	16,961	645,345
Changes due to transactions with shareholders									
—Gross dividend				(214,060)		107,030		(9,080)	(116,110)
—Interim dividend						(120,409)		(2,492)	(122,901)
Total transactions with shareholders	—	—	—	(214,060)	—	(13,379)	—	(11,572)	(239,011)
Balance at 31/12/2010	**267,575**	**338,728**	**90,936**	**4,996,421**	**127,794**	**(120,409)**	**(12,544)**	**70,625**	**5,759,126**

(The accompanying Notes 1 to 30 are an integral part of these Consolidated Statement of Changes in Equity)

Notes to the consolidated financial statements for the years ended December 31, 2010 and 2009

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IAS/IFRS as adopted by the European Union. In the event of a discrepancy, the Spanish version prevails.

1. CEPSA Group activities

Compañía Española de Petróleos, S.A. (hereinafter: "CEPSA"), whose registered address is Avenida del Partenón 12 (Campo de las Naciones), Madrid, was established on September 26, 1929, and was duly inscribed in the Madrid Mercantile Register, Volume 206 of the Companies Book, Sheet 100, Page 6045. Its Tax Identification Number is A-28003119.

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

Table I, which forms part of these notes to the consolidated financial statements, shows the main subsidiaries, both directly and indirectly owned, jointly controlled entities and associates which, together with CEPSA, compose the CEPSA Group. The table lists these companies' registered offices and lines of business, together with the most significant economic and financial information for the year ended at December 31, 2010.

2. Basis of Presentation and Principles of Consolidation

a) Basis of presentation

The accompanying consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with all the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB applicable at December 31, 2010 as adopted at that date by the European Union, in conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, applicable at the balance sheet date.

These financial statements together with the individual financial statements of the Group companies included in the scope of consolidation will be submitted for approval by their shareholders at their Annual General Meetings, and it is considered that they will be approved without any changes.

The financial statements of CEPSA and the CEPSA Group for 2009 were approved by the shareholders at the Annual General Meeting in Madrid on May 28, 2010, without any changes.

These financial statements are presented in thousands of euros (unless stated otherwise) since this is the currency of the principal economic environment in which the Group operates. Foreign operations are included in accordance with the policies set forth in Note 2-d.

Adoption of Newly issued and Revised Standards

In 2010 the following interpretations of standards came into force and, where applicable, were used by the Group in the preparation of the consolidated financial statements of the Group, and application thereof did not have a significant impact on the Group's financial statements:

Standard or interpretation	Content	Effective Date *
Revised IFRS 3	Business Combinations	01/07/2009
Amendment to IAS 27	Consolidated and Separate Financial Statements	01/07/2009
Amendment to IAS 39	Financial Instruments: Recognition and Measurement—Eligible Hedged Items	01/07/2009
IFRIC 12 (1)	Service Concession Arrangements	01/04/2009
IFRIC 15 (1)	Agreements for the Construction of Real Estate	01/01/2010
IFRIC 16 (1)	Hedges of a Net Investment in a Foreign Operation	01/07/2009
IFRIC 17 (1)	Distributions of Non-cash Assets to Owners	01/11/2009
IFRIC 18 (1)	Transfers of Assets from Customers	01/11/2010 01/01/2009
IFRS Improvements (published in April 2009)	Amendments to a series of standards	01/07/2009
IFRS Improvements (published in May 2008)	Amendments to a series of standards	01/07/2009
Amendment to IFRS 2	Share-based Payment Transactions among Group Entities	01/01/2010

* *For accounting periods beginning on or after the date of coming into force.*

(1) Date of obligatory application based on approval in the Official Journal of the European Union, which differs from the original date stated in the IASB.

At the approval date of these accompanying consolidated financial statements, the following newly issued Standards, interpretations of Standards, and/or their modification, revised standards and Interpretations were published, but not yet adopted by the European Union, or were not to be applied for the accounting period commencing as of January 1, 2010.

Standard or interpretation	Content	Effective Date *
Adopted by the European Union		
Amendment to IAS 32	Financial Instruments: Presentation—The classification of rights issues	02/01/2010
Revised IAS 24	Requirements for disclosure of related party transactions	01/01/2011
Amendment to IFRIC 14	Minimum funding requirement for voluntary prepaid contributions	01/01/2011
IFRIC 19	Extinguishing Financial Liabilities with Equity	07/01/2010
Not yet adopted by the EU at the approval date of these accompanying consolidated financial statements		
IFRS 9	Financial Instruments: Classification and Measurement	01/01/2013
IFRS Improvements (published in May 2010)	Amendments to a series of standards	Several
Amendment of IFRS 7	Financial Instruments: Disclosures—Transfers of Financial Assets	07/01/2011
Amendment of IAS 12	Income Tax—Deferred tax related to investment property (IAS 40)	01/01/2012

* *For accounting periods beginning on or after the date of coming into force.*

According to its analysis of these standards and interpretations, Company's management foresees that it will be applied from the date required in each case and considers that the application thereof will not have a material effect on the financial statements.

b) Use of estimates and assumptions

The information in these financial statements is the responsibility of the Group's Managing Board who expressly state that all the policies and methods included in the IFRS have been applied.

In the preparation of the consolidated financial statements in accordance with IFRSs the directors were required to make estimates and assumptions. The final figures might differ based on these estimates and assumptions.

These estimates and assumptions relate basically to the following:

- The determination of the recoverable amount for the calculation of the impairment losses on certain assets (see Note 3.d)
- Estimation of crude oil reserves which mainly affects depreciation calculated using the unit of production method (see Note 3.c) and the determination of the recoverable amounts on the basis of impairment tests performed on exploration and production assets,
- The actuarial calculation of the post-employment benefit liabilities and obligations (see Note 16),
- The useful life of the property, plant and equipment and intangible assets (see Note 3.a and 3.c),
- The measurement of provisions for liabilities (see Note 3.j).

Although these estimates were made on the basis of the best information available at December 31, 2010 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years; Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the corresponding consolidated income statements.

c) Principles of consolidation

All the companies over which the Parent exercises direct or indirect control were fully consolidated. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The share of the minority interests in the equity and profit of the CEPSA Group's consolidated subsidiaries is detailed under "Equity—Minority Interests" in the consolidated balance sheets and "Profit Attributed to Minority Interests" in the consolidated income statement, respectively.

Jointly controlled entities were proportionately consolidated and, accordingly, the accompanying consolidated financial statements include the assets, liabilities, revenues, and expenses of these companies only in proportion to the CEPSA Group's ownership interest in their capital. Joint control exists in those cases where strategic decisions of the company, both financial and operative, must be unanimously approved by the parties sharing control. (See note 7)

Joint control exists over CEPSA Chimie Montreal, LP and CEPSA Chimie Becancour, INC, in which the CEPSA Group holds a 51% ownership interest, due to the existence of agreements with the other shareholder, which means that the strategic decisions require the unanimous consent of the two parties.

The associates over which the Group exercises significant influence but not effective control, which are not jointly controlled entities, were accounted for using the equity method.

Significant influence is generally deemed to be exercised over companies which are between 20% and 50% owned. Also in other companies with less ownership, significant influence is exercised because, among other factors, the CEPSA Group is present in its Board of Directors and there is a high volume of commercial operations between them.

Any excess of the acquisition cost of the consolidated Group over the fair value of their net assets (assets acquired less liabilities assumed) at the date of acquisition is included under "Goodwill". Any deficiency of the acquisition cost of the consolidated subsidiaries below the fair value of their net assets is recognised in the consolidated income statements.

All material balances, transactions and results between the fully consolidated companies were eliminated on consolidation. The balances, income, expenses and results from transactions with proportionately consolidated companies were also eliminated based on the percentage of ownership. In addition, the accounting policies and procedures used by the Group companies were unified with those applied by the Parent, and all accounting policies and measurement bases with a significant effect on the consolidated financial statements were applied.

d) Foreign currency transactions and translation of financial statements in foreign currencies

Foreign currency transactions are converted to functional currency of each business by applying the exchange rates prevailing at the date of the transaction. Any gains or losses that arise are recognised in the consolidated income statement.

Additionally, a conversion update to functional currency is done for all monetary items denominated in foreign currencies at each year- end using the applicable exchange rates for that day, or the hedged exchange rates, if any. Exchange differences with respect to the exchange rates prevailing at the date of transaction are recognised also in the consolidated income statement.

Exchange differences arising on foreign currency loans to finance investments in the same functional currency which give rise to a hedge of the foreign currency risk associated with the loans (cash flow hedge) are recognised in equity as unrealised gains or losses in the accompanying consolidated balance sheets.

The financial statements denominated in foreign currencies of the Group companies resident abroad, which have a functional currency other than the euro, were translated to euros by applying the "year-end exchange rate" method, consisting of the translation to euros of assets and liabilities at year-end exchange rates, of income and expenses at the average weighted exchange rates for the year and of equity at the historical exchange rates. The resulting translation differences are recognised in equity under "Translation Differences" in the accompanying consolidated balance sheets.

The effect of the changes in exchange rates on each item is shown in the "Other Changes" column of the respective tables.

e) Comparative information

The scope of consolidation at 31 December 2010 differs from the scope for year ended 2009.

The changes in the scope of consolidation in 2010 were as follows:

Company	Full/Proportionate Consolidation Method	Equity Method
Cepsa Comercial Galicia, S.A	—	E
Energéticos de la Mancha, S.A. (ENERMAN)	—	E
Lubricantes Turia, S. A. (LUBRITURIA)	—	E
Su Eminencia, S.A.	—	E

I= Inclusion; E= Exclusion

It should be noted that the exclusions from the scope of consolidation in 2010 are in all cases due to the mergers' processes that took place during the year.

The scope of consolidation at December 31, 2009 is considered equal to year ended 2008.

The detail of the effect on equity of the change in consolidation method and of the inclusions in and exclusions from the scope of consolidation is shown in the "Other Changes" column in the respective tables disclosing the changes in each item during the year.

The information contained in this note concerning the financial year 2009, is presented only for purposes of comparison with the information of fiscal 2010.

3. Accounting policies

The principal accounting policies applied on consolidation were as follows:

a) Intangible assets

Intangible assets are measured at acquisition cost, and are reviewed for impairment when there are indications of impairment, and at least annually for assets with indefinite useful lives and for assets that are not yet available for use. (see Note 3-d)

Research and development expenditure is recognised in the income statement as incurred, except in the case of development expenses relating to projects the technical and commercial feasibility of which has been determined, which are capitalised and amortised on the basis of their useful lives.

Manufacturing license rights are amortised at the same rates as those used to depreciate the industrial units to which they relate. Service station surface rights and flagging contracts are amortised over an average of twenty and five years, respectively, based on the contracts for transactions of this type, and computer software is amortized over a maximum of three years.

In compliance with the commitments to reduce greenhouse gas emissions—the Kyoto Protocol—assumed by the European Union in May 2002, various EU and national regulations were issued, which led to the approval, by Royal Decree 1402/2009 of 29 October, of the National Emission Allowance Assignment Plan, which is in force for 2009-2012 and affects eleven industry sectors including the refining and electricity generation sectors.

Allowances received for no consideration under the National Emission Allowance Assignment Plan are measured at the market price prevailing at the beginning of the year to which they relate, and are recognised with a credit to a Grant item.

The emission allowances are recognised as non-amortisable intangible assets, measured at acquisition or production cost, and are derecognised when they are delivered, transferred to third parties or meet the conditions established for their expiry. (see Note 4)

Pursuant to this legislation, the CEPSA Group must deliver in the first few months of the following year CO2 emission allowances equal to the volume of emissions made during the year.

If the net realisable value of emission allowances is less than their carrying amount, the value of the allowances owned will be reduced to market value. Depending on whether these allowances were acquired or received for no consideration from public authorities. In the first case the appropriate impairment of intangible assets will be recognised or in the second case (allowances received from public authorities), the value of grants related to assets is adjusted with a charge to "Allocation to Profit or Loss of Grants Related to Non-Financial Non-Current Assets and Other Grants" in the consolidated income statement.

b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition of the investees over the fair value of their net assets -assets acquired less liabilities assumed- at the date of acquisition. (see Note 5)

The acquisition cost comprises the sum of the fair value of the assets delivered, the liabilities assumed and the equity instruments issued, plus any other costs directly attributable to the transaction.

The fair value of net assets comprises the fair value of the assets and liabilities acquired that meet the requirements established for their recognition plus the fair value of intangible assets which were not acquired but are identifiable and meet the other requirements for their recognition and, lastly, the contingent liabilities which can be reliably measured.

In accordance with IFRS 3 and IAS 36, goodwill is not amortised, but rather, is tested for impairment at least once per year (or more frequently if there is any indication of impairment). (see Note 3-d)

Goodwill is deemed to be an asset of the company acquired. Consequently, the foreign currency goodwill of the Group companies resident abroad with a functional currency other than the euro is translated to euros at the exchange rates prevailing at the consolidated balance sheet date, and any resulting variations are recognised as translation differences.

c) Property, plant and equipment

c.1) Exploration and production assets

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

Exploration costs and investments in areas with unproven reserves:

Exploration costs are charged to income as incurred. Acquisitions of exploration rights are capitalised and feasibility analyses and impairment tests, if any, are performed periodically on a field-by-field basis based on the results of exploration (see Note 3-d). Exploration rights are amortised over a period not exceeding the term of the contract. In the case of the discovery of proven reserves, the carrying amount is transferred to "Investments in Areas with Proven Reserves".

Drilling costs are capitalised temporarily until it is determined whether proven reserves have been discovered, in which case they are transferred to "Investments in Areas with Proven Reserves". On the contrary, if the results are negative, they are charged to income.

Investments in areas with proven reserves:

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

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

Impairment tests are performed periodically for each field and any impairment losses are recognised in the income statement. (see Note 3-d)

c.2) Other items of property, plant and equipment

Property, plant and equipment are measured at cost. Cost includes the acquisition cost and staff costs and other items related directly to these assets incurred only during the construction period. It also includes the estimated present value of the abandonment costs that the CEPSA Group must bear, where appropriate.

Assets acquired before 31 December 2003, are measured at cost, revalued, where appropriate, pursuant to the related legislation.

The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred. Retired assets and the related accumulated depreciation are derecognised.

Assets held under finance leases are presented in the balance sheet by recognising an asset and a liability for the same amount, equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. These assets are recognised based on the nature of the leased asset and are depreciated on the basis of their useful lives. Assets held under finance leases are subject to the same rules with respect to impairment losses as any other item of property, plant and equipment.

At the reporting date the Group assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, an impairment test is performed and, where appropriate, the related impairment loss is recognised. (see Note 3-d)

The Group depreciates its property, plant and equipment, net of their residual value, using the straight-line method, at rates based on the following years of estimated useful life:

	Years of Useful Life
Depreciation of property, plant and equipment	
Buildings and other structures	33 to 50
Plant and machinery:	
—Machinery, installations and fixtures	10 to 15
—Furniture	10
Plants in service:	
—Units	12 to15
—Lines and networks	15
—Tanks and spheres	20
Other items of property, plant and equipment	4 to 10

d) Impairment of assets

At the reporting date the CEPSA Group assesses whether there is any indication of impairment of property, plant and equipment and intangible assets and, where appropriate, estimates the recoverable amount thereof. Additionally, regardless of whether such an indication exists, the carrying amount of intangible assets with indefinite lives and of goodwill is compared with their recoverable amount at least once per year. (see Notes 3-a, 3-b and 3-c)

The recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future 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 for which the estimates of future cash flows have not been adjusted, using assumptions which are consistent with the Group's strategic plan.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, its value is reduced to its recoverable amount and an impairment loss is recognised as an expense, under "Impairment and gains or losses on disposals of non-current assets" in the accompanying consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased up to the revised estimate of its recoverable amount, recognised as an expense, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years, and a reversal of an impairment loss is recognised as income.

e) Financial assets

Except for investments in associates, which are recognised using the equity method (see Note 2-c), both current and non-current financial assets are initially recognised at acquisition cost, which is the fair value of the consideration given, including transaction costs.

Following the initial recognition, financial assets are measured on the basis of their classification, as follows:

- Originated loans and receivables and held-to-maturity investments are recognised at their amortised cost, net of any impairment losses. (see Note 8)
- Held-for-trading financial assets are measured, if any, at fair value, and fair value changes are recognised in the consolidated income statement.
- Available-for-sale financial assets, which consist mainly of non-current equity investments, are measured at fair value and fair value changes are recognised directly in equity until the investments are sold, when the accumulated amount relating to such investments is recognised in full in the consolidated income statement. Where fair value is lower than cost, the difference is recognised directly in the consolidated income statement. For companies whose shares are not listed on the stock market, the market price is taken to be the present value of the estimated cash flows or, if these cannot be estimated, the underlying carrying amount obtained from the latest balance sheet, including, where appropriate, the unrealised gains existing at the time of acquisition and still existing at the date of subsequent measurement. (see Note 8)

f) Inventories

Crude oil, oil derivatives and petrochemical products, acquired as raw materials, are measured at the lower of weighted average cost and net realisable value. Crude oil and oil derivatives in transit are recognised at the cost at source plus direct costs incurred through year-end. Replacement parts and supplies and other inventories are measured at the lower of average acquisition or production cost or net realisable value. (see Note 9)

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

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

g) Cash and cash equivalents

This heading includes cash and cash equivalents and other liquid assets.

Cash equivalents include bank deposits and other investments maturing within three months and other liquid assets includes the same type of assets with maturities at three to twelve months. (see Note 11)

h) Grants

Grants related to assets are measured at fair value. Non-refundable grants are recognised as deferred income under "Non-Current Liabilities" in the consolidated balance sheet and are charged to income on the basis of the useful life of the assets concerned. Repayable grants are recognised as non-current debt transformable into grants under "Non-Current Liabilities". Grants related to income are credited to income when earned.

"Grants related to Assets-Greenhouse Gas Emission Allowances" includes allowances received for no consideration, as provided for in the National Emission Allowance Assignment Plan, which are measured at the market price prevailing at the beginning of the year to which they relate. This grant was allocated to profit or loss as grants related to non-financial non-current assets:

- Generally, as the costs incurred on the actual emissions accrue. (see Notes 15 and 25)
- If an impairment loss was recognised on the emission allowances received from the Government, as an adjustment to the initially recognised value. (see Note 4)

i) Pension and similar obligations

CEPSA and several of its subsidiaries have the following pension obligations to employees and their beneficiaries:

- Pension obligations funded by the occupational pension plans assigned to the CEPSA Group, Pensions funds. These pension plans entitle participants to receive benefits for retirement or, where appropriate, for death or disability, as specified in the plans. The plans take the form of hybrid plans and combine defined contribution plans, which cover retirement—whereby the sponsor makes periodic contributions-, and defined benefit plans which cover benefits for death or disability through an annually renewable policy—whereby the sponsor undertakes to fulfil the contributions corresponding to Pensions Funds. Accordingly, these contingencies should be considered to be a defined contribution plan. The vested amount of the contingency assumed by the sponsor is covered each year with the annual contribution.
- Life insurance. A defined contribution obligation instrumented through an insurance policy which establishes the right of the insured to receive retirement benefits or, where appropriate, benefits for death or disability. The contributions made by the policyholder are made as a supplement to the pension plan, or since the commitments to employees exceed the maximum contributions to pension plans.
- Annuity income for retired employees. These are obligations prior to the arrangement of pension plans, which entitle personnel or their beneficiaries to receive supplementary social security pension benefits in the event of retirement, death or permanent disability. This commitment has been externalised in full through the related insurance policies.

The adjustments arising from CPI increases or declines, which affect only the policies covering obligations tied to annual CPI performance, are recognised as expenses or income for the year, as appropriate, and their amount was not material.

Other non-current employee benefit costs

The Group has a commitment to a certain group of employees for the payment of annuity monetary consideration arised from the withdrawal of company stores. Actuarial studies are performed annually and the actuarial gains and losses are recognised as income or expenses, as appropriate.

The Company must recognise actuarial gains and losses as income or expenses when the unrecognised cumulative actuarial gains and losses for each individual plan exceed by more than 10% the present value of the benefit obligations or the fair value of the plan assets. At 31 December 2010, this situation had not arisen in the CEPSA Group.

j) Other provisions

"Provisions" includes liabilities arising from litigation in progress, environmental risks, abandonment costs and other contingencies, which are uncertain as to their amounts or timing.

These provisions are recorded when a present obligation arises as a result of a past event, and 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.

The provision amount recognised is the present value of the expenditure expected to be required to settle the obligation. Provisions are reviewed at each balance sheet date based on the information available.

The obligation to deliver emission allowances for the CO_2 emissions produced in the year is recognised as the greenhouse gas emissions are made. These costs are charged to "Other Operating Expenses" in the income statement and credited to a short-term provision included under "Trade and other payables", until the date the related emission allowances are delivered (see Notes 3-a and 18). The unit value to be assigned to the emissions is determined taking into account the following amounts:

- Firstly, the carrying amount of the emission allowances received for no consideration.

- Secondly, the cost of the other emission allowances capitalised in the balance sheet.
- Lastly, where necessary, the most up-to-date estimate of the cost of acquisition of the remaining allowances.

k) Bank borrowings and other financial liabilities

Bank borrowings and other financial liabilities are initially recognised at their fair value less directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

In accordance with its foreign currency risk management policy, the CEPSA Group arranged borrowings denominated in US dollars to finance certain investments in non-current assets which generate cash flows also in US dollars. These financial liabilities were accounted for as a cash flow hedge. (see Note 13 and 22)

These hedges are designated and documented at inception, the high probability of cash flows is determined for the hedged item and effectiveness is assessed both prospectively and retrospectively, all in accordance with IAS 39 relating to hedge accounting.

Changes in the fair value of these financial liabilities are recognised directly in equity, net of the related tax effect, under "Adjustments for changes in value" in the accompanying consolidated balance sheets and are recognised in income for the year as the hedge materialises.

l) Derivative financial instruments and hedge accounting

The CEPSA Group uses hedging instruments and derivatives, including most notably futures contracts with crude oil and product brokers, to hedge the price risks arising from the monthly purchases and sales of oil-based products. The transaction limits and the hedging instruments have been approved by Group management and the monitoring process respects the separation of the performance and control functions.

For foreign currency and interest rate risks, the transaction limits and hedging instruments (basically forward currency transactions and interest rate swaps) have also been approved by Group management and the monitoring process respects the separation of the performance and control functions.

All derivatives, whether or not they are designated as hedging instruments, are recognised in the accompanying consolidated balance sheets at their fair value.

The fair value of derivative financial instruments is calculated using quoted prices. When no quoted prices exist, fair value is determined on the basis of discounted cash flows, using the embedded derivatives curve applicable for the term of the derivatives, and option pricing models for derivative-options.

Exchange rate hedging contracts are measured using exchange rate hedge prices and embedded interest rate curves calculated on the basis of the interest rates prevailing when the contracts expire.

The changes in the fair value of these derivative financial instruments were allocated to profit for the year, except in the case of instruments classified as cash-flow hedges, the changes in which were recognised directly in equity, net of their tax effect, under "Reserve for Fair Value Accounting of Assets and Liabilities" in the accompanying consolidated balance sheets. (see Note 23)

The long-term firm commitments of purchases and sales of oil and gas were analysed and it was determined that they fall outside the scope of IAS 39 since they relate to contracts with the purpose of receiving or delivering non-financial assets and in all cases they concern anticipated purchase and sale transactions.

m) Income tax

Current and deferred income taxes are recognised under "Income Tax" in the accompanying consolidated income statement, except when they arise from economic events that have been directly recognised in equity, in which case they are recognised directly in equity.

The current income tax expense is the result of applying the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes.

Deferred tax is accounted for using the balance sheet liability method, under which temporary differences are determined as the difference between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences, unless, in general, the temporary difference arises from the temporary recognition of goodwill, whereas deferred tax assets arising from deductible temporary differences and tax loss and tax credit carryforwards are only recognised if it is probable that sufficient future taxable profit will be available against which they can be utilised. Deferred tax assets and liabilities are measured based on the tax legislation in force and the tax rates that have been, or are being, enacted at the balance sheet date.

The Group reassesses unrecognised deferred tax assets and unrecognised tax loss and tax credit carryforwards at each balance sheet date, and recognises those for which it is probable that future taxable profit will be available against which they can be utilised. Recognised deferred tax assets and recognised tax loss and tax credit carryforwards are reassessed and their amount is reduced to the extent it is no longer probable that future taxable profit will be available against which they can be utilised.

n) Recognition of revenue and expenses

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

“Net Revenue” does not include the value of exchanges of strategic stocks arranged with other operators.

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 “Net Revenue” and “Other Operating Expenses”, respectively, in the consolidated income statements.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

Dividend income from investments is recognised when the shareholder’s rights to receive payment have been established.

o) Leases

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated companies act as the lessee, the cost of the leased assets is presented in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which will be the lower of the fair value of the leased asset and the aggregate present values of the amounts payable to the lessor plus, where applicable, the price of exercising the purchase option). These assets are depreciated using similar criteria to those applied to the items of property, plant and equipment that are owned.

Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets remain with the lessor.

When the consolidated companies act as the lessor, the acquisition cost of the leased asset is presented under “Property, Plant and Equipment”, either as “Investment Property”, or “Other Assets Leased out under an

Operating Lease". These assets are depreciated using a policy consistent with the lessor's normal depreciation policy for similar items and lease income is recognised in the consolidated income statement on a straight-line basis.

When the consolidated companies act as the lessee, lease costs, including any incentives granted by the lessor, are recognised as an expense in the consolidated income statement

p) Current/Non-current classification

In the accompanying consolidated balance sheet debts due to be settled within twelve months are classified as current items and those due to be settled within more than twelve months as non-current items.

Loans due within twelve months but whose long-term refinancing is assured at the Company's discretion through existing long-term credit facilities are classified as non-current liabilities.

q) Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Parent by the number of shares outstanding during the year. The number of outstanding shares (267,574,941) remained unchanged in 2010 and 2009.

There are no other equity instruments giving rise to diluted earnings per share different from basic earnings per share.

r) Information on the environment

Per the Resolution dated 25 March 2002 of the Spanish Accounting and Audit Institute, environmental investments are defined as investments included in the Company's assets for use in its business on a lasting basis which are mainly for the purpose of minimising the impact on the environment and protecting and improving the environment, including the reduction or elimination of pollution in the future caused by the operations performed by Group companies.

Also, environmental expenses are deemed to be those incurred to prevent, reduce or repair damage to the environment, i.e. the natural surroundings, as well as those relating to environmental commitments.

With respect to provisions for environmental risks and obligations, the Group recorded provisions for environmental actions to remedy the risk of gradual soil pollution, with a charge to "Other Operating Expenses" in the consolidated income statements. These provisions were quantified on the basis of in-house estimates and technical studies. Also, the Group has taken out insurance policies to cover such other environmental damage as might arise, including any third-party liability that might arise therefrom. (see Note 28)

s) Segment reporting

The CEPSA Group divides its organisational structure and activity management function into four business segments: Exploration and Production, Refining and Distribution, Derivative Petrochemicals and Gas and Power. These areas are segments whose operating results are regularly reviewed by the highest authority in making of operating decisions, to decide the resources allocations and assess its performance (see Note 24-a). The key financial data thereon are as follows:

Operating profit is comprised of the revenue and expenses arising from the operations of each primary business segment and the asset depreciation and amortisation charges, but does not include finance income or finance costs, nor other non-operating income or expenses, such as the gains or losses on disposal of non-current assets.

The operating profit included in Note 24 on segment reporting was calculated using the same bases as those used for internal management information purposes.

Accordingly, due to the special nature of certain economic events, some income and expense items are classified as "non-recurring items" and are excluded from segment result (see Note 24-c). These non-recurring items generally relate to transactions that are significant but unusual and to the difference in the value of inventories between average cost -used in the consolidated financial statements- and replacement cost -used to measure business segments- thus facilitating the analysis of business segment performance and comparison between years.

In the section on segment assets and liabilities, the capital employed figure is disclosed. Capital employed is composed of non-current assets plus working capital (adjusted replacement cost) minus non-current non-financial liabilities, which is equal to the Group's financial structure (equity plus net borrowings). Net borrowings basically consist of current and non-current borrowings minus cash and cash equivalents.

The information disclosed in relation to the geographical areas in which the Group carries on its activity was prepared based on the location of the assets, while information on income was prepared based on the location of customees/

4. Intangible assets

The detail of the gross investments in intangible asset accounts, of the related accumulated amortisation and impairment losses and of the changes therein in 2009 and 2010 is as follows:

2009	Balance at 01.01.09	Additions or Charges	Transfers	Other Changes	Disposals or Retirements	Balance at 31.12.09
			Thousands of euros			
Assets						
Concessions, patents and licences	70,222	3,779	8	408	(241)	74,176
Goodwill	20,961	—	—	—	(1,049)	19,912
Computer software	135,747	9,113	1,518	531	(185)	146,724
Flagging contracts	70,256	6,731	—	—	(3)	76,984
Other intangible assets	215,881	103,388	1	—	(156,054)	163,216
Total	**513,067**	**123,011**	**1,527**	**939**	**(157,532)**	**481,012**
Amortisation						
Concessions, patents and licences	(34,745)	(3,744)	—	(365)	241	(38,613)
Goodwill	—	—	—	—	—	—
Computer software	(107,385)	(7,874)	(89)	(296)	15	(115,629)
Flagging contracts	(29,195)	(3,028)	—	—	2	(32,221)
Other intangible assets	(37,054)	(9,654)	—	(311)	1,182	(45,837)
Total	**(208,379)**	**(24,300)**	**(89)**	**(972)**	**1,440**	**(232,300)**
Impairment losses	(43,410)	(2,458)	—	—	44,010	(1,858)
Net intangible assets	**261,278**	**96,253**	**1,438**	**(33)**	**(112,082)**	**246,854**

2010	Balance at 01.01.10	Additions or Charges	Transfers	Other Changes	Disposals or Retirements	Balance at 31.12.10
			Thousands of euros			
Assets						
Concessions, patents and licences	74,176	2,053	(2,129)	1,198	—	75,298
Goodwill	19,912	—	(12,146)	1,405	—	9,171
Computer software	146,724	9,972	459	485	(1,672)	155,968
Flagging contracts	76,984	6,991	—	—	(93)	83,882
Other intangible assets	163,216	103,107	(1,366)	(98)	(61,389)	203,470
Total	**481,012**	**122,123**	**(15,182)**	**2,990**	**(63,154)**	**527,789**
Amortisation						
Concessions, patents and licences	(38,613)	(3,674)	—	(666)	—	(42,953)
Goodwill	—	—	—	—	—	—
Computer software	(115,629)	(10,090)	(23)	(194)	846	(125,090)
Flagging contracts	(32,221)	(2,904)	—	—	57	(35,068)
Other intangible assets	(45,837)	(8,903)	1	(204)	338	(54,605)
Total	**(232,300)**	**(25,571)**	**(22)**	**(1,064)**	**1,241**	**(257,716)**
Impairment losses	(1,858)	(790)	487	—	1,833	(328)
Net intangible assets	**246,854**	**95,762**	**(14,717)**	**1,926**	**(60,080)**	**269,745**

The additions to intangible assets amounting to EUR 123,011 thousand in 2009 and EUR 122,123 thousand in 2010, relate mainly to the investment in computer software updates recognised by the Group companies under "Computer Software", to investments in the renewal and execution of new flagging contracts for the service station network and to the addition to "Other Intangible Assets" in respect of the value of CO_2 emission allowances relating to the allowances assigned for no consideration under the National Emission Allowance Assignment Plans as detailed below. (See Note 15)

	2010		2009	
	Thousands of euros	Thousands of metric tones	Thousands of euros	Thousands of metric tones
Beginning balance	**74,236**	**6,061**	**88,682**	**5,810**
Assignments and acquisition	80,459	6,119	88,118	5,598
Impairment losses	498	—	(18,778)	—
Deliveries	(57,554)	(4,885)	(85,005)	(5,289)
Other changes	2,257	254	1,219	(58)
Ending balance	**99,896**	**7,549**	**74,236**	**6,061**

Emission allowances assigned for no consideration are measured at the market price prevailing at the beginning of the year to which they relate.

In year 2009, the CEPSA Group recognised an impairment loss for the emission allowances amounting to EUR 18,778 thousand a result of a decrease in the difference between market value and their quoted price on the emission allowance. In 2010, as a result of an increase of the market value of the emission allowances, a reversal of impairment loss amounting to EUR 498 was registered for emission rights that were not received free of charge. (See note 25)

In 2011 the allowances relating to emissions made in 2010 will be delivered and the related amount will be derecognised from intangible assets and from the short-term provision for contingencies and expenses. (see Note 18)

The CEPSA Group, through its Parent CEPSA, has a 1.373% share in the Spanish Coal Fund for the purpose of financing various projects that target greenhouse gas reduction and the sustainable development of developing countries. If these projects are successful, they will generate emission allowances. In 2009 EUR 273 thousand were paid to the World Bank for this share, and recognised as an addition under "Other Intangible Assets", whereas in 2010 no payment has been made in this connection.

The non-current asset disposals in 2009 and 2010 relate mainly to the delivery of emission allowances used in 2008 and 2009, respectively.

The additions column includes EUR 4,143 thousand in 2009 and EUR 3,327 thousand in 2010 relating to staff costs, finance costs and other expenses relating to these projects which were credited to the related expense captions in the accompanying consolidated income statements.

At 31 December 2010 the Group had intangible asset purchase commitments amounting to EUR 2,790 thousand.

At 31 December 2010 and 2009, fully amortised intangible assets in use totalled EUR 160,292 thousand and EUR 142,331 thousand, respectively.

5. Goodwill

The detail, by company, of "Goodwill" in 2009 and 2010, is as follows:

Company	Assigned Business Unit	Balance at 01.01.09	Additions	Other Changes	Disposals	Impairment Losses	Balance at 31.12.09
				Thousands of euros			
2009							
Deten Química, S.A.	B.U. LAB LAS	29,640	—	8,409	—	—	38,049
Cepsa Estaciones de Servicio, S.A.	B.U. Red	3,515	—	—	—	—	3,515
Cepsa Portuguesa, S.A.	B.U. Portugal	16,899	—	—	—	—	16,899
Lubricantes del Sur, S.A.	B.U. Lubes	399	—	—	—	—	399
Detisa, S.A.	B.U. Electricity	122	—	—	—	—	122
Petropesca, S.L.	B.U. Bunker	2,041	—	—	—	—	2,041
TOTAL		**52,616**	**—**	**8,409**	**—**	**—**	**61,025**

Company	Assigned Business Unit	Balance at 01.01.10	Additions	Other Changes	Disposals	Impairment Losses	Balance at 31.12.10
				Thousands of euros			
2010							
Deten Química, S.A.	B.U. LAB LAS	38,049	—	4,916	—	—	42,965
Cepsa Estaciones de Servicio, S.A.	B.U. Red	3,515	—	—	—	—	3,515
Cepsa Portuguesa, S.A.	B.U. Portugal	16,899	—	—	—	—	16,899
Lubricantes del Sur, S.A.	B.U. Lubes	399	—	—	—	—	399
Detisa, S.A.	B.U. Electricity	122	—	—	—	—	122
Petropesca, S.L.	B.U. Bunker	2,041	—	—	—	—	2,041
TOTAL		**61,025**	**—**	**4,916**	**—**	**—**	**65,941**

The “Other Changes” column includes notably those relating to the effect of the variations in exchange rates on the goodwill of Deten Química, S.A., since it was translated at the year-end exchange rate (see Note 3-b).

The cash-generating units to which goodwill was allocated were tested for impairment and the recovery of their carrying amounts was ascertained; it was not necessary to recognise any impairment loss.

The recoverable amount of the business units was determined on the basis of their value in use calculated using the assumptions and cash flows included in the Group’s strategic plan, approved by its management. (see Note 3-d)

6. Property, plant and equipment

The detail of the gross investments in property, plant and equipment, of the accumulated depreciation and impairment losses and of the changes therein in 2009 and 2010 is as follows:

2009	Balance at 01.01.09	Additions or charges for the year	Transfers	Other Changes	Disposals or Retirements	Balance at 31.12.09
			Thousands of euros			
Assets						
Land and structures	373,316	6,723	3,297	2,190	(1,349)	384,177
Plant and machinery	5,539,442	22,225	320,563	58,456	(39,936)	5,900,750
Investments in areas with proven reserves	1,761,450	61,991	(184,943)	(18,914)	(10,952)	1,608,632
Investments in areas with unproven reserves	130,555	69,582	187,596	(2,526)	(18,937)	366,270
Other facilities, tools and furniture	121,254	2,273	5,152	578	(1,281)	127,976
Advances and property, plant and equipment in the course of construction	877,001	724,489	(351,650)	(159)	(2,117)	1,247,564
Other property, plant and equipment	697,473	2,004	18,458	(2,798)	(10,656)	704,481
Total	**9,500,491**	**889,287**	**(1,527)**	**36,827**	**(85,228)**	**10,339,850**
Depreciation						
Structures	(101,134)	(6,826)	(1,169)	9,078	494	(99,557)
Plant and machinery	(3,277,238)	(281,517)	(7,298)	(43,476)	33,885	(3,575,644)
Investments in areas with proven reserves	(831,102)	(193,852)	27,628	8,301	3,874	(985,151)
Investments in areas with unproven reserves	(101,467)	(63,445)	(20,392)	1,744	13,613	(169,947)
Other facilities, tools and furniture	(90,716)	(7,919)	1,353	243	1,172	(95,867)
Other property, plant and equipment	(208,600)	(38,018)	(33)	(520)	9,694	(237,477)
Total	**(4,610,257)**	**(591,577)**	**89**	**(24,630)**	**62,732**	**(5,163,643)**
Impairment losses	(25,448)	(37,492)	—	(2,158)	1,156	(63,942)
Net property, plant and equipment	**4,864,786**	**260,218**	**(1,438)**	**10,039**	**(21,340)**	**5,112,265**

2010	Balance at 01.01.10	Additions or charges for the year	Transfers	Other Changes	Disposals or Retirements	Balance at 31.12.10
			Thousands of euros			
Assets						
Land and structures	384,177	465	3,850	2,807	(2,811)	388,488
Plant and machinery	5,900,750	10,381	1,244,753	52,813	(37,473)	7,171,224
Investments in areas with proven reserves	1,608,632	40,200	54,984	36,599	—	1,740,415
Investments in areas with unproven reserves	366,270	68,265	(47,560)	26,715	(271)	413,419
Other facilities, tools and furniture	127,976	1,131	15,654	840	(13,806)	131,795
Advances and property, plant and equipment in the course of construction	1,247,564	439,159	(1,226,531)	427	(295)	460,324
Other property, plant and equipment	704,481	4,822	(14,276)	5,182	(8,507)	691,702
Total	**10,339,850**	**564,423**	**30,874**	**125,383**	**(63,163)**	**10,997,367**
Depreciation						
Structures	(99,557)	(7,609)	(2,884)	(689)	2,137	(108,602)
Plant and machinery	(3,575,644)	(339,314)	(23,458)	(21,012)	24,027	(3,935,401)
Investments in areas with proven reserves	(985,151)	(228,423)	(679)	(12,492)	—	(1,226,745)
Investments in areas with unproven reserves	(169,947)	(48,361)	679	(7,966)	8	(225,587)
Other facilities, tools and furniture	(95,867)	(9,270)	(2,432)	(1,628)	13,569	(95,628)
Other property, plant and equipment	(237,477)	(36,524)	12,617	(10,008)	8,025	(263,367)
Total	**(5,163,643)**	**(669,501)**	**(16,157)**	**(53,795)**	**47,766**	**(5,855,330)**
Impairment losses	(63,942)	(7,856)	—	(5,470)	4,630	(72,638)
Net property, plant and equipment	**5,112,265**	**(112,934)**	**14,717**	**66,118**	**(10,767)**	**5,069,399**

The additions to property, plant and equipment, which amounted to EUR 889,287 thousand in 2009 and EUR 564,423 thousand in 2010, relate most notably to the following items:

- In the area of Exploration and Production, increase the exploration efforts in various countries and investments made in the fields located in Algeria, Colombia, Egypt, and Peru to improve and expand facilities.
- In the area of Refining and Marketing, notably the start-up of the new Destilation and Hydrocracking units aimed at enlarging and improving the production processes of middle distillates (diesel fuel and kerosene) for more than 3 million metric tons, as well as the new Sulphur Plant which was launched in January 2011, investments in new Asphalt Oxidation, and improvement submarine line, all of which took place at La Rábida refinery.
- In the area Gas and Electricity, investments made mainly for the construction of three new co-generation plants, the one in Asesa (Tarragona) is operating since May 2010; the one in La Rábida (Huelva) since October 2010; and the one in Lubrisur (San Roque) will become operative in the course on year 2011.

Additions in 2009 and 2010 include EUR 63,337 thousand and EUR 62,138 thousand, respectively, of staff, finance and other costs relating to the construction period of various items of property, plant and equipment which were credited to the accompanying consolidated income statements.

The amounts recorded in the “Other Changes” column relate basically to the effect of fluctuations in foreign exchange rates against the euro at certain foreign subsidiaries.

The "Disposals or Retirements" column for 2009 includes mainly the disposal of exploration assets and of disposal of Plant and Machinery for 2009 and 2010 (see Note 25).

Certain CEPSA Group companies recognised impairment losses at 2009 and 2010 year-end of EUR 37,492 thousand and EUR 7,856 thousand, respectively, arising from the adjustment of asset values based on the expected recovery of the net investment through the generation of future revenues, with the most significant in 2009 relating to those recognised in the petrochemical area by one of its business lines in Canada, due to the decrease in margins and business activities. (see Note 25).

At 31 December 2010, the Group had property, plant and equipment purchase commitments amounting to EUR 93,746 thousand, relating mainly to the investments currently being made at the La Rábida refinery.

At 31 December 2010, no material items of property, plant and equipment had been pledged to secure compliance with obligations relating to the ownership thereof.

At 31 December 2010 and 2009, fully depreciated property, plant and equipment in use totalled EUR 2,333,314 and EUR 2,051,383 thousand, respectively. All these assets relate to facilities in operation and are not depreciated as part of the equipment of which they are composed.

The detail of the items of property, plant and equipment acquired under finance lease arrangements at 31 December 2010 and 2009, is as follows:

	2010			2009		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
	Thousands of euros					
Plant and machinery	58,564	(26,597)	31,967	59,623	(24,400)	35,223
Transport equipment	—	—	—	81,975	(14,058)	67,917
Other property, plant and equipment	15,651	(2,787)	12,864	24,371	(2,207)	22,164
Total	**74,215**	**(29,384)**	**44,831**	**165,969**	**(40,665)**	**125,304**

In 1996 certain consolidating Group companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996 of 7 June, increasing the carrying amount of these assets by EUR 117,350 thousand. This increase in value is being depreciated (the depreciation charge is a tax-deductible expense) with a charge to profit in 1997 and subsequent years based on the years of residual useful life of the revalued assets.

Certain CEPSA Group companies have been granted administrative concessions by the Spanish State to use mooring facilities and access and adjacent areas at the ports of Santa Cruz de Tenerife which will revert to the State from 2010 to 2028, Algeciras-La Línea on 2022 and Palos de la Frontera from 2018 to 2065. Management of the CEPSA Group expects that these concessions will be renewed when they expire.

The Group has taken out insurance policies to cover the possible risks to which its property, plant and equipment are subject and the claims that might be filed against it for carrying on its business activities. These policies are considered to sufficiently cover the related risks.

7. Investments in companies accounted for using the equity method and jointly controlled entities

¨Investments in Companies Accounted for Using the Equity Method" at 2010 and 2009 year-end is presented in the table below:

Sociedad	2010	2009
	Thousands of euros	
CLH, S.A.	26,911	28,566
Medgaz, S.A.	21,729	4,952
Other companies	55,649	55,408
Total investments in companies accounted for using the equity method	**104,289**	**88,926**

CLH, S.A. has 2.41% of all the shares comprising its share capital listed on the four Spanish stock markets, the last quoted closing price of December 2010 was 29 EUR per share.

The detail of the changes in 2010 and 2009 in the above-mentioned heading is as follows:

	2010	2009
	Thousands of euros	
Beginning balance	**88,926**	**95,034**
Profit after taxes incurred in the year	31,969	35,600
Dividends paid in the year	(31,150)	(42,397)
Additions of investments in companies accounted for using the equity method	17,141	8
Retirements of companies as a result of:		
—Mergers/ Change in consolidation method	(1,736)	—
Other changes	(861)	681
Ending balance	**104,289**	**88,926**

The principal financial aggregates relating to associated companies accounted for using the equity method are summarised below:

	2010	2009
	Thousands of euros	
Total Assets	766,125	705,000
Total Liabilities	663,248	616,873
Net Assets	**102,876**	**88,127**
Total Revenues	**1,031,045**	**823,973**
Profit for the year	**164,908**	**190,582**
Share of results of companies accounted for using the equity method	**31,969**	**35,600**

The detail of the goodwill of companies accounted for using the equity method, by the cash generating unit to which it was allocated, in 2009 and 2010 is as follows:

2009	Balance at 01.01.09	Additions	Other Changes	Disposals	Impairment Losses	Balance at 31.12.09
			Thousands of euros			
Direct sales companies	935	—	—	—	—	935
Distribution network companies	6,666	—	—	—	—	6,666
Total	**7,601**	**—**	**—**	**—**	**—**	**7,601**

2010	Balance at 01.01.10	Additions	Other Changes	Disposals	Impairment Losses	Balance at 31.12.10
Direct sales companies	935	247	—	—	—	1,182
Distribution network companies	6,666	—	—	—	—	6,666
Total	**7,601**	**247**	**—**	**—**	**—**	**7,848**

The information at 31 December 2009 and 2010 of the financial statements of the main companies jointly controlled by the Group is as follows:

2009	Ownership %	Non-Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Operating Income	Operating Costs
			Thousands of euros				
Nueva Generadora del Sur, S.A.	50%	337,614	44,272	315,948	65,938	219,472	204,296
Cepsa Chimie Montreal, LP	51%	250,312	76,646	92,000	234,958	236,893	350,714
Cepsa Chimie Becancour, INC	51%	37,654	30,845	38,469	30,030	107,827	98,956

2010	Ownership %	Non-Current Assets	Current Assets	Non-Current Liabilities	Current Liabilities	Operating Income	Operating Costs
Nueva Generadora del Sur, S.A.	50%	334,001	25,607	297,666	61,942	198,479	206,571
Cepsa Chimie Montreal, LP	51%	250,878	140,556	105,001	286,433	472,804	383,673
Cepsa Chimie Becancour, INC	51%	40,147	38,897	56,432	22,612	137,776	124,692

All the proportionately consolidated companies are jointly controlled entities in accordance with the definition established in IAS 31 (see note 2.c) and are included in Table I, which provides information on their line of business and main economic aggregates.

Table II, which is an integral part of these Notes to the consolidated financial statements, details the main joint ventures operated as jointly-controlled ventures and jointly-controlled assets, in which the CEPSA Group has an interest. The accompanying consolidated financial statements include the assets, liabilities, expenses and income in proportion to the Group's ownership interest. "

8. Financial assets

The balances of and changes in financial assets in 2009 and 2010 are as follows:

2009	Balance at 01.01.09	Additions	Transfers	Other Changes	Disposals	Balance at 31.12.09
			Thousands of Euros			
Non-current loans to companies accounted for using the equity method	75,307	37,597	(74,918)	—	(2,110)	35,876
Other non-current loans	47,409	23,023	(8,756)	741	(17,911)	44,506
Other non-current financial assets	39,698	5,625	—	4,348	(2,922)	46,749
Allowances	(20,609)	(2,647)	—	(915)	6,474	(17,697)
Total non-current loans and financial assets	**141,805**	**63,598**	**(83,674)**	**4,174**	**(16,469)**	**109,434**
Current loans to companies accounted for using the equity method	153,568	59,961	74,918	(60)	(47,058)	241,329
Other current loans	26,421	34,195	8,756	(4,184)	(34,314)	30,874
Other current financial assets	6,858	12,743	—	(110)	(15,488)	4,003
Allowances	(2,862)	(9,467)	—	—	2,434	(9,895)
Total current loans and financial assets	**183,985**	**97,432**	**83,674**	**(4,354)**	**(94,426)**	**266,311**

2010	Balance at 01.01.10	Additions	Transfers	Other Changes	Disposals	Balance at 31.12.10
			Thousands of Euros			
Non-current loans to companies accounted for using the equity method	35,876	8,867	29,887	639	(9)	75,260
Other non-current loans	44,506	12,443	(1,614)	39	(11,769)	43,605
Other non-current financial assets	46,749	4,246	—	2,021	(2,675)	50,341
Allowances	(17,697)	(1,463)	—	235	698	(18,227)
Total non-current loans and financial assets	**109,434**	**24,093**	**28,273**	**2,934**	**(13,755)**	**150,979**
Current loans to companies accounted for using the equity method	241,329	53,547	(29,887)	326	(196,410)	68,905
Other current loans	30,874	44,789	1,614	(913)	(41,371)	34,993
Other current financial assets	4,003	24,257	—	197	(20,356)	8,101
Allowances	(9,895)	(264)	—	—	305	(9,854)
Total current loans and financial assets	**266,311**	**122,329**	**(28,273)**	**(390)**	**(257,832)**	**102,145**

Following is a detail of the financial assets and liabilities at 31 December 2009 and 31 December 2010, by type and category for valuation purposes:

31/12/2009

FINANCIAL ASSETS BY TYPE / CATEGORY	Held-for-trading financial assets	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	TOTAL
	Thousands of Euros				
Equity instruments	—	16,243	—	—	16,243
Debt instruments	—	—	73,452	—	73,452
Other financial assets	—	—	19,739	—	19,739
Non current	**—**	**16,243**	**93,191**	**—**	**109,434**
Debt instruments	—	—	262,310	—	262,310
Derivatives	3,186	—	—	93	3,279
Other financial assets	—	—	722	—	722
Current	**3,186**	**—**	**263,032**	**93**	**266,311**
TOTAL	**3,186**	**16,243**	**356,223**	**93**	**375,745**

31/12/2010

FINANCIAL ASSETS BY TYPE / CATEGORY	Held-for-trading financial assets	Available-for-sale financial assets	Loans and receivables	Hedging derivatives	TOTAL
	Thousands of Euros				
Equity instruments	—	16,616	—	—	16,616
Debt instruments	—	—	104,255	—	104,255
Other financial assets	—	—	30,108	—	30,108
Non current	**—**	**16,616**	**134,363**	**—**	**150,979**
Debt instruments	—	—	94,044	—	94,044
Derivatives	4,418	—	—	1,347	5,765
Other financial assets	—	—	2,336	—	2,336
Current	**4,418**	**—**	**96,380**	**1,347**	**102,145**
TOTAL	**4,418**	**16,616**	**230,743**	**1,347**	**253,124**

The detail, by maturity, of the balances of "Loans to Companies Accounted for Using the Equity Method" and "Other Loans" at 31 December 2009 and 31 December 2010, is as follows:

2009	2010	2011	Maturing in 2012	2013	2014	Other	Total
	Thousands of Euros						
Loans to companies accounted for using the equity method	241,329	28,814	4,252	—	—	2,810	277,205
Other loans	30,874	9,250	6,886	5,929	13,098	9,343	75,380
Total	**272,203**	**38,064**	**11,138**	**5,929**	**13,098**	**12,153**	**352,585**

2010	2011	2012	Maturing in 2013	2014	2015	Other	Total
	Thousands of Euros						
Loans to companies accounted for using the equity method	68,905	65,274	5,000	4,882	—	104	144,165
Other loans	34,993	11,130	9,753	6,568	4,945	11,209	78,598
Total	**103,898**	**76,404**	**14,753**	**11,450**	**4,945**	**11,313**	**222,763**

9. Inventories

The detail of "Inventories" at 31 December 2010 and 2009 is as follows:

	2010	2009
	Thousands of Euros	
Crudes	762,078	466,958
Other raw materials	66,412	51,238
Finished goods	1,073,621	822,777
Other supplies	117,706	111,194
Allowances	(3,399)	(3,655)
Total	**2,016,418**	**1,448,512**

Pursuant to the Directorate-General of Energy Policy and Mining resolution dated 30 March 2009, CEPSA and other Group companies which act as operators are required to maintain minimum oil product safety stocks equivalent to 50 days of sales of the preceding 12 months in the domestic market for 2010, excluding sales to other wholesalers, and Corporation of Strategic Reserves of Oil-based products (CORES) inspects and controls the fulfilment of this obligation. CEPSA management considers that the consolidated Group has been meeting this obligation.

As indicated in Note 3-f, CEPSA uses the average **unit cost method** to measure raw material and commercial goods inventories.

In 2009 the EUR 544,355 thousand inventory write-down was reversed, since the circumstances for which it had been recognised at 31 December 2008 had disappeared, due to the increase in the net realisable value of the inventories.

10. Trade and other receivables

The detail of "Trade and Other Receivables" in 2010 and 2009 is as follows (see Note 22):

	2010	2009
	Thousands of Euros	
Trade receivables for sales and services	2,566,616	2,225,229
Receivable from companies accounted for using the equity method	256,440	171,377
Sundry accounts receivable	9,156	12,846
Tax receivables	76,579	59,676
Allowances	(169,077)	(151,192)
Total	**2,739,714**	**2,317,936**

11. Cash and cash equivalents

The detail of "Cash and Cash Equivalents" relating to 2010 and 2009 is shown below:

	2010	2009
	Thousands of Euros	
Cash	79,096	111,247
Cash equivalents	761,984	487,290
Total	**841,080**	**598,537**

This item includes cash balances, cash equivalents, bank deposits and other investments maturing within three months. (see Note 3.g)

12. Equity

a) Share capital and share premium

Share capital amounted to EUR 267,574,941 and consisted of 267,574,941 book-entry shares, totally subscribed and paid, of EUR 1 par value each.

Per the information provided by the members of the Board of Directors who are shareholders, at 31 December 2010, Total, S.A. and International Petroleum Investment Company (IPIC), directly and indirectly owned 48.83% and 47,06% respectively, of the share capital of CEPSA.

In 2009 the ownership interests held by Banco Santander and Unión Fenosa in CEPSA, of 32.5% and 5% respectively at 31 December 2008, were sold to IPIC.

CEPSA's shares are traded on the continuous market on the four Spanish Stock Exchanges.

The Corporate Law expressly permits the use of the share premium account balance to increase capital and establishes no specific restrictions as to its use. There were no changes in 2010 or 2009 in the balance of this account, which amounted to EUR 338,728 thousand.

b) Revaluation reserve

In 1996 CEPSA and several consolidated Group companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996 of 7 June, and increased their equity by EUR 58,438 thousand and EUR 58,438 thousand, respectively. This latter figure was recognised under "Consolidated Reserves" on consolidation, which is included in retained earnings.

The revaluation reserve also includes EUR 32,498 thousand relating to the revaluations made in 1979 and 1981 pursuant to State Budget Law 1/1979 and State Budget Law 74/1980, which can now be transferred to unrestricted voluntary reserves. The balance of the "Revaluation Reserve, Royal Decree-Law 7/1996" account can be used, free of tax, to eliminate recorded losses and to increase capital. From 1 January 2007 (i.e. ten years after the date of the balance sheet reflecting the revaluation transactions) the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised. If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

c) Reserves at consolidated companies

The breakdown, by company, of reserves at consolidated companies, which are included in "Retained Earnings", at 2010 and 2009 year-end, is as follows:

	2010	2009
	Thousands of Euros	
Fully and proportionately consolidated companies:		
Cepsa Estaciones de Servicio, S.A.	220,064	221,652
Cepsa Lubricantes, S. A	26,512	25,796
Cepsa Portuguesa, S.A.	9,025	984
Proas, S.A.	11,219	11,239
Cepsa Química, S.A.	699,645	656,904
Other Companies	94,433	176,611
Total fully and proportionately consolidated companies	**1,060,898**	**1,093,186**
Companies accounted for using the equity method:		
Compañía Logística de Hidrocarburos CLH, S.A.	(12,723)	(12,544)
Other Companies	18,202	17,061
Total companies accounted for using the equity method	**5,479**	**4,517**
TOTAL	**1,066,377**	**1,097,703**

d) Translation differences

The detail, by company, of the balance of "Translation Differences" is as follows:

Company	2010	2009
	Thousands of Euros	
Cepsa International, B.V.	(1,955)	(4,738)
Deten Quimica, S.A.	45,687	32,943
Cepsa Química Montreal, LP	3,489	4,735
Cepsa Química Becancour, INC	3,786	2,728
Cepsa Colombia, S.A.	78,506	32,495
Other companies	(1,719)	(2,113)
Total translation differences	**127,794**	**66,050**

The change in the balance of this heading in 2010 was basically due to the fluctuation in the year-end exchange rates of the Canadian dollar, Brazilian real and US dollar.

e) Dividends

"Interim Dividend Paid" includes the dividends paid out of CEPSA's profit at 31 December 2010 and 2009 amounting to EUR 120,409 thousand and EUR 107,030 thousand, respectively.

The shareholders at the Annual General Meeting on 28 May 2010 resolved to pay a dividend of EUR 0.80 per share out of 2009 profit which, after deducting the interim dividend already paid, gave rise to a final dividend of EUR 0.40 per share. This dividend was effective on 21 June 2010.

The final dividend out of 2010 profit that CEPSA's Board of Directors will propose to the shareholders at the Annual General Meeting will not be deducted from equity until it has been approved by the shareholders.

f) Minority interests

The detail of "Minority Interests" at 31 December 2010 and 2009 is as follows:

	2010		2009	
Minority interests	Equity	Profit (Loss)	Equity	Profit (Loss)
	Thousands of Euros			
Company				
C.M.D. Aeropuertos Canarios, S.L.	11,235	2,711	12,180	1,976
Deten Química, S.A.	29,562	7,656	21,415	11,120
Generadora Eléctrica Penínsular, S.A.	15,991	3,466	15,520	3,021
Other	4	—	4	—
Total	**56,792**	**13,833**	**49,119**	**16,117**

13. Bank borrowings and other financial liabilities

The detail of the balances of current and non-current bank borrowings and other financial liabilities in 2010 and 2009 is as follows:

2010	Current	Non-Current	Total
	Thousands of Euros		
Bank borrowings relating to finance leases	8,934	4,933	13,867
Other bank borrowings	529,494	1,661,680	2,191,174
Derivatives	13,844	—	13,844
Other financial liabilities	76,619	161,779	238,398
Total	**628,891**	**1,828,392**	**2,457,283**

2009	Current	Non-Current	Total
	Thousands of Euros		
Bank borrowings relating to finance leases	26,523	10,035	**36,558**
Other bank borrowings	714,105	1,099,566	**1,813,671**
Derivatives	1,756	—	**1,756**
Other financial liabilities	67,891	150,926	**218,817**
Total	**810,275**	**1,260,527**	**2,070,802**

The detail by maturity of the bank borrowings and other financial liabilities at 31 December 2010 and 2009, is as follows:

	Maturing in						
2010	2011	2012	2013	2014	2015	Other	Total
	Thousands of Euros						
Bank borrowings relating to finance leases	8,934	4,619	314	—	—	—	13,867
Other bank borrowings	529,494	172,097	503,997	190,456	401,798	393,332	2,191,174
Derivatives	13,844	—	—	—	—	—	13,844
Other financial liabilities	76,619	48,059	15,108	16,583	16,213	65,816	238,398
Total	**628,891**	**224,775**	**519,419**	**207,039**	**418,011**	**459,148**	**2,457,283**

	Maturing in						
2009	2010	2011	2012	2013	2014	Other	Total
Bank borrowings relating to finance leases	26,523	7,391	2,615	29	—	—	36,558
Other bank borrowings	714,105	299,809	376,859	29,226	74,700	318,972	1,813,671
Derivatives	1,756	—	—	—	—	—	1,756
Other financial liabilities	67,891	35,251	13,337	13,567	17,753	71,018	218,817
Total	**810,275**	**342,451**	**392,811**	**42,822**	**92,453**	**389,990**	**2,070,802**

The detail by currency of the bank borrowings and other financial liabilities at 31 December 2010 and 2009, is as follows:

	2010			2009		
	Financial Liabilities			Financial Liabilities		
	Current	Non-current	Total	Current	Non-current	Total
	Thousands of Euros					
Euro	240,645	1,475,798	1,716,443	501,038	749,635	1,250,673
Foreign currencies	386,024	352,594	738,618	308,369	510,892	819,261
Unmatured interest payable	2,223	—	2,223	868	—	868
Total bank borrowings and other financial liabilities	**628,892**	**1,828,392**	**2,457,284**	**810,275**	**1,260,527**	**2,070,802**

The average annual nominal interest rate on the loans in euros was 1.41% in 2010 and 1.39% in 2009, and that on the foreign currency loans was 0.69% in 2010 and 0.76% in 2009. The weighted average cost of the financing received was 1.18% in 2010 and 1.09% in 2009. The fair value of these financial liabilities coincides basically with their carrying amount as they relate mainly to loans at variable interest rates.

The loans denominated in US dollars are contracted directly or through US dollar forward sales. The interest rates presented in the preceding paragraph include the effect of these forward sales.

In accordance with its foreign currency risk management policy (see Note 22), the CEPSA Group has arranged loans in US dollars to finance certain investments in non-current assets that generate cash flows in US dollars and are accounted for as cash flow hedges. (see Note 3.k). These flows arise mainly from crude oil sales envisaged in the Exploration and Production area and relate to a portion of the proven reserves and crude oil reserves that have already been developed, achieving the flows associated with the hedge until 2018.

The detail of the balances and changes in 2010 and 2009 in "Reserves for Fair Value Accounting Financial Assets and Liabilities" relating to these transactions is as follows:

	2010	2009
	Thousands of Euros	
Beginning balance	**56,289**	**26,946**
Gains or losses recognised directly in equity	(29,402)	28,387
Transferred to income statement	(38,096)	956
Ending balance	**(11,209)**	**56,289**

At 31 December 2010 and 2009 the CEPSA Group companies had undrawn credit facilities totalling over EUR 1,000,000 thousand and EUR 700,000 thousand, respectively. In addition to these amounts available, at those dates there were "Cash and Cash Equivalents" balances included under "Liquid Assets" in the consolidated balance sheets.

A detail of the Group's financial liabilities at 31 December 2010 and 2009, by nature and category, is as follows:

31/12/2010

FINANCIAL LIABILITIES BY TYPE / CATEGORY	Held-for trading financial liabilities	Borrowings and payables	Hedging derivatives	TOTAL
		Thousands of Euros		
Bank borrowings	—	1,666,613	—	1,666,613
Other financial liabilities	—	161,779	—	161,779
Non-current	**—**	**1,828,392**	**—**	**1,828,392**
Bank borrowings	—	538,428	—	538,428
Derivatives	12,723	—	1,121	13,844
Other financial liabilities	—	76,619	—	76,619
Current	**12,723**	**615,047**	**1,121**	**628,891**
TOTAL	**12,723**	**2,443,439**	**1,121**	**2,457,283**

31/12/2009

FINANCIAL LIABILITIES BY TYPE / CATEGORY	Held-for trading financial liabilities	Borrowings and payables	Hedging derivatives	TOTAL
		Thousands of Euros		
Bank borrowings	—	1,109,601	—	1,109,601
Other financial liabilities	—	150,926	—	150,926
Non-current	**—**	**1,260,527**	**—**	**1,260,527**
Bank borrowings	—	740,628	—	740,628
Derivatives	1,711	—	45	1,756
Other financial liabilities	—	67,891	—	67,891
Current	**1,711**	**808,519**	**45**	**810,275**
TOTAL	**1,711**	**2,069,046**	**45**	**2,070,802**

Information on the deferral of payments made to suppliers. Additional Provision Three. "Disclosure requirements" under Law 15/2010, of 5 July.

In relation to the disclosures required under Additional Provision Three of Law 15/2010, of 5 July, for these initial financial statements prepared subsequent to the entry into force of the Law, at 31 December 2010, EUR 4,313 thousand of the balance payable to suppliers was past-due by more than the legally established payment period.

This balance relates to amounts payable to suppliers that by nature are trade payables for goods and services and, therefore, it includes the data on "Current Liabilities—Payable to Group Companies and Associates" and "Current Liabilities—Trade and Other Payables" in the accompanying balance sheet.

The maximum legal payment period applicable to the Company under Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions and in accordance with the transitional provisions established in Law 15/2010, of 5 July, is 85 days from the date of entry into force of the Law to 31 December 2011.

14. Tax matters

CEPSA and certain Group companies have filed consolidated income tax returns. Table I contains a list of the main companies in the tax Group in 2010.

The detail of the income tax expense is as follows:

	2010	2009
	Thousands of Euros	
In the consolidated income statements:		
Current tax expense		
Period tax expense	245,883	322,909
Adjustments to the tax expense for the period or prior years	(9,635)	(7,329)
Deferred tax expense		
Related to the creation or reversal of temporary differences	137,924	(43,124)
Total tax expense recognised in the consolidated income statement	**374,172**	**272,456**
In the consolidated statement of changes in equity:		
Deferred tax expense		
Related to the creation or reversal of temporary differences	(19,898)	9,347
Total tax expense recognised in equity	**(19,898)**	**9,347**

The income tax expense is obtained from the accounting profit before taxes as indicated below:

	2010	2009
	Thousands of Euros	
Accounting profit (before taxes)	**1,021,951**	**663,261**
Theoretical tax rate	306,585	198,978
Difference due to different tax rates	107,417	104,278
Permanent differences	4,714	15,358
Tax credits and relief applied	(34,909)	(38,829)
Tax adjustment	(9,635)	(7,329)
Total income tax expense	**374,172**	**272,456**

The tax on remuneration of production activities in force in Algeria is deemed to be of the same nature as Spanish Income Tax. The current tax rate is 38% on the gross annual remuneration in barrels of Saharan Blend crude oil, withheld and settled through the Algerian state-owned company Sonatrach, in the name and on behalf of CEPSA. The related tax payable in 2010 and 2009 amounted to EUR 215,843 thousand and EUR 191,074 thousand, respectively, and in 2010 and 2009, under Algerian law, included the tax payable for the new tax on exceptional profits which is higher as crude price increases and came into force in August 2006.

The "Difference Due to Different Tax Rates" includes mainly the effect of different tax rates to which CEPSA is subject on income obtained in the exploration for and production of crude oil from the Algerian fields and attributed to its permanent establishment. Other foreign institutions or subsidiaries have no significant influence on this rate differential.

The "Permanent Differences" arise mainly from the exemptions of revenues which have already been taxed abroad, capital gains on the transfer of certain assets and non-deductible expenses.

The "Tax Adjustment" amounts of EUR (9,635) thousand in 2010 and EUR (7,329) thousand in 2009 include the difference between the income tax expense recorded at 31 December 2009 and 2008, and the income tax expense per the final tax returns for those years.

In calculating the income tax expense for each year, the Group took into account the applicable tax credits for dividend double taxation and certain activities and other tax incentives.

At 31 December 2010 and 2009, the CEPSA Group did not have any material unused tax credits.

In 2010 and 2009 the income qualifying for the reinvestment tax credit amounted to EUR 963 thousand and EUR 1,312 thousand, respectively. This income was reinvested in 2010 and 2009.

As permitted by Article 35 of the Income Tax Law, the CEPSA Group took the following tax credits for investment in measures to reduce environmental impact in 2010 and 2009:

	General Tax Regime		Canary Islands Tax Regime	
	2010	2009	2010	2009
	Thousands of Euros			
Environmental investments	186,213	31,150	—	—
Tax credit	3,724	1,246	—	—

At 31 December 2010 and 2009, certain companies in the consolidated tax Group had EUR 47,890 thousand and EUR 10,265 thousand, respectively, of tax losses available for carry forward. The related tax assets were recognised only in those cases in which it was reasonably estimated that their future recovery is assured.

The detail of the balances of the deferred tax assets and liabilities is as follows, broken down according to origin:

	2010	2009
	Thousands of Euros	
Deferred tax assets		
Non-current assets	20,866	35,900
Tax loss carryforwards	3,363	5,330
Provisions	20,902	27,728
Other	21,311	19,879
Total deferred tax assets	**66,442**	**88,837**
Deferred tax liabilities		
Finance leases	69,211	67,749
Non-current assets	240,304	32,254
Hedges	3,642	11,484
Current assets	8,112	73,436
Other	11,866	43,649
Total deferred tax liabilities	**333,135**	**228,572**

The deferred tax liabilities arising from non-current assets include mainly those relating to accelerated depreciation taken as permitted under Additional Provision Eleven introduced in the Spanish Corporation Tax Law on accelerated depreciation, maintaining the level of employment established in Article 1.12 of Law 4/2008, of 23 December. The adjustments arising from the first time application of the new accounting norm may be included in the taxable income for income tax purposes as one-third of the adjustments to be distributed in each of the first three consecutive years. Consequently, at 31 December 2010, the balance of "Deferred Tax Liabilities" includes a third of the aforementioned difference, having been included two—thirds in the taxable income for 2008 and 2009.

Assessments have been contested for various taxes, including the excise tax on oil and gas. The CEPSA Group has filed appeals against such assessments with the appropriate courts and has recorded a provision for the full amount thereof, together with the related late-payment interest accrued through 2010 year-end.

The years open for review by the tax authorities in connection with the taxes applicable to the Group vary for the different consolidated companies, although they are generally the years since 2002, except for the income tax of the CEPSA tax Group which are the years since 2005.

The income tax audits of the CEPSA tax Group for 2005 to 2008 commenced in 2010.

CEPSA management does not expect any additional material liabilities for which provisions have not been recognised to arise for the Parent or for the other consolidated Group companies as a result of the appeals filed or of inspection of the open years.

In opinion of the Company´s Directors and its tax advisors, related parties transactions are carried at market value, transfer prices are adequately supported and it is estimated that there are not significant risks of future consideration liabilities in this aspect of those resulting liabilities for future consideration for the company.

15. Grants related to assets

The changes in 2009 and 2010 in "Grants Related to Assets" and the balances thereof at year-end are as follows:

2009	Balance at 01.01.09	Additions	Other Changes	Retirements	Transferred to Income	Balance at 31.12.09
			Thousands of Euros			
Grants related to assets	64,324	10,756	996	(5)	(9,600)	66,471
Greenhouse gas emission allowances	5,795	85,718	(64)	—	(76,469)	14,980
Total	**70,119**	**96,474**	**932**	**(5)**	**(86,069)**	**81,451**

2010	Balance at 01.01.10	Additions	Other Changes	Retirements	Transferred to Income	Balance at 31.12.10
Grants related to assets	66,471	3,023	1,160	(2)	(11,014)	59,638
Greenhouse gas emission allowances	14,980	75,442	—	—	(59,827)	30,595
Total	**81,451**	**78,465**	**1,160**	**(2)**	**(70,841)**	**90,233**

The detail, by grantor entity, of the additions to "Grants Related to Assets" in 2010 and 2009 is as follows:

	2010	2009
	Thousands of Euros	
Grants received from		
—Central government	752	6,200
—Autonomous Community governments	2,271	4,556
Total	**3,023**	**10,756**

The additions to "Greenhouse Gas Emission Allowances" include the market value of the emission allowances assigned for no consideration at the date of assignment and the "Transferred to Income" column includes the valuation adjustment initially recognised for the amount recorded as an impairment loss on allowances received from the Government and the recognition in income of the value of the allowances assigned for CO_2 emissions made in the year. (see Notes 4 and 25)

16. Pensions and other similar obligations

a) Defined contribution plans

For the period 2010 and 2009, CEPSA and several of its subsidiaries recognised the following expenses for defined contribution obligations:

Defined obligations	2010	2009
	Thousands of euros	
Retirement (pension plan)	11,602	10,333
Life insurance	5,728	4,257
Total	**17,330**	**14,590**

b) Defined benefit obligations

The net amounts of expenses and revenues recognised in the consolidated income statement and the variation in defined benefit obligations on the liability side of the balance sheet are as follows:

Defined obligations	2010	2009
	Thousands of euros	
Balance at 1 January	**10,987**	**11,016**
• Current service cost	1,724	2,306
• Interest cost of benefit	407	348
• Effect of reductions or settlements	(2,224)	(2,683)
Balance at 31 December	**10,895**	**10,987**

The main assumptions used to determine the pension obligations and post-employment benefits under the plans of CEPSA and several of its subsidiaries are as follows:

Company Store	2010	2009
	Thousands of Euros	
• Discount rate	4%	4%
• Expected salary increase rate	2-2.5%	2-2.5%
• Mortality tables	PEMF2000	PEMF2000

17. Other provisions

The detail of the changes recorded in 2009 and 2010 in "Other Provisions" and of the balances at 31 December 2009 and 2010, is as follows:

2009	Balance at 01.01.09	Additions	Transfers	Other Changes	Amounts Used	Balance at 31.12.09
			Thousands of Euros			
Provisions for third-party liability	22,572	3,059	(286)	(586)	(3,535)	21,224
Environmental provisions	17,086	5,486	—	—	(4,881)	17,691
Other provisions	114,483	19,231	286	21,464	(75,016)	80,448
Total	**154,141**	**27,776**	**—**	**20,878**	**(83,432)**	**119,363**

2010	Balance at 01.01.10	Additions	Transfers	Other Changes	Amounts Used	Balance at 31.12.10
			Thousands of Euros			
Provisions for third-party liability	21,224	31,356	15,274	(2)	(23,024)	44,828
Environmental provisions	17,691	2,999	—	(389)	(5,224)	15,077
Other provisions	80,448	23,805	(15,274)	2,608	(6,323)	85,264
Total	**119,363**	**58,160**	**—**	**2,217**	**(34,571)**	**145,169**

"Provisions for Third-Party Liability" covers the contingencies arising from the Group companies' ordinary operations that might give rise to actual liabilities in their dealings with third parties. The main items were obligations to third parties relating to contractual undertakings and contingencies relating to lawsuits in progress.

It also includes the provisions recorded to cover possible tax contingencies arising from assessments signed on a contested basis and other tax contingencies in connection with the years open for review by the tax authorities.

"Environmental Provisions" includes the estimated amounts relating to legal or contractual liabilities or commitments acquired by the CEPSA Group to prevent, reduce or repair damage to the environment with a charge to professional services or repair and upkeep expenses. It also includes the estimated amounts for environmental action to remedy the risk of gradual soil pollution.

"Other Provisions" includes other contingencies and provisions for the abandonment of crude oil production fields once the recoverable reserves have been extracted.

The main changes in 2009 related to the amounts used in relation to the finalisation of certain disputes, the most significant of which were the agreements reached with the tax authorities under the new regulatory framework.

The directors of CEPSA consider that the provisions recorded in the accompanying consolidated balance sheet cover adequately the risks relating to litigation, arbitration proceedings and other transactions described in this Note and, accordingly, they do not expect any liabilities additional to those disclosed to arise.

In view of the nature of the risks covered by these provisions, it is not possible to determine a reasonable schedule for the related payments, if any.

18. Other non-current liabilities and Trade and other payables

The detail of the balances of “Other Non-Current Liabilities” and “Trade and Other Payables” in 2010 and 2009 is as follows:

	2010		2009	
	Non-Current	Current	Non-Current	Current
	Thousands of Euros			
Trade payables	—	1,708,867	—	1,520,400
Payable to companies accounted for using the equity method	—	325,808	—	283,635
Guarantees/deposits received	3,732	8,464	3,773	9,905
Other non-trade payables	19,855	209,560	27,803	207,331
Taxes payable	258	308,996	228	325,120
Provisions	—	71,024	—	61,107
Total	**23,845**	**2,632,719**	**31,804**	**2,407,498**

“Provisions” includes at 31 December 2010 and 2009 amounts of EUR 67,057 thousand and EUR 57,757 thousand, respectively, relating to the obligation to deliver allowances for the CO_2 emissions made, which are lower than the allowances assigned under the National Emission Allowance Assignment Plan. (see Notes 3-j and 4)

19. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, were eliminated on consolidation and are not disclosed in this Note.

Transactions with associates and joint ventures

Transactions between the Group and its associates and joint ventures are disclosed below:

	2010	2009
	Thousands of Euros	
In the consolidated balance sheets:		
Trade and other receivables	256,440	171,377
Current and non-current loans	144,165	277,205
Trade and other payables	325,808	283,635
In the consolidated income statements:		
Revenue	1,333,673	1,036,854
Other operating income	4	628
Procurements	242,956	205,077
Other operating expenses	135,325	131,157
Finance income	719	5,961
Finance costs	227	296

Transactions and balances with associates and joint ventures relate basically to normal Group business operations and were carried out on an arm’s-length basis.

Lastly, "Trade and Other Payables" includes EUR 195,061 thousand and EUR 201,783 thousand relating to the excise tax on oil and gas accrued in December 2010 and 2009, respectively, which CEPSA paid to the tax authorities in January 2011 and 2010, through Compañía Logística de Hidrocarburos CLH, S.A.

Transactions with significant shareholders

The relevant transactions performed by the CEPSA Group with significant shareholders in 2010 were as follows:

Name of the Significant Shareholder	CEPSA Group Company	Type of Relationship	Type of Transaction	Amount
Total Group	CEPSA	Commercial	Purchases, services and sundry expenses	EUR 824,820 thousand of purchases of goods, services received and sundry expenses.
		Commercial	Sales, services and sundry income	EUR 714,174 thousand of sales of goods, and providing of services and sundry income.
		Corporate	Dividends and other distributed profit	EUR 111,068 thousand.
International Petroleum Investment Company	CEPSA	Commercial	Purchases, services and sundry expenses	EUR 206 thousand for services received
		Commercial	Sales, services and sundry income	EUR 47 thousand for services rendered
		Corporate	Dividends and other distributed profit	EUR 107,037 thousand

The CEPSA Group and its directors and executives did not perform any relevant transactions in 2010 and 2009, other than those described in Note 20.

20. Remuneration and other benefits of directors and senior executives

The remuneration earned by the directors at the consolidated Group in 2010 and 2009 was as follows:

Remuneration	2010	2009
	Thousands of Euros	
Fixed remuneration	810	800
Variable remuneration	170	218
Attendance fees	251	288
Bylaw—stipulated director emoluments	2,825	3,603
Other items	5	12
Pension funds and plans: contributions and obligations	955	943
Total	**5,016**	**5,864**

Pursuant to Article 229 of the Spanish Companies Law, the Group's Management has made the disclosures to which the aforementioned table refers.

Following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the company object of Compañía Española de Petróleos S.A. in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat:

Director	Investee	Line of Business	% of Ownership	Function
Mr. Michel Bénézit	TOTAL, S.A.	Energy	Not significant	Member of the Executive Committee; Refining and Marketing Manager
Mr. Eric de Menten	TOTAL, S.A.	Energy	Not significant	Marketing Manager for European Region
Mr. José Manuel Otero Novas	REPSOL-YPF	Energy	Not significant	—
Mrs. Nathalie Brunelle	TOTAL, S.A.	Energy	Not significant	Basic Petrochemicals Sales Manager
Mr. Humbert de Wendel	TOTAL, S.A.	Energy	Not significant	Head of Corporate Development; Member of the Steernig Committee
Mr. Patrick Pouyanné	TOTAL, S.A.	Energy	Not significant	Strategic Production, Exploration, Research and Development Manager

Also, pursuant to the aforementioned law, we set forth below the activities carried on by the members of the Board of Directors that are identical, similar or complementary to the activity that constitutes the company object of Compañía Española de Petróleos S.A., and the duties they discharge at other subsidiaries and associates:

Director	Line of Business	System under which the Activity is Performed	Company through which the Activity is Performed
Mr. Michel Bénézit	Integrated oil company	As an employee	TOTAL, S.A.
Mrs. Nathalie Brunelle	Integrated oil company	As an employee	TOTAL,S.A.
Mr. Murtadha Al Hashemi	Integrated oil company	As an employee	IPIC
Mr. Eric de Menten	Integrated oil company	As an employee	TOTAL, S.A.
Mr. Saeed Al Mehairbi	Oil transport	As an employee	IPIC
Mr. Khadem Al Qubaisi	Integrated oil company	As an employee	IPIC
Mr. Mohamed Al Mehairi	Integrated oil company	As an employee	IPIC
Mr. Patrick Pouyanné	Integrated oil company	As an employee	TOTAL, S.A.
Mr. Humbert de Wendel	Integrated oil company	As an employee	TOTAL, S.A.
Mr. Humbert de Wendel	Integrated oil company	As an employee	ODIVAL, S.A.

Name	Corporate Name of the Subsidiary	Position or Function at the Company
Mr. Dominique de Riberolles	CEPSA Química, S.A.	Chairman
	CEPSA Chimie Bécancour Inc.	Chairman
	CEPSA Chimie Montreal Inc.	Chairman
	Deten Química, S.A.	Chairman
	Petresa America, Inc.	Managing Director
	CEPSA Gas Comercializadora, S.A.	Managing Director

At 31 December 2010 and 2009, the Board of Directors was composed by 13 members, one female and 12 males. Total remuneration of senior executives who were not simultaneously executive directors of the consolidated Group amounted in 2009 and 2010 year-end are as follows:

	2010	2009
	Thousands of Euros	
Remuneration		
Fixed remuneration	4,679	4,295
Variable remuneration	1,274	740
Other items	194	532
Pension funds and plans: contributions and obligations	1,480	1,733
Total	**7,627**	**7,300**

The number of members of Senior Executives in 2009 and 2010 has been 15.

Senior executives receive an annual fixed and variable remuneration payment. The latter is calculated as a percentage of the fixed remuneration, with said percentage being conditional upon the level of achievement of the objectives established for the year. These objectives, which are subject to measurement and control systems, are determined on the basis of the earnings of the Consolidated Group, occupational safety rates, operating aspects of the business, such as the performance of projects pursuant to established criteria relating to price, quality and deadline, and individual performance.

21. Guarantee commitments to third parties and other contingent liabilities

At 31 December 2010 and 2009, certain Group companies had provided guarantees, mainly for bank transactions and supply contracts, the breakdown being as follows:

	2010	2009
	Thousands of Euros	
Public entities	159,648	155,837
Suppliers/creditors and other	581,735	627,937
Total	**741,383**	**783,774**

The guarantees to “Suppliers/Creditors and Other” relate mainly to guarantees provided by CEPSA to financial institutions for drawdowns against credit facilities granted to Group companies, which amounted to EUR 213,634 and EUR 411,874 thousand in 2010 and 2009, respectively. These amounts were recognised, by maturity, under “Bank Borrowings” on the liability side of the consolidated balance sheets.

At 31 December 2010, the Group had not pledged any financial assets as security for liabilities or contingent liabilities.

Long-term firm commitments to purchase, Cepsa Group at 31 December are as follows:

	2011	2012	2013	2014	2015	Subsequent years	Total
				Thousands of Euros			
Procurements							
Purchase commitments:							
Liquid Natural Gas	142,701	170,761	194,260	220,228	220,228	220,228	1,168,406

These commitments have been quantified using the best estimates of the Company (Brent 80$/bbl and an exchange rate $/€ 1.40).

22. Risk management policy

Main risks associated with the CEPSA Group's operations

The CEPSA Group carries on its activities in environments marked by a series of external factors, the changes in which could affect the manner in which operations are performed and the results obtained therefrom. These activities are managed through the application of policies whose main objective, in accordance with the strategy established by the Company's management, is the optimisation of the ratio of costs to risks covered.

The strategic and budget planning processes involve estimating the effect of business risks and a sensitivity analysis is performed for the main variables in order to gain comprehensive insight on their impact.

CEPSA publishes an annual Corporate Governance Report which contains, among other matters, an extensive breakdown of the economic, social and environmental actions performed on its behalf together with its contribution to sustainable development. Report for year 2009 was prepared in accordance with the directives of the Global Reporting Initiative (GRI).

The Board of Directors through the audit committee, CEO and general managers of the respective divisions, supervise and monitor risks on a regular basis, and adjust risk profiles, where necessary, depending on the circumstances. In the area of environmental protection, safety and quality, the basic function of the P.A.S.C.A.L. Committee is to periodically review the risks of this type and to propose, where appropriate, measures aimed at compliance or change. In the field of information security, a Corporate Security Committee is entrusted with monitoring and fostering compliance with information security measures.

The CEPSA Group has risk control systems in place that may affect the investments it makes and the activities it carries on. Such systems are appropriate for the Group's risk profile.

The main risks to which the Group is exposed can be grouped in the following categories:

Market risks

The nature of CEPSA Group businesses entails a certain degree of sensitivity to the changes in and volatility of oil and gas prices, refining margins and energy product sales. In this connection the Group's high degree of vertical integration, which has increased in recent years, is a strategy that, of itself, mitigates the effects of economic cycles and their specific impact on the Group's business units or areas.

In this respect it is to be noted that a rise in the level of crude oil prices has a positive impact on the earnings of the Exploration and Production division. However, 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 CEPSA and that are available for sale.

Fluctuations in crude oil prices also have an effect on product refining and marketing operations, the scale of which depends, among numerous other factors, on the speed with which price changes in energy products or base petrochemical products at source can be relayed to the international and local finished goods markets.

In accordance with the sensitivity analysis performed, at 31 December 2010 and 2009, a 10 dollars increase in a similar dates in the price of a barrel of oil would lead to an approximate increase in net profit without the effect of Non-Recurring elements (see Note 24.c), of EUR 13 and EUR 34 million respectively. Also, a 10 dollar cents increase in the refining margin per barrel would imply approximate growth in the aforementioned aggregate of EUR 10 million and EUR 9 million respectively.

With respect to fluctuations in prices of crude oil and oil products in international markets, CEPSA Group arranges and operates a price risk hedging system that protects from price fluctuations variations in stocks of crude and oil products above and below levels of operating stock previously defined as stock at risk and reviewed annually to ensure that strategic stock and minimum operating stock requirements are met. These fluctuations are hedged with Brent crude in the IPE futures market, compensating with sale positions, the excess of operative stocks and with purchase positions the defect of operative stocks.

Capital Management

Maintaining a sound equity structure has been set as a priority objective of capital management by the CEPSA Group.

This overall objective is implemented by controlling the level of borrowings in order to ensure, as it allows them to tackle any possible changes in economic and industry-based circumstances and, above all, ensures readiness to appropriate financing which enables the Group take on developments and new profitable business opportunities which may act as an additional vessel of growth and contribute significant value for Group shareholders.

The changes in the level of borrowings are measured by the ratio of the CEPSA Group's net borrowings to Equity, broken down by origin:

	2010	2009
	Thousands of Euros	
Non-current financial liability	1,828,392	1,260,527
Current financial liability	628,891	810,275
Gross liability	**2,457,283**	**2,070,802**
Financial assets paid	54,737	83,800
Cash and cash equivalents	841,080	598,537
Net debt paid	**1,561,466**	**1,388,465**
Equity	**5,759,126**	**5,352,792**
Net debt paid / Equity	**27.1%**	**25.9%**

Foreign currency, interest rate and other financial risks

The Group's operations are exposed, in varying degrees, to risks of fluctuations in the financial markets.

The Group's activities are generally sensitive to fluctuations in the euro exchange rate versus the US dollar, the currency in which crude oil, and oil and petrochemical products are priced, with respect to the euro. Exposure to this kind of risk is hedged in accordance with the Group's internal policy. From the operational standpoint, is centralised and managed the foreign currency risk exposure of the Group companies' net global foreign currency cash flow position.

Also in the Group is centralised the managing of the recourse to financial markets for loans, investment of surpluses and financial instruments.

In the case of foreign investments in long-term assets which will generate future cash flows in foreign currencies, the Group minimises its foreign currency exposure by arranging financing in the same currency, which hedges, to a certain extent, the foreign currency risk assumed in the cash flows generated by such assets. This means that the foreign currency financing covers, to a certain extent, the foreign currency risk arising from the future cash flows generated by these assets.

At 31 December 2010 and 2009 net debt in dollars equivalent to EUR 726 million and EUR 817 million representing 30% and 39% respectively of total consolidated debt.

On the basis of the sensitivity analyses performed, at 31 December 2010 and 2009 average annual depreciation of the US dollar against the euro of 5 dollar cents could give rise to a reduction of approximately EUR 29 million in both years, net profit excluding non-recurring items (see Note 24.c) and an increase in equity, excluding the aforementioned effect on net profit, of EUR 16 million and EUR 18 million, respectively.

Operations are also sensitive to interest rate changes. The Group has arranged most of its debt at floating rates, taking into account the low debt ratio, general environment of stable interest rates and because it considers that this financing method will entail a lower cost at long term.

In relation to liquidity risk management, in order to manage potential short-term fund requirements, the Company has credit facilities available, as detailed in Note 13 of the notes to the financial statements and available Treasury, to the undrawn balance of which does not bear interest.

In accordance with the sensitivity analysis performed, at 31 December 2010 and 2009, a 25 base points increase in interest rates relating to all periods and currencies would lead to a decrease in net profit of approximately EUR 3 million.

The banks with which the Group operates are leading Spanish and international entities of renown; however, the counterparty risk in investments and financial instruments contracts is analysed.

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

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

Currently, bottled butane gas marketing activity is seriously affected by the legislation that regulates this product prices including order ITC/2608/2009 modified the previous order ITC/1858/2008 that updates the system of automatic determination of price caps for sale pre-tax, liquefied petroleum gases packed, modifying the formula for calculating regulated prices and causing serious harm to all operators in the sector by establishing maximum retail prices to the public which do not cover the costs of this product.

This situation has led to the Spanish Association of operators of liquefied petroleum Gases has brought administrative contentious proceedings against that provision currently awaiting judgement by the third Chamber of the contentious-administrative Supreme Court.

Industrial risks, prevention and safety

The safety control system applied is included in the "Risk Prevention Manual" and its "Basic Standards", in accordance with the OHSAS 18.001-2007 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 of the Group's activities have identified the environmental matters that may give rise to an impact on the environment through emissions into the air, water, soil and ground water and also through the handling and treatment of waste. Since 2007 this type of impacts are regulated by the Integrated Pollution Prevention and Control Directive (IPPC) and its transposition into Spanish Law 16/2002. The Directive was repealed by Directive 2008/1, currently in force. Also, in December, the new consolidated Directive 2010/75 on industrial emissions (IPPC) was published, which repeals the former, the legal content of which must be transposed into the legislation of the different member states of the European Union by January 2013. In this connection, all the Group's industrial plants were awarded their Integrated Environmental Permits, which involve rigorous control over their processes with the aim of minimising impact on the environment. Nevertheless, for many years now, one of Cepsa longstanding primary objectives has been to minimise the impact of its activities on the environment in which it operates its industrial plants, which is reflected in its internal environmental protection policies and is regulated by the Basic Environmental Standards.

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

Atmosphere—The best available techniques are used in order to obtain optimal energy efficiency in the functioning of processes which, in turn, lead to a decrease in fuel consumption and, consequently, a decrease in atmospheric emissions.

One such example is the adaptation of the furnaces to switch over to fuels that have a low sulphur content, the installation of low NOx burners and the initiatives taken to eliminate atmospheric emissions of volatile organic compounds (VOCs).

All the combustion facilities housed in the extension of the La Rábida refinery and of the new combined heat and power plant which entered service in 2010, were designed to operate using natural gas, a fuel producing scant or no SO2 atmospheric emissions. Additionally, internal procedures for the management and control of the impacts are implemented, and measuring devices have been established, both for emission and immission. Data is sent in real time to the competent authorities

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

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

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

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

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

Since 1995, Cepsa has been carrying out analyses and assessments of the environmental risks of its activities with the aim of managing and controlling them in order to reduce possible incidents which could lead to significant impacts on the environment or biodiversity. In this connection, the aforementioned analyses were carried out at various Group plants which were adapted to UNE 150008:2009 standard on Analysis and Assessment of Environmental Risks, a benchmark standard in Spain.

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

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

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

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

Equity risk

The Company has taken out insurance to cover the risk of damage to property, including the breakdown of machinery and the control of crude-oil wells involved in exploration and production; the risk of loss of profits arising from damage to property; third-party liability of both CEPSA and its employees or directors during the performance of activities and deriving from damage to property or personal injury to third parties or employees caused by occupational accidents and the risk of loss or damage during the transport of crude oil, products and equipment.

Customer credit risks

Commercial loans and collections are managed in accordance with periodically updated "Internal Regulations and Procedures". This regulation determines commercial credit limits for each customer, establishes the most appropriate collection instruments, includes the actions to be performed for managing default and the monitoring and control of the assigned credit limits.

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 and assign the related credit limit. Insurance policies have also been taken out to cover the risk of customer default in certain commercial areas.

Following is a detail of the past-due receivables that had not been provisioned and of total unmatured receivables, included under "Trade and Other Receivables" at 31 December 2010 and 2009:

	2010	2009
	Thousands of Euros	
Debts not past due	2,485,655	2,103,561
Debts 0-30 days past due	125,061	112,114
Debts 30-90 days past due	35,367	44,649
Debts 90-180 days past due	44,680	38,965
Debts more than 180 days past due	48,951	18,647
Total trade and other receivables	**2,739,714**	**2,317,936**

As discussed previously, credit insurance policies have been arranged that cover the risk of default on a portion of the past-due receivables that have not been provisioned. Also, guarantees have been provided that cover another portion thereof.

Risks related to the security of information

CEPSA has a security organisation in charge of ensuring the availability, integrity, confidentiality and auditability of the information required for the correct performance of the Group's activities with an adequate level of risk and cost.

The Group has an Information Security Management System based on the reduction of risk, which was awarded the highest ISO 27001 international certification.

Risks materialized

During the financial year of 2010, a accident in La Rabida refinery has been produced when a leak in a refinery pipeline caused that the liquid / gas which was inside of it entered into contact with an ignition source causing a strong deflagration that sinister fixed assets. The circumstances which led the sinister were accidental and unforeseen in the line tension, control systems functioned properly, because as soon as there was failure cut the flow of product circulating pipe.

Moreover, the evolution of doubtful credits charge sales customers have been accrued properly and has improved over the previous year.

Implementation of continuous improvements in risk control systems are enabling a gradual reduction of accidents, especially in the area of occupational safety, placing the frequency rate (number of accidents with lower for every million hours worked), in 4.10 in 2010.

Other risks

The CEPSA Group has various litigation in process in relation to its business, including tax and competition disputes and is also subject to tax inspections for the years still open for review.

Although the final outcome of these matters cannot be foreseen, the Group's management considers that, based on current information, the provisions recognised adequately cover risks of this nature.

23. Derivatives

Pursuant to the risk management policies, the CEPSA Group uses derivative financial instruments to hedge exposure to foreign currency, interest rate and commodity price (basically crude oil and oil products) risks on future cash flows.

The types of derivatives used are normally forward contracts to hedge foreign currency risk, swap contracts for interest rate risk and futures and swaps to hedge commodity price risk. All of these derivatives mature is less than one month, which means that the change in their fair value resulting from changes in the assumptions used for their measurement is scantly significant.

The detail of derivatives at 31 December 2010 and 2009 is as follows:

	2010			2009		
	Fair Value		Notional or contractual amount	Fair Value		Notional or contractual amount
	Assets	Liabilities		Assets	Liabilities	
	Thousands of Euros					
Derivatives						
Foreign currency forwards / Interest rate swaps	147	4,150	385,409	292	100	301,905
Crude and oil product futures	213	5,733	262,107	1,040	1,074	39,298
Oil product swaps	4,597	3,961	94,385	1,947	582	130,594
Other oil product derivatives	808	—	49,103	—	—	—
Total derivatives	**5,765**	**13,844**	**791,004**	**3,279**	**1,756**	**471,797**

The notional amounts of the contracts entered into do not reflect the actual risk assumed by the Group, since these amounts only constitute the basis on which the derivative settlement calculations were made.

24. Segment reporting

a) Business segment reporting:

The CEPSA Group organises and manages its businesses through four business segments:

- Exploration and Production, which includes oil and gas exploration and production operations.
- Refining and Distribution, which includes supply, refining and distribution operations.
- Petrochemicals which includes production, distribution and marketing.
- Gas and Power which includes the cogeneration of electricity and the distribution and retailing of electricity and natural gas.

The selling prices between the business segments are similar to market prices and the amounts of income, expenses, assets and liabilities were calculated before the eliminations on consolidation, except for the internal eliminations of each business segment.

The financial data shown below were obtained using the same methodology and internal reporting structures as those established to provide management information and to measure the profitability of the business segments, applied on a uniform basis with 2009.

Segment reporting
at 31 December 2010 and 2009

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

PRIMARY SEGMENT REPORTING

31/12/10	Information excluding Non-Recurring Items							
	Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Intra-Group Eliminations	Total	Non-Recurring Items	Consolidated Total
	Thousands of Euros							
INCOME								
REVENUE								
Revenue from external customers	738,228	17,783,785	2,787,897	726,232		22,036,142	48,342	22,084,484
Intra-Group revenue	122,408	1,283,326	58,466	162,409	(1,626,609)			
Total revenue	**860,636**	**19,067,111**	**2,846,363**	**888,641**	**(1,626,609)**	**22,036,142**	**48,342**	**22,084,484**
Excise tax on oil and gas charged on sales		(2,340,439)				(2,340,439)		(2,340,439)
Revenue without excise tax on oil and gas	**860,636**	**16,726,672**	**2,846,363**	**888,641**	**(1,626,609)**	**19,695,703**	**48,342**	**19,744,045**
Procurements and Changes in inventories of finished goods	(13,180)	(14,450,729)	(2,191,200)	(786,521)	1,388,603	(16,053,027)	252,249	(15,800,778)
Other operating income and expenses	(212,592)	(1,760,558)	(440,319)	(59,614)	238,006	(2,235,077)		(2,235,077)
RESULT	**634,864**	**515,385**	**214,844**	**42,506**		**1,407,599**	**300,591**	**1,708,190**
Changes in operating allowances	31	(22,175)	(711)	598		(22,257)	141	(22,116)
Changes in other provisions	(10,083)	(6,803)	3,765	(8,224)		(21,345)		(21,345)
Depreciation and amortisation charge	(290,238)	(308,316)	(82,990)	(13,528)		(695,072)		(695,072)
Allocation to profit or loss of grants related to non-financial ass	—	1,426	9,404	12		10,842		10,842
Impairment and gains or losses on disposals of non-current as	(266)	444	176			354	(5,508)	(5,154)
Profit from operations	**334,308**	**179,961**	**144,488**	**21,364**		**680,121**	**295,224**	**975,345**
Share in profits of equity companies		29,623	2,566	(220)		31,969		31,969
Net financial profit						15,299		15,299
Impairment and gains or losses on disposals of financial instruments						(662)		(662)
Consolidated profit before tax						**726,727**	**295,224**	**1,021,951**
Income tax						(294,770)	(79,402)	(374,172)
Profit/loss for the year from discontinuing operations								
Consolidated net profit for the year						**431,957**	**215,822**	**647,779**
Attributable to minority interest						**(13,833)**		**(13,833)**
Attributable to Shareholders of the Parent						**418,124**		**633,946**
ASSETS AND LIABILITIES								
Non-current assets by segment	901,060	3,585,712	713,542	353,049		5,553,363		5,553,363
Share capital in equity companies		74,539	8,021	21,729		104,289		104,289
Total non-current capital invested	**901,060**	**3,660,251**	**721,563**	**374,778**		**5,657,652**		**5,657,652**
Capital Employed	**832,765**	**4,527,465**	**1,053,961**	**361,826**		**6,776,017**	**544,330**	**7,320,347**
CASH FLOW STATEMENT								
Payments due to investments	206,915	428,738	28,162	54,001		717,816		717,816
Proceeds from disposal	913	19,259	2,164	65		22,401		22,401
Cash flows from operating activities	454,338	538,594	132,307	56,721		1,181,960	300,591	1,482,551

Segment reporting
at 31 December 2010 and 2009

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)—(Continued)

PRIMARY SEGMENT REPORTING

31/12/09	Information excluding Non-Recurring Items							
	Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Intra-Group Eliminations	Total	Non-Recurring Items	Consolidated Total
	Thousands of Euros							
INCOME								
REVENUE								
Revenue from external customers	632,306	15,446,527	1,887,567	398,498		18,364,898		18,364,898
Intra-Group revenue	80,403	866,613	40,530	116,074	(1,103,620)			
Total revenue	**712,709**	**16,313,140**	**1,928,097**	**514,572**	**(1,103,620)**	**18,364,898**		**18,364,898**
Excise tax on oil and gas charged on sales		(2,280,753)				(2,280,753)		(2,280,753)
Revenue without excise tax on oil and gas	**712,709**	**14,032,387**	**1,928,097**	**514,572**	**(1,103,620)**	**16,084,145**		**16,084,145**
Procurements and Changes in inventories of finished goods	(36,088)	(11,967,636)	(1,369,906)	(398,185)	895,387	(12,876,428)	(385,900)	(13,262,328)
Other operating income and expenses	(204,392)	(1,685,242)	(415,262)	(53,522)	208,233	(2,150,185)	(14,990)	(2,165,175)
RESULT	**472,229**	**379,509**	**142,929**	**62,865**		**1,057,532**	**(400,890)**	**656,642**
Changes in operating allowances	—	(11,283)	(6,916)	(1,770)		(19,969)	544,811	524,842
Changes in other provisions	(20)	9,605	1,868	21,717		33,170		33,170
Depreciation and amortisation charge	(263,053)	(249,266)	(81,871)	(21,687)		(615,877)		(615,877)
Allocation to profit or loss of grants related to non-financial ass	—	609	8,748	—		9,357		9,357
Impairment and gains or losses on disposals of non-current as	26,391	(16,099)	(2,968)	(3,915)		3,409	(37,086)	(33,677)
Profit from operations	**235,547**	**113,075**	**61,790**	**57,210**		**467,622**	**106,835**	**574,457**
Share in profits of equity companies		32,860	2,962	(222)		35,600		35,600
Net financial profit						14,160	37,398	51,558
Impairment and gains or losses on disposals of financial instruments						1,646		1,646
Consolidated profit before tax						**519,028**	**144,233**	**663,261**
Income tax						(237,808)	(34,648)	(272,456)
Profit/loss for the year from discontinuing operations								
Consolidated net profit for the year						**281,220**	**109,585**	**390,805**
Attributable to minority interest						(11,352)		(11,352)
Attributable to Shareholders of the Parent						**269,868**		**379,453**
ASSETS AND LIABILITIES								
Non-current assets by segment	1,002,420	3,527,331	743,251	309,600		5,582,602		5,582,602
Share capital in equity companies		76,676	7,298	4,952		88,926		88,926
Total non-current capital invested	**1,002,420**	**3,604,007**	**750,549**	**314,552**		**5,671,528**		**5,671,528**
Capital Employed	**949,430**	**3,935,471**	**996,165**	**492,469**		**6,373,535**	**367,677**	**6,741,212**
CASH FLOW STATEMENT								
Payments due to investments	205,230	659,195	34,755	86,916		986,096		986,096
Proceeds from disposal	29,737	27,668	5,492	249		63,146		63,146
Cash flow s from operating activities	290,415	324,071	158,988	55,108		828,582	(400,891)	427,691

Set out below is a detail of the most significant aggregates of the mineral resources exploration and evaluation activity:

	2010	2009
	Thousands of Euros	
Result		
Profit from operations	(60,403)	(42,722)
Balance		
Non current assets	190,175	197,834
Cash flow statements		
Payments due to investments	80,754	92,061
Proceeds from disposal	64	29,461
Cash flow s from operating activities before tax	1,049	(2,829)

b) Geographical segment reporting:

The breakdown, by geographical area, of net revenue, net property, plant, equipment, intangible assets and investments is as follows:

	Revenue from sales to external customer		Net intangible assets and property, plan and equipment		Additions in intangible and property, plan and equipment	
	31/12/10	31/12/09	31/12/10	31/12/09	31/12/10	31/12/09
	Thousands of Euros					
Spain (*)	14,635,230	13,853,176	4,170,219	4,089,730	548,154	787,591
Other EU countries	3,165,977	2,251,332	114,496	126,821	6,977	5,575
Africa	664,724	482,133	403,251	464,280	14,340	74,724
America	1,772,446	1,216,668	651,178	678,288	117,075	144,408
Rest of the world	1,846,107	561,589	—	—	—	—
Total consolidated	**22,084,484**	**18,364,898**	**5,339,144**	**5,359,119**	**686,546**	**1,012,298**

(*) The data under "Revenue for sales to external customers" in Spain in 2010 and 2009 includes excise taxes

c) Information on non-recurring items:

The breakdown, by business segment, of the main items composing this heading is as follows:

31/12/10	Non-Recurring Items: Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Total
	Thousands of Euros				
Profit from operations					
Difference in valuation and replacement cost	—	232,694	20,106	(410)	252,390
Impairment losses on non-current assets	—	509	(6,017)	—	(5,508)
Other non-recurring items	—	—	48,342	—	48,342
Total	**—**	**233,203**	**62,431**	**(410)**	**295,224**
Profit before tax					
Difference in valuation and replacement cost	—	232,694	20,106	(410)	252,390
Impairment losses on non-current assets	—	509	(6,017)	—	(5,508)
Other non-recurring items	—	—	48,342	—	48,342
Total	**—**	**233,203**	**62,431**	**(410)**	**295,224**
Consolidated net profit					
Difference in valuation and replacement cost	—	162,886	14,074	(287)	176,673
Impairment losses on non-current assets	—	356	(2,007)	—	(1,651)
Other non-recurring items	—	—	40,800	—	40,800
Total	**—**	**163,242**	**52,867**	**(287)**	**215,822**

31/12/09	Non-Recurring Items Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Total
	Thousands of Euros				
Profit from operations					
Difference in valuation and replacement cost	—	197,917	(34,523)	(4,483)	158,911
Impairment losses on non-current assets	—	(3,479)	(33,607)	—	(37,086)
Other non-recurring items	—	—	(14,990)	—	(14,990)
Total	**—**	**194,438**	**(83,120)**	**(4,483)**	**106,835**
Profit before tax					
Difference in valuation and replacement cost	—	197,917	(34,523)	(4,483)	158,911
Impairment losses on non-current assets	—	(3,479)	(33,607)	—	(37,086)
Other non-recurring items	—	—	22,408	—	22,408
Total	**—**	**194,438**	**(45,722)**	**(4,483)**	**144,233**
Consolidated net profit					
Difference in valuation and replacement cost	—	138,541	(24,166)	(3,138)	111,237
Impairment losses on non-current assets	—	(2,435)	(15,901)	—	(18,336)
Other non-recurring items	—	—	16,684	—	16,684
Total	**—**	**136,106**	**(23,383)**	**(3,138)**	**109,585**

As discussed in Note 3-s, non-recurring items include the difference in the value of inventories between the average cost method—used in the consolidated financial statements—and the replacement cost method—used to measure business segments—, thus facilitating the analysis of business segment performance and comparison between years. In this sense, the consolidated net result excluding Non-recurring Items used for sensitivity analysis also excludes the difference mentioned before. (see Note 22)

The breakdown of "Difference in valuation and replacement cost", as is follow:

31/12/10	Difference in valuation and replacement cost Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Total
	Thousands of Euros				
Profit from operations					
Inventories changes	—	232,560	20,099	(410)	252,249
Inventories provision changes	—	134	7	—	141
Total	**—**	**232,694**	**20,106**	**(410)**	**252,390**

31/12/09	Difference in valuation and replacement cost Exploration & Production	Refining & Distribution	Petrochemical	Gas & Power	Total
	Thousands of Euros				
Profit from operations					
Inventories changes	—	(339,955)	(38,030)	(7,915)	(385,900)
Inventories provision changes	—	537,872	3,507	3,432	544,811
Total	**—**	**197,917**	**(34,523)**	**(4,483)**	**158,911**

25. Operating income and expenses

The detail of the various items of operating income and expenses relating to 2010 and 2009 is as follows:

Revenue	2010	2009
	Thousands of Euros	
Sales	19,399,322	15,768,031
Services Provided	392,414	356,458
Sales returns and volume discounts	(47,691)	(40,344)
Excise oil and gas taxes	2,340,439	2,280,753
Total	**22,084,484**	**18,364,898**

The income generated by exchanges of strategic stocks with other operators, not included in "Revenue" in 2010 amounted to EUR 2,189,663 thousand.

Procurements	2010	2009
	Thousands of Euros	
Purchases	(16,359,898)	(12,774,485)
Change in inventories	309,581	(77,684)
Total	**(16,050,317)**	**(12,852,169)**

Staff costs	2010	2009
	Thousands of Euros	
Wages and salaries	(435,556)	(406,635)
Pension contributions and life insurance premiums	(17,330)	(14,590)
Other staff costs	(119,330)	(109,642)
Total	**(572,216)**	**(530,867)**

The average number at 31 December 2010 and 2009, the number of employees, by professional category, was as follows:

Labour force by professional category	2010	2009
	Average Number of Employees	
Executives/Department Heads	642	642
Other line personnel	3,418	3,352
Skilled employees/Assistants/Clerical staff	7,766	7,813
Total	**11,826**	**11,807**

At 31 December 2010 and 2009, the number of employees, by professional category and sex, was as follows:

Labor force by professional category	Number of Employees			
	2010		2009	
	Women	Men	Women	Men
Executives/Department Heads	81	578	77	560
Other line personnel	808	2,647	768	2,625
Skilled employees/Assistants/Clerical Staff	3,047	4,652	3,010	4,663
Total	**3,936**	**7,877**	**3,855**	**7,848**

The detail of the "Other operating expenses" relating to 2010 and 2009 is as follows:

Other operating expenses	2010	2009
	Thousands of Euros	
Outside services received	(1,310,527)	(1,300,469)
Transport and freight	(344,118)	(318,643)
Taxes other than income tax	(57,611)	(60,253)
Environmental expenses	(16,277)	(19,492)
Other operating expenses	(120,239)	(78,324)
Total	**(1,848,772)**	**(1,777,181)**

The following should be pointed out in relation to "Other Operating Expenses":

The **fees for financial audit services** provided to the various companies composing the CEPSA Group and subsidiaries by the principal auditor and by other entities related to the auditor in 2010 and 2009 amounted to EUR 1,138 thousand and EUR 1,639 thousand, respectively. The audit fees charged by other auditors participating in the audit of the various Group companies totalled EUR 412 thousand and EUR 478 thousand, respectively.

Additionally, the **fees for other verification professional services** provided to the various Group companies by the principal auditor and by other entities related to the auditor during 2010 and 2009 amounted to EUR 145 thousand and EUR 89 thousand, respectively, whereas the fees charged for such services by other auditors participating in the audit of the various Group companies totalled EUR 189 thousand and EUR 103 thousand, respectively.

The detail at 31 December 2010 and 2009 of "Allocation to Profit or Loss of Grants Related to Non-Financial Non-Current Assets and Other Grants" is as follows:

Allocation allowances	2010	2009
	Thousands of Euros	
Allocation of Green House Gas allowances (see Note 15)	59,827	76,469
Allocation of capital allowances	10,850	9,352
Total	**70,677**	**85,821**

In 2010 and 2009 the detail of impairment losses and gains or losses on the disposal of non-current assets recognised was as follows:

Impairment and gains or losses on disposals of financial instruments	2010	2009
	Thousands of Euros	
Impairment of Green House Gas allowances (Note 4)	498	(18,778)
Impairment of other non-current assets (Note 6)	(5,508)	(37,086)
Gains or losses on disposals of non-current assets (144)	(144)	22,187
Total	**(5,154)**	**(33,677)**

Noteworthy under "Gains or Losses on the Disposal of Non-Current Assets" in 2009 was the sale of 50% of the exploration rights of the South Alamein block in Egypt, with the Group maintaining ownership of the remaining 50% as operator.

26. Leases

The Group acquired the use of certain assets through finance and operating leases.

The most significant operating leases relate to the rental of buildings, plant, tankers for the transport of crude oil and oil products and service stations leased from third parties.

In 2010 lease expenses under operating lease arrangements totalled EUR 154,482 thousand. Contingent payments recognised in the consolidated income statement amounted to EUR 6,277 thousand.

The future maturities of the amounts payable under operating leases at 31 December 2010 and 2009 are as follows:

Maturing in:	Operating Leases 31.12.2010
	Thousands of Euros
2011	150,658
2012	143,747
2013	115,399
2014	67,419
2015	57,494
2016 and subsequent years	205,571
Total payments	**740,288**

Maturing in:	Operating Leases 31.12.2009
	Thousands of Euros
2010	145,453
2011	135,057
2012	129,373
2013	108,016
2014	59,232
2015 and subsequent years	221,361
Total payments	**798,492**

The main items of property, plant and equipment held under finance leases are butane gas distribution cylinders and other installations. (see Note 6)

The future maturities of the amounts payable under finance leases at 31 December 2010 and 2009 are as follows:

Maturing in:	Finance Leases 31.12.2010
	Thousands of Euros
2011	9,082
2012	4,657
2013	316
2014 and subsequent years	—
Total future payments	**14,055**
Less interest	(188)
Present value of minimum lease payments	**13,867**

Maturing in:	Finance Leases 31.12.2009
	Thousands of Euros
2010	26,957
2011	7,558
2012	2,653
2013	29
2014 and subsequent years	—
Total future payments	**37,197**
Less interest	(639)
Present value of minimum lease payments	**36,558**

27. Finance cost of net borrowings and other finance income and costs

The detail of the finance cost of net borrowings and other finance income and costs in 2010 and 2009 is as follows:

Finance cost of net borrowings	2010	2009
	Thousands of Euros	
Finance income	14,688	26,198
Finance costs	-31,452	(25,345)
—Capitalised finance costs	5,448	11,310
Total	**-11,316**	**12,163**

Other finance income and costs	2010	2009
	Thousands of Euros	
Income from equity investments	276	241
Gains (losses) on temporal financial assets	(132)	(72)
Gains (losses) on derivatives transactions	839	(2,124)
Deferred interest allocated to income	164	248
Exchange differences	14,719	3,989
Other finance income	23,669	62,518
Other finance costs	(12,920)	(25,405)
Total	**26,615**	**39,395**

28. Environmental matters

Information on the environment for 2009 and 2010 is as follows:

Environmental Investments	Balance at 01.01.09	Additions/ Charges	Disposals/ Amounts Used	Other Changes	Balance at 31.12.09
	Thousands of Euros				
Environmental assets	387,629	48,098	(3,431)	1,185	433,481
Accumulated depreciation of environmental assets	(150,632)	(15,932)	3,305	759	(162,500)
Total	**236,997**	**32,166**	**(126)**	**1,944**	**270,981**

Environmental Investments	Balance at 01.01.10	Additions/ Charges	Disposals/ Amounts Used	Other Changes	Balance at 31.12.10
	Thousands of Euros				
Environmental assets	433,481	64,692	(621)	(1,173)	496,379
Accumulated depreciation of environmental assets	(162,500)	(23,865)	414	(4,591)	(190,542)
Total	**270,981**	**40,827**	**(207)**	**(5,764)**	**305,837**

The environmental investments were calculated in 2002 in accordance with the definition contained in the Spanish Accounting and Audit Institute (ICAC) Resolution of 25 March 2002, approving the rules for the recognition, measurement and disclosure of environmental matters in financial statements.

With a view to contributing to Sustainable Development the CEPSA Group has programmes in place for the ongoing improvement of its production processes, its reduction of waste water effluents, the elimination of effluent spills and its management of solid waste. To such end it has implemented and keeps updated an Environmental Management System whereby it can ensure compliance with its legal obligations with the aforementioned commitments of ongoing improvement. The investments relating to the environment reflect the commitment acquired by the Company as a result of environmental targets.

The most significant environmental assets are the sulphur recovery plants, plants for the treatment of amino acids and acidified water, waste water treatment plants (chemical and biological) and technical improvements to production plant equipment in order to achieve enhanced energy efficiency and the reduction of COV and NOX emissions.

Environmental Provisions	2010	2009
	Thousands of Euros	
Beginning Balance	17,691	17,086
Additions/Charges	2,999	5,486
Disposals/Amounts used	(5,613)	(4,881)
Ending Balance	**15,077**	**17,691**

"Provision for Environmental Activities" includes the CEPSA Group's best estimates of the contractual or legal obligations and commitments to prevent reduce or repair damage to the environment with a charge to professional services or repairs and upkeep expenses.

"Provisions for Environmental Contingencies and Obligations" includes provisions for environmental action to remedy the risk of gradual soil pollution, the only risk not covered by the insurance policies taken out by the CEPSA Group. The amounts used in the year related mainly to extraordinary expenses incurred in the treatment of soils.

Environmental expenses	2010	2009
	Thousands of Euros	
Water	10,344	18,655
Atmosphere	24,500	25,481
Waste	3,771	3,774
Ground / Soil water	7,329	6,023
Other / Noise	10,884	11,365
Total	**56,828**	**65,298**

29. Events after the balance sheet date

On January 5, 2011, Cepsa Química, S.A., a wholly owned subsidiary of Compañía Española de Petróleos, S.A., closed the sale transaction, with La Seda de Barcelona, S.A. ("LSB"), of the 100% equity of Artenius San Roque, S.A.U. ("ASR"). This operation had been announced, by recording a significant event to the CNMV on November 18, 2010.

On February 4, 2011 and as provided for in Article 82 of Securities Market Act 24/1988 of July 28th, CEPSA announced that on February 3, 2011, it had signed an agreement with the U.S. multinational corporation CHEVRON to acquire 100% of the share capital of its subsidiary in Spain, CHEVRON España S.A. The transaction remains subject to receiving the required approvals and clearances from the regulatory authorities.

On February 16, 2011, the Abu Dhabi sovereign wealth fund, International Petroleum Investment Company (IPIC), which currently holds a 47.06% stake in CEPSA, announced, through a Significant Event filed with the Spanish Securities Market Commission (CNMV), that it was going to launch a public takeover bid on 100% of CEPSA's share capital. CEPSA's largest shareholder, TOTAL, also announced that it had undertaken to tender all of the shares it owns in the Company in this offer, representing 48.83% of the share capital. The offer price was set at €28 per share plus a dividend of €0.50 which will be paid out to shareholders before the bid is finalized. The transaction is conditional on obtaining all the required approvals and clearances from the Spanish Securities Market Commission (CNMV) and the competition authorities.

30. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

TABLE I

List of the main companies composing the consolidated CEPSA Group at 31 December 2010 is as follows:

			(%) of ownership		Equity					
					Share Capital					
Name	Registered Office	Line of business	Direct	Indirect	Subscribed	Paid	Reserves + Net Profit	Net Cost Of Investment	Consolidation Method (*)	Tax Group
					Thousands of Euros					
ASFALTOS ESPAÑOLES, S . A. (ASESA)	C/ Orense, 34 4ª Planta, 28020 MADRID. SPAIN	Oil refining to obtain asphalt products	50%		8,529	8,529	21,345	17,869	P	NO
ATLAS, S.A. COMBUSTIBLES Y LUBRIFICANTES	C/ Playa Benitez, s/ n. 51004 CEUTA. SPAIN	Oil and gas trading	100%		3,930	3,930	10,105	4,077	F	YES
C.M.D. AEROPUERTOS CANARIOS, S.L.	Pog. Ind. Valle de Güimar Manzana XIV, parcelas 17 y 18 38509 Güimar — Santa Cruz de Tenerife (TENERIFE). SPAIN	Jet fuel distribution	60%		21,576	21,576	12,094	12,946	F	NO
CEDIPSA, CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A.	Avda. del Partenón, 12. 28042 MADRID. SPAIN	Service station operation and installation		100%	8,114	8,114	17,877	10,059	F	YES
CEPSA AVIACIÓN, S.A.	ES. Comb. Aviac. Camino de San Lázaro, s/ n Zona Ind. Aeropuerto Tenerife Norte Los Rodeos. 38206 San Cristobal de la Laguna — Sta.Cruz de Tenerife. SPAIN	Oil and gas transport	100%		954	954	29,264	956	F	YES
CEPSA CARD, S.A.	Avda. Partenón, 12 3ª C. 28042 MADRID. SPAIN	Management of Group Cards		100%	60	60	358	60	F	YES
CEPSA COLOMBIA, S.A.	Avda. Ribera del Loira, nº 50. 28042 MADRID. SPAIN	Research and exploration	100%		21,856	21,856	644,478	548,631	F	YES
CEPSA COMERCIAL MADRID, S.A. (CECOMASA)	C/ Embajadores Final, s/ n. Apartadero Santa Catalina. 28018 MADRID. SPAIN	Oil and gas trading	100%		1,169	1,169	2,378	89	F	YES
CEPSA, E.P.,SOCIEDAD ANONIMA	Avda. Ribera del Loira, nº 50 28042 MADRID, SPAIN	Research and oil exploration	100%		3,438	3,438	22,198	16,136	F	NO
CEPSA EGYPT SA, B.V.	Claude Debussylaan, 24 1082 MD Amsterdam. NETHERLANDS	Research and exploration	100%		10,000	10,000	-5,694	0	F	NO
CEPSA ESTACIONES DE SERVICIO, S.A. (CEPSA EE.SS.)	Avda. Partenón, 12 28042 MADRID. SPAIN	Service station operation	100%		82,043	82,043	295,325	120,017	F	YES
CEPSA GAS COMERCIALIZADORA, S.A.	Avda. Partenón nº 12. 28042 Madrid. SPAIN	Gas distribution	35%		3,060	3,060	23,417	1,071	P	NO
CEPSA GAS LICUADO, S.A.	Avda. Ribera del Loira, nº 50 1ª planta. 28042 MADRID. SPAIN	Gas sales and distribution	100%		36,752	36,752	83,891	42,012	F	YES

Name	Registered Office	Line of business	(%) of ownership		Equity			Net Cost Of Investment	Consolidation Method (*)	Tax Group
					Share Capital		Reserves + Net Profit			
			Direct	Indirect	Subscribed	Paid				
					Thousands of Euros					
CEPSA INTERNATIONAL B.V.	Beurs-Wolrd Trade Centre — Office 668 Beursplein 37, 3011 AA Rotterdam. THE NETHERLANDS	Oil and gas trading	100%		4,060	4,060	35,826	15,210	F	NO
CEPSA ITALIA, S.p.A.	Viale Milanofiori Palazzo A/ 6. 20090 Assago- MILAN. ITALY	Petrochemicals trading		100%	6,000	6,000	9,193	9,737	F	NO
CEPSA LUBRICANTES, S.A. (C.L.S.A.)	Avda. Ribera del Loira 50 3ª planta. 28042 MADRID. SPAIN	Lubricant trading	100%		21,000	21,000	44,730	33,633	F	YES
CEPSA MARINE FUELS, S.A.	c/ Ribera del Loira, nº 50 (Campo de las Naciones) 28042 Madrid. SPAIN	Oil and gas trading	100%		25,060	25,060	20,169	25,060	F	YES
CEPSA OPERACIONES MARINA-AVIACIÓN, S . A	Avda. de Anaga, nº 21 38001 Santa Cruz de Tenerife (Tenerife) SPAIN	Corporate services for bunkering - aviation and oil transport	100%		60	60	6,970	60	F	YES
CEPSA PERU, S.A.	Avda. Partenón, 12. 28042 MADRID. SPAIN	Research and exploration	100%		993	993	-29,759	0	F	YES
CEPSA PORTUGUESA PETROLEOS, S.A.	Rua General Firmino Miguel, nº 3 Torre 2 "º and ar. 1600- 100 LISBON. PORTUGAL	Oil and gas trading	100%		30,000	30,000	87,348	125,957	F	NO
CEPSA CHIMIE BECANCOUR, INC.	5250 Boulevard Becancour. GOX 1BO Becancour. QUEBEC. CANADA	Production and sale of petrochemicals		51%	63,775	63,775	-25,587	28,772	P	NO
CEPSA CHIMIE MONTREAL, L.P.	10200 East Sherbrooke Street. H1B 1B4 Montreal - QUEBEC. CANADA	Production and sale of petrochemicals		51%	191,774	191,774	-157,435	30,608	P	NO
CEPSA QUÍMICA, S . A.	Avda. Partenón, 12-14. 28042 MADRID. SPAIN	Production and sale of petrochemicals	100%		60	60	687,931	80,192	F	YES
CEPSA UK, LTD.	Audrey House 16 - 20 Ely Place. EC1N 6SN LONDON. UK	Petrochemicals trading		100%	112	112	8,735	7,336	F	NO
CEPSA, S.A.	Avda. Partenón, 12. 28042 MADRID. SPAIN	Corporate services	100%		61	61	137	61	F	YES
COGENERACIÓN DE TENERIFE, S.A. (COTESA)	Avenida Manuel Hermoso Rojas, nº 3 38005 Santa Cruz de Tenerife TENERIFE. SPAIN	Cogeneration		100%	6,000	6,000	6,242	4,988	F	YES

(*) F = Fully consolidated ; P = Proportionately consolidated ; E = Accounted for using equity method

Name	Registered Office	Line of business	(%)of ownership		Equity			Net Cost Of Investment	Consolidation Method (*)	Tax Group
					Share Capital		Reserves + Net Profit			
			Direct	Indirect	Subscribed	Paid				
						Thousands of Euros				
COMPAÑÍA ESPAÑOLA DE PETRÓLEOS ATLÁNTICO, S.A. (ATLANTICO)	Avda. Ribera del Loira, nº 50 3ª planta. 28042 MADRID. SPAIN	Lubricant trading		100%	1,932	1,932	-891	856	F	YES
COMPAÑÍA LOGISTICA DE HIDROCARBUROS CLH, S.A.	C/ Titán, nº 13 28045 MADRID. SPAIN	Oil product distribution	14.15%		84,070	84,070	106,178	86,299	E	NO
DERIVADOS ENERGÉTICOS PARA EL TRANSPORTE Y LA INDUSTRIA, S.A.	Avda. Partenón, 12 1ª Sector A. 28042 MADRID. SPAIN	Oil product distribution	100%		12,330	12,330	36,455	12,328	F	YES
DETEN QUIMICA, S.A.	Rua Hidrogenio 1744 Complejo Petroquímico de Camaçari. Salvador de Bahía. BRAZIL	Production and sale of petrochemicals		71.44%	84,961	84,961	34,384	152,959	F	NO
GENERACIÓN ELÉCTRICA PENINSULAR, S.A.	Avda. del Partenón, nº 12 28042 MADRID SPAIN	Cogeneration		70%	32,000	32,000	32,904	22,400	F	NO
LUBRICANTES DEL SUR, S.A. (LUBRISUR)	Avda. Ribera del Loira, 50 2ª. 28042 MADRID. SPAIN	Lubricant trading	100%		6,102	6,102	25,365	24,610	F	YES
MEDGAZ, S.A.	Avda. del Partenón, nº 12 28042 MADRID SPAIN	Pipeline construction for gas transportation between Algeria and Spain	20%		30,000	30,000	78,647	22,932	E	NO
NUEVA GENERADORA DEL SUR, S.A.	Avda. San Luis, nº 77 Edificio C, 4ª planta. 28033 MADRID. SPAIN	Power cogeneration	50%		96,000	96,000	47,082	71,100	P	NO
PETRÓLEOS DE CANARIAS, S. A. (PETROCAN)	Explanada de Tomás Quevedo, s/n (Nuevo nombre: Avda. de las Petrolíferas) 35008 Las Palmas de Gran Canarias (Gran Canaria) SPAIN	Bunkering services	100%		120	120	51,103	121	F	YES
PETROPESCA, S.L.	Avda. Partenón, 12. Campo de las Naciones. 28042 MADRID. SPAIN	Sale of fuel and lubricant	100%		2,000	2,000	6,124	6,892	F	YES
PRODUCTOS ASFÁLTICOS, S.A. (PROAS)	Avda. Ribera del Loira, nº 50 28042 MADRID. SPAIN	Asphalt product sales	100%		3,150	3,150	17,407	5,313	F	YES
PROMOTORA DE MINIMERCADOS, S.A. (PROMIMER)	Avda. Partenón, 12 2ª C. 28042 MADRID. SPAIN	Retailing at Service Stations		100%	753	753	7,343	1,989	F	YES
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Avda. Columbano Bordalo Pinheiro, 108-3º. 1070-067 LISBON. PORTUGAL	Supply point management services	93%	7%	224	224	4,678	1,380	F	NO
SOCIETAT CATALANA DE PETROLIS, S.A. (PETROCAT)	Avda. Diagonal nº 605,4 T 6A. 08028 BARCELONA. SPAIN	Oil product import and distribution		45%	15,093	15,093	-5,263	4,473	E	NO

(*) F = Fully consolidated ; P = Proportionately consolidated ; E = Accounted for using equity method

TABLE II

The detail of the main companies comprising the CEPSA Group as at 31 December 2010:

Name	Country	Operator	Activity	% of Ownership
Ourdhoud	Algeria	Sonatrach	Exploration and Production	39,76%
Timimoun	Algeria	Total Exploration & Production Algerie	Exploration and Production	11.25%
Tiple	Colombia	Cepsa Colombia	Exploration	70.00%
Garibay	Colombia	Cepsa Colombia	Exploration	50.00%
Puntero	Colombia	Cepsa Colombia	Exploration	70.00%
Cabrestero	Colombia	Cepsa Colombia	Exploration	70.00%
Merecure	Colombia	Cepsa Colombia	Exploration	70.00%
El Edén	Colombia	Cepsa Colombia	Exploration	50.00%
El Portón	Colombia	Cepsa Colombia	Exploration	50.00%
Los Ocarros	Colombia	Cepsa Colombia	Exploration	50.00%
El Sancy	Colombia	Cepsa Colombia	Exploration	50.00%
Cebucán	Colombia	PETROBRAS	Exploration	30.00%
Balay	Colombia	PETROBRAS	Exploration	30.00%
Cop 14	Colombia	Metapetroleum	Exploration	37.50%
Cop 12	Colombia	Metaapetroleum	Exploration	30.00%
SJ & RP	Colombia	HOCOL	Exploration	33.33%
Caraca	Colombia	Cepsa Colombia	Exploration and Production	70.00%
CPR Espinal	Colombia	PETROBRAS	Exploration and Production	15.00%
LaCañada Norte	Peru	Ecopetrol	Exploration and Production	16.67%
Block 127	Peru	Cepsa Peru, S.A.	Exploration	80.00%
Block 114	Peru	Cepsa Peru, S.A.	Exploration	60.00%
Block 131	Egypt	Cepsa Peru, S.A.	Exploration	70.00%
South Alamein	Egypt	Cepsa Egypt S.A, BV	Exploration	50.00%
Rodaballo	Spain	Repsol	Exploration and Production	15.00%
Casablanca	Spain	Repsol	Exploration and Production	7.40%
Montanazo	Spain	Repsol	Exploration and Production	7,25%
Boquerón	Spain	Repsol	Exploration and Production	4.50%

ISSUER

IPIC GMTN Limited
c/o Maples Corporate Services Limited
P.O. Box 309 Ugland House
Grand Cayman KY1-1104
Cayman Islands

GUARANTOR

International Petroleum Investment Company P.J.S.C.
P.O. Box 7528
Abu Dhabi
United Arab Emirates

FISCAL AGENT, PAYING AGENT, EXCHANGE AGENT AND TRANSFER AGENT

The Bank of New York Mellon, London Branch
One Canada Square
London
E14 5AL
United Kingdom

REGISTRAR AND TRANSFER AGENT
(in respect of Unrestricted Notes)

The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building
Polaris 2 – 4 rue Eugène Ruppert
2453 Luxembourg
Luxembourg

REGISTRAR AND TRANSFER AGENT
(in respect of Restricted Notes)

The Bank of New York Mellon, New York Branch
101 Barclay Street
New York
NY 10286
United States of America

LEGAL ADVISERS

To the Issuer as to Cayman Islands law

Maples and Calder
The Exchange Building, 5th Floor
Dubai International Financial Centre
P.O. Box 119980
Dubai
United Arab Emirates

To the Guarantor as to English, U.A.E. and United States law

Clifford Chance LLP
13th & 14th Floors
Al Niyadi Building
Airport Road
Sector W-14/02
P.O. Box 26492
Abu Dhabi
United Arab Emirates

To the Arranger and Dealers as to English and U.A.E. law

Linklaters LLP
Ninth Floor
Currency House
Dubai International Financial Centre
P.O. Box 506516
Dubai
United Arab Emirates

To the Arranger and Dealers as to United States law

Linklaters LLP
One Silk Street
London
EC2Y 8HQ
United Kingdom

AUDITOR

To the Guarantor

Ernst & Young
P.O. Box 136
Abu Dhabi
United Arab Emirates

ARRANGER

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

DEALERS

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

National Bank of Abu Dhabi P.J.S.C.
One NBAD Tower
Sheikh Khalifa Street
P.O. Box 4
Abu Dhabi
United Arab Emirates

Standard Chartered Bank
P.O. Box 999
Dubai
United Arab Emirates

The Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR
United Kingdom

IPIC

شركة الاستثمارات البترولية الدولية
INTERNATIONAL PETROLEUM INVESTMENT COMPANY

Printed by RR Donnelley 236098