Abu Dhabi Crude Oil Pipeline LLC

REPORT OF THE BOARD OF DIRECTORS AND
FINANCIAL STATEMENTS

31 DECEMBER 2018

Abu Dhabi Crude Oil Pipeline LLC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2018

Abu Dhabi Crude Oil Pipeline LLC

Report of the Board of Directors

The Board of Directors are pleased to present their report, together with the audited financial statements of Abu Dhabi Crude Oil Pipeline LLC (the "Company") for the year ended 31 December 2018.

Principal objectives:
The principal objectives of the Company are to: (1) construct, acquire, own, operate, maintain, lease, finance and dispose of any pipeline and other infrastructure assets in or outside the Emirate of Abu Dhabi; and (2) any other activity approved by the Supreme Petroleum Council and any other incidental activities to the aforementioned objectives.

Results:
Total income for the year was USD 184,255 thousand (period ended 31 December 2017: USD 44,465). The Company reported a profit of USD 21,651 thousand for the year (period ended 31 December 2017: USD 15,092).

On behalf of the Board of Directors

16 April 2019
Abu Dhabi
United Arab Emirates

Abu Dhabi Crude Oil Pipeline LLC

FINANCIAL STATEMENTS

31 DECEMBER 2018

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF

ABU DHABI CRUDE OIL PIPELINE LLC

Report on the Audit of the Financial Statements

Opinion
We have audited the accompanying financial statements of Abu Dhabi Crude Oil Pipeline LLC (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other information included in the Company's Report of the Board of Directors
Other information consists of the information included in the Company's Report of the Board of Directors other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF

ABU DHABI CRUDE OIL PIPELINE LLC continued

Report on the Audit of the Financial Statements continued

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Company's Memorandum of Association, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF

ABU DHABI CRUDE OIL PIPELINE LLC continued

Report on the Audit of the Financial Statements continued

Auditors' responsibilities for the audit of the financial statements continued

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, as required by the Resolution of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to Auditing the Financial Statements of Subject Entities, we report that based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Company has not complied, in all material respects, with any of the provisions of the following laws, regulations and circulars, as applicable, which would materially affect its activities or the financial statements as at 31 December 2018:

i) Law No. (1) of 2017 concerning the Financial System of the Government of Abu Dhabi and instructions issued by the Department of Finance pertaining to the preparation and implementation of the annual budget of Subject Entities;

ii) Law of establishment; and

iii) Relevant provisions of the applicable laws, resolutions and circulars organising the Company's operations.

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No 811

16 April 2019
Abu Dhabi

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	*Year ended 31 December 2018 USD'000*	*Period from 13 September 2017 (inception) to 31 December 2017 USD'000*
Income			
Income from finance lease	3	**167,220**	42,125
Other income	3	**15,427**	2,221
Interest income		**1,608**	119
		184,255	44,465
Expenses			
Lease expenses		**(29,263)**	(7,316)
Interest expense		**(132,921)**	(21,728)
Other expenses		**(420)**	(329)
		(162,604)	(29,373)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR / PERIOD		**21,651**	15,092

The attached notes 1 to 11 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	Notes	*2018* *USD'000*	*2017* *USD'000*
ASSETS			
Non-current asset			
Finance lease receivable	3	**3,974,430**	4,026,210
Due from a related party	7	**55,024**	-
		4,029,454	4,026,210
Current assets			
Finance lease receivable	3	**215,759**	215,759
Due from a related party	7	**3**	3
Bank balances		**137,895**	126,330
		353,657	342,092
TOTAL ASSETS		**4,383,111**	4,368,302
EQUITY AND LIABILITIES			
Equity			
Share capital	5	**3**	3
Loan from shareholder	6	**1,241,594**	1,241,594
Retained earnings		**36,743**	15,092
Total equity		**1,278,340**	1,256,689
Non-current liabilities			
Interest bearing borrowings	8	**3,017,082**	3,015,217
Current liabilities			
Accrued and other liabilities	4	**26,046**	35,425
Advance from a related party	7	**61,643**	60,971
		87,689	96,396
Total liabilities		**3,104,771**	3,111,613
TOTAL EQUITY AND LIABILITIES		**4,383,111**	4,368,302

Salah Abdullah Al-Ali
Chief Executive Officer

The attached notes 1 to 11 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital USD'000	*Loan from shareholder USD'000*	*Retained earnings USD'000*	*Total equity USD'000*
Capital introduced	3	-	-	3
Loan from shareholder (note 6)	-	4,254,594	-	4,254,594
Repayment of loan from shareholder (note 6)	-	(3,013,000)	-	(3,013,000)
Total comprehensive income for the period	-	-	15,092	15,092
Balance as at 31 December 2017	3	1,241,594	15,092	1,256,689
Balance as at 1 January 2018	3	1,241,594	15,092	1,256,689
Total comprehensive income for the year	-	-	21,651	21,651
Balance as at 31 December 2018	3	1,241,594	36,743	1,278,340

The attached notes 1 to 11 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	*Year ended 31 December 2018 USD'000*	*Period from 13 September 2017 (inception) to 31 December 2017 USD'000*
OPERATING ACTIVITIES			
Profit for the period		**21,651**	15,092
Adjustment for:			
Income from finance lease	3	**(167,220)**	(42,125)
Other income	3	**(15,427)**	(2,221)
Interest expense		**132,921**	21,728
Interest income		**(1,608)**	(119)
		(29,683)	(7,645)
Working capital adjustments:			
Accrued and other liabilities		**12,539**	7,642
Cash used in operations		**(17,144)**	(3)
Lease rentals received		**235,099**	117,942
Net cash from operating activities		**217,955**	117,939
INVESTING ACTIVITIES			
Payments for sinking fund		**(55,024)**	-
Interest received		**1,608**	119
Net cash (used in) from investing activities		**(53,416)**	119
FINANCING ACTIVITIES			
Interest bearing borrowings received	8	-	3,037,000
Repayment of loan from shareholder	6	-	(3,013,000)
Interest paid on interest bearing borrowings	8	**(152,974)**	-
Transaction costs paid		-	(15,728)
Net cash (used in) from financing activities		**(152,974)**	8,272
INCREASE IN CASH AND CASH EQUIVALENTS		**11,565**	126,330
Balance at 1 January 2018 / 13 September 2017 (inception)		**126,330**	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**137,895**	126,330

Significant non-cash transactions excluded from the statement of cash flows are as follows:

Transfer of the Pipeline	1 & 7	-	(4,254,594)
Loan obtained from shareholder	1 & 7	-	4,254,594

The attached notes 1 to 11 form part of these financial statements.

1 ACTIVITIES

Abu Dhabi Crude Oil Pipeline LLC (the "Company") is a limited liability company incorporated in the Emirate of Abu Dhabi, United Arab Emirates on 13 September 2017 (inception) and is wholly owned by ADNOC Infrastructure LLC, a wholly owned subsidiary of Abu Dhabi National Oil Company ("ADNOC").

The registered office of the Company is at ADNOC Tower, P O Box 898, Abu Dhabi, United Arab Emirates.

The principal objectives of the Company are to: (1) construct, acquire, own, operate, maintain, lease, finance and dispose of any pipeline and other infrastructure assets in or outside the Emirate of Abu Dhabi; and (2) any other activity approved by the Supreme Petroleum Council and any other incidental activities to the aforementioned objectives.

The comparative figures in respect of statement of comprehensive income, statement of changes in equity, statement of cash flows and related notes are for the period from inception on 13 September 2017 to 31 December 2017.

ADNOC transferred ownership of the Habshan-Fujairah Pipeline (the "Pipeline" or "Abu Dhabi Crude Oil Pipeline" or "ADCOP") to the Company on 1 October 2017.

The Company entered into Use and Operation Agreement (the "Agreement") with Abu Dhabi Company for Onshore Petroleum Operations ("ADNOC Onshore") on 28 September 2017, with commencement date occurring on 1 October 2017 for the Pipeline. The term of the Agreement is 37 years and is renewable for a further period of five years at the sole discretion of the Company. ADNOC Onshore is responsible for the operation and maintenance of the Pipeline over the term of the contract. The design capacity of the Pipeline is one million and five hundred thousand barrels per day and under the Agreement, the Company is entitled to one US Dollar per barrel multiplied by the greater of:

- the number of barrels of crude oil transported through the Pipeline in a year; and
- the minimum throughput quantity, determined at six hundred thousand barrels per day.

The financial statements were authorised for issue by the Board of Directors on 16 April 2019.

2.1 BASIS OF PREPARATION

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and the applicable laws in United Arab Emirates.

Functional and presentation currency
The financial statements have been presented in US Dollar which is the functional currency of the Company, rounded to nearest thousands ("USD'000").

Basis of measurement
The financial statements are prepared under the historical cost convention.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2018 which did not have a material impact on the financial statements of the Company:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations;
- Amendments to IAS 40 Transfers of Investment Property;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice; and
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters.

IFRS 9 Financial Instruments
The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Classification and measurement
Under IFRS 9, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Company's debt financial assets are as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Company's finance lease receivables, deposit to a related party and due from a related party.

- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Company's quoted debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. The Company does not hold any instrument within this category.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

IFRS 9 Financial Instruments continued

Impairment

The Company recognises loss allowances for expected credit losses (ECL) on its financial instruments that are not measured at FVTPL.

The Company measures loss allowances at an amount equal to lifetime ECL, except for those financial instruments on which the counter-party has an investment grade credit rating or credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial
- reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Management has performed an assessment of the impact of IFRS 9 in respect of the impairment assessment of long term finance lease receivable from ADNOC Onshore and deposit receivable from ADNOC. Management has determined that the expected credit loss associated with the receivable is not significant considering the low probability of default and minimal loss given default relating to receivables from ADNOC Onshore and ADNOC.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Under IFRS 15, the Company has concluded that other income under the Agreement will continue to be recognised when services are rendered under the Agreement, similar to the previous accounting policy, because the customer simultaneously receives and consumes the benefits provided by the Company.

Management has assessed the impact of IFRS 15 in line with the current revenue recognition policies. Based on this assessment, there has not been any material impact on the adoption of IFRS 15 in line with current revenue recognition policies.

2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with adopted accounting policies requires management to make judgments, estimates and assumptions in certain areas that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent liabilities. Actual results may differ from these estimates.

Significant judgements

Lease of the Pipeline

Management has concluded the arrangement between the Company and ADNOC Onshore under the Agreement to be accounted for as a finance lease in accordance with International Accounting Standard 17 "Leases (IAS 17)" (note 3).

In making its judgment, management considered the terms and conditions of the Agreement with ADNOC Onshore and the requirements of International Accounting Standard 17 "Leases (IAS 17)" and related guidance to determine whether significant risks and rewards related to the Pipeline have been transferred to ADNOC Onshore. As per the Agreement, all significant risks and rewards relating to the Pipeline operations, maintenance and improvements are currently borne by ADNOC Onshore for a substantial part of the Pipeline's economic useful life with a minimum lease payment of USD 600 thousand per day.

The Agreement is non-cancellable and renewable at the sole discretion of the Company. In addition, on the termination of the Agreement, ADNOC Onshore is responsible, on the instructions of the Company, for decommissioning of the Pipeline and environmental clean-up with respect to the area affected by the Pipeline and to bear all such costs in relation to the decommissioning.

Lease term for Fujairah lease

The Company has a lease arrangement with Fujairah Municipality for a period of 99 years for use of land on which the Pipeline has been constructed. Management has determined the lease period to be 37 years. In making its judgment, management considered the terms and conditions of the agreement with Fujairah Municipality, commercial substance of the arrangement and related guidance to determine the period of lease. As per the lease agreement, the lease can be terminated by the Company at any time during the term of the lease with required notice to Fujairah Municipality. Based on these factors, the lease term is determined to be the same as the term for lease of the Pipeline.

Classification of receivable from a related party for sinking fund

The Company has made mandatory sinking fund payments of AED 55,024 thousand in relation to series A bonds to ADNOC. The sinking fund account is intended to be used on maturity date of series A bonds to pay all or portion of the remaining principal amount and unpaid accrued interest. Classification of such amounts as non-current asset is based on the criteria in the Framework for the Preparation and Presentation of Financial Statements and IAS 1 Presentation of Financial Statements. Management has considered the underlying criteria, substance and economic reality of the balance, and have concluded that these balances should be classified as a non-current asset based on management's expectation that the sinking fund deposit will not be called within the next 12 months, even if the receivable is contractually receivable on demand.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
The Company recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1 Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Project expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognise revenue when (or as) the Company satisfies a performance obligation.

The Company satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

a) The Company's performance does not create an asset with an alternate use to the Company and the Company has as an enforceable right to payment for performance completed to date.
b) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliable.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Leases continued
Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

a) the lease transfers ownership of the asset to the lessee by the end of the lease term;

b) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;

c) the lease term is for the major part of the economic life of the asset even if title is not transferred;

d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

e) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

The Company as a lessor
Leases in which the Company transfers substantially all the risks and rewards of ownership of an asset are classified as finance lease in accordance with IAS 17 Leases. At commencement of the lease term, the Company records a finance lease in the statement of financial position as a receivable, at an amount equal to the net investment in the lease. The Company recognises finance income based on a pattern reflecting a constant periodic rate of return on the Company's net investment outstanding in respect of the finance lease.

The Company as a lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents consist of bank balances.

Impairment of financial assets
The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For finance lease receivable and deposit receivable from a related party, the Company calculates ECLs at each reporting date based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Loans and borrowings
After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Accruals and other payables
Liabilities are recognised for amounts to be paid in the future for goods or services receive, whether billed by the supplier or not.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event, and the costs for settling the obligation are both probable and able to be reliably measured.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Current versus non-current classification
The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:
- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

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

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

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.5 FUTURE CHANGES IN ACCOUNTING POLICIES – STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new standards/ amendments to standards which were issued up to 31 December 2018 and are not yet effective for the year ended 31 December 2018 have not been applied while preparing these financial statements:

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement –
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint venture

Annual improvements

- IFRS 3 Business Combinations - Previously held Interests in a joint operation
- IFRS 11 Joint Arrangements - Previously held Interests in a joint operation
- IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation

Management believes that adoption of these new standards, interpretations and amendments, except for IFRS 16, is not expected to have a material impact on the financial statements of the Company in the period of initial application.

The application of IFRS 16 will have an impact on amounts reported and disclosures made in the Company's financial statements in respect of the Company's lease arrangement for use of land (note 10). However, it is not practicable to provide a reasonable estimate of effects of the application of IFRS 16 until the Company performs a detailed review.

3 FINANCE LEASE RECEIVABLE

Gross investment and present value of minimum lease payments receivable are as follows:

	2018		*2017*	
	Minimum lease payments receivable USD'000	***Present value of payments receivable USD'000***	*Minimum lease payments receivable USD'000*	*Present value of payments receivable USD'000*
Not later than one year	**219,000**	**215,759**	219,000	215,759
Later than 1 year and not later than 5 years	**876,000**	**781,842**	876,000	781,842
Later than 5 years	**6,734,250**	**3,192,588**	6,953,250	3,244,368
Total minimum lease payments	**7,829,250**	**4,190,189**	8,048,250	4,241,969
Less: unearned finance income	**(3,639,061)**	**-**	(3,806,281)	-
Net investment/present value of minimum lease payments	**4,190,189**	**4,190,189**	4,241,969	4,241,969

The lease has an estimated implicit interest rate of 4% per annum and payments are receivable in advance quarterly instalments over a period of 37 years.

3 FINANCE LEASE RECEIVABLE continued

Finance lease receivables are classified in the statement of financial position as follows:

	2018 *USD'000*	*2017* *USD'000*
Current	**215,759**	215,759
Non-current	**3,974,430**	4,026,210
	4,190,189	4,241,969

During the year, an amount of USD 15,427 thousand (period ended 31 December 2017: USD 2,221 thousand) has been recorded in excess of the interest income on finance lease of USD 167,220 thousand (period ended 31 December 2017: USD 42,125 thousand). This represents the additional income of the Company based on the actual volume of crude oil transported during the period over and above the minimum guaranteed amount (note 1).

4 ACCRUED AND OTHER LIABILITIES

	2018 *USD'000*	*2017* *USD'000*
Accrued lease expenses	**25,804**	7,316
Accrued interest on borrowings	-	21,502
Accrued transaction costs	-	6,280
Accrued other expenses	**242**	327
	26,046	35,425

5 SHARE CAPITAL

	2018 *USD'000*	*2017* *USD'000*
Authorised, issued and fully paid		
10,000 shares of AED 1 each	**3**	3

6 LOAN FROM SHAREHOLDER

The Company has entered into a "Shareholder Loan Agreement" with ADNOC Infrastructure LLC, the shareholder of the Company. Under the Agreement, the shareholder has agreed to provide a loan facility deemed to have been utilised for the transfer of the Pipeline under the Transfer Agreement. The loan is interest free with no fixed repayment terms. The loan is repayable at the Company's discretion and accordingly has been classified as equity.

During the year, the Company repaid USD Nil (period ended 31 December 2017: USD 3,013,000 thousand) of the loan.

	2018 *USD'000*	*2017* *USD'000*
Balance at 1 January	**1,241,594**	-
Loan received during the year / period*	-	4,254,594
Loan repaid during the year / period	-	(3,013,000)
Balance at 31 December	**1,241,594**	1,241,594

* Loan received from the shareholder is a non-cash transaction for the transfer of ownership of the Pipeline to the Company.

7 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the Company's shareholder, ADNOC, the Government of Abu Dhabi (ultimate controlling party) and related departments and institutions, associated companies, joint ventures, directors and key management personnel of the Company, ADNOC, and entities controlled, jointly controlled or significantly influenced by such parties. The Company has transactions with its related parties in the normal course of business. Pricing policies and terms of transactions with related parties are approved by the Company's management.

Transaction with related parties during the year are as follows:

	2018 ***USD'000***	*2017* *USD'000*
Income from finance lease to ADNOC Onshore (note 3)	**167,220**	42,125
Other income - ADNOC Onshore (note 3)	**15,427**	2,221
Loan received from shareholder (note 6)	**-**	4,254,594
Loan repaid to shareholder (note 6)	**-**	3,013,000
Lease rentals received from ADNOC Onshore	**235,099**	117,942

Balances with related parties included in the statement of financial position are as follows:

	2018 ***USD'000***	*2017* *USD'000*
Finance lease receivables - ADNOC Onshore (note 3)	**4,190,189**	4,241,969
Advance from ADNOC Onshore	**61,643**	60,971
Loan from shareholder (note 6)	**1,241,594**	1,241,594
Due from a related party – ADNOC Infrastructure LLC	**3**	3
Due from a related party (non-current) – ADNOC*	**55,024**	-

* As per the terms of the offering memorandum, the Company is required to make mandatory sinking fund payments in relation to series A bonds to ADNOC commencing 30 June 2018. The balance of the sinking fund is intended to be use on maturity date of series A bonds to pay all or portion of the remaining principal amount and unpaid accrued interest thereof.

Outstanding balances at the year-end arise in the normal course of business. Administrative office and related services are provided free of charge by ADNOC under a "General Services Agreement" between ADNOC and the Company for a period of four years.

Decommissioning liability
As per terms of the Agreement, if instructed by ADNOC, ADNOC Onshore shall carry out all decommissioning related activities including appointment of an independent decommissioning consultant to prepare and execute the decommissioning plan based on ADNOC's approval. In addition, on the termination of the Agreement, ADNOC Onshore is responsible, on the instructions of the Company, for the decommissioning of the Pipeline and environmental clean-up with respect to the area affected by the Pipeline and to bear all such costs in relation to the decommissioning.

8 INTEREST BEARING BORROWINGS

	Coupon rate %	*Effective interest rate %*	*Repayment date*	***2018 USD'000***	*2017 USD'000*
USD 0.830 billion bonds, net of transaction costs (Series A)	3.65%	3.73%	November 2029	**831,664**	831,019
USD 2.18 billion bonds, net of transaction costs (Series B)	4.65%	4.66%	2030 - 2047	**2,185,418**	2,184,198
Total (non-current liabilities)				**3,017,082**	3,015,217

On 2 November 2017, the Company, issued long term fixed interest rate bonds of USD 837,000 thousand and USD 2,200,000 thousand. The bonds are recorded at amortised cost using the effective interest rate and is secured by a number of security documents including the Company's contractual rights, cash deposits, other assets and guarantees. The principal is repayable for Series A bonds in one bullet payment upon maturity. The principal for Series B bonds is repayable in semi-annual instalments starting 30 June 2030.

The bond liability is stated net of transaction costs incurred in connection with the bond arrangement, amounting to USD 22,008 thousand (2017: USD 22,008 thousand) as of 31 December 2018, which are amortised in the income statement over the repayment period of the bonds using the effective interest rate method. Interest on the bonds is payable semi-annually starting 30 June 2018.

Movement in the carrying value of interest bearing borrowings are as follows:

	2018 USD'000	*2017 USD'000*
At 1 January / beginning of the period	**3,015,217**	-
Interest bearing borrowings received during the period, net of transaction costs	**-**	3,014,992
Interest expense for the year / period	**132,921**	(21,728)
Interest paid during the year / period	**(152,974)**	-
Other	**21,918**	(21,503)
Balance at 31 December	**3,017,082**	3,015,217

9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial assets include finance lease receivable, bank balances and due from a related party. The Company's financial liabilities include interest bearing borrowings and accrued liabilities.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk. The Company's management reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as the long-term borrowings have fixed interest rates and the finance lease receivable carries a fixed implicit rate of return.

9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's credit risk is minimised as the finance lease receivable and other receivables are due from a related party. As at the reporting date, there were no past due receivables from the related party.

With respect to credit risk arising from bank balances, the Company only deals with reputable financial institutions.

Credit risk is limited to the carrying values of financial assets in the statement of financial position.

Liquidity risk
The Company limits its liquidity risk by ensuring enough cash flow is available from its operations.

The table below summarises the maturity profile of the Company's financial liabilities at 31 December based on contractual undiscounted payments:

	< 1 year USD '000	*1 to 5 USD '000*	*> 5 USD '000*	*Total USD '000*
At 31 December 2018				
Accrued and other liabilities	**26,046**	**-**	**-**	**26,046**
Interest bearing borrowings	**131,750**	**527,002**	**4,849,023**	**5,507,775**
Total	**157,796**	**527,002**	**4,849,023**	**5,533,821**
At 31 December 2017				
Accrued and other liabilities	35,425	-	-	35,425
Interest bearing borrowings	153,343	527,002	4,980,773	5,661,118
Total	188,768	527,002	4,980,773	5,696,543

Foreign currency risk
Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company manages its foreign currency risk by regularly assessing current and expected foreign currency exchange rate movements and its foreign currencies payables. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Foreign currency risk is limited since majority of the Company's transactions, monetary assets and liabilities are US Dollar. Other transactions if any are in UAE Dirham, which is pegged to the US Dollar and thus represents no significant currency risk.

10 CONTINGENCIES AND COMMITMENTS

	2018 USD'000	*2017 USD'000*
Contingent liabilities		
Letters of credit	**110,000**	110,000

The Company had contingent liabilities in respect of letters of credit which are issued in the ordinary course of business from which it is anticipated that no material liabilities will arise. Letters of credit were obtained in the name of ADNOC for the benefit of the Company.

10 COMMITMENTS AND CONTINGENCIES continued

Operating lease commitments
Effective 1 October 2017, the Company entered into a lease agreement for use of land on which the Pipeline is located for a period of 99 years. Management has determined the lease period to be 37 years (note 2.2.). The Company has determined the lease to be an operating lease and has the following lease commitments contracted over the term of the lease:

	2018 ***USD'000***	*2017* *USD'000*
Not later than one year	**11,323**	10,783
Later than 1 year but not later than 5 years	**51,241**	48,801
Later than 5 years till year 37	**1,006,801**	1,020,564
	1,069,365	1,080,148

Lease payments from year 38 to 99 under the lease agreement will be paid by ADNOC.

The above commitments are based on undiscounted contractual cash payments under the agreement. The lease expense recorded in the statement of comprehensive income has been computed based on the straight-lining of total rental expense during the term of the lease agreement in accordance with requirements of IAS 17 Leases.

11 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. The fair values of the Company's financial instruments are not materially different from their carrying values at the statement of financial position date.

Fair value hierarchy
The following table provides an analysis of financial instruments for which fair values are disclosed in the financial statements, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	Level 1 *USD'000*	*Level 2* *USD'000*	*Level 3* *USD'000*	*Total* *USD'000*	*Carrying value* *USD'000*
At 31 December 2018					
Finance lease receivable	**-**	**-**	**3,842,737**	**3,842,737**	**4,190,189**
Interest bearing borrowings					
Series A bond	**795,610**	**-**	**-**	**795,610**	**831,664**
Series B bond	**2,156,836**	**-**	**-**	**2,156,836**	**2,185,418**
Total	**2,952,446**	**-**	**-**	**2,952,446**	**3,017,082**
At 31 December 2017					
Finance lease receivable	-	-	4,229,217	4,229,217	4,241,969
Interest bearing borrowings					
Series A bond	830,974	-	-	830,974	831,019
Series B bond	2,262,700	-	-	2,262,700	2,184,198
Total	3,093,674	-	-	3,093,674	3,015,217