THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2011

Ernst & Young

ERNST & YOUNG

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONTENTS

ERNST & YOUNG

Ernst & Young
5/7 Sweet Briar Road
St. Clair, Port-of-Spain
Trinidad and Tobago
Tel: 868 628 1105
Fax: 868 622 1153
www.ey.com

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

We have audited the accompanying consolidated financial statements of The National Gas Company of Trinidad and Tobago Limited, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of 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 Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The National Gas Company of Trinidad and Tobago Limited, as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

Ernst & Young

Port of Spain,
TRINIDAD:
30 April 2012

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)

ASSETS	Notes	2011 $'000	2010 $'000
NON-CURRENT ASSETS			
Property, plant and equipment	4	10,555,773	10,410,582
Intangible assets	5	17,033	15,528
Investment properties	6	616,472	625,053
Interest in joint venture	7	1,092,241	956,995
Investments	8	1,982,296	1,522,123
Financial asset at fair value through profit and loss	9	59,606	39,376
Net investment in leased asset	10	569,088	563,311
Long-term loans receivable	11	1,978,036	2,199,044
Deferred tax asset	21	565,263	605,115
Deferred expenses	12	313,370	326,641
Debt reserve funds	13	168,839	167,961
		17,918,017	17,431,729
CURRENT ASSETS			
Cash and short-term investments	14	12,214,795	9,358,109
Current portion of long-term loan receivable	11	520,970	151,470
Current portion of net investment in leased assets	10	916	–
Accounts receivable	15	2,991,250	2,177,894
Sundry debtors and prepayments	16	1,036,800	1,364,753
Inventories	17	31,912	35,644
Dividends receivable		81,719	81,302
Deferred expenses	12	17,965	18,005
Income taxes receivable		283,218	148,534
Total current assets		17,179,545	13,335,711
Total assets		35,097,562	30,767,440

The accompanying notes form an integral part of these financial statements.

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)
(Continued)

EQUITY AND LIABILITIES	**Notes**	**2011 $'000**	**2010 $'000**
EQUITY			
Stated capital	18	1,855,266	1,855,266
Reserve fund	19	438,192	438,192
Other reserves	20	2,731,419	2,199,489
Retained earnings		18,433,495	14,966,743
Equity attributable to equity holders of the parent		23,458,372	19,459,690
Minority interests		524,416	440,154
		23,982,788	19,899,844
NON-CURRENT LIABILITIES			
Deferred tax liability	21	1,779,689	1,500,837
Long-term debt	22	2,888,039	2,998,824
Provisions	23	777,689	787,572
Post retirement medical and group life obligation	24	102,951	77,431
Pension obligation	25	255,386	94,027
Deferred income	26	409,960	353,111
Long-term creditors	27	110,504	109,941
Total non-current liabilities		6,324,218	5,921,743
CURRENT LIABILITIES			
Current portion of long-term debt	22	126,324	493,125
Trade payables	28	2,485,623	2,141,969
Sundry payables and accruals	29	1,220,651	1,773,177
Deferred income	26	44,252	66,047
Deferred capital grant		23,438	23,438
Provisions	23	7,721	5,600
Income taxes payable		317,547	242,497
Dividends payable		565,000	200,000
Total current liabilities		4,790,556	4,945,853
Total liabilities		11,114,774	10,867,596
Total equity and liabilities		35,097,562	30,767,440

The accompanying notes form an integral part of these financial statements.

The consolidated financial statements of The National Gas Company of Trinidad and Tobago Limited were authorized for issue by The Board of Directors on 30 April 2012.

_____________________: Director _____________________: Director

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)

	Notes	2011 $'000	2010 $'000
Sales	30	18,994,360	14,166,966
Cost of sales	30	(13,574,003)	(10,563,970)
Gross profit		5,420,357	3,602,996
Other operating income	31	372,211	112,403
Interest and other investment income	32	712,479	702,896
Share of income from joint venture	7	1,053,778	794,271
Administrative, maintenance & general expenses	33	(822,245)	(1,192,780)
Impairment expense	34	(22,540)	(317,668)
Finance costs	35	(277,715)	(381,741)
Other expenses		(6,861)	(5,653)
Loss on foreign exchange transactions		(12,479)	(14,335)
Profit before tax		6,416,985	3,300,389
Income tax expense	21	(1,812,114)	(1,206,941)
Profit for the year		4,604,871	2,093,448
Other comprehensive income			
Revaluation of pipeline (net of deferred tax)		–	1,024,831
Available-for-sale financial assets		473,040	196,852
Foreign currency translation		101,192	62,251
Other comprehensive income for the year, net of tax		574,232	1,283,934
Total comprehensive income for the year		5,179,103	3,377,382
Attributable to:			
Equity holders of the Parent		4,913,682	3,164,590
Minority interests		265,421	212,792
		5,179,103	3,377,382

The accompanying notes form an integral part of these financial statements.

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)

	Stated capital $'000	Capital subscribed $'000	Reserve fund $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Minority interest $'000	Total equity $'000
Year ended 31 December 2010								
Balance as at 1 January 2010	1,752,848	102,418	438,192	942,812	13,458,830	16,695,100	333,610	17,028,710
Total comprehensive income for the year	–	–	–	1,281,096	1,883,494	3,164,590	212,792	3,377,382
Transfer of depreciation for offshore plant and equipment and pipelines	–	–	–	(24,419)	24,419	–	–	–
Dividends (note 46)	–	–	–	–	(400,000)	(400,000)	–	(400,000)
Dividends of subsidiaries	–	–	–	–	–	–	(106,248)	(106,248)
Capital subscribed	102,418	(102,418)	–	–	–	–	–	–
Balance as at 31 December 2010	1,855,266	–	438,192	2,199,489	14,966,743	19,459,690	440,154	19,899,844
Year ended 31 December 2011								
Balance as at 1 January 2011	1,855,266	–	438,192	2,199,489	14,966,743	19,459,690	440,154	19,899,844
Total comprehensive income for the year	–	–	–	571,473	4,342,209	4,913,682	265,421	5,179,103
Transfer of depreciation for offshore plant and equipment and pipelines	–	–	–	(39,543)	39,543	–	–	–
Dividends (note 46)	–	–	–	–	(915,000)	(915,000)	–	(915,000)
Dividends of subsidiaries	–	–	–	–	–	–	(181,159)	(181,159)
Balance as at 31 December 2011	1,855,266	–	438,192	2,731,419	18,433,495	23,458,372	524,416	23,982,788

The accompanying notes form an integral part of these financial statements.

THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Cash generated from operations	36	4,473,867	3,418,296
Pension and other post retirement contributions paid		(18,800)	(18,681)
Income taxes paid		(1,200,996)	(1,298,817)
Interest paid		(231,3233)	(245,600)
Interest received		322,330	115,994
Net cash generated from operating activities		3,345,078	1,971,192
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(344,088)	(2,207,216)
Purchase of investment property		(58,394)	(317,957)
Proceeds on disposal of property, plant and equipment		25,259	209
Finance lease (net)		–	(72,570)
Net change in short-term investments		931,046	1,282,916
Loan receivables, repayments net of advances		(112,742)	179,829
Dividends received		1,166,029	926,196
Purchase of long-term investments (net)		22,004	(2,511)
Net cash generated from/(used in) investing activities		1,629,114	(211,104)
Cash flows from financing activities			
Repayment of long-term debt		(497,225)	(251,825)
Dividends paid		(731,159)	(456,248)
Net cash used in financing activities		(1,228,384)	(708,073)
Net increase in cash and cash equivalents		3,745,808	1,052,015
Net foreign exchange difference		13,295	12,946
Cash and cash equivalents			
- beginning of year		3,470,651	2,405,690
- end of year	14 (d)	7,229,754	3,470,651

The accompanying notes form an integral part of these financial statements.

1. Corporate information

The National Gas Company of Trinidad and Tobago Limited and subsidiaries ("the Group") is a diversified group primarily engaged in the purchase, transmission, and distribution of natural gas in Trinidad and Tobago, the management of certain infrastructural facilities and the promotion and development of the Union Industrial Estate at La Brea. The National Gas Company of Trinidad and Tobago Limited (the Company) is wholly owned by the Government of Trinidad and Tobago (GORTT). The Company's registered office is located at Orinoco Drive, Point Lisas Industrial Estate, Point Lisas, Trinidad.

The Group's subsidiaries, joint venture and associate are as follows:

Name of Company	Country of incorporation	Percentage equity interest
Subsidiary Companies		
National Energy Corporation of Trinidad and Tobago Limited	Trinidad and Tobago	100%
NGC Pipeline Company Limited	Trinidad and Tobago	100%
Trinidad and Tobago LNG Limited	Trinidad and Tobago	100%
La Brea Industrial Development Company Limited	Trinidad and Tobago	83.43%
NGC NGL Company Limited	Trinidad and Tobago	80%
NGC Trinidad and Tobago LNG Company Limited	Trinidad and Tobago	62.16%
Associated Company		
Trinidad and Tobago Marine Petroleum Company Limited (TRINTOMAR)	Trinidad and Tobago	20%
Joint Venture		
Phoenix Park Gas Processors Limited*	Trinidad and Tobago	51%
Other		
Atlantic 1 Holdings LLC**	United States of America	10%
Atlantic LNG 4 Company of Trinidad and Tobago Unlimited***	Trinidad and Tobago	11.11%

* owned by NGC NGL Company Limited
** owned by NGC Trinidad and Tobago LNG Company Limited
*** owned by Trinidad and Tobago LNG Limited

2.1 Basis of preparation

These consolidated financial statements have been prepared under the historical cost basis, except for the Group's offshore plant and equipment, pipelines and available-for-sale investments, which have been measured at fair value. The financial statements are presented in Trinidad and Tobago dollars (TT$).

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

Principles of consolidation

The consolidated financial statements of the Group include the accounts of the parent and its subsidiary companies. All intra-group balances, transactions, and income and expenses have been 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 statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011.

The adoption of these standards and interpretations did not have any effect on accounting policies, financial position or performance of the Group.

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

The adoption of the standards or interpretations is described below:

IAS 32 *Financial Instruments: Presentation (Amendment)*
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

2.2 Changes in accounting policy and disclosures (continued)

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

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

IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets.

All other components are to be measured at their acquisition date fair value.

IFRS 7 *Financial Instruments - Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

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

IFRS 3 *Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))

IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)

IAS 27 *Consolidated and Separate Financial statements*
The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

IAS 34 *Interim Financial Statements*
IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)
IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

2.3 Significant accounting judgements, estimates and assumptions

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

Judgments

In the process of applying the Group's accounting policies management has determined that there were no judgment apart from those involving estimations which have a significant effect on the amounts recognized in the financial statements.

Estimates and assumptions

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

Impairment of non-financial assets

The Group assesses whether there are indicators of impairment for all non financial assets at each reporting date. When value-in-use calculations are undertaken management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of available-for-sale investments

The Group classifies certain assets as available-for-sale and recognizes movement in their fair value in equity. When fair value declines management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss.

Tax assessments

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due where the final tax outcome of these matters is different from the amounts that were initially recorded. Such differences will impact the income tax and deferred tax provisions in the period in which such determinations is made.

Pension and other post employment benefits

The cost of defined benefits pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of returns on assets, future salary increases mortality rates and future pension increases. Due to the long term nature of these plans such estimates are subject to significant uncertainty.

2.3 Significant accounting judgements, estimates and assumptions (continued)

Asset retirement obligation

The Group has recorded a provision for the estimated cost of decommissioning its offshore plant and equipment. In determining the amount of provision, assumptions and estimates are required in relation to discount rates and expected cost to dismantle and remove the offshore plant and equipment.

Take-or-pay

Take-or-pay obligations arising from long-term gas purchase contracts are accounted for as deferred expenditure or cost of sales (Note 2.4 (r)) based on management's assessment of the timeframe within which the gas will be taken. This assessment requires assumptions to be made regarding the future demand for gas arising from current and existing projects.

Revaluation

The Group revalues its offshore and onshore pipelines and related facilities every five to seven years. The key considerations in arriving at the fair value include location, historic and replacement cost, effective age, indicative life, gas reserve life, inherent risks and other information from management. The functional condition and economic obsolescence of the assets are also taken into account. Based on these factors, it has been estimated that the onshore and offshore pipelines will have a maximum useful life, not extending beyond 31 December 2070.

Carrying value of oil and gas assets

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

The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:
- changes in proved reserves;
- the effect on proved reserves of differences between actual commodity prices and commodity price assumptions;
- unforeseen operational issues.

2.4 Summary of significant accounting policies

(a) Cash and cash equivalents

Cash on hand, in banks and short-term deposits that are held to maturity are carried at cost.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and deposits in banks and short-term deposits with an original maturity of three months or less.

(b) Accounts and other receivables

Trade accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. A provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written-off when identified. Receivables from related parties are recognized and carried at cost.

(c) Inventories

Inventories are valued at the lower of weighted average cost and net realizable value.

The cost of LNG inventories comprises feed gas cost, and other direct and production costs including transportation tariff and processing fees. Net realizable value is the estimate of the selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

(d) Taxes

Current tax
Current tax assets and liabilities for the current and prior periods are measured at the amount 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 period date.

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

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of 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 losses can be utilized.

2.4 Summary of significant accounting policies (continued)

(d) Taxes (continued)

Deferred tax (continued)
The carrying amount of deferred tax assets are reviewed at each reporting period 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 tax asset to be utilized. Deferred tax assets arising from tax losses not yet recognized are only carried forward if it is probable that future taxable profit will be sufficient to allow the benefit of the tax losses to be realized.

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

Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

(e) Property, plant and equipment

(i) Non-oil and gas assets

Property, plant and equipment, except for offshore plant and equipment and pipelines, are stated at cost less accumulated depreciation and accumulated impairment losses. Offshore plant and equipment and pipelines are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

Depreciation is provided using the straight-line method at the following rates which are designed to write off the cost of these assets over their expected useful life

Machinery and equipment	10% – 20%
Offshore plant and equipment	12.5% – 25%
Marine infrastructural assets	2.5% – 20%
Other assets	6.6% – 50%
Software	50%

The pipelines and related facilities were revalued at 31 December 2010. Effective 1 January 2011 these assets will be depreciated over their remaining useful lives varying from 5 to 60 years, not exceeding beyond 31 December 2070.

Leasehold property is amortized as follows:
Land – over the term of the lease.
Buildings – over fifty (50) years or the term of the lease, whichever is shorter.

All costs relating to assets under construction are transferred to their relevant fixed asset categories upon completion and are depreciated from that date.

2.4 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(i) Non-oil and gas assets (continued)

Following initial recognition at cost, offshore plant and equipment and pipelines are carried at the revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Valuations are performed every five to seven years unless there is an indication that the fair value of a revalued asset differs materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, with exception of a deficit directly offsetting a previous surplus on the same asset. This is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made as the assets are used by the Group. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

(ii) Oil and gas assets

The Group accounts for its natural gas and crude oil exploration, development and production activities under the full cost method of accounting.

Under this method all cost associated with the exploration for and development of oil and gas reserve are capitalized. These costs include land acquisition costs, geological and geophysical costs, interest and the carrying costs of non-producing properties, cost of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs, but do not include any cost related to production, general corporate overheads or similar activities.

The cost also includes the estimated cost of dismantlement, assets removal and site restoration.

The provision for depletion and amortization is determined using the unit-of-production method based upon the estimated proved developed reserves of oil and gas, as determined by an independent qualified petroleum consultant. Costs associated with the acquisition and evaluation of significant unproved properties are excluded from amounts subject to depletion until such time as the properties are proven or become impaired.

2.4 Summary of significant accounting policies (continued)

(f) Investment properties

Investment properties are stated at cost less accumulated depreciation less impairment. Depreciation is provided on a straight line basis over the estimated economic useful lives of the assets at the following rates:

Fabrication yard	3.33%
Development cost	10.00% - 33.33%
Buildings	3.33%

No depreciation is provided on freehold land.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of comprehensive income in year of retirement or disposal.

(g) Intangible assets

Intangible assets acquired separately are measured at initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated depreciation.

Intangible assets consist of software which is depreciated over the useful economic life currently estimated at two (2) years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The depreciation period and the depreciation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method as appropriate and treated as changes in accounting estimates.

The depreciation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category, consistent with the function of the intangible asset.

(h) Long-term debt

Long-term debt is initially recognized at the fair value of the consideration received less any directly attributable transaction costs.

After initial recognition, long-term debt is subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any directly attributable transaction costs.

2.4 Summary of significant accounting policies (continued)

(i) Foreign currencies

The presentation currency of the Group's financial statements is Trinidad & Tobago dollars (TT$). However, the functional currency of the parent company and four (4) of its subsidiaries is the United States dollar (US$) because it is the currency of the primary economic environment in which these entities operate. All statement of financial position amounts have been translated using exchange rates in effect at the reporting date and statement of comprehensive income amounts have been translated using average exchange rates for the year. Gains and losses resulting from this process have been recorded in translation reserve as a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Resulting exchange differences are recognized in income/expense for the year. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate as at the dates of initial transactions.

(j) Borrowing costs

Borrowing costs to finance the construction of property, plant and equipment are capitalized during the period required to complete and prepare the asset for its intended use, using the effective interest rate method. All other borrowing costs are expensed.

(k) Trade and other payables

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

Payables to related parties are carried at cost.

(l) Investments and other financial assets

Investment in joint venture

NGC NGL Company Limited, an 80% owned subsidiary, has a 51% interest in Phoenix Park Gas Processors Limited (PPGPL), which is a jointly controlled entity involved in the extraction of propane, butanes and natural gasoline from the natural gas stream.

2.4 Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

Investment in joint venture (continued)

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. Despite its controlling interest, the Group does not exercise unilateral control over PPGPL's significant operating and financial decisions and, therefore, accounts for PPGPL under the equity method of accounting. The consolidated statement of comprehensive income reflects the Group's share of PPGPL's results of operations. If there has been a change recognized directly in PPGPL's equity, the Group recognizes its share of any changes and discloses this, where applicable, in the consolidated statement of changes in equity.

Investment in associated company

Investment in associated company is accounted for using the cost method of accounting whereby these investments are initially recorded at cost and subsequently adjusted to recognize any diminution in value considered permanent.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. All financial assets are recognized initially, at fair value, plus directly attributable transaction cost except in the case of investments at fair value through profit or loss. The Group determines the classification of its financial assets on initial recognition and where allowed and appropriate, re-evaluates this designation at each financial year end.

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 to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

2.4 Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financials assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group has not designated any financial asset as held for trading.

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

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance costs in the statement of comprehensive income.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting period date. For investments where there is no 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.

2.4 Summary of significant accounting policies (continued)

(l) Investments and other financial assets (continued)

Amortized cost

Held-to-maturity investments and loans and receivables are measured at amortized cost. This is computed using the effective interest rate 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 borrowing cost.

(m) Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 Summary of significant accounting policies (continued)

(m) Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Available-for-sale financial investments

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

In the 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 evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from other comprehensive income and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income; increases in their fair value after impairment are recognised directly in other comprehensive income.

(n) Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated as 'at fair value through profit or loss'.

2.4 Summary of significant accounting policies (continued)

(n) Financial liabilities (continued)

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

(o) 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 derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized 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 recognized in profit or loss.

2.4 Summary of significant accounting policies (continued)

(p) Pension and other post employment benefits

The Group maintains a defined benefit pension plan which covers all of its permanent employees effective 1 May 1977. The funds of the plan are held separately from the Group and are administered by Trustees. The plan is funded by payments from employees and the Group, taking into account the recommendations of independent qualified actuaries. The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in accordance with the advice of independent actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government securities. All actuarial gains or losses to be recognized are spread forward over the average remaining service lives of employees.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the pension asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and refunds from the plan or reductions in the future contributions to the plan.

Pension income/cost is included in staff costs within administrative, maintenance and general expenses in the consolidated statement of comprehensive income.

The Group also provides certain additional post-employment medical and group life benefits to retirees.

(q) Leases

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

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income amended over the lease term.

2.4 Summary of significant accounting policies (continued)

(q) Leases (continued)

Leases for property, plant and equipment where the lessor has substantially all the risks and rewards of ownership are classified as finance leases.

Finance leases are capitalized at the commencement of the lease at the fair value of the asset or if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under a finance lease are recognized in the consolidated statement of financial position and present them as a recoverable at an amount equal to the net investment in the lease. Interest income and finance charges are recognized in the consolidated statement of comprehensive income.

(r) Take-or-pay

The Group has take-or-pay contracts with various upstream producers. A liability is recognized in the year in which the Group has to pay for volumes contractually committed to but not yet taken. The expenditure is recognized on the earlier of when the gas volumes are actually taken or on expiration of the deficiency recovery period. If management determines that they will not be able to take the volumes before the expiration of the deficiency recovery period, the amount is immediately recognized as an expense within cost of sales.

The Group also has take-or-pay contracts with its major customers. Deferred income is recorded in the year in which the customers have to pay for volumes contractually committed to but not yet taken. The revenue is recognized at the earlier of the expiration of the customer's deficiency period and when the volumes are taken.

(s) 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. The following specific recognition criteria must also be met before revenue is recognised:

Revenues associated with the sale of gas, oil and condensate are recognized when title and the related rights pass to the customer.

Revenue associated with services and marine infrastructure income is recognized upon performance of the services.

2.4 Summary of significant accounting policies (continued)

(s) Revenue recognition (continued)

Lease rental and service charge from operating leases on investment properties are recognised as revenue in the period in which they are earned. Premiums on leases are recognised as revenue in the initial year of the lease.

Dividend income is recognized when dividends are declared by the investee company.

Management fees earned on government funded projects are accounted for on the accruals basis.

Interest income is accounted for on the accruals basis.

(t) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching 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.

Non-operating contributions received from the Government are accounted for as deferred capital grants.

(u) Capital grants

Capital grants represent amounts received from the Government for specific capital expenditure purposes. Capital grants relating to non depreciable assets are deducted against the carrying amount of the asset to which it relates when the expense is incurred. When the capital grant is expended for depreciable assets, the related amounts are transferred from deferred capital grants to deferred income.

Deferred income represents amounts expended on items of property plant and equipment. These amounts are amortized to the profit or loss on a systematic basis over the useful lives of the related assets.

(v) Non-refundable capital contribution

The Group recognizes a non-refundable capital contribution (NRCC) when payment is received from industrial users as part of a condition of their connection to the pipeline network which provides them with continuous access to a supply of gas for use in their respective industries.

The contribution is recorded as deferred NRCC income in the Statement of Financial Position in the year received. The contribution is then amortized on a monthly basis and taken to the consolidated statement of comprehensive income over the period of the industrial user's sales contract.

2.4 Summary of significant accounting policies (continued)

(w) Provisions

General

Provisions are recognized 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 amounts 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 profit and loss net of any reimbursement. If the effects 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 in time is recognised as a finance cost.

Asset retirement obligation

The Group has recorded a provision for the net present value of the estimated cost of decommissioning the offshore plant and equipment and its proportionate share of the Teak, Samaan and Poui (TSP) assets at the end of their useful lives. The related fixed assets are increased in an amount equivalent to the provision and subsequently depreciated as part of the capital costs of the plant and equipment. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset unless related to the time value of money. The unwinding of the discount on the provision is included in finance costs in the consolidated statement of comprehensive income.

Onerous contract

The Group has recorded a provision for the net unavoidable costs relating to an onerous contract with a customer.

Provision for re-forestation

The Group has recorded a provision for the cost of reforestation. These estimated cost of replacing forest cleared in the construction of its pipelines were included in the related fixed asset and are to be depreciated as part of the capital cost of the pipelines.

2.4 Summary of significant accounting policies (continued)

(x) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Group does not carry any financial instrument which meets the strict criteria for hedge accounting.

3. Standards issued but not yet effective

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning after 1 January 2011.

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

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

IAS 12 *Income Taxes – Recovery of Underlying Assets*

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

IAS 19 *Employee Benefits* (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3. Standards issued but not yet effective (continued)

IAS 27 ***Separate Financial Statements*** **(as revised in 2011)**
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 ***Investments in Associates and Joint Ventures*** **(as revised in 2011)**
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 ***Financial Instruments: Classification and Measurement***
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 ***Consolidated Financial Statements***
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation - Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. **Standards issued but not yet effective** (continued)

IFRS 11 ***Joint Arrangements***
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidating the joint venture to equity accounting for this investment. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 ***Disclosure of Involvement with Other Entities***
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)
(Continued)

4. Property, plant and equipment

	Freehold land $'000	Lease-hold property $'000	Develop-ment costs $'000	Machinery and equipment $'000	Pipeline & related facilities $'000	Oil and gas assets $'000	Offshore plant and equipment $'000	Marine infra-structural assets $'000	Other assets $'000	Assets under construction $'000	Total $'000
Year ended 31 December 2011											
Opening net book value	10,637	162,958	1,298	18,827	4,995,341	302,486	–	383,179	25,590	4,510,266	10,410,582
Additions	2,443	1,357	–	3,659	6,252	59,153	6,577	(7,279)	9,179	247,044	328,385
Transfers	–	–	–	353	3,105,812	–	–	33,869	–	(3,140,034)	–
Disposals	–	–	–	(5)	–	–	–	(6,508)	(210)	–	(6,723)
Depreciation for year	–	(3,167)	(200)	(6,367)	(150,403)	(52,679)	–	(24,298)	(11,003)	–	(248,117)
Impairment	–	–	–	–	–	–	(6,577)	23,964	–	–	17,387
Foreign exchange difference	55	790	–	79	32,522	1,561	–	–	108	19,144	54,259
Closing net book value	13,135	161,938	1,098	16,546	7,989,524	310,521	–	402,927	23,664	1,636,420	10,555,773
At 31 December 2011											
Cost	13,135	221,266	2,062	125,016	8,141,193	656,183	472,090	770,094	89,841	1,636,420	12,127,300
Accumulated depreciation	–	59,328	964	108,470	151,669	345,662	472,090	367,167	66,177	–	1,571,527
Net book value	13,135	161,938	1,098	16,546	7,989,524	310,521	–	402,927	23,664	1,636,420	10,555,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)
(Continued)

4. Property, plant and equipment (continued)

	Freehold land $'000	Lease-hold property $'000	Develop-ment costs $'000	Machinery and equipment $'000	Pipeline & related facilities $'000	Oil and gas assets $'000	Offshore plant and equipment $'000	Marine infra-structural assets $'000	Other assets $'000	Assets under construction $'000	Total $'000
Year ended 31 December 2010											
Opening net book value	4,524	84,820	1,166	18,352	3,756,240	320,033	–	405,803	25,939	2,510,865	7,127,742
Additions	6,072	80,572	–	6,647	32,546	45,507	4,736	762	9,659	2,001,040	2,187,541
Transfers	–	–	303	699	(123,591)	–	–	4,752	–	(5,754)	(123,591)
Disposals	–	–	–	(20)	(2,010)	–	–	(272)	(169)	(2,170)	(4,641)
Depreciation for year	–	(3,014)	(171)	(6,902)	(192,175)	(63,938)	–	(24,069)	(9,910)	–	(300,179)
Impairment	–		–	–	–	–	(4,736)	(3,797)	–	(8,909)	(17,442)
Revaluation	–		–	–	1,513,786	–	–	–	–	–	1,513,786
Foreign exchange difference	41	580	–	51	10,545	884	–	–	71	15,194	27,366
Closing net book value	10,637	162,958	1,298	18,827	4,995,341	302,486	–	383,179	25,590	4,510,266	10,410,582
At 31 December 2010											
Cost	10,637	219,119	2,062	120,930	4,996,607	595,469	465,513	736,627	80,764	4,525,131	11,752,859
Accumulated depreciation/impairment	–	56,161	764	102,103	1,266	292,983	465,513	353,448	55,174	14,865	1,342,277
Net book value	10,637	162,958	1,298	18,827	4,995,341	302,486	–	383,179	25,590	4,510,266	10,410,582

4. Property, plant and equipment (continued)

(a) Revaluation of offshore plant and equipment and pipelines

i. Offshore plant and equipment

The Group revalues its offshore plant and equipment using an income approach every five to seven years. In December 2004, the Group revalued its offshore plant and equipment at an amount of $139 million to be depreciated over the assets remaining useful life of eight years. A corresponding amount of $90.3 million (net of tax) was recorded as a revaluation reserve. If the offshore plant and equipment were measured using the cost model, the net carrying amount would have been immaterial, as at 31 December 2011.

The offshore plant and equipment was fully impaired in 2005.

ii. Pipelines

The Group revalues its pipelines every five to seven years. The Directors have approved an independent valuation performed by PricewaterhouseCoopers at 31 December 2010, of the pipelines and related facilities owned by the Group.

The valuation was conducted using the depreciated replacement cost basis assuming the facilities will continue to be used for the purpose for which they were designed and intended. For valuation purposes the pipelines have been assessed to have a maximum useful life not extending beyond 31 December 2070. The estimated useful life is based on current and estimated feature reserves as well as other factors.

The revaluation resulted in a net revaluation surplus of $1,513.79 million which has been incorporated in fixed assets effective 31 December 2010. Included in the net surplus is an amount of $62.56 million which represents a deficit arising on the revaluation of certain pipelines which has been charged directly to the consolidated statement of comprehensive income. The 2010 revaluation surplus of $1,576.63 million reserve net of deferred taxes of $551.79 million will be transferred to retained earnings on a basis consistent with the depreciation charged on the pipelines.

The net carrying amount of the pipelines if it was carried at cost rather than at the revalued amount would have been $5,874.38 million as at 31 December 2011 (2010: $3,147.40 million).

4. Property, plant and equipment (continued)

(b) Pipelines and related facilities

i. Included in "Pipelines and related facilities" is the Trinidad and Tobago Electricity Commission (T&TEC) pipeline system which was acquired by the parent company from T&TEC with effect from 1 January 1977. However, the Group has not obtained legal title to the asset because the proper Rights of Way associated with the pipeline system have not yet been acquired.

ii. As at 31 December 2011 the Group has recorded a provision of $37.79 million (2010: $37.60 million) for compensation payable to owners of land along Rights of Way of the Group's pipelines.

(c) Assets under construction

Included under assets under construction are costs relating to the Tobago Pipeline Project.

The Group has been requested by the Government of the Republic of Trinidad and Tobago (GORTT) to construct the Tobago pipeline and related infrastructure to supply gas to meet the island's long-term domestic needs and to provide additional transportation capacity for third parties. A 12" diameter 54 km (33 mile) long subsea pipeline is being constructed from the BHP Central Processing Platform in the Angostura Field to Cove Estate, Tobago. The pipeline will terminate at an inlet receiving station at the battery limits of the estate, inclusive of custody transfer metering. The projected estimated completion date is second quarter 2012.

Cost incurred on this project as at 31 December 2011 is $1,627.90 million.

	2011 $'000	2010 $'000
5. Intangible assets		
Year ended 31 December		
At 1 January	15,528	5,118
Additions/transfers at cost	16,003	19,676
Depreciation	(14,575)	(9,241)
Foreign exchange difference	77	(25)
At 31 December	17,033	15,528
At 31 December		
Cost	114,749	98,226
Accumulated depreciation	(97,716)	(82,698)
Net book amount	17,033	15,528

6. Investment properties

	2011 $'000	2010 $'000
Year ended 31 December		
At 1 January	625,053	615,995
Additions	58,394	317,957
Depreciation	(20,471)	(14,390)
Impairment (Note 34)	(46,504)	(294,495)
Disposal	–	(14)
At 31 December	616,472	625,053
At 31 December		
Cost	1,196,560	1,259,787
Accumulated depreciation	(580,088)	(634,734)
Net book value	616,472	625,053
Amounts recognised in profit or loss		
Rental income from investment properties	18,014	29,996
Direct operating expenses	3,387	2,429

6. Investment properties (continued)

Investment properties comprise the lands at Union Industrial Estate (UIE) and La Brea Industrial Estate and a warehouse facility at UIE.

In 2008 the Group began the construction of a material and handling storage facility (the facility) for the aluminum smelter project which was to be built on the UIE. The discontinuation of the aluminum smelter project in September 2010 resulted in the design and use of the material and handling storage facility being changed to a general purpose warehousing facility. At 31 December 2011, the costs incurred on the facility was $545.6 million (2010: $516.2 million)

An impairment review was performed on the UIE and the warehouse facility at 31 December 2011. The recoverable amounts were based on value-in-use. In determining the value-in-use, the pre-tax cash flows were discounted at a rate of 5.39%. Projected revenues were based on cash flows from identified tenants/specific projects for the UIE and estimated cash flows for the facility as approved by management. A net impairment charge of $34.7 million has been recorded in the consolidated statement of comprehensive income, representing an impairment reversal of $4.7 million for the land at UIE and an impairment charge of $39.4 million for the facility.

An impairment review was also conducted on the Labidco operations based on a value-in-use calculation using a discount rate of 5.22% which has resulted in an impairment charge of $11.79 million for investment property and an impairment reversal of $23.96 million for property, plant and equipment.

Legal title for the land on which the fabrication yard at La Brea Industrial Estate is situated have not yet been transferred to the Group by The Petroleum Company of Trinidad and Tobago Limited (Petrotrin). The Group has applied for a reclamation licence in respect of the land on which the warehouse facility sits.

7. Interest in joint venture

The NGC NGL Company Limited's 51% share of the assets, liabilities, and income and expenses of PPGPL as at 31 December 2011 and 2010 are as follows:

	2011 $'000	2010 $'000
Share of PPGPL's statement of financial position:		
Current assets	1,047,823	951,219
Non-current assets	1,182,429	1,203,037
Current liabilities	(497,954)	(452,167)
Non-current liabilities	(640,057)	(745,094)
Net assets	1,092,241	956,995
Share of PPGPL's statement of comprehensive income:		
Revenue	3,762,338	3,117,067
Cost of sales	(1,869,516)	(1,660,920)
Operating and other expenses	(267,363)	(236,594)
Finance costs	(614)	(392)
Profit before tax	1,624,845	1,219,161
Income tax expense	(571,067)	(424,890)
Profit for the year	1,053,778	794,271

8. Investments

Investments comprise the following:

	2011	2010
Held-to-maturity investments (Note (a))	122,887	139,626
Investment in Atlantic 1 Holdings LLC, at cost	156,291	155,493
Investment in Atlantic LNG 4 Company of Trinidad and Tobago Unlimited, at cost	179,442	178,526
Available-for-sale financial assets (Note (b))	1,522,646	1,044,784
Other	1,030	3,566
	1,982,296	1,522,123

8. Investments (continued)

(a) Held-to-maturity

These are investments with fixed or determinable payments and fixed maturity dates which the Group intends to hold to maturity and comprises the following:

	2011 $'000	2010 $'000
Business Development Company	916	912
Petrotrin Bonds	52,013	55,609
Government of Trinidad and Tobago Bonds	19,599	19,339
Government of Barbados Bonds	50,359	63,766
	122,887	139,626

(b) Available-for-sale financial assets

Shares – listed	1,516,336	1,038,506
Shares – unlisted	6,310	6,278
	1,522,646	1,044,784

Listed
Available-for-sale financial assets consist of investments in ordinary shares and the first unit scheme of The Trinidad & Tobago Unit Trust Corporation (a mutual fund) and, therefore have no fixed maturity date or coupon rate. The fair value of the listed ordinary shares is determined by reference to published price quotations in an active market.

Unlisted
For investments where there is no active market, the fair value estimates cannot be reasonably assessed and as such are measured at cost.

9. Financial asset at fair value through profit and loss

In 2006 the Group issued a US$400 million bond to be repaid via a bullet payment in January 2036. To meet 50% of the liability, in 2008 the Group invested US$35.5 million in two (2) single tranche credit linked notes at a cost of US$17.75 million each. During the first ten (10) years of the investment there is risk in relation to loss of the principal. At the end of the ten (10) year period, the note converts to a zero coupon bond and this risk no longer applies. Upon maturity of the notes they will have a value of US$100 million each subject to any loss in value arising from credit events.

9. Financial asset at fair value through profit and loss (continued)

The fair value of the credit linked investment as at 31 December 2011 was $59.61 million (US$9.30 million) (2010: $39.38 million (US$6.18 million)). The fair value gain/loss in respect of this investment is charged to the statement of comprehensive income and presented within finance income or finance expense.

10. Net investment in leased assets

	2011 $'000	2010 $'000
Finance lease – gross investment	2,041,490	2,219,692
Less: Unearned finance charges	(1,471,486)	(1,656,381)
	570,004	563,311
Gross investment in leased assets has the following maturity profile:		
Within 1 year	194,848	188,618
1 to 5 years	827,087	803,316
Over 5 years	1,019,555	1,227,758
	2,041,490	2,219,692
Net investment in leased assets has the following maturity profile:		
Within 1 year	916	–
1 to 5 years	90,153	44,065
Over 5 years	478,935	519,246
	570,004	563,311
Current	916	–
Non-current	569,088	563,111
	570,004	563,311

In December 2010, NGC completed its acquisition of the 58.8 mile 24 inch diameter offshore subsea pipeline and related facilities. BG/Chevron Texaco has entered into a Gas Transportation Agreement (GTA) with NGC for the period 1 June 2010 to 1 May 2027 for use of approximately 85% of the pipeline capacity. BGI as operator will operate and maintain the pipeline and related facilities for an initial term of four years.

10. Net investment in leased assets (continued)

An assessment of the transaction was made under IFRIC 4 Determining whether an arrangement contains a lease and IAS 17 Leases. Consequently, the pre-transfer and capacity payments received from BG/Chevron during the period April 2006 to December 2010 were offset against the acquisition cost of the pipeline and set up as the net investment in a leased asset.

11. Loans receivable	**2011 $'000**	**2010 $'000**
Trinidad and Tobago Electricity Commission (Note (a))	1,849,896	1,817,058
Atlantic LNG 4 Company of Trinidad and Tobago Unlimited (Note (b))	475,665	533,456
Atlantic LNG 4 Company of Trinidad and Tobago (Note (c))	173,445	–
	2,499,006	2,350,514
Less: current portion of loans	(520,970)	(151,470)
Long-term loans receivable	1,978,036	2,199,044

(a) Trinidad and Tobago Electricity Commission (T&TEC)

The Group has converted trade receivables in the amount of US$282.8 million for unpaid gas sales for the period July 2005 to September 2009 together with related interest of US$36.8 million to a medium-term loan receivable of US$319.7 million with an effective date of 1 December 2009. The Loan Agreement was executed on 9 March 2012. The loan will be for a period of 7 years with interest payable at a fixed rate of 3% per annum with semi-annual installments to commence on 1 December 2011.

The impairment provision on the loan has decreased by $78.52 million during 2011 to $199.16 million (US$31.07 million) at 31 December 2011. The impairment test was based on cash flows as per the terms of the medium-term loan, using the original effective interest rate of 7%.

The fair value of the long-term loan receivable was $1,849.89 million at 31 December 2011 (2010: $1,817.06 million).

11. Loans receivable (continued)

(b) Atlantic LNG 4 Company of Trinidad and Tobago Unlimited

Pursuant to the Atlantic LLC Agreement the Members are obligated to make Members loans and working capital contributions in proportion to each Members Percentage Interest to fund the construction, commissioning and operations of the ALNG Train 4. The maximum aggregate principal amount of the long-term Member's Loan is US$1.2 billion of which the Group's proportion is 11.11% (US$133.32 million). As at 31 December 2011 the Group has contributed US$111.99 million (2010: US$ 111.99) which represents its share of the long-term Member's Loan. Total principal repayments of US$37.77 million have been made as at 31 December 2011. The loan balance as at 31 December 2011 is US$74.22 million (TT$475.67 million). The loan has no re-payment terms but the borrower has agreed to pay US$115 million to members in 2012, with the Group's portion (11.11%) being US$12.8 million. This loan is expected to mature on 15 December 2020.

This loan is unsecured and interest is calculated on the principal amount outstanding and payable quarterly at a rate of Libor plus a margin which ranges from 1.125% to 2.125% per annum. The effective interest rate at the reporting period date was 1.8776% (2010: 1.9896%). The fair value of this loan approximates its carrying value.

(c) Atlantic LNG Company of Trinidad and Tobago

Atlantic LNG Company of Trinidad and Tobago has secured financing in the amount of US$270.6 million. The National Gas Company of Trinidad and Tobago Limited (NGC) has provided financing of US$27.06 million which represents ten percent (10%) of the total loan facility.

The term facility was funded on 30 August 2011. The loan shall be repayable in five (5) consecutive semiannual installments in equal principal amounts, commencing on the 30 August 2011 which is sixty (60) months after the closing date and ending on the seventh (7th) anniversary of the Closing Date in 2016. The loans bear interest at a rate per annum equal to the LIBOR rate plus the applicable margin of 1.10%. The effective interest rate at 31 December 2011 was 1.9896%.

12. Deferred expenses

	2011 $'000	2010 $'000
Take-or-pay (Note (a))	199,159	198,893
Capacity rights (Note (b))	128,500	144,890
Other	3,676	863
	331,335	344,646
Current	17,965	18,005
Non-current	313,370	326,641
	331,335	344,646

a) Take-or-pay

Take-or-pay represents the right to take gas under a take-or-pay agreement for which the Group has recognized a liability to pay for gas volumes contractually committed to but not yet taken. The expenditure is recognized on the earlier of when the gas volumes are actually taken or on expiration of the deficiency recovery period.

b) Capacity rights

The Group has acquired reserved capacity rights in a 36" pipeline from Beachfield to Point Fortin.

The expenditure will be amortised to the statement of comprehensive income over the period of the contract which expires on 4 July 2019.

13. Debt reserve funds

In accordance with the Letter of Credit and Reimbursement Agreement ("L/C Agreement") dated as of 15 October 1997 among the parent company, The Bank of Nova Scotia Trinidad and Tobago Limited, Citibank N.A., De Nationale Inversteringsbank (NA) N.V., and Kredietbank N.V. Dublin Branch collectively and The Bank of Nova Scotia L/C Agent, the parent company maintains certain debt reserve funds which are funded from appropriations from two gas sales contracts.

In addition, in accordance with a security agreement one of the subsidiary companies is required to maintain a debt reserve fund. These debt reserve funds are held in interest bearing accounts.

14. Cash and short-term deposits	**2011 $'000**	**2010 $'000**
Cash at banks and on hand	7,181,128	3,447,436
Restricted cash (Note b)	9,956	9,960
Short-term deposits	6,125,147	7,000,856
Less: Provision for impairment of short-term deposits	(1,101,436)	(1,100,143)
	12,214,795	9,358,109

(a) Cash at bank earns interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Group and earn interest at the respective short term deposit rates. The fair value of cash and short-term deposits is $12,214.80 million (2010: $9,358.11 million).

(b) The Group has an Escrow account with a financial institution and is required to maintain a balance on the account equivalent to two loan installments at all times.

(c) The Group held investment note certificates with Clico Investment Bank Limited (CIB) in the amount of $1,101.44 million as at 31 December 2011 which have matured and were not re-paid.

CIB experienced financial and liquidity issues. On 31 January 2009 the Central Bank of Trinidad & Tobago (CBTT) under Section 44D of the Central Bank Act Chap. 79:02 assumed control of CIB. The Central Bank of Trinidad & Tobago indicated that the investment note certificates were not covered under the guarantee provided by the Government of Trinidad and Tobago. The investment note certificates and the related accrued interest was fully impaired as at 31 December 2008 as there is no basis to determine the timing and quantum, if any, of recovery. The amounts remain fully provided for as at 31 December 2011.

(d) For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following at 31 December.

	2011 $'000	**2010 $'000**
Cash at banks and on hand	7,181,127	3,447,436
Short-term deposits (with an original maturity date of less than three months)	48,626	23,215
	7,229,753	3,470,651

15. Accounts receivable	**2011 $'000**	**2010 $'000**
Trade receivable	2,991,250	2,177,894

Trade receivables are non-interest bearing and are generally on 30-60 day terms.
Included in trade receivables is an amount of TT$493.3 million (US$77.22 million) due by T&TEC at 31 December 2011.

As at 31 December 2011, trade receivables impaired and fully provided for totaled $47.9 million (2010: $29.6 million). Movements in the provision for impairment of receivables were as follows:

	Individually impaired $'000	**Collectively impaired $'000**	**Total $'000**
At 1 January 2010	19	24,447	24,466
Charge for year	–	5,209	5,209
Utilised	(19)	–	(19)
Reversal of prior year provision	–	(219)	(219)
Foreign currency translation adjustment	–	123	123
At 31 December 2010	–	29,560	29,560
At 1 January 2011	–	29,560	29,560
Charge for year	–	18,367	18,367
Utilised	–	–	–
Reversal of prior year provision	–	(34)	(34)
Foreign currency translation adjustment	–	31	31
At 31 December 2011	–	47,924	47,924

As at 31 December the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
	Total $'000	**Neither past due nor impaired $'000**	**<30 days $'000**	**30-60 days $'000**	**60-90 days $'000**	**90-120 days $'000**	**>120 days $'000**
2011							
Accounts receivable	2,991,250	2,611,606	142,386	31,687	8,217	8,065	189,289
2010							
Accounts receivable	2,177,894	1,840,415	61,008	3,179	628	65	272,599

16. Sundry debtors and prepayments	**2011 $'000**	**2010 $'000**
Sundry debtors and prepayments comprise the following:		
Prepayments	7,399	16,439
Staff related balances	12,944	8,694
Related party balances (Note 43)	35,493	–
Due from the Government of Trinidad & Tobago - billed	611,226	637,927
Due from the Government of Trinidad & Tobago – not yet billed	96,272	26,540
Value Added Tax	74,533	511,757
Interest receivable	60,855	85,599
Accrued income	53,956	36,089
Restricted funds (Note (b))	23,510	–
Other	60,612	41,708
	1,036,800	1,364,753

Notes:

(a) For terms and conditions relating to related party receivables refer to Note 43.

(b) During 2011 certain wire transfers were fraudulently withdrawn from one of the Group's bank accounts.

At the reporting date, one of the wire transfers fraudulently withdrawn is held by an overseas bank and is subject to police investigation. Management is confident that the outcome of the investigations will result in the return of the funds.

The funds for a second wire transfer, are currently held by a Trustee Bank subject to the Order of the Court, pending further instructions/Order of the Court and subject to legal proceedings. The outcome of these legal proceedings is uncertain at this time and, as a result, a full provision has been made for these funds.

At 31 December 2011 a provision of $8.378 million has been recorded against the total funds that were fraudulently withdrawn and not yet recovered.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in Trinidad and Tobago dollars)
(Continued)

17. **Inventories**	**2011 $'000**	**2010 $'000**
Finished goods – LNG	–	6,329
Consumable spares	25,162	25,986
TSP spares	6,438	3,028
Other	312	301
	31,912	35,644

18. Stated capital

Authorised
An unlimited number of ordinary shares of no par value

Issued and fully paid

1,855,267,000 ordinary shares of no par value	1,855,266	1,855,266

19. Reserve fund

A reserve fund has been set up by the Board of Directors with the objective of minimizing the Group's exposure arising from business interruption, adverse gas price fluctuations, and liabilities or losses which may result from accidents on its self-insured assets.

Transfers to the Reserve Fund will be made in such cases where the Group's standard return on equity is exceeded. The fund cap is 25% of the issued stated capital of the parent company.

20. **Other reserves**	**2011 $'000**	**2010 $'000**
Other reserves comprise the following:		
Revaluation surplus for offshore plant and equipment and pipelines	1,322,445	1,361,988
Unrealized gain on available-for-sale financial assets	1,037,430	564,390
Foreign currency translation	371,544	273,111
	2,731,419	2,199,489

21. Taxation

Corporation tax	1,330,195	1,036,285
Petroleum profit tax	146,136	76,345
Business levy	404	617
Green fund levy	21,706	16,386
	1,498,441	1,129,633
Deferred tax charge	313,673	77,308
	1,812,114	1,206,941

21. **Taxation** (continued)	**2011 $'000**	**2010 $'000**
Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate		
Accounting profit	6,416,985	3,300,389
Tax at the rate of 35%	2,245,945	1,155,136
Tax exempt income	(338,642)	(283,617)
Non-deductible (income)/expenses	(78,543)	319,626
Permanent differences	8,818	3,020
Other differences	4,840	(4,679)
Prior years' tax	38,682	33,287
Business levy	404	617
Green fund	21,706	16,386
(Decrease)/increase in valuation allowance	(635)	5,737
Tax effect of subsidiaries at different rate	(124,388)	(77,405)
Effect of oil and gas assets taxed at a different rate	38,062	29,443
Foreign exchange translation	(4,135)	9,390
Income tax provision	1,812,114	1,206,941

Significant components of deferred tax asset and liability are as follows:

Deferred tax asset:

	2011 $'000	2010 $'000
Finance lease - Dolphin pipeline	129,649	213,878
Property, plant and equipment (net of valuation allowance)	–	3,689
Asset retirement obligation	250,969	239,136
Post retirement medical and group life and pension	125,418	60,008
Tax losses	181	52,351
Accrued interest expense	33,049	32,391
Other	25,997	3,662
	565,263	605,115

Deferred tax liability:

	2011 $'000	2010 $'000
Property, plant and equipment	1,779,689	1,500,837

		2011 $'000	2010 $'000
21.	**Taxation** (continued)		
	Net deferred tax liability		
	Balance at 1 January	895,722	265,742
	Charge recognized in profit and loss	313,673	77,308
	Charges recognized through other comprehensive income	–	551,794
	Foreign exchange translation	5,031	878
	Balance as at 31 December	1,214,426	895,722
22.	**Long-term debt**		
	(i) AKA Ausfuhrkredit GmbH	14,851	44,327
	(ii) First Citizens Bank Limited	–	360,261
	(iii) US $400M 30-year bond	2,138,996	2,127,663
	(iv) RBTT	24,055	30,888
	(v) CALYON	809,655	894,131
	(vi) First Citizens Bank Limited	26,806	34,679
		3,014,363	3,491,949
	Less: current portion	(126,324)	(493,125)
		2,888,039	2,998,824

Description	Terms and conditions	Security
Item (i) relates to a facility established with AKA GmbH (AusfuhikreditGesellschaftmbH) on 10 July, 2003 as follows: Tranche 1 US$38.17 million; and Tranche 2 EUR 1,135.17 million.	The loan provides for 17 equal consecutive semi-annual installments commencing June 2004. Interest is payable semi-annually in arrears at the fixed rate of 4.18% per annum commencing June 2004. The fair value of the loan was $14.7 million (US$2.30 million) at December 2011 (2010: $44.30 million (US$6.95 million)).	Export credit insurance provided by HERMES.

22. Long-term debt (continued)

Description	Terms and conditions	Security
Item (ii) relates to a loan facility of $278.52 million (US$44.4 million) established with First Citizens Bank Ltd on 17 December 2004 for site development works on Union Industrial Estate.	The original terms of the loan provided for a five year moratorium on principal and interest and for 20 equal and consecutive semi-annual installments. The loan was fully repaid on 20 December 2011.	No collateral/ security required except for the condition that Union Estate's operating account be opened at FCB Ltd.
Item (iii) relates to a US$400 million bond issued by the parent company and arranged by Lehman Brothers/Citigroup on 20 January 2006 to finance the construction/acquisition of two new offshore pipelines and for advances to Trinidad and Tobago LNG Limited to fund its 11.11% of its shareholder loans to ALNG 4 Company of Trinidad and Tobago Unlimited.	The bond will be redeemed via a bullet payment on 15 January 2036. Interest is payable semi-annually in arrears at a fixed rate of 6.05% commencing in July 2006. The fair value of the gross bond was $2,478.60 million (US$386.72 million) at 31 December 2011 (2010: $2,455.50 million) (US$385.08 million). Total Bond re-purchases as at 31 December 2011 amounted to US$60.31 million. No bonds were repurchased during 2011.	None.
Item (iv) relates to a Bond issued on 22 May 2005 whereby the parent company committed to borrow TT$62 million to finance the construction of the fabrication yard and dock expansion. The Trustee is RBTT Trust Ltd.	The bond provides for 2 semi annual payments of interest only followed by 18 semi annual payments of principal and interest. Interest rate is fixed at 6.05% per annum. The fair value of the bond was $24.276 million at December 2011 (2010: $30.952 million).	Bond is guaranteed by The National Gas Company of Trinidad and Tobago Limited and The Petroleum Company of Trinidad and Tobago Limited.

22. **Long-term debt** (continued)

Description	Terms and conditions	Security
Item (v) relates to a facility established with a group of lenders led by CALYON on 23 December 2004 for US$200 million.	Principal is repayable in 30 consecutive semi-annual installments which commenced 1 June 2006 and matures on 1 December 2021. Interest is payable quarterly. The interest rate is based on the relevant type Euro/Base rate advances requested plus a margin ranging between 1.50% per annum to 2.50% per annum (Eurodollar rate advances) and 0.50% per annum to 1.50% per annum (Base rate advances). All drawdowns are Eurodollar rate advances. A 15 year interest rate hedge became effective on 1 December 2005 for fifty percent (50%) of the financing (US$100.0 million) at a fixed rate of interest of 4.98% per annum plus the margins noted above. The fair value of the loan was $824.88 million at 31 December 2011. (2010: $908.33 million).	Collateral accounts which includes a debt service reserve account, assignment of the borrower's rights, title and interest in specified term sheets relating to transportation agreements, receivables and inventory, assignment of insurances policies and NGC Pipeline Company Limited's shares owned by the parent.
Item (vi) relates to a facility established with First Citizens Bank Ltd. for TT$67.9 million on 17 May, 2004 by the National Energy Corporation of Trinidad and Tobago Limited in pursuit of its capital expansion program.	This loan provides for two equal semi-annual payments of interest only followed by 18 semi-annual payments of principal and interest. Interest is fixed at a rate of 6.20% per annum. The fair value of the loan was TT$27.011 million at 31 December 2011 (2010: $34.736 million).	Assignment of pier user contracts, chattel mortgage over two tugboats with carrying amounts totaling $41.576 million and assignment of all risk marine and special perils insurance coverage over the tugboats.

22. Long-term debt (continued)

	2011 $'000	2010 $'000
Maturity profile of long-term debt		
In one year or less	126,324	493,125
In more than one year but not more than two years	101,534	125,988
In more than two years but not more than three years	96,484	101,518
In more than three years but not more than four years	84,709	95,989
In more than four years but not more than five years	84,603	84,294
In more than five years	2,520,709	2,591,035
	3,014,363	3,491,949

23. Provisions

	Asset retirement obligation $'000	Environ-mental obligation $'000	Onerous contract $'000	2011 Total $'000	2010 Total $'000
Year ended 31 December					
Balance as at 1 January 2011	605,886	19,724	167,562	793,172	678,921
Unwinding of discount	29,213	–	–	29,213	32,931
Increase/(decrease) in provision	–	(6,908)	(34,045)	(40,953)	79,117
Foreign currency translation	3,151	25	802	3,978	2,203
Balance as at 31 December 2011	638,250	12,841	134,319	785,410	793,172
Current portion	–	7,721	–	7,721	5,600
Non-current portion	638,250	5,120	134,319	777,689	787,572
	638,250	12,841	134,319	785,410	793,172

(a) Asset retirement obligation

The Group has recorded provisions for the net present value of the estimated cost of decommissioning the offshore plant and equipment and the Teak, Samaan and Poui platforms based on studies conducted. A letter of credit was established for the Group's portion of the obligation for the Teak, Samaan and Poui platforms. The decommissioning of these platforms is not expected to occur before 2025. However the ultimate amount and timing of the cost may vary from the original estimate.

23. Provisions (continued)

(a) Asset retirement obligation (continued)

A re-assessment of the operations of NGC's Platforms will be undertaken in 2012, at which point the timing and cost for decommissioning will be revised as necessary.

(b) Environmental obligation

The Group has committed to reforestation of land areas equivalent to those cleared for pipeline construction and right of way extension. The future estimated payments are expected to be made from 2012 to 2015.

(c) Onerous contract

The Group has an onerous compression contract with a customer for which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits to be received from it.

The contract provides for 18 months notice to be given if either party wants to terminate the contract. The Group has provided for the net unavoidable costs expected to be incurred during the 18 month contractual notice period.

24. Post retirement medical and group life	**2011 $'000**	**2010 $'000**
Movement on the liability recognized in the statement of financial position:		
Value at 1 January	77,431	73,434
Foreign exchange translation	669	(1,894)
Net benefit cost	25,544	6,542
Premiums paid	(693)	(651)
Value at 31 December	102,951	77,431
Changes in the present value of the defined benefits obligation are as follows:		
Defined benefits obligation 1 January	77,431	73,434
Service cost	6,071	5,736
Interest cost	4,910	5,456
Actuarial (gain)/loss	14,563	(4,650)
Foreign exchange translation	669	(1,894)
Company's premiums paid	(693)	(651)
Defined benefits obligation at 31 December	102,951	77,431

24. Post retirement medical and group life (continued)	**2011 $'000**	**2010 $'000**
The amounts recognized in the statement of comprehensive income are as follows:		
Current service cost	6,071	5,736
Interest cost on benefits obligation	4,910	5,456
Net actuarial loss recognized in the year	14,563	(4,650)
Net benefits cost	25,544	6,542

The Group expects to contribute $0.75 million to its post retirement medical and group life plans in 2012.

The principal actuarial assumption used for accounting purpose were:	**2011**	**2010**
Medical cost inflation	5.75%	5.75%
Discount rates	5.50%	6.25%
Average individual salary increases	6.00%	6.00%

	Aggregate service and interest costs $'000	**Year end deferred benefit obligation $'000**
Effects of one percentage point charge in medical expense increase assumption		
Medical expense increase by 1% P.A	2,251	18,433
Medical expense decrease by 1% P.A	(1,692)	(14,043)

Assets allocation as at 31 December

The Group funds the benefits directly by payments of premiums to an insurance company. There are no assets explicitly set aside for this plan.

Experience history

	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
Defined benefit obligation	102,951	77,431	73,434	63,932	82,994
Fair value of plan assets	–	–	–	–	–
Deficit	102,951	77,431	73,434	63,932	82,994

24. Post retirement medical and group life (continued)

Experience history (continued)

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Experience adjustment on plan liabilities	46	7,381	4,638	6,207	(1,123)
Experience adjustment on plan assets	–	–	–	–	–

25. Pension obligation

	2011 $'000	2010 $'000
Benefit liability		
Present value of obligation	689,134	494,504
Fair value of plan assets	(434,826)	(401,073)
Foreign exchange translation	1,078	596
Pension liability	255,386	94,027
Movement on the liability recognized in the statement of financial position:		
Liability at 1 January	94,027	61,660
Net pension cost	178,984	50,212
Contributions paid	(18,107)	(18,030)
Foreign exchange translation	482	185
Liability value at 31 December	255,386	94,027
The amounts recognized in the statement of comprehensive income are as follows:		
Current service cost	31,612	22,820
Interest cost on benefit obligation	30,565	30,370
Expected return on plan assets	(28,496)	(29,144)
Net actuarial gain recognized in the year	145,303	26,166
Net pension cost	178,984	50,212
Actual return on plan assets	20,047	36,124

	2011 $'000	2010 $'000
25. Pension obligation (continued)		
Changes in the present value of the defined benefits obligation are as follows:		
Defined benefit obligation at 1 January	494,504	408,600
Service cost	31,612	22,820
Interest cost	30,565	30,370
Members' contribution	7,463	7,672
Actuarial (gain)/loss	136,854	33,146
Benefits paid	(11,080)	(7,465)
Expense allowance	(784)	(639)
Defined benefit obligation at 31 December	689,134	494,504
Changes in fair value of plan assets are as follows:		
Plan assets at 1 January	401,073	347,351
Expected returns on plan assets	28,496	29,144
Actuarial gain/(loss)	(8,449)	6,980
Company contributions	18,107	18,030
Members' contributions	7,463	7,672
Benefits paid	(11,080)	(7,465)
Expense allowance	(784)	(639)
Plan assets at end of 31 December	434,826	401,073

The Group expects to contribute $30.8 million to its defined benefit pension plan in 2012.

The major categories of plan assets as a percentage of total plan assets are as follows:	**2011**	**2010**
Equity securities	28%	28%
Debt securities	46%	46%
Money market instruments/cash	23%	23%
Mutual funds	1%	1%
Other-purchased annuities	2%	2%
	100%	100%

25. Pension obligation (continued)

The principal actuarial assumptions used for accounting purposes were:	**2011**	**2010**
Discount rate	5.50%	6.25%
Expected return on plan assets	6.72%	7.00%
Future salary increases	6.00%	6.00%

Expected rate of return on assets set by reference to estimated long-term returns on assets held by plan at that date. Allowance is made for some excess performance from the plan's equity portfolio.

Experience history

	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
Defined benefit obligation	689,134	494,504	408,600	339,467	302,064
Fair value of plan assets	(434,826)	(401,073)	(347,351)	(301,629)	(299,973)
Deficit	254,308	93,431	61,249	37,838	2,091
Experience adjustment on plan liabilities	(65,895)	21,566	7,231	7,782	(29,700)
Experience adjustment on plan assets	(9,493)	6,392	6,443	(45,066)	(16,239)

The Group's employees are members of The National Gas Company of Trinidad and Tobago Limited Pension Fund Plan. This is a defined benefit pension plan that provides pensions related to employees' length of service and basic earnings at retirement. The Plan's financial funding position is assessed by means of triennial actuarial valuations carried out by an independent actuary. The last such funding valuation was carried out as at 31 December 2009 and revealed that the plan was in a deficit to the extent of $38.5 million.

A roll forward valuation in accordance with IAS 19 "Employee Benefits", using accounting assumptions indicated above, was done as at 31 December 2011, for the sole purpose of preparing these financial statements.

26. Deferred income	**2011 $'000**	**2010 $'000**
Gas sales (Note (a))	293,203	257,003
Non-refundable capital contribution (Note (b))	55,936	50,140
Capital grant (Note (c))	20,481	24,066
Transportation tariff (Note (d))	68,040	70,942
Pier user charge (Note (e))	15,821	15,230
Other	731	1,777
	454,212	419,158
Current	44,252	66,047
Non-current	409,960	353,111
	454,212	419,158

Notes

(a) This represents revenue for gas volumes contractually committed to but not yet taken by customers. Income is recognized on the earlier of the expiration of the deficiency period and when the gas volumes are actually taken.

(b) Non-refundable capital contributions received from industrial users are amortized to the consolidated statement of comprehensive income over the period of the industrial users' sales contracts.

(c) This amount relates to capital grants expended on depreciable assets and are to be amortized to the consolidated statement of comprehensive income over the useful lives of the related asset.

(d) This amount comprises shippers reserve capacity which is billed one month in advance.

(e) This amount comprises pier user charges which are billed in advance.

27. Long-term creditors

Long-term creditors relate to take-or-pay liabilities expected to be settled more than one year after the reporting period date.

28. Trade payables	**2011 $'000**	**2010 $'000**
Trade payables		
Trade payables are settled on 30 day terms	2,485,623	2,141,969

29. Sundry payables and accruals	**2011 $'000**	**2010 $'000**
Accrued interest – Board of Inland Revenue	17,938	150,757
Accrued interest – other	88,008	81,537
Accrued material/service amounts	901,621	1,305,476
Contract provisions	129,039	147,994
Employee related accruals	82,914	85,364
Other	1,131	2,049
	1,220,651	1,773,177

Terms and conditions of the above financial liabilities:

Interest payable is normally settled in accordance with the terms and conditions of the respective loan. (See Note 22.)

In a Budget presentation on 8 September 2010, GORTT announced an amnesty on interest and penalties on late payment of certain taxes (including Income Tax, Corporation Tax, Value Added Tax, Business Levy, Green Fund Levy and Lands and Buildings Tax) for Years of Income 2009 and prior, where such taxes are paid by 31 May 2011. In May 2011 the Parent Company applied to offset certain unpaid tax liabilities against VAT refunds due. This request was approved by the Board of Inland Revenue and as such the prior year interest accrued of $150.76 million was reversed in 2011.

Accrued interest of $17.9 million relates to an assessment for additional taxes for a prior year.

Accrued materials service amounts and contract provisions are non-interest bearing and have an average term of two (2) months.

30. Sales and cost of sales	**2011 $'000**	**2010 $'000**
Sales include the following:		
Gas sales	16,678,300	12,197,054
Condensate sales	188,679	104,558
Transportation tariffs	325,278	219,813
Compression charges	59,903	58,184
Crude oil income	607,269	497,076
LNG sales	858,668	791,982
Marine facilities and services	276,263	298,299
	18,994,360	14,166,966

		2011 $'000	2010 $'000
30.	**Sales and cost of sales** (continued)		
	Cost of sales include the following:		
	Gas purchase	12,628,421	9,533,742
	Depreciation	231,117	282,779
	Impairment – offshore plant and equipment	6,577	4,736
	Deficit arising on pipeline revaluation (Note 4(a)(ii))	–	62,556
	Other operating cost	150,193	191,028
	Production taxes including SPT	122,759	149,744
	Maintenance cost	247,018	183,833
	Staff cost (Note 33)	83,640	57,432
	Royalties	68,434	58,360
	Exploration and production cost	35,844	39,760
		13,574,003	10,563,970
31.	**Other operating income**		
	Lease income	18,450	44,087
	Interest income – Dolphin lease	193,094	–
	Operating and maintenance fees – Dolphin pipeline	125,227	38,700
	Project management fees – GORTT	6,070	8,488
	Gain on repurchase of bonds (Note 22(iii))	–	6,770
	Gain on disposal of fixed assets	18,536	–
	Amortization of non-refundable capital contribution	6,206	–
	Other	4,628	14,358
		372,211	112,403
32.	**Interest and other investment income**		
	Interest income	97,397	134,664
	Related party income	36,289	60,582
	Related party income – prior year	(56,108)	–
	Net gain on financial asset through profit and loss (Note 9)	19,998	–
	Fair value gain on T&TEC loan receivable (Note 11 (a))	79,817	–
	Fair value gain on other loan receivable	1,669	–
	Finance income	179,062	195,276
	Dividend income	242,211	267,936
	LNG production payments	291,206	239,684
	Other investment income	533,417	507,620
		712,479	702,896

33. Expenses

	2011 $'000	2010 $'000
Administrative, maintenance and general expenses include the following:		
Staff costs (see below)	443,354	238,119
Penalty interest – Board of Inland Revenue	(133,519)	27,827
Depreciation	52,046	41,031
Provision for irrecoverable receivables	7,125	10,614
Increase/(decrease) in provision for onerous contract	(34,051)	80,808
Repairs – projects (Note)	–	443,720
Other	487,290	350,661
	822,245	1,192,780
Staff costs:		
Wages and salaries	318,120	233,422
National insurance	5,728	5,375
Pension and post retirement medical and group life	203,146	56,754
	526,994	295,551
Staff costs included within:		
Cost of sales	83,640	57,432
Administrative and general expenses	443,354	238,119
	526,994	295,551

Note:
Included in 2010 project repairs is expenditure of TT$443.72 million incurred in relation to a mechanical failure which occurred during construction of one of the Group's pipelines. A claim has been submitted to the insurers. (Note 38)

	2011 $'000	2010 $'000
34. Impairment expense		
Investment properties (Note 6)	46,504	294,495
Property, plant and equipment (Note 4)	(23,964)	12,706
Other investment	–	10,467
	22,540	317,668

35. Finance costs

	2011 $'000	2010 $'000
Interest	225,512	240,573
Amortization of transaction costs	815	757
Decommissioning – unwinding of discount rate	29,213	32,931
Net loss on financial asset at fair value through profit and loss (Note 9)	–	71,888
Take or pay interest	10,933	–
Fair value loss on T&TEC receivable (Note 11 (a))	11,242	21,111
Fair value loss on other receivables	–	14,481
	277,715	381,741

36. Cash generated from operations

	2011 $'000	2010 $'000
Profit before tax	6,416,985	3,300,389
Adjustments to reconcile net profit with net cash from operating activities:		
Depreciation	283,163	323,810
Impairment	29,117	322,404
Deficit arising on revaluation of pipelines	–	62,556
Loss on disposal of property, plant and equipment	(18,536)	2,428
Gain on financial asset at fair value through profit and loss	(19,998)	–
Share of profit from joint venture	(1,053,778)	(794,271)
Increase/(decrease) in deferred income	33,058	(12,650)
Decrease in deferred expenses	15,048	24,130
Post retirement costs	204,528	56,754
(Decrease)/increase in onerous contract provision	(34,045)	81,176
Decrease in environmental obligation	(6,663)	–
Gain on repurchase of bond issue	–	(6,770)
Dividend income	(242,211)	(267,936)
Fair value gain on loan receivable	(81,486)	–
Finance costs	277,715	381,741
Interest income on finance lease	(193,094)	–
Interest and investment income	(77,578)	(195,276)
Operating profit before working capital changes	5,532,225	3,278,485

36. **Cash generated from operations** (continued)	**2011 $'000**	**2010 $'000**
Operating profit before working capital changes	5,532,225	3,278,485
Increase in accounts receivable and sundry debtors	(774,816)	(1,210,208)
(Decrease)/increase in inventories	3,732	(1,889)
(Decrease)/increase in trade creditors, sundry creditors and accruals	(287,274)	1,351,908
	4,473,867	3,418,296

37. Contingent liabilities

(a) Taxes

For income years 1993 to 1996 and 1999 the Group has objected to certain adjustments of TT$126.67 million by the Board of Inland Revenue to the parent company's tax liability. Management is of the opinion that these adjustments are incorrect, excessive and without merit and therefore, no provision has been made in the accounts for any additional tax liabilities, penalties or interest.

(b) Litigation matters

The Group is involved in a number of proceedings which are at various stages of litigation and their outcomes are difficult to predict. The information usually required by IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of these matters.

The Group has made a provision in these financial statements which is believed to be a reasonable estimate of any costs which may be incurred in relation to these outstanding matters. It is the opinion of management, based on the information provided by the internal legal counsel, that if any further liability should arise out of these claims it is not likely to have a materially adverse impact on the company's financial position or results.

38. Contingent asset

The Group has submitted a claim to its insurers in respect of amounts incurred in relation to a mechanical failure which occurred during construction of one of the Group's pipelines which occurred in 2010. There is uncertainty regarding the quantum and timing of recovery however discussions are currently ongoing with the insurers.

39. Guarantees

The parent company has pledged its shares in NGC Pipeline Company Limited and provided a guarantee in respect of its Shipper Gas Transportation Agreement with NGC Pipeline Company Limited as collateral for a loan obtained by the Group.

	2011 $'000	2010 $'000
40. Capital commitments		
Approved and contracted capital expenditure	587,763	1,011,470

41. Operating lease commitments

(i) Group as a lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2011	2010
Within one year	21,659	27,260
One to five years	53,583	37,781
One to five years	177,984	169,201
	253,226	11,728

(ii) Group as a lessor

Future minimum rental receivable under non-cancellable operating leases as at 31 December are as follows:

	2011	2010
Within one year	16,189	15,984
One to five years	42,028	37,329
More than five years	177,984	169,201
	236,201	222,514

42. Commitment contracts

Purchases

The Group purchases natural gas through US dollar denominated long-term 'take-or-pay' contracts from various upstream producers with terms varying from 15 to 23 years. Under these long-term take-or-pay contracts, the Group is obliged to take or if not taken pay for said natural gas up to the contracted take-or-pay volume at the current price. The prices on certain tranches of gas of these contracts are linked to the commodity prices of ammonia and methanol subject to a floor price that escalates annually.

In prior years, the Group committed to purchase additional volumes of natural gas for several new projects that have not materialized as forecasted. For 2011 the Group has an imbalance between the contracted volume of purchase and sale of natural gas which has given rise to a take-or-pay liability of $103.3 million (US$15.7 million) under one of its purchase contracts. The Group expects it will be unable to utilize this take-or-pay volume of gas before the expiration of the deficiency recovery period and has recognized this amount as an expense in cost of sales in 2011.

Management expects that there will be take or pay during 2012.

Sales

Under long-term take-or-pay sales contracts, the Group's customers are obligated to take or if not taken pay for said natural gas at the current price, up to the contracted take-or-pay volume. The price of natural gas sold to the producers of ammonia and methanol are linked to the relevant commodity price of ammonia and methanol. The natural gas prices under these contracts are not capped but the contracts include floor prices which represent the minimum prices for which natural gas can be sold to the respective customers.

42. **Commitment contracts** (continued)

Royalty gas

For the period November 2005 to December 2011 the Group received "royalty" gas from an upstream supplier. The Group has no economic interest in the "royalty" gas as it is only a transporter of the gas to T&TEC on behalf of the GORTT. As the "royalty" gas agreement between GORTT and the upstream supplier has not been finalized, invoices are issued by the upstream supplier to the Group and invoices are issued by the Group to T&TEC for the royalty gas delivered. The expense and income relating to the royalty gas received and sold have not been recognized in these financial statements as the Group does not obtain any economic benefit from this arrangement.

43. **Related party transactions**

The Group is wholly-owned by the Government of Trinidad and Tobago. In the ordinary course of its business, the Group enters into transactions concerning the exchange of goods, provision of services and financing with affiliate companies as well as with entities directly and indirectly owned or controlled by the GORTT. Entities under common control include T&TEC, Petrotrin, First Citizens Bank Limited, Trinidad Generation Unlimited, Alutrint Limited and Alutech Limited.

Outstanding balances at the year end are unsecured and the settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables except as stated in Note 39. For the year ended 31 December 2011 the Group has not made any additional provision for doubtful debts relating to amounts owed by related parties. At 31 December 2011, the Group has a provision for doubtful debts relating to amounts owed by related parties of $42.728 million (2010: $42.728 million). An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates

43. **Related party transactions** (continued)

The following table provides the total amount of material transactions, which have been entered into with related parties as at or for the year ended 31 December.

		Income from related parties $'000	Purchases from related parties $'000	Amounts due from related parties $'000	Amounts due to related parties $'000
Government of Trinidad and Tobago					
Other receivables - projects	2011	6,070	–	707,498	–
	2010	8,487	–	664,467	–
Bonds	2011	1,777	–	19,599	–
	2010	1,004	–	19,339	–
Fellow State Enterprises					
T&TEC:					
Gas sales	2011	984,224	–	541,228	–
	2010	769,873	–	326,615	–
Loan receivable	2011	(20,768)	–	1,849,896	–
	2010	60,582	–	1,817,058	–
Other receivable	2011	–	–	35,493	–
	2010	–	–	–	–
First Citizens Bank:					
Loan payable	2011	–	15,462	–	26,806
	2010	–	25,655	–	394,940
Cash and short-term deposits	2011	5,373	–	397,620	
	2010	57,278	–	1,800,137	–
Petroleum Company of Trinidad and Tobago Limited – gas sales, transport and other income	2011	277,420	–	33,981	–
	2010	193,052	–	49,371	–
Bonds	2011	6,700	–	52,013	–
	2010	9,607	–	55,609	–
Petrotrin shareholder advance to Labidco	2011	–	–	–	24,573
	2010	–	–	–	25,574

43. Related party transactions (continued)

		Income from related parties $'000	Purchases from related parties $'000	Amounts due from related parties $'000	Amounts due to related parties $'000
Fellow State Enterprises					
Trinidad Generation Unlimited Income	2011	2,129	–	2,038	–
	2010	2,123	–	2,038	–
Alutech Limited Other receivables	2011	–	–	20,309	–
	2010	–	–	20,309	–
Alutrint Limited	2011	–	–	21,922	–
	2010	12,713	–	22,074	–
Trinidad Nitrogen Company Ltd	2011	1,529,945	–	261,492	–
	2010	1,081,047	–	222,852	–
Associated Company					
National Helicopter Services Limited	2011	504	15,787	–	–
	2010	520	15,137	–	–
Joint Venture					
Phoenix Park Gas Processors Ltd.	2011	897,151	–	153,076	–
	2010	846,029	–	156,515	–

	2011 $'000	2010 $'000
Compensation of key management personnel		
Short-term employee benefits	36,309	26,592
Post employment benefit	2,923	1,510
	39,232	28,102

44. Financial risk management objectives and policies

The Group has various financial assets such as investments in ordinary shares and the first unit scheme of the Trinidad and Tobago Unit Trust Corporation, trade receivables, short-term investments and cash which arise directly from its operations. The Group's financial liabilities comprise bank loans, trade and sundry payables. The main purpose of these financial liabilities is to raise finance for the Group's operations.

44. Financial risk management objectives and policies (continued)

The Group may enter into derivative transactions such as interest rate swap. The purpose is to manage the interest rate and currency risk arising from the Group's operations and its sources of finance.

The main risk arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and other price risks. Management reviews and agrees policies for managing each of these risks which are summarized below.

Credit risk

The Group trades only with recognized credit worthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from other financial assets of the Company the exposure to credit risk arises from default of the counter party with a maximum exposure equal to the carrying amount of these instruments.

As stated in note 11(a), a loan agreement was executed with T&TEC in 2011 for the capitalization of 2005 to 2009 outstanding trade balances. The Group is working with T&TEC and the GORTT to formulate the terms and conditions for the sale of gas and to put measures in place to ensure timely payment.

With respect to credit risk arising from other financial assets of the Group the exposure to credit risk arises from default of the counter party with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its risks to a shortage of funds by managing the maturity of both financial investments and financial assets (e.g. accounts receivables and short term investments) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility.

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

Year ended 31 Dec 2011	**On demand $'000**	**≤ 3 mths $'000**	**3-12 mths $'000**	**1-5 yrs $'000**	**≥ 5 yrs $'000**	**Total $'000**
Long-term debt	–	77,434	258,404	1,311,931	5,450,143	7,097,912
Trade creditors	–	2,477,781	7,842	–	–	2,485,623
Other payables	–	794,638	127,208	–	–	921,846
Other financial liabilities	–	–	565,000	110,504	–	675,504
	–	3,349,853	958,454	1,422,435	5,450,143	11,180,885

44. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Year ended 31 Dec 2010	On demand $'000	≤ 3 mths $'000	3-12 mths $'000	1-5 yrs $'000	≥ 5 yrs $'000	Total $'000
Long-term debt	–	77,157	648,497	1,228,712	6,635,734	8,590,100
Trade creditors	–	2,128,804	13,165	–	–	2,141,969
Other payables	18,538	1,383,593	144,537	–	–	1,546,668
Other financial liabilities	–	–	200,000	–	109,941	309,941
	18,538	3,589,554	1,006,199	1,228,712	6,745,675	12,588,678

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rates. The Group has used derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations whereby the Group agrees to exchange at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon national principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2011 after taking into account the effect of interest rate swaps approximately 50% of the Group's borrowings are at a fixed rate of interest (2010: 50%).

Interest rate risk table

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowing). There is minimal impact on the Group's equity.

	Increase/ (decrease) in basis points	Effect on profit before tax $'000
Long term debt		
2011	+50	2,035
	–50	(2,035)
2010	+50	(4,035)
	–50	4,035

44. Financial risk management objectives and policies (continued)

Interest rate risk table (continued)

	Increase/ (decrease) in basis points	Effect on profit before tax $'000
Loan receivables		
2011	+50	3,347
	–50	(3,347)
2010	+50	2,655
	–50	(2,655)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arises from sales or purchases in currencies other than the Group's functional currency.

The Group also has currency exposure from loans denominated in currencies other than the Group's functional currency.

The following table demonstrates the sensitivity to a reasonable possible change in the TT dollar exchange rate with all other variables held constant of the Group's profit before tax. There is minimal impact on the Group's equity.

	Increase/ (decrease) in exchange rate (cents)	Effect on profit before tax $'000
2011	0.01	3,485
	(0.01)	(3,485)
2010	0.01	4,178
	(0.01)	(4,178)

Commodity price risk

The Group is exposed to commodity price risk for natural gas sold to the producers of ammonia and methanol products. The Group's prices to these customers are affected by the volatility of ammonia and methanol prices. The Group manages this commodity price exposure by matching volumes it sells under these sales contracts with volumes under certain of its purchase contracts that contain similar commodity linked prices. These provisions reduce, but do not eliminate, the effect of commodity price volatility.

44. Financial risk management objectives and policies (continued)

Other price risk

The Group is exposed to equity price risks arising from its investments in ordinary shares in NEL and the first unit scheme of the Unit Trust Corporation (a mutual fund). These equity instruments are held for strategic rather than trading purposes and the Group does not actively trade these investments.

The following table demonstrates the sensitivity to a reasonably possible change in the price of these equity instruments, with all other variables held constant, of the Group's equity. There is no impact to the Group's profit before tax.

	Increase/ (decrease) in equity price	Effect on equity $'000
2011	10%	151,085
	(10%)	(151,085)
2010	10%	103,851
	(10%)	(103,851)

Capital management

The primary objective of the Group's Capital Management is to ensure that its maintains a strong credit rating and healthy capital ratio in order to support its business and maximize shareholder value. It also manages its capital to ensure that the Group will be able to continue as a going concern. The Group's overall strategy remains unchanged from 2010.

The capital structure of the Group consists of share capital, reserves and retained earnings. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust capital structure the Group may issue new shares by transfers from retained earnings, adjust the dividend payment to shareholders or make transfers to its reserves. No changes were made in the objectives, policies or process during the years ended 31 December 2011 and 31 December 2010.

44. Financial risk management objectives and policies (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio between 25% and 30%. The Group includes within net debt interest bearing loans and borrowing. Capital includes stated capital, reserves and retained earnings.

	2011 $'000	2010 $'000
Net debt	3,014,363	3,491,949
Equity	23,458,372	19,459,690
Debt plus equity	26,472,735	22,951,639
Gearing ratio	0.11	0.15

45. Financial instruments

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Group's financial instruments that are carried in the financial statements.

	Carrying amounts		Fair value	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Financial assets				
Cash and short-term deposits	12,214,795	9,358,109	12,214,795	9,358,109
Available-for-sale investments	1,522,646	1,044,478	1,522,646	1,048,478
Debt reserve funds	168,839	167,961	168,839	167,961
Loans receivable	2,499,006	2,350,514	2,499,006	2,350,514
Net investment in leased asset	570,004	563,311	570,004	563,311
Accounts receivable	2,991,250	2,177,894	2,991,250	2,177,894
Financial liabilities				
Fixed rate borrowings	2,204,708	2,237,557	2,119,842	2,195,319
Floating rate borrowings	809,655	1,254,392	809,655	1,254,392
Other financial liabilities	4,388,215	4,230,872	4,388,215	4,230,872

45. Financial instruments

Short-term financial assets and liabilities

The carrying amount of short-term financial assets and liabilities comprising cash and cash equivalents, short-term investments, sundry debtors and current liabilities are a reasonable estimate of fair values because of the short term nature of these instruments.

Long-term financial assets and liabilities

The fair value of the Group's floating rate long-term loan receivable and debt approximates its carrying amount given the floating nature of the loans at prevailing market rates.

The fair value of investments that are actively traded in financial markets is determined by reference to quoted market prices at the close of business at the reporting period date. For investments where there is no active market the fair value estimates cannot be reasonably assessed and as such measured at cost.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Group does not carry any financial instrument which meets the strict criteria for hedge accounting.

The Group has entered into an interest rate hedge with CALYON Bank Ltd effective 1 December 2005 for 15 years for US$100 million, whereby it receives a fixed rate of interest of 4.98% and pays a variable rate equal to LIBOR + 1.625% on the notional amount. The impact of this hedge in 2011 was an increase in interest expense in the amount of $20.03 million (2010: $20.90 million). The secured loan and interest rate swap have the same critical terms.

46. Dividends	**2011 $'000**	**2010 $'000**
Dividends declared during the year:		
Dividends for 2009	–	400,000
Additional dividends for 2009	185,000	–
Dividends for 2010	730,000	–
	915,000	400,000

47. Events after the reporting period

Proposed acquisition of an interest in a methanol company

NGC has submitted a bid to acquire a minority shareholding in a methanol company operating in Trinidad and Tobago.

This investment presents NGC with an attractive opportunity to diversify its asset base, become a more prominent player in the natural gas value-chain and earn a steady stream of dividend income. In addition, NGC's brand as a global player in the gas industry will be enhanced. This investment will provide NGC the opportunity to access methanol for potential future downstream marketing/ domestic uses and to gain expertise in the industry through forming a close partnership with an industry leader. This proposed acquisition is aligned to NGC's strategic plan.

The proposed acquisition is subject to approval by the Parent's Shareholder, the Government of the Republic of Trinidad and Tobago.

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 135,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wide communities achieve their potential.

For more information, please visit www.ey.com