# ABU DHABI CRUDE OIL PIPELINE LLC

**Reports and financial statements for the year ended 31 December 2019**

**ABU DHABI CRUDE OIL PIPELINE LLC**

**Reports and financial statements**
**for the year ended 31 December 2019**


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**Directors' report**
**for the year ended 31 December 2019**

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 2019.

**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 207,225 thousand (2018: USD 184,255 thousand). The Company reported a profit for the year of USD 43,194 thousand (2018: USD 21,651 thousand).

**On behalf of the Board of Directors**

**Salah Abdullah Al-Ali**
Chief Executive Officer

30 April 2020

Abu Dhabi, United Arab Emirates

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# INDEPENDENT AUDITOR'S REPORT
# TO THE SHAREHOLDERS OF ABU DHABI CRUDE OIL PIPELINE LLC

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Abu Dhabi Crude Oil Pipeline LLC (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year 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 Auditor's 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 ("IESBA Code") together with the other ethical requirements that are relevant to our audit of the Company's 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.

### Other Information

Management is responsible for the other information. The other information comprises the Directors' report which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance or 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 on the other information that we obtained prior to the date of this auditor's report, 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.

### Other matter

The financial statements for the year ended 31 December 2018 were audited by another auditor who issued an unqualified opinion on these financial statements dated 16 April 2019.

Deloitte.



**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 International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the Memorandum of Association of the Company, and for such internal controls 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.

**Auditor's 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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 auditor's 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.

Deloitte.

# INDEPENDENT AUDITOR'S REPORT
# TO THE SHAREHOLDERS OF ABU DHABI CRUDE OIL PIPELINE LLC (continued)

**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

We communicate with the Board of Director 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**

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 relevant laws, regulations and circulars organising the Company's operations, which would materially affect its activities or the financial statements as at 31 December 2019.

Deloitte & Touche (M.E.)

Rama Padmanabha Acharya
Registration No. 701
30 April 2020
Abu Dhabi
United Arab Emirates

## Statement of financial position
## as at 31 December 2019

| | Notes | 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Right-of-use asset | **2.1** | **452,071** | - |
| Finance lease receivable | **5** | **3,920,540** | 3,974,430 |
| Due from a related party | **9** | **161,574** | 55,024 |
| | | **4,534,185** | 4,029,454 |
| **Current assets** | | | |
| Finance lease receivable | **5** | **215,759** | 215,759 |
| Due from a related party | **9** | **3** | 3 |
| Prepayments | | **143** | - |
| Bank balances | | **157,403** | 137,895 |
| | | **373,308** | 353,657 |
| **Total assets** | | **4,907,493** | 4,383,111 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | **7** | **3** | 3 |
| Loan from shareholder | **8** | **1,241,594** | 1,241,594 |
| Retained earnings | | **73,673** | 36,743 |
| **Total equity** | | **1,315,270** | 1,278,340 |
| **Non-current liabilities** | | | |
| Lease liability | **2.1** | **492,064** | - |
| Interest bearing borrowings | **10** | **3,018,005** | 3,017,082 |
| | | **3,510,069** | 3,017,082 |
| **Current liabilities** | | | |
| Lease liability | **2.1** | **11,887** | - |
| Accrued and other liabilities | **6** | **63** | 26,046 |
| Advance from a related party | **9** | **70,204** | 61,643 |
| | | **82,154** | 87,689 |
| **Total liabilities** | | **3,592,223** | 3,104,771 |
| **TOTAL EQUITY AND LIABILITIES** | | **4,907,493** | 4,383,111 |

**Salah Abdullah Al-Ali**
Chief Executive Officer

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

Both parties consent to this document being electronically signed - F&ID/GTRM/INT/2020/5229

## Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

| | Notes | 2019 USD'000 | 2018 USD'000 |
|---|---|---|---|
| **Income** | | | |
| Income from finance lease | 5 | **165,111** | 167,220 |
| Other income | 5 | **39,572** | 15,427 |
| Finance income | | **2,542** | 1,608 |
| | | **207,225** | 184,255 |
| **Expenses** | | | |
| Lease expenses | | **-** | (29,263) |
| Finance costs | 11 | **(150,795)** | (132,921) |
| Amortisation of right of use asset | 2.1 | **(13,009)** | - |
| Other expenses | | **(227)** | (420) |
| | | **(164,031)** | (162,604) |
| **Profit and total comprehensive income for the year** | | **43,194** | 21,651 |

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

## Statement of changes in equity
## for the year ended 31 December 2019

| | Share capital USD'000 | Loan from shareholder USD'000 | Retained earnings USD'000 | Total equity USD'000 |
|---|---|---|---|---|
| Balance 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 |
| Cumulative effect of first time adoption of IFRS 16 (note 2.1) | - | - | (6,264) | (6,264) |
| Balance at 1 January 2019 | 3 | 1,241,594 | 30,479 | 1,272,076 |
| Total comprehensive income for the year | - | - | 43,194 | 43,194 |
| **Balance at 31 December 2019** | **3** | **1,241,594** | **73,673** | **1,315,270** |

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

## Statement of cash flows
## for the year ended 31 December 2019

| | Notes | 2019<br>USD'000 | 2018<br>USD'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | **43,194** | 21,651 |
| *Adjustments for:* | | | |
| Income from finance lease | **5** | **(165,111)** | (167,220) |
| Other income | **5** | **(39,572)** | (15,427) |
| Finance costs | **11** | **150,795** | 132,921 |
| Finance income | | **(2,542)** | (1,608) |
| Amortisation of right-of-use asset | **2.1** | **13,009** | - |
| | | **(227)** | (29,683) |
| **Movements in working capital** | | | |
| Increase in prepayments | | **(143)** | - |
| (Decrease)/increase in accrued and other liabilities | | **(178)** | 12,539 |
| **Cash used in operations** | | **(548)** | (17,144) |
| Lease rentals received | **9** | **267,133** | 235,099 |
| **Net cash generated from operating Activities** | | **266,585** | 217,955 |
| **Cash flows from investing activities** | | | |
| Payments for sinking fund | **9** | **(106,550)** | (55,024) |
| Interest received | | **2,542** | 1,608 |
| **Net cash used in investing activities** | | **(104,008)** | (53,416) |
| **Cash flows from financing activities** | | | |
| Interest paid on interest bearing borrowings | **10** | **(131,751)** | (152,974) |
| Repayment of principal repayment of lease liability | | **(10,519)** | - |
| Repayment of interest portion of lease liability | | **(799)** | - |
| **Net cash used in financing activities** | | **(143,069)** | (152,974) |
| **Increase in cash and cash equivalents** | | **19,508** | 11,565 |
| Cash and cash equivalents at the beginning of the year | | **137,895** | 126,330 |
| **Cash and cash equivalents at the end of the year** | | **157,403** | 137,895 |

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

**Notes to the financial statements**
**for the year ended 31 December 2019**

## 1 General information

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 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.

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.

## 2 Application of new and revised International Financial Reporting Standards (IFRSs)

### 2.1 New and amended IFRS Standards that are effective for the current year

In the current year, the Company, for the first time, has adopted IFRS 16 Leases (as issued by the IASB in January 2016). The standard replaces the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Therefore, IFRS 16 does not have an impact for leases where the Company is the lessor. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Company's financial statements is described below.

The date of initial application of IFRS 16 for the Company is 1 January 2019.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. The Company does not restate any comparative information. Instead, the cumulative effect of applying the standard is recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.1 New and amended IFRS Standards that are effective for the current year (continued)

**Impact of the new definition of a lease**

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2019. The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

**Impact on lessee accounting**

*Former operating leases*

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

a) recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
b) recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss; and
c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in profit or loss.

*Former finance leases*

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Company’s financial statements.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.1 New and amended IFRS Standards that are effective for the current year (continued)

**Impact on lessor accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, the Company has reclassified certain of its sublease agreements as finance leases. No allowance for expected credit loss has been recognised on the finance lease receivables.

**Financial impact of initial application of IFRS 16**

The tables below show the amount of adjustment for each separate financial statement line item affected by the application of IFRS 16 for the year ended 31 December 2019.

**Impact on profit or loss and other comprehensive income**

| | **2019**<br>**USD'000** |
|---|---|
| Amortisation expense | 13,009 |
| Finance costs | 18,121 |
| **Decrease in profit for the year** | **31,130** |

**Impact on statement of cash flows**

| | **2019**<br>**USD'000** |
|---|---|
| **Cash flow from operating activities** | |
| Amortisation of right-of-use assets | 13,009 |
| Finance costs | 18,121 |
| **Cash flows from financing activities** | |
| Repayment of principal portion of lease liabilities | (10,519) |
| Repayment of finance cost of lease liabilities | (799) |

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.1 New and amended IFRS Standards that are effective for the current year (continued)

**<u>Financial impact of initial application of IFRS 16 (continued)</u>**

**Impact on assets, liabilities and equity as at 31 December 2019**

The tables below show the carrying amounts of the Company's right-of-use asset and lease liability and the movements during the year ended 31 December 2019.

| | Right-of-use asset USD'000 | Lease liability USD'000 |
|---|---|---|
| As at 1 January 2019 | **465,080** | **485,830** |
| Amortisation expense | **(13,009)** | **-** |
| Finance costs (note 11) | **-** | **18,121** |
| **As at 31 December 2019** | **452,071** | **503,951** |

Lease liability is disclosed in the statement of financial position as follows:

| | 31 December 2019 USD'000 |
|---|---|
| Current liabilities | **11,887** |
| Non-current liabilities | **492,064** |
| **Total** | **503,951** |

**Impact on assets, liabilities and equity as at 1 January 2019**

Impact on adoption of IFRS 16 on assets, liabilities and equity as at 1 January 2019 is as follows:

| | 1 January 2019 USD'000 |
|---|---|
| **Assets** | |
| Recognition of right-of-use asset (land) | **465,080** |
| **Liabilities** | |
| Recognition of lease liability | **485,830** |
| Derecognition of accrued liabilities | **(14,486)** |
| **Total impact on liabilities** | **471,344** |
| **Equity** | |
| Retained earnings | **6,264** |

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.1 New and amended IFRS Standards that are effective for the current year (continued)

**Financial impact of initial application of IFRS 16 (continued)**

**Impact on assets, liabilities and equity as at 1 January 2019 (continued)**

The lease liability as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

| | |
|---|---|
| Operating lease commitments as at 31 December 2018 (USD'000) | **1,069,365** |
| Company's incremental borrowing rate | **3.73%** |
| Discounted operating lease commitments at 1 January 2019 (USD'000) | **485,830** |
| Adjustment of commitments relating to leases of low value assets (USD'000) | **-** |
| **Lease liability as at 1 January 2019 (USD'000)** | **485,830** |

The recognised right of use of assets relate to the following types of assets:

| | **31 December 2019 USD'000** | 1 January 2019 USD'000 |
|---|---|---|
| Leased land | **452,071** | 465,080 |

*Company as a lessee*

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in other expense and an increase in depreciation expense and in finance costs.

*Company as a lessor*

The Company, as a lessor, has reclassified its sublease agreement as finance lease. The leased assets have been derecognised and finance lease asset receivables recognised. This change in accounting changes the timing of recognition of the related revenue (recognised in investment income).

## 2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

### 2.2 New and amended IFRS applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in these financial statements.

| **<u>New and revised IFRSs</u>** | **Effective for annual periods <u>beginning on or after</u>** |
|---|---|
| Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities* | 1 January 2019 |
| The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI. | |
| The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9. | |
| Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. | 1 January 2019 |
| These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. | |
| Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs* | 1 January 2019 |
| Annual Improvements to IFRSs 2015-2017 *Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs* | 1 January 2019 |
| The *Annual Improvements* include amendments to four Standards. | |
| IAS 12 *Income Taxes* | 1 January 2019 |
| The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits. | |
| IAS 23 *Borrowing costs* | 1 January 2019 |
| The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. | |

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 2 Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

## 2.2 New and amended IFRS applied with no material effect on the financial statements (continued)

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 3 *Business Combinations* | 1 January 2019 |
| The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including re-measuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be re-measured includes any unrecognised assets, liabilities and goodwill relating to the joint operation. | |
| IFRS 11 *Joint Arrangements* | 1 January 2019 |
| The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not re-measure its PHI in the joint operation. | |
| Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement* | 1 January 2019 |
| The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. | |
| IFRIC 23 *Uncertainty over Income Tax Treatments* | 1 January 2019 |

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively;
- Assumptions for taxation authorities' examinations;
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- The effect of changes in facts and circumstances.

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 New and revised IFRS in issue but not yet effective

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective.

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| Definition of Material - Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*<br>The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' | 1 January 2020 |
| Definition of a Business – Amendments to IFRS 3 *Business Combinations*<br>The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. IASB also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'. | 1 January 2020 |
| Amendments to *References to the Conceptual Framework in IFRS Standards*<br>Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework. | 1 January 2020 |
| *IFRS 7 Financial Instruments: Disclosures and IFRS 9 — Financial Instruments*<br>Amendments regarding pre-replacement issues in the context of the IBOR reform | 1 January 2020 |
| IFRS 17 *Insurance Contracts*<br>IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as at 1 January 2022. | 1 January 2022 |
| Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely. Adoption is still permitted. |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, , may have no material impact on the financial statements of the Company in the period of initial application.

## 3 Summary of significant accounting policies

### 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.

### Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 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").

The principal accounting policies adopted are set out below.

### 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.

## 3 Summary of significant accounting policies (continued)

### Revenue recognition (continued)

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.

### Impairment of tangible assets

At end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**3 Summary of significant accounting policies (continued)**

**Leases**

*Policy applicable from 1 January 2019*

*The Company as lessee*

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line item in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Company did not make any such adjustments during the periods presented.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

**3 Summary of significant accounting policies (continued)**

**Leases (continued)**

*Policy applicable from 1 January 2019 (continued)*

*The Company as lessee (continued)*

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as a separate line in the statement of financial position.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line ‘Other expenses’ in profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient.

*The Company as lessor*

The Company enters into lease agreements as a lessor with respect to the use of land on which the Habshan-Fujairah Pipeline is located.

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Company’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company’s net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

**3 Summary of significant accounting policies (continued)**

**Leases (continued)**

*Policy under IAS 17, applicable before 1 January 2019*

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.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

## 3 Summary of significant accounting policies (continued)

### Provisions (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 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.

### 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 pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the 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.

## 3 Summary of significant accounting policies (continued)

### 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 liabilities*
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.

### 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.

## 3 Summary of significant accounting policies (continued)

### 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.

## 4 Critical accounting judgments and key sources of estimation for uncertainty

### 4.1 Critical judgments in applying the Companies' accounting policies

The following are the critical judgments, apart from those involving estimations described below, that the management have made in the process of applying the Company accounting policies and have the most significant effect on the amounts recognised in the financial statements.

<u>Lease of the Pipeline, applicable before 1 January 2019</u>

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 IAS 17 *Leases*.

In making its judgment, management considered the terms and conditions of the Agreement with ADNOC Onshore and the requirements of IAS *17 Leases* 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.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 4 Critical accounting judgments and key sources of estimation for uncertainty (continued)

### 4.1 Critical judgments in applying the Companies' accounting policies (continued)

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.

Determining the lease term, applicable from 1 January 2019

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company.

Classification of receivable from a related party for sinking fund

The Company has made mandatory sinking fund payments of USD 106,550 thousand (2018: USD 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.

### 4.2 Key sources of 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:

Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate ("IBR") as at 1 January 2019. Management has applied judgments and estimates to determine the IBR at the commencement of the lease. The Company has applied the weighted average lessee's incremental borrowing rate of 3.73% to the lease liability on 1 January 2019.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 5 Finance lease receivable

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

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **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 | **6,515,250** | **3,138,698** | 6,734,250 | 3,192,588 |
| Total minimum lease payments receivable | **7,610,250** | **4,136,299** | 7,829,250 | 4,190,189 |
| Less: unearned finance income | **(3,473,951)** | **-** | (3,639,061) | - |
| Net investment/present value of minimum lease payments receivable | **4,136,299** | **4,136,299** | 4,190,189 | 4,190,189 |

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:

| | **2019 USD'000** | 2018 USD'000 |
|---|---|---|
| Current | **215,759** | 215,759 |
| Non-current | **3,920,540** | 3,974,430 |
| | **4,136,299** | 4,190,189 |

During the year, an amount of USD 39,572 thousand (2018: USD 15,427 thousand) has been recorded in excess of the finance income on finance lease of USD 165,111 thousand (2018: USD 167,220 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).

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 6 Accrued and other liabilities

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| Accrued lease expenses | **-** | 25,804 |
| Accrued other expenses | **63** | 242 |
| | **63** | 26,046 |

## 7 Share capital

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| ***Authorised, issued and fully paid*** | | |
| 10,000 shares of USD 1 each | **3** | 3 |

## 8 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.

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| Balance at 1 January and 31 December (note 9) | **1,241,594** | 1,241,594 |

## 9 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:

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| Income from finance lease to ADNOC Onshore (note 5) | **165,111** | 167,220 |
| Other income - ADNOC Onshore (note 5) | **39,572** | 15,427 |
| Lease rentals received from ADNOC Onshore | **267,133** | 235,099 |

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

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| Finance lease receivables - ADNOC Onshore (note 5) | **4,136,299** | 4,190,189 |
| Advance from ADNOC Onshore | **70,204** | 61,643 |
| Loan from shareholder (note 8) | **1,241,594** | 1,241,594 |
| Due from a related party – ADNOC Infrastructure LLC | **3** | 3 |
| Due from a related party (non-current) – ADNOC* | **161,574** | 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.

## 9 Related party transactions and balances (continued)

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

## 10 Interest bearing borrowings

| | **Coupon rate %** | **Effective interest rate** | **Repayment Date** | **2019 USD'000** | 2018 USD'000 |
|---|---|---|---|---|---|
| USD 0.830 billion bonds, net of transaction costs (Series A) | 3.65% | 3.73% | November 2029 | 832,080 | 831,664 |
| USD 2.18 billion bonds, net of transaction costs (Series B) | 4.65% | 4.66% | 2030 - 2047 | 2,185,925 | 2,185,418 |
| **Total (non-current liabilities)** | | | | **3,018,005** | 3,017,082 |

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 (2018: USD 22,008 thousand) as of 31 December 2019, 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.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 10 Interest bearing borrowings (continued)

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

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| At 1 January/beginning of the year | **3,017,082** | 3,015,217 |
| Finance costs for the year (note 11) | **132,674** | 132,921 |
| Interest paid during the year | **(131,751)** | (152,974) |
| Others | **-** | 21,918 |
| Balance at 31 December | **3,018,005** | 3,017,082 |

## 11 Finance costs

| | **2019** | 2018 |
|---|---|---|
| | **USD'000** | USD'000 |
| Finance costs relating to Interest bearing borrowings (note 10) | **132,674** | 132,921 |
| Finance cost on lease liabilities (note 2.1) | **18,121** | - |
| | **150,795** | 132,921 |

## 12 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, lease liabilities 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 its long-term borrowings have fixed interest rates and the finance lease receivable carries a fixed implicit rate of return.

**Notes to the financial statements**
**for the year ended 31 December 2019 (continued)**

## 12 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 years USD'000** | **> 5 years USD'000** | **Total USD'000** |
|---|---|---|---|---|
| **At 31 December 2019** | | | | |
| Accrued and other liabilities | **63** | **-** | - | **63** |
| Lease liabilities | **11,887** | **159,371** | **332,693** | **503,951** |
| Interest bearing borrowings | **131,751** | **527,002** | **4,717,272** | **5,376,024** |
| **Total** | **143,701** | **686,373** | **5,049,965** | **5,880,039** |
| 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 |

### 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.

## 13 Contingencies and commitments

| | 2019 USD'000 | 2018 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.

## 14 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 2019** | | | | | |
| **Finance lease receivable** | **-** | **-** | **3,870,558** | **3,870,558** | **4,136,299** |
| **Interest bearing borrowings** | | | | | |
| Series A bond | **898,687** | **-** | **-** | **898,687** | **832,080** |
| Series B bond | **2,541,440** | **-** | **-** | **2,541,440** | **2,185,925** |
| **Total** | **3,440,127** | **-** | **-** | **3,440,127** | **3,018,005** |
| 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 |

## 15 Subsequent events

Subsequent to the year end, macro-economic uncertainty has arisen with regards to prices and demand for oil, gas and products (along with the large associated volatility in commodity markets) caused by the COVID-19 outbreak. Management considers this outbreak to be a non-adjusting post reporting date event and is unlikely to have an impact on the financial statements.

## 16 Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 30 April 2020.