

Abu Dhabi Crude Oil Pipeline LLC

REPORT AND FINANCIAL STATEMENTS

**FOR THE PERIOD FROM 13 SEPTEMBER 2017
(INCEPTION) TO 31 DECEMBER 2017**

Abu Dhabi Crude Oil Pipeline LLC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2017

Abu Dhabi Crude Oil Pipeline LLC

Report of the Board of Directors

The Board of Directors are pleased to present their first report, together with the audited financial statements of Abu Dhabi Crude Oil Pipeline LLC (the "Company") for the period from 13 September 2017 (inception) to 31 December 2017.

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 period was USD 44,465 thousand. The Company made a profit of USD 15,092 thousand during the period.

Auditors:

Ernst & Young are eligible to be re-appointed as auditors for the year ending 31 December 2018 and have expressed their willingness to be re-appointed.

On behalf of the Board of Directors



18 April 2018
Abu Dhabi
United Arab Emirates

Abu Dhabi Crude Oil Pipeline LLC

FINANCIAL STATEMENTS

31 DECEMBER 2017

INDEPENDENT AUDITORS' 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 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 13 September 2017 (inception) to 31 December 2017, 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 2017 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF

ABU DHABI CRUDE OIL PIPELINE LLC continued

Report on the Audit of the Financial Statements continued

Key audit matters continued

Classification of lease of the Pipeline

During the period, the Company entered into an Use and Operation agreement (the "Agreement") with Abu Dhabi Company for Onshore Petroleum Operations ("ADNOC Onshore") relating to the Pipeline owned by the Company. Management evaluated the terms of the Agreement and concluded that the Agreement contains a lease under IFRIC 4 "Determining whether an Arrangement contains a lease" ("IFRIC 4"). Management further considered the requirements of IAS 17 "Leases" and determined that the Agreement is a finance lease considering the terms of the Agreement as disclosed in note 3 to the financial statements.

This area was important to our audit due to the judgements involved in the assessment of whether the Agreement contains a lease and whether the Agreement is a finance or operating lease. The significant judgements applied in respect of the Agreement are disclosed in note 2.2 to the financial statements.

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.

How our audit addressed the area of focus

Our audit procedures included, among others:

- an evaluation of the arguments and evidence provided by management in their assessment of whether the arrangement contains a lease under IFRIC 4 and whether the Agreement is a finance or operating lease;
- a review of terms of the Agreement, focusing on the clauses relating to whether the fulfilment of the contract is dependent on the use of a specific asset or assets (i.e, whether the agreement requires the Company to supply gas through a specific pipeline to the customer); and
- a review of the terms and conditions of the Agreement in light of the requirements of IAS 17 and related guidance to determine whether significant risks and rewards related to the Pipeline have been transferred to ADNOC Onshore.

INDEPENDENT AUDITORS' 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 the Board of Directors 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.

The Board of Directors is 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 auditors' 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF

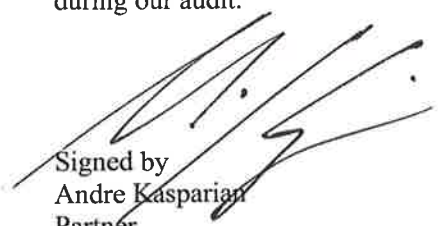
ABU DHABI CRUDE OIL PIPELINE LLC continued

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 auditors' 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 the Board of Directors 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.



Signed by
Andre Kasparian
Partner
Ernst & Young
Registration No 365

18 April 2018
Abu Dhabi

Abu Dhabi Crude Oil Pipeline LLC

STATEMENT OF COMPREHENSIVE INCOME

For the period from 13 September 2017 (inception) to 31 December 2017

	<i>Notes</i>	<i>Period from 13 September 2017 (inception) to 31 December 2017 USD'000</i>
Income		
Income from finance lease	3	42,125
Other income	3	2,221
Interest income		<u>119</u>
		44,465
Expenses		
Lease expenses	4	(7,316)
Interest expense		(21,728)
Other expenses		<u>(329)</u>
		(29,373)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>15,092</u>

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

Abu Dhabi Crude Oil Pipeline LLC

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	<i>Notes</i>	<i>2017 USD'000</i>
ASSETS		
Non-current asset		
Finance lease receivable	3	<u>4,026,210</u>
Current assets		
Finance lease receivable	3	215,759
Due from a related party	7	3
Bank balances		<u>126,330</u>
		<u>342,092</u>
TOTAL ASSETS		<u>4,368,302</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	5	3
Loan from shareholder	6	1,241,594
Retained earnings		<u>15,092</u>
Total equity		<u>1,256,689</u>
Non-current liabilities		
Interest bearing borrowings	8	<u>3,015,217</u>
Current liabilities		
Accrued and other liabilities	4	<u>96,396</u>
Total liabilities		<u>3,111,613</u>
TOTAL EQUITY AND LIABILITIES		<u>4,368,302</u>



Mr. Salah Abdalla Al Ali
Director and Chief Executive Officer

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

Abu Dhabi Crude Oil Pipeline LLC

STATEMENT OF CHANGES IN EQUITY

For the period from 13 September 2017 (inception) to 31 December 2017

	<i>Share capital USD'000</i>	<i>Loan from shareholder USD'000</i>	<i>Retained earnings USD'000</i>	<i>Total equity USD'000</i>
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	-	-	<u>15,092</u>	<u>15,092</u>
Balance as at 31 December 2017	<u>3</u>	<u>1,241,594</u>	<u>15,092</u>	<u>1,256,689</u>

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

Abu Dhabi Crude Oil Pipeline LLC

STATEMENT OF CASH FLOWS

For the period from 13 September 2017 (inception) to 31 December 2017

	<i>Notes</i>	<i>Period from 13 September 2017 (inception) to 31 December 2017 USD'000</i>
OPERATING ACTIVITIES		
Profit for the period		15,092
Adjustment for:		
Income from finance lease	3	(42,125)
Other income	3	(2,221)
Interest income		<u>(119)</u>
		(29,373)
Working capital adjustments:		
Accrued and other liabilities		29,370
Lease rentals received		<u>117,942</u>
Net cash from operating activities		<u>117,939</u>
INVESTING ACTIVITY		
Interest received and net cash from investing activity		<u>119</u>
FINANCING ACTIVITIES		
Interest bearing borrowings received	8	3,037,000
Repayment of loan from shareholder	6	(3,013,000)
Transaction costs paid		<u>(15,728)</u>
Net cash from financing activities		<u>8,272</u>
INCREASE IN CASH AND CASH EQUIVALENTS		126,330
Balance at 13 September 2017 (inception)		<u>-</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>126,330</u></u>

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

Transfer of the Pipeline	1 & 7	<u>(4,254,594)</u>
Loan obtained from shareholder	1 & 7	<u>4,254,594</u>

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

Abu Dhabi Crude Oil Pipeline LLC

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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.

These are the first set of statutory financial statements prepared by the Company and covers the period from inception on 13 September 2017 to 31 December 2017.

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.

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 18 April 2018.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.2 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES continued

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.

Estimation uncertainty

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

Impairment of finance lease receivables

Finance lease receivables are assessed for indicators of impairment at the end of each reporting period. Finance lease receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

An estimate of the collectible amount of finance lease receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and according to the length of time past due, based on historical recovery rates.

At the reporting date, finance lease receivable amounted to USD 4,241,969 thousand with no provision for doubtful receivable. Any difference between the amounts actually collected in future periods and the amounts expected to be received will be recognised in the statement of comprehensive income.

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 loan from shareholder

The Company has received a loan from shareholder to purchase the Pipeline. Classification of such amounts as financial liability and equity instrument is based on the criteria in the Framework for the Preparation and Presentation of Financial Statements and IAS 32 Financial Instruments: Presentation. Management has considered the underlying criteria, substance and economic reality of the balance, and have concluded that these balances should be classified as equity.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, less discounts and rebates and taking into account contractually defined terms of payment and excluding taxes or duty.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company determines it is acting as principal when it has exposure to the significant risks and rewards associated with the transaction and measures revenue as the gross amount received or receivable. When the Company does not retain the significant risks and rewards, it deems that it is acting as an agent and measures revenue as the amount received or receivable in return for its performance under the contract and excludes any amounts collected on behalf of a third party.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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.

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 received, whether billed by the supplier or not.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2.3 SIGNIFICANT ACCOUNTING POLICIES continued

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.

Current versus non-current classification

The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's interim financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IFRS 9 Financial Instruments
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IAS 40: Transfers of Investment Property
- IFRS 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments.
- Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28

Annual Improvements 2014-2016 Cycle

- IFRS 1 First-time adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first time adopters
- 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
- 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, may have no material impact on the financial statements of the Company in the period of initial application. Management has performed an initial assessment of the impact of IFRS 9 in respect of the impairment assessment of long term finance lease receivable from ADNOC Onshore. Management has determined that the expected credit loss associated with the receivable is not significant considering the probability of default and loss given default relating to receivable from ADNOC Onshore.

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.

Abu Dhabi Crude Oil Pipeline LLC

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3 FINANCE LEASE RECEIVABLE

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

	<i>2017</i>	
	<i>Minimum lease payments receivable USD'000</i>	<i>Present value of payments receivable USD'000</i>
Not later than one year	219,000	215,759
Later than 1 year and not later than 5 years	876,000	781,842
Later than 5 years	<u>6,953,250</u>	<u>3,244,368</u>
Total minimum lease payments	8,048,250	4,241,969
Less: unearned finance income	<u>(3,806,281)</u>	<u>-</u>
Net investment/present value of minimum lease payments	<u>4,241,969</u>	<u>4,241,969</u>

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.

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

	<i>USD'000</i>
Current	215,759
Non-current	<u>4,026,210</u>
	<u>4,241,969</u>

During the period, an amount of USD 2,221 thousand has been recorded in excess of the interest income on finance lease of 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

	<i>USD'000</i>
Advance from ADNOC Onshore (note 7)	60,971
Accrued lease expenses	7,316
Accrued interest on borrowings	21,502
Accrued transaction costs	6,280
Accrued other expenses	<u>327</u>
	<u>96,396</u>

5 SHARE CAPITAL

	<i>USD'000</i>
<i>Authorised, issued and fully paid</i> 10,000 shares of AED 1 each	<u>3</u>

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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.

During the period, the Company repaid USD 3,013,000 thousand of the loan.

	<i>USD'000</i>
Loan received during the period*	4,254,594
Loan repaid during the period	<u>(3,013,000)</u>
Balance at 31 December	<u>1,241,594</u>

* 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 period are as follows:

	<i>USD'000</i>
Income from finance lease to ADNOC Onshore	<u>42,125</u>
Other income - ADNOC Onshore	<u>2,221</u>
Loan received from shareholder	<u>4,254,594</u>
Loan repaid to shareholder	<u>3,013,000</u>
Lease rentals received from ADNOC Onshore	<u>117,942</u>

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

	<i>USD'000</i>
Finance lease receivables - ADNOC Onshore (note 3)	<u>4,241,969</u>
Advance from ADNOC Onshore	<u>60,971</u>
Loan from shareholder (note 6)	<u>1,241,594</u>
Due from a related party – ADNOC Infrastructure LLC	<u>3</u>

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7 RELATED PARTY TRANSACTIONS AND BALANCES continued

Outstanding balances at the period-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

	<i>Coupon rate %</i>	<i>Effective interest rate %</i>	<i>Repayment date</i>	<i>2017 USD'000</i>
USD 0.830 billion bonds, net of transaction costs (Series A)	3.65%	3.73%	November 2029	831,019
USD 2.18 billion bonds, net of transaction costs (Series B)	4.65%	4.66%	2030 - 2047	<u>2,184,198</u>
				<u>3,015,217</u>

Disclosed in the statement of financial position as follows:

	<i>USD'000</i>
Non-current liabilities	3,015,217
Current liabilities	-
	<u>3,015,217</u>

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 as of 31 December 2017, 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:

	<i>USD'000</i>
Interest bearing borrowings received during the period	3,037,000
Unamortised transaction costs	(22,008)
Interest during the period	<u>225</u>
Balance at 31 December	<u>3,015,217</u>

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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, loan from shareholder is interest free and the finance lease receivable carries a fixed implicit rate of return.

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 are due from a related party and amounts outstanding are collected within the approved credit period. 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 2017 based on contractual undiscounted payments:

	<i>< 1 year</i> USD '000	<i>1 to 5</i> USD '000	<i>> 5</i> USD '000	<i>Total</i> USD '000
<i>At 31 December 2017</i>				
Accrued and other liabilities	35,425	-	-	35,425
Interest bearing borrowings	<u>153,343</u>	<u>527,002</u>	<u>4,980,773</u>	<u>5,661,118</u>
Total	<u>188,768</u>	<u>527,002</u>	<u>4,980,773</u>	<u>5,696,543</u>

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.

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10 COMMITMENTS AND CONTINGENCIES

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:

	<i>USD'000</i>
Not later than one year	10,783
Later than 1 year but not later than 5 years	48,801
Later than 5 years	<u>1,020,564</u>
	<u>1,080,148</u>

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.

	<i>USD'000</i>
Contingent liabilities	
Letters of credit	<u>110,000</u>

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.

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.

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>	<i>USD'000</i>
2017				
Finance lease receivable	<u>=</u>	<u>=</u>	<u>4,241,969</u>	<u>4,241,969</u>
Interest bearing borrowings				
Series A bond	830,974	-	-	830,974
Series B bond	<u>2,262,700</u>	<u>-</u>	<u>-</u>	<u>2,262,700</u>
Total	<u>3,093,674</u>	<u>=</u>	<u>=</u>	<u>3,093,674</u>