ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Reports and financial statements for the year ended 31 December 2018

ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Reports and financial statements
for the year ended 31 December 2018

	Pages
Directors' report	1
Independent Auditor's Report	2 – 8
Carve-out statement of financial position	9
Carve-out statement of profit or loss and comprehensive income	10
Carve-out statement of changes in equity	11
Carve-out statement of cash flows	12 - 13
Notes to the carve-out financial statements	14 – 53

ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Directors' report
for the year ended 31 December 2018

The Directors present their report together with the audited carve-out financial statements of Abu Dhabi National Oil Company for Distribution PJSC (the "Company") and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2018.

Board of Directors:

The Directors of the Company are:

Chairman	H. E. Dr. Sultan Ahmed Al Jaber
Members	Abdulla Salem Al Dhaheri (resigned 5 February 2019)
	Abdulaziz Abdulla Alhajri
	Matar Hamdan Al Ameri
	Jassim Mohammed Alseddiqi
	Pedro Miró Roig
	David-Emmanuel Beau
	Khalid Salmeen (appointed 5 February 2019)

Principal activities

The principal activities of the Group are marketing of petroleum products, natural gas for vehicles and ancillary products.

Review of business

During the year, the Group reported revenue of AED 22,893,491 thousand (2017: AED 19,756,294 thousand). Profit for the year was AED 2,128,153 thousand (2017: AED 1,804,207 thousand).

The appropriation of the results for the year is follows:

	AED '000
Retained earnings at 1 January 2018	1,429,448
Total comprehensive income for the year	2,128,153
Dividend	(1,470,000)
Retained earnings at 31 December 2018	**2,087,601**

The Board of Directors proposed a cash dividend of 5.88 fils per share to the shareholders in respect of the first half of 2018. The dividend comprised of AED 735 million which was approved at the General Assembly Meeting held on 14 October 2018 and paid on 20 October 2018.

The Board of Directors proposed a final dividend of 5.88 fils per share to the shareholders in respect of the year ended 31 December 2018.

for the Board of Directors

Chairman

13 February 2019
Abu Dhabi, UAE

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi National Oil Company for Distribution PJSC
Abu Dhabi, U.A.E.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the carve-out financial statements of Abu Dhabi National Oil Company for Distribution PJSC ("ADNOC Distribution" or the "Company") and its subsidiary (collectively referred to as "the Group"), which comprise the carve-out statement of financial position as at 31 December 2018, and the carve-out statement of profit or loss and comprehensive income, carve-out statement of changes in equity and carve-out statement of cash flows for the years then ended, and notes to the carve-out financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying carve-out financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting policies set out in note 3 to the carve-out financial statements.

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 carve-out financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with other ethical requirements that are relevant to our audit of the carve-out financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis of preparation

We draw attention to notes 1 and 3 to the carve-out financial statements which describes the basis of preparation of these carve-out financial statements. The comparative carve-out financial statements for the year ended 31 December 2017 has been prepared on a carve-out basis from the consolidated financial statements for the year ended 31 December 2017 to carve-out the sales, cost of sales, distribution and administrative expenses, receivables/payables and inventories of the Civil Aviation Division.

Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the carve-out financial statements of the current period. We have communicated the key audit matters to the Audit Committee but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Audit Committee. On the following pages, we have described the key audit matters we identified and have included a summary of the audit procedures we performed to address those matters.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

The key audit matters were addressed in the context of our audit of the carve-out financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accuracy and completeness of revenue recognised from retail sales and related IT systems	
The Group reported revenues from retail sales of AED 15,703,503 thousand for year ended 31 December 2018 (AED: 13,746,259 thousand for the year ended 31 December 2017). Revenue recognition from retail sales is assessed as a key audit matter due to the degree of complexity of IT systems and processes used. The Group's accounting policies with regards to revenue recognition are presented in note 3 to the carve-out financial statements.	Our audit procedures included the assessment of controls of the retail revenue process and related IT systems. We tested the design and operating effectiveness of relevant controls of retail revenue process and included testing controls over the accuracy and completeness of revenue recognised from retail sales. We have obtained understanding of the significant revenue processes including performance of an end to end walkthrough of the retail revenue process and identification of the relevant controls (including IT systems, interfaces and reports). We involved our IT specialists to test information technology general controls, system interfaces, data/information reporting and specific application controls surrounding retail revenue systems. In addition, we also performed the following substantive audit procedures: • A detailed substantive analytical procedures of significant revenue streams; and • Specific procedures to ensure the accuracy and completeness of retail revenue and revenue recognition criteria adopted is appropriate and in line with the Group's accounting policies.

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INDEPENDENT AUDITOR'S REPORT (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Carve-out of civil aviation operations	
The carve-out financial statements reflect the financial position of the Group as at 31 December 2018 and 31 December 2017, and its financial performance and its cash flows for the years then ended excluding the sales, cost of sales, distribution and administrative expenses, receivables/payables and inventories of the Civil Aviation Division as disclosed in note 1 to the carve-out financial statements. The carve-out process was assessed as key audit matter as it involves manual adjustments which increases the risk of human error.	Our audit procedures included the assessment of controls over carve out of civil aviation operation process. We tested the design and operating effectiveness of relevant controls over the carve-out process of civil aviation operations. This included testing controls over the accuracy and completeness of the carve-out of civil aviation operations. In addition, we also performed the following substantive audit procedures: • Verified the transfer agreement and ensured the carve-out process is carried out in accordance with the terms of the agreement; • Specific procedures on the carve-out amounts to ensure the accuracy and completeness of the amounts and transactions carved-out; • Ensure the validity of the balances and transactions and to ensure that civil aviation balances and transactions are excluded in the carve-out financial statements; and • Involved our IT specialist to test the accuracy of the system generated reports (information produced by entity) used in the carve-out process.
Related party balances and transactions	
The Company has large volumes of transactions with related parties in the normal course of business. Related party balances and transactions are assessed as a key audit matter as the large volume of transactions increases the likelihood of error and the risk of misstatement. Furthermore, the Company entered into agreements with related parties that involved a degree of complexity affecting the reported balances and transactions with related parties	Our audit procedures included the assessment of controls over transactions with related parties. We tested the design and operating effectiveness of relevant controls over the intercompany sales and purchase processes. This included testing controls over the accuracy and completeness of the transactions. We also obtained an understanding of the process for identifying related party transactions, performed a walkthrough and evaluated the design of controls. In addition, we also performed the following substantive audit procedures: • Ensure existence, accuracy and completeness of related parties balances and transactions; • Evaluated the business rationale of significant transactions; • Verified relevant agreements and ensured that transactions are recorded in accordance with the terms of the relevant agreements; and • Confirmed significant related party balances and/or performed alternate procedures.

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INDEPENDENT AUDITOR'S REPORT (continued)

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, and the Operational and Financial Highlights, Chairman's Message, CEO's Message, Deputy CEO's Message and the other information in the annual report, which are expected to be made available to us after that date. The other information does not include the carve-out financial statements and our auditor's report thereon.

Our opinion on the carve-out 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 carve-out financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the carve-out 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.

When we will read the Operational and Financial Highlights, Chairman's Message, CEO's Message and Deputy CEO's Message, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

Responsibilities of management and those charged with governance for the carve-out financial statements

Management is responsible for the preparation and fair presentation of the carve-out financial statements in accordance with the accounting policies set out in note 3 to the carve-out financial statements and their preparation in compliance with the applicable provisions of the articles of association of the Company and UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the carve-out financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the carve-out financial statements

Our objectives are to obtain reasonable assurance about whether the carve-out 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

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's responsibilities for the audit of the carve-out financial statements (continued)

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these carve-out financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the carve-out 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.

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

- 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 Group'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 carve-out financial statements or, if such disclosure is 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 Group to cease to continue as a going concern.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the carve-out financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The carve-out financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Group has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account of the Group;
- As disclosed in note 1 to the carve-out financial statements, the Group has not purchased or invested in shares during the financial year ended 31 December 2018;
- Note 8 to the carve-out financial statements discloses material related party transactions and balances, and the terms under which they were conducted;
- As disclosed in note 1 to the carve-out financial statements, these carve-out financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), except for the carve-out of sales, cost of sales, distribution and administrative expenses, receivables/payables and inventories relating to sale and purchasing activities of the Civil Aviation Division, as well as the related cash flows which are transferred to the Parent Company for the comparative period. Except for the above, based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company's Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and
- As disclosed in note 1 to the carve-out financial statements, the Group made social contributions amounting to AED 1,955 thousand during the year ended 31 December 2018.

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INDEPENDENT AUDITOR'S REPORT (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (continued)

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

- Law No. 15 of 2017 concerning the Establishment of the Company which would materially affect its activities or its financial position; and

- Relevant provisions of the applicable laws, resolutions and circulars organising the Company's operations

Deloitte & Touche (M.E.)

Rama Padmanabha Acharya
Registration Number 701
13 February 2019
Abu Dhabi
United Arab Emirates

Carve-out statement of financial position
as at 31 December 2018

	Notes	2018 AED'000	2017 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**5,541,653**	5,313,897
Advances to contractors		**88,832**	100,558
Other non-current assets	14	**10,693**	13,462
Total non-current assets		**5,641,178**	5,427,917
Current assets			
Inventories	6	**1,173,854**	1,344,014
Trade receivables and other current assets	7	**2,257,431**	2,211,541
Due from related parties	8	**996,859**	361,634
Cash and bank balances	9	**5,472,959**	2,785,452
		9,901,103	6,702,641
Assets classified as held for sale	10	**-**	74,819
Total current assets		**9,901,103**	6,777,460
Total assets		**15,542,281**	12,205,377
EQUITY AND LIABILITIES			
Equity			
Share capital	11	**1,000,000**	1,000,000
Statutory reserve	13	**500,000**	500,000
Retained earnings		**2,087,601**	1,347,869
Total equity		**3,587,601**	2,847,869
Non-current liabilities			
Long term debt	14	**5,484,400**	5,479,201
Provision for employees' end of service benefit	15	**212,427**	223,937
Total non-current liabilities		**5,696,827**	5,703,138
Current liabilities			
Trade and other payables	16	**1,949,036**	1,158,821
Due to related parties	8	**4,308,817**	2,495,549
Total current liabilities		**6,257,853**	3,654,370
Total liabilities		**11,954,680**	9,357,508
Total equity and liabilities		**15,542,281**	12,205,377

Petri Pentti
Chief Financial Officer

Saeed Mubarak Al Rashdi
Acting Chief Executive Officer

Dr. Sultan Ahmed Al Jaber
Chairman of the Board of Directors

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

Carve-out statement of profit or loss and comprehensive income
for the year ended 31 December 2018

	Notes	2018 AED'000	2017 AED'000
Revenue	**17**	**22,893,491**	19,756,294
Direct costs	**18**	**(17,824,106)**	(15,330,201)
Gross profit		**5,069,385**	4,426,093
Distribution and administrative expenses	**19**	**(3,028,230)**	(2,723,334)
Other income	**20**	**237,732**	192,984
Impairment losses and other operating expenses	**21**	**(36,695)**	(75,428)
Operating profit		**2,242,192**	1,820,315
Interest income		**64,451**	2,663
Finance costs		**(178,490)**	(18,771)
Profit for the year		**2,128,153**	1,804,207
Other comprehensive income		**-**	-
Total comprehensive income for the year		**2,128,153**	1,804,207
Earnings per share:			
Basic and diluted	**23**	**0.170**	0.144

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

Carve-out statement of changes in equity
for the year ended 31 December 2018

	Share capital AED'000	Capital contribution AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2017	1,000,000	6,304,418	333,333	1,845,017	9,482,768
Total comprehensive income for the year	-	-	-	1,804,207	1,804,207
Transfer to legal reserve (note 13)	-	-	166,667	(166,667)	-
Dividend paid (note 24)	-	-	-	(2,134,688)	(2,134,688)
Capital contribution repayment (note 12)	-	(6,304,418)	-	-	(6,304,418)
Balance at 31 December 2017	1,000,000	-	500,000	1,347,869	2,847,869
Effect of changes in accounting policy for IFRS 9 (note 2.1 and 3)	-	-	-	81,579	81,579
Adjusted balance at 1 January 2018	1,000,000	-	500,000	1,429,448	2,929,448
Total comprehensive income for the year	-	-	-	2,128,153	2,128,153
Dividend paid (note 24)	-	-	-	(1,470,000)	(1,470,000)
Balance at 31 December 2018	**1,000,000**	**-**	**500,000**	**2,087,601**	**3,587,601**

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

Carve-out statement of cash flows
for the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Cash flows from operating activities		
Profit for the year	**2,128,153**	1,804,207
Adjustments for:		
Depreciation of property, plant and equipment	**532,060**	460,653
Recoveries on receivables	**(85,424)**	(46,749)
Impairment losses on receivables	**11,150**	69,166
Employees' end of service benefit charge	**24,759**	26,314
Gain on disposal of property, plant and equipment	**(7,488)**	(73)
Write down of finished goods to net realisable value	**104,541**	-
(Reversal)/impairment loss for slow moving and obsolete inventories	**(3,699)**	3,488
Inventories written off	**5,583**	2,774
Finance costs	**178,490**	18,771
Interest income	**(64,451)**	(2,663)
Operating cash flows before movements in working capital	**2,823,674**	2,335,888
Decrease/(increase) in inventories	**63,735**	(256,458)
Decrease/(increase) in trade receivables and other current assets	**119,720**	(577,127)
Increase in due from related parties	**(520,999)**	(8,244)
Increase in trade and other payables	**646,495**	109,552
Increase in due to related parties	**1,813,268**	1,817,184
Cash generated from operating activities	**4,945,893**	3,420,795
Payment of employees' end of service benefit	**(31,978)**	(39,303)
Net cash generated from operating activities	**4,913,915**	3,381,492
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	**(646,663)**	(736,983)
Payment for transfer of property, plant and equipment from a related party	**-**	(696,227)
Payments for advances to contractors	**(28,266)**	(24,955)
Proceeds from disposal of property, plant and equipment	**20,487**	383
Increase in term deposit with maturity more than three months	**-**	(30,000)
Interest received	**49,372**	2,663
Net cash used in investing activities	**(605,070)**	(1,485,119)
Cash flows from financing activities		
Proceed from long term debt	**-**	5,478,541
Payment of transaction costs – revolving facility	**-**	(13,810)
Capital contribution repayment	**-**	(6,304,418)
Finance cost paid	**(151,338)**	-
Dividend paid	**(1,470,000)**	(2,134,688)
Net cash used in financing activities	**(1,621,338)**	(2,974,375)
Net increase/(decrease) in cash and cash equivalents	**2,687,507**	(1,078,002)
Cash and cash equivalents at beginning of the year	**2,655,452**	3,733,454
Cash and cash equivalents at end of the year (note 9)	**5,342,959**	2,655,452

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

Carve-out statement of cash flows (continued)
for the year ended 31 December 2018

	2018 AED'000	2017 AED'000
Non cash transaction		
Accruals for property, plant and equipment	**332,515**	207,978
Advances to contractors transferred to property, plant and equipment	**37,282**	51,418
Transfer of property, plant and equipment (from)/to assets classified as held for sale	**(74,819)**	74,819
Transfer of property, plant and equipment (to)/from a related party	**(39,992)**	696,226
Transfer of city gas assets to a related party	**90,830**	-

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

Notes to the carve-out financial statements
for the year ended 31 December 2018

1 General information

Abu Dhabi National Oil Company for Distribution PJSC ("ADNOC Distribution" or the "Company"), formerly Abu Dhabi National Oil Company for Distribution, is a company incorporated by Law No. 13 of 1973 issued by His Highness the Acting Ruler of the Emirate of Abu Dhabi.

On 22 November 2017, Law No. 15 of 2017 (the "New Law of Establishment") was issued replacing Law No. 13 of 1973 in respect of the incorporation of Abu Dhabi National Oil Company for Distribution PJSC, a public joint stock company registered with the commercial register in Abu Dhabi under commercial licence number CN-1002757 issued by Abu Dhabi Department of Economic Development. The Article of Association of the Company became effective as of 22 November 2017, at the same time that the New Law of Establishment was issued and became effective. The duration of the Company is 100 Gregorian years commencing on the date of issuance of the New Law of Establishment.

Pursuant to the resolution of Abu Dhabi National Oil Company ("ADNOC", "Shareholder", or the "Parent Company"), as the sole shareholder of the Company, dated 28 June 2017, ADNOC approved the listing of all the Company's share in Abu Dhabi Securities Exchange and the sale by way of offer to the public of part of the share capital of the Company held by ADNOC.

The Group's registered head office is at P.O. Box 4188, Abu Dhabi, United Arab Emirates. The Company's shares are listed on the Abu Dhabi Securities Exchange.

The principal activities of the Company and its Subsidiary, ADNOC Distribution Global Company L.L.C., (together referred to as the "Group") are the marketing of petroleum products, natural gas and ancillary products.

The Group owns retail fuel stations located in the emirates of Abu Dhabi and Sharjah, in each of which the Group is the sole fuel retailer, and in the emirates of Ajman, Fujairah, Ras Al Khaimah, Umm Al Quwain, Dubai and Kingdom of Saudi Arabia.

The Group operates "ADNOC Oasis" convenience stores at a majority of its service stations, and lease retail and other space to tenants, such as quick service restaurants.

The Group is also a marketer and distributor of fuels to corporate and government customers throughout the UAE. In addition, the Group provides refuelling and related services at eight airports in the UAE, and owns and operates a natural gas for vehicles distribution network in Abu Dhabi.

The Group was a wholly owned subsidiary of ADNOC which is wholly owned by the Government of Abu Dhabi (the "Ultimate Shareholder"), and is registered in Abu Dhabi, United Arab Emirates.

On 14 September 2017, the Parent Company approved the transfer of the sales and purchasing activities of the Civil Aviation Division (the "Division") to itself so that all the sales, cost of sales, distribution and administrative expenses, receivables/payables and inventories of the Division are accounted for by the Parent Company. According to the transfer plan, the Division's selling and purchasing activities are carried out by the Parent Company while ADNOC Distribution, acting as an agent of the parent company, handles the operations of the Division, and effective 1 October 2017, charges the Parent Company a percentage of the costs incurred as agreed by both parties.

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

1 General information (continued)

Historically, the Division's sales and purchasing activities and transactions were accounted for by the Company and included in its consolidated financial statements. The carve-out financial statements presented herein reflect the comparative financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the years then ended excluding the sales and cost of sales, distribution and administrative expenses, receivables/payables and inventories of the Division.

The Group has not purchased or invested in any shares during the financial year ended 31 December 2018.

The Group made social contributions amounting to AED 1,955 thousand during the year ended 31 December 2018 (2017: AED 2,959 thousand).

Statement of compliance

The carve-out financial statements for the year ended 31 December 2018 been prepared in accordance with International Financial Reporting Standards (IFRS). The carve-out financial statements for the year ended 31 December 2017 been prepared in accordance with International Financial Reporting Standards (IFRS), except for the carve-out, affecting comparative figures, of certain assets, liabilities, revenues and expenses relating to sale and purchasing activities of the Division, as well as the related cash flows which are transferred to the Parent Company as described under the "Basis of preparation" in note 3.

The financial statements as of 31 December 2017 has been extracted from the audited carve-out financial statements for the year ended 31 December 2017.

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

2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2018

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these financial statement.

The Group applied, for the first time, IFRS 9 *Financial Instruments* that are required to be applied retrospectively with adjustment to made in the opening balance of equity. The nature and effect of these changes are disclosed in note 3 of the carve-out financial statement.

In the current year, the Group has also applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2018. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Conceptual Framework for Financial Reporting 2018
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards deleting short-term exemptions for first-time adopters
- Amendments to IFRS 4 Insurance Contracts applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Notes to the carve-out financial statements for the year ended 31 December 2018 (continued)

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

2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2018 (continued)

- Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception
- Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9
- Annual Improvements to IFRSs 2014–2016 Cycle to remove short-term exemptions and clarifying certain fair value measurements
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

2.2 New and revised IFRS in issue but not yet effective

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

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
IFRS 16 Leases specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
Amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019

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

2.2 New and revised IFRS in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendment to IAS 19 *Employee Benefits*: The Amendments clarify that: - on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and - the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to 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 16 is effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new standard in preparing these financial statements. The application of IFRS 16 may have a significant impact on amounts reported and disclosures made in the Group’s carve-out financial statements in respect of Group’s financial assets and financial liabilities in the period of initial application. With the adoption of IFRS 16, off-balance sheet operating lease commitments will be recognised as on balance sheet item as follows:

a. Recognised as a right of use asset and related lease liability; and
b. Rent expense will be replaced by amortisation charge on right of use of asset and a finance charge on minimum lease payments.

The Company has assessed the estimated impact that initial application of IFRS 16 will have on its carve-out financial statements, as described below:

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard –i.e. lessors continue to classify leases as finance or operating leases.

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

2.2 New and revised IFRS in issue but not yet effective (continued)

The Company as a lessee

The Company will recognise new assets and liabilities for its operating leases of freehold and leasehold properties. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. No significant impact is expected for the Company's leases. Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of AED 116,755 thousand as at 1 January 2019.

Company as a lessor

No significant impact is expected for other leases in which the Company is a lessor.

Transition

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information and the right of use asset is equal to the lease liability at the transition date.

The Company plans to apply the practical expedient on transition to apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17.

3 Summary of significant accounting policies

Basis of preparation

The carve-out financial statements for the year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS). The carve-out financial statements for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS), except for the carve-out, affecting comparative figures, of certain sales, cost of sales receivables/payables and inventories of the Division.

The carve-out financial statements may not be indicative of Group's future performance and they do not necessarily reflect what its carve-out results of operations, financial position and cash flows would have been, had the Division been transferred in prior years.

The carve-out financial statements are presented in United Arab Emirates Dirham (AED) which is the functional currency of the Company and the Group's presentation currency. All amounts have been rounded to the nearest AED thousand ("000"), unless otherwise stated.

The carve-out 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.

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

The principal accounting policies adopted are set out below:

Basis of consolidation

The carve-out financial statements incorporate the financial statements of the Company and the entity controlled by the Company. Control is achieved where the Company has power over the investee; is exposed, or has rights, to variable returns from its involvement; and has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

Details of the Company's subsidiary are as follows:

Name of subsidiary	Ownership interest		Country of incorporation	Principal activities
	2017	2016		
ADNOC Distribution Global Company L.L.C.	**100%**	100%	U.A.E.	Commercial agencies Commercial enterprises Investment, institution and management

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amounts of replaced parts are derecognised. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

3 Summary of significant accounting policies (continued)

Property, plant and equipment

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	2018	**2017**
Buildings	5 – 25 years	5 – 25 years
Plant and machinery	5 – 30 years	5 – 15 years
Motor vehicles	4 – 10 years	4 – 10 years
Furniture, fixtures and equipment	5 years	5 years
Pipelines	15 – 20 years	15 – 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within profit or loss.

Land was historically provided by the Government of Abu Dhabi for no consideration is accounted for at a nominal value of AED 1 per plot of land. In order to continue to comply with property ownership laws in the UAE, the Group's real properties portfolio was transferred to ADNOC pursuant to decisions of the Crown Prince of Abu Dhabi and the Rulers of the Northern Emirates. To allocate liabilities associated with the property transfers, and to ensure the Group have continued access to the properties, The Group entered into Transfer Liability and Leaseback Agreements with ADNOC. Under the terms of the Real Estate Transfer Liability and Leaseback Agreements, ADNOC has agreed to lease all real estate transferred to it back to the Group on a cost-pass-through basis. Each lease has a term of four years and will renew automatically unless notice of termination is given by the Group at least one year prior to then-effective expiration date. Under the terms of the agreements, the Group will indemnify ADNOC for any environmental liabilities relating to its operations on the properties.

Capital work-in-progress

Capital work-in-progress is included in property, plant and equipment at cost. Capital work-in-progress is transferred to the appropriate asset category and depreciated in accordance with the Group's policies when construction of the asset is completed and the asset is commissioned and available for use.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3 Summary of significant accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, consumables, spare parts, direct labour and materials and related overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

Impairment of tangible assets

At the end of each reporting period, the Group 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 Group 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.

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.

Financial assets

The Group has the following financial assets as at 31 December 2018: ‘cash and cash equivalents’, term deposits, trade receivables and other current assets (excluding prepaid expenses) and due from related parties. These financial assets are classified as ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group has adopted IFRS 9 as issued by IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognised in the carve-out financial statement. The Group did not early adopt any of IFRS 9 in previous year.

3 Summary of significant accounting policies (continued)

Financial assets (continued)

The Group adopted IFRS 9 using the modified retrospective method of adoption. The impact of adoption of IFRS 9 resulted in reversal of credit loss allowance in trade receivables by AED 81,579 thousand and is disclosed in carve-out statement of changes in equity. The impact of impairment requirement of IFRS 9 for cash and bank balances and due from related parties were immaterial.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 *Financial Instruments: Disclosures*.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks in current accounts and short-term, high liquid investments with original maturities less than three months that are readily convertible to known amounts of cash and are subject to an insignificant change in value.

Loans and receivables

Trade receivables and other current assets (excluding prepaid expenses) and due from related parties that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period, there was no change in the business model which the Group holds financial assets and therefore no reclassification were made.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

IFRS 9 replaces the 'incurred losses' model in IAS 39 with an expected credit loss model (ECLs). The Group recognises loss allowance for expected credit losses on the following instruments:

- Cash and bank balances;
- Trade and other receivables; and
- Due from related parties

With the exception of purchased or originated credit impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that results from those default events on the financial instruments that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that results from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

The Group has elected the IFRS 9 simplified approach to measure loss allowance for cash and bank balances, trade and other receivables, and due from related parties at an amount equal to lifetime ECLs.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on Group's historical experience and informed credit assessment and including forward-looking information.

For certain categories of financial assets, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default of receivables.

Impairment losses related to cash and bank balances, trade and other receivables and due from related parties are presented in the carve-out statement of profit or loss and other comprehensive income.

3 Summary of significant accounting policies (continued)

Financial assets (continued)

Measurement of ECL

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

The Company expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables as permitted by IFRS 9. Accordingly, trade receivables which are not credit impaired and which do not have significant financing component is categorised under stage 2 and lifetime ECL is recognised.

Credit-impaired financial assets

A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. At each reporting date, the Group assesses whether financial assets carried at amortised costs are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact in the estimated future cash flows of the financial asset have occurred.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risk and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3 Summary of significant accounting policies (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

The Group's financial liabilities comprise trade and other payables (excluding advances from customers and coupon and prepaid card sales outstanding), long term debt and due to related parties, which are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except, for short-term liabilities when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Revenue

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers*, the nature and effect of these changes are disclosed below.

Application of IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, and principal versus agent considerations, as well as licensing application guidance.

There is no material impact on Group's revenue recognition due to application of IFRS 15.

3 Summary of significant accounting policies (continued)

Revenue (continued)

The Group is in the business of marketing of petroleum products, natural gas and ancillary products as described in note 1 of the carve-out financial statements. The goods are generally sold on their own in separately identified contracts with customers.

Sales of goods

Sale of goods and petroleum products are recognised when the control of the products or services are transferred to the customers, which generally coincides with the actual delivery of goods. Delivery does not occur unless the products have been received by the customer. The Group has concluded that revenue from sale of goods should be recognised at the point in time on delivery of the goods. Therefore, the adoption of IFRS 15 did not have any significant impact on the timing of revenue recognition and the amount of revenue to be recognised.

Rendering of services and Delivery income

Revenues from rendering of services are recognised when the services have been rendered and the outcome of the transactions can be estimated reliably.

Revenue from petroleum transport are recognised when services are rendered. These revenues are based on the quantities transported and measured according to procedures defined in each service contract.

Customers are invoiced on a monthly basis and consideration is payable when invoiced. The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customers and payment by the customers exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Rental income

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefit will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Sale of coupons- Flex income

A contract liability for the coupons is recognised at the time of sale of coupons. Revenue is recognised when the coupons are redeemed, management estimates the probability of the redemption or when they expire after 1 month of the sale.

Other income

Other income is recognised when it is probable that the economic benefit will flow to the Group and the amount of income can be measured reliably.

3 Summary of significant accounting policies (continued)

Leases

<u>The Group as lessor</u>

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.

<u>The Group as lessee</u>

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.

Foreign currencies

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the profit or loss in the period in which they arise.

Employees' benefit

Provision is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the reporting date. Provision is made for the full amount of end of service benefits due to employees in accordance with the UAE Labour Law, for their period of service up to the end of the reporting date.

With respect to its UAE national employees, the Group makes contributions to the Abu Dhabi Retirement Pension and Benefits Fund (the "Fund") calculated in accordance with the Fund's regulations. With respect to its GCC national employees, the Group makes contributions to the pension funds or agencies of their respective countries. The Group's obligations are accrued over the period of employment.

The provision relating to annual leave and leave passage is disclosed as a current liability, while that relating to end of service benefit is disclosed as a non-current liability.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

4 Critical accounting judgments and key sources of estimation uncertainty

While applying the accounting policies as stated in note 3, the management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant estimates made by management are summarised as follows:

Critical accounting judgments

Dismantling cost of property, plant and equipment

In accordance with IAS 16, the cost of property, plant and equipment shall include an initial estimate of the costs of dismantling and removing the item and restoring the site. Management have considered the requirements and determined that dismantling and removing the item and restoring the site in the future is not probable and estimate of costs is not significant.

Key sources of estimation uncertainty

Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. As at 31 December 2018, the Group’s allowance for impairment of trade receivables amounted to AED 40,698 thousand (2017: AED 119,034 thousand).

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

Key sources of estimation uncertainty (continued)

Estimated useful lives and residual values of property, plant and equipment

Management reviews the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period in accordance with IAS 16 *Property, Plant and Equipment*. Management determined that current year expectations do not differ from previous estimates based on its review.

The Group conducted a business review of the useful life and residual values of certain assets. These assets, which management had previously intended to use for 20 years, are now expected to be used for 30 years from the date of purchase, resulting in increase in useful life and consequent decrease in the residual value. The change in useful life has resulted in a reduced depreciation charge of AED 27 million during 2018 and is expected to result in a lower depreciation charge of AED 27 million for the years ending 31 December 2019 and 31 December 2020.

Impairment of property, plant and equipment

Property, plant and equipment are assessed for impairment based on assessment of cash flows on individual cash generating units when there is indication of impairment. Cash flows are determined based on contractual agreements and estimations over the estimated useful life of the assets and discounted using a range of discounting rates representing the rate of return on such cash generating units. The net present values are compared to the carrying amounts to assess any probable impairment.

5 Property, plant and equipment

	Buildings AED'000	Plant and machinery AED'000	Motor vehicles AED'000	Furniture, fixtures and equipment AED'000	Pipelines AED'000	Capital work-in-progress AED'000	Total AED'000
Cost							
1 January 2017	3,512,566	1,278,028	252,268	563,713	47,683	1,351,251	7,005,509
Additions	-	-	-	-	-	779,679	779,679
Transfer from a related party	255,004	441,223	-	-	-	-	696,227
Transfers	638,746	217,633	17,954	124,675	3,525	(1,002,533)	-
Disposals	(47)	(3,473)	(7,936)	(1,357)	-	-	(12,813)
Reclassification	1,239	(275)	-	(964)	-	-	-
Transfer to assets classified as held for sale (note 10)	-	-	-	(2,971)	(840)	(71,674)	(75,485)
1 January 2018	4,407,508	1,933,136	262,286	683,096	50,368	1,056,723	8,393,117
Additions	-	-	-	-	-	811,190	811,190
Transfers	655,521	237,410	5,046	54,148	27,430	(979,555)	-
Disposals	(10,041)	(13,474)	(62,283)	(8,388)	-	-	(94,186)
Transfer to a related party	(3,048)	(178)	-	(584)	-	(38,453)	(42,263)
31 December 2018	**5,049,940**	**2,156,894**	**205,049**	**728,272**	**77,798**	**849,905**	**9,067,858**

5 Property, plant and equipment (continued)

	Buildings AED'000	Plant and machinery AED'000	Motor vehicles AED'000	Furniture, fixtures and equipment AED'000	Pipelines AED'000	Capital work-in-progress AED'000	Total AED'000
Accumulated depreciation							
1 January 2017	1,329,250	799,642	182,277	292,804	27,763	-	2,631,736
Charge for the year	192,925	136,553	23,240	105,738	2,197	-	460,653
Disposals	(47)	(3,200)	(7,910)	(1,346)	-	-	(12,503)
Reclassifications	288	(355)	-	67	-	-	-
Transfer to assets classified as held for sale (note 10)	-	-	-	(379)	(287)	-	(666)
1 January 2018	1,522,416	932,640	197,607	396,884	29,673	-	3,079,220
Charge for the year	235,774	176,269	19,802	97,205	3,010	-	532,060
Disposals	(6,274)	(13,446)	(54,833)	(6,635)	-	-	(81,188)
Reclassifications	(6)	(5)	-	11	-	-	-
Transfer to a related party	(2,834)	(147)	(25)	(783)	(98)	-	(3,887)
31 December 2018	**1,749,076**	**1,095,311**	**162,551**	**486,682**	**32,585**	**-**	**3,526,205**
Carrying amount							
31 December 2018	**3,300,864**	**1,061,583**	**42,498**	**241,590**	**45,213**	**849,905**	**5,541,653**
31 December 2017	2,885,092	1,000,496	64,679	286,212	20,695	1,056,723	5,313,897

The Group's buildings and facilities located in the Emirate of Abu Dhabi are constructed on land given by the Government of Abu Dhabi for no consideration. These lands are accounted for at nominal value of AED 1 per plot of land. Facilities located in other Emirates are constructed on land leased from third parties (note 25).

In order to continue to comply with property ownership laws in the UAE, The Group's real property portfolio was transferred to ADNOC pursuant to decisions of the Crown Prince of Abu Dhabi and the Rulers of the Northern Emirates. To allocate liabilities associated with the property transfers, and to ensure the Group have continued access to the properties, The Group entered into Transfer Liability and Leaseback Agreements with ADNOC. Under the terms of the Real Estate Transfer Liability and Leaseback Agreements, ADNOC has agreed to lease all real estate transferred to it back to the Group on a cost-pass-through basis. Each lease has a term of four years and will renew automatically unless notice of termination is given by the Group at least one year prior to then-effective expiration date. Under the terms of the agreements, the Group will indemnify ADNOC for any environmental liabilities relating to our operations on the properties.

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

5 Property, plant and equipment (continued)

The depreciation charge has been allocated as follows:

	2018 **AED'000**	2017 AED'000
Distribution and administrative expenses (note 19)	**501,321**	456,950
Direct cost (note 18)	**3,444**	2,697
Work-in-progress inventories (note 6)	**27,295**	1,006
	532,060	460,653

6 Inventories

	2018 **AED'000**	2017 AED'000
Finished goods	**1,182,056**	1,203,968
Spare parts and consumables	**44,772**	52,761
Lubricants raw materials, consumables and work in progress	**30,649**	70,647
LPG cylinders	**36,364**	35,783
	1,293,841	1,363,159
Less: Allowance for write down of finished goods to net realisable value	**(104,775)**	(234)
Allowance for slow moving and obsolete raw materials, spare parts, consumables and LPG cylinders	**(15,212)**	(18,911)
	(119,987)	(19,145)
	1,173,854	1,344,014

The cost of inventories recognised as expense and included in 'direct cost' amounted to AED 17,796,743 thousand (2017: AED 15,303,357 thousand) (note 18). During the year, a direct write off of inventory was recognised as expense amounting to AED 5,583 thousand (2017: AED 2,774 thousand) (note 21).

The cost of inventories includes depreciation expense capitalised as work in progress inventories amounted to AED 27,295 thousand (2017: AED 1,006 thousand) (note 5).

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

6 Inventories (continued)

Movement of the Group's inventory write down of finished goods to net realisable value and allowance for slow moving and obsolete raw materials, spare parts, consumables and LPG cylinders is as follows:

	2018 **AED'000**	2017 AED'000
At 1 January	**19,145**	15,657
Write down to net realisable value	**104,541**	-
(Reversal)/impairment loss for slow moving and obsolete raw materials, spare parts, consumables and LPG cylinders (note 21)	**(3,699)**	3,488
At 31 December	**119,987**	19,145

7 Trade receivables and other current assets

	2018 **AED'000**	2017 AED'000
Trade receivables	**2,021,689**	2,163,219
Less: loss allowance	**(40,698)**	(200,613)
	1,980,991	1,962,606
Prepaid expenses	**26,843**	36,653
Receivable from employees	**111,930**	116,185
VAT receivables	**412**	-
Other receivables	**137,255**	96,097
	2,257,431	2,211,541

Receivables from employees consist of staff car loans, furniture loans, personal loans and staff advances.

As at 31 December 2018, the Group had significant concentration of credit risk with two customers (2017: two) accounting for 65% (2017: 53%) of its trade receivables outstanding as at that date. Management is confident that this concentration will not result in any loss to the Group considering the credit history of these customers.

The average credit period on sales and services is between 30 to 60 days. No interest is charged on trade receivables. The receivables form certain customers are secured by the bank guarantees.

7 Trade receivables and other current assets (continued)

Trade receivables –days past due as on 31 December 2018

	Up to 60 days AED '000	**61-90 days AED '000**	**90-365 days AED '000**	**Over one year AED '000**	**Total AED '000**
Expected credit loss rate	**0-1%**	**0-1%**	**0-1%**	**0-1%**	
Estimated total gross carrying amount	**1,340,613**	**120,752**	**391,404**	**168,920**	**2,021,689**
Lifetime Expected credit loss	**(9,920)**	**(718)**	**(3,077)**	**(26,983)**	**(40,698)**

Trade receivables –days past due as on 31 December 2017

	Up to 60 days AED '000	61-90 days AED '000	90-365 days AED '000	Over one year AED '000	Total AED '000
Expected credit loss rate	0-1%	0-1%	0-1%	0-1%	
Estimated total gross carrying amount	1,316,320	88,479	464,082	294,338	2,163,219
Lifetime Expected credit loss	(7,686)	(491)	(2,632)	(108,225)	(119,034)

As at 31 December 2018, trade receivables with carrying amount of AED 40,698 thousand (2017: AED 119,034 thousand (restated)) were provided as per the requirement of IFRS 9 Expected Credit Loss model. Movement in the allowance for impairment of trade receivables is as follows:

	Collectively Assessed AED'000	**Individually Assessed AED'000**	**Total AED'000**
Balances at 31 December 2017	**93,999**	**106,614**	**200,613**
Adjustment upon application of IFRS 9	**(81,579)**	**-**	**(81,579)**
Adjusted at 1 January 2018	**12,420**	**106,614**	**119,034**
Recovery made during the year	**(8,558)**	**(76,866)**	**(85,424)**
Amounts written off	**-**	**(4,062)**	**(4,062)**
Charge for the year (note 21)	**11,150**	**-**	**11,150**
	15,012	**25,686**	**40,698**

Amounts charged to the allowance for impairment of trade receivables are generally written off when there is no realistic expectation of recovery. The carrying amounts of the Group's trade receivables are denominated in UAE Dirham and US Dollars and approximate to their fair value as at 31 December 2018. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

Notes to the carve-out financial statements for the year ended 31 December 2018 (continued)

8 Related party balances and transactions

Related parties represent the Parent Company and its subsidiaries, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

	2018 AED'000	2017 AED'000
Due from related parties		
Abu Dhabi National Oil Company (ADNOC)	**597,176**	16,782
ADNOC Logistics and Services (formerly Abu Dhabi National Tanker Co. (ADNATCO), National Gas Shipping Company (NGSCO), Abu Dhabi Petroleum Ports Operating Co. (IRSHAD) and Petroleum Services Company (ESNAAD))	**195,365**	152,753
ADNOC Drilling (formerly National Drilling Company)	**70,385**	88,720
ADNOC Onshore (formerly Abu Dhabi Company for Onshore Oil Operations (ADCO))	**53,297**	48,716
ADNOC Offshore (formerly Abu Dhabi Marine Operating Co. (ADMA-OPCO) and Zakum Development Company (ZADCO))	**35,120**	16,673
ADNOC Gas Processing (formerly Abu Dhabi Gas Industries Ltd. (GASCO))	**19,241**	16,694
ADNOC Sour Gas (formerly Abu Dhabi Gas Development Company (AL HOSN))	**10,102**	12,209
Others	**16,173**	9,087
	996,859	361,634
Due to related parties		
Abu Dhabi National Oil Company (ADNOC)	**4,279,215**	2,469,652
ADNOC Refining (formerly Abu Dhabi Oil Refining Company (Takreer))	**15,424**	12,860
ADNOC Logistics and Services (formerly Abu Dhabi National Tanker Co. (ADNATCO), National Gas Shipping Company (NGSCO), Abu Dhabi Petroleum Ports Operating Co. (IRSHAD) and Petroleum Services Company (ESNAAD))	**14,178**	13,031
Others	**-**	6
	4,308,817	2,495,549

8 Related party balances and transactions (continued)

The amounts due from related parties are against the provision of petroleum products and services. These balances are not secured, bear no interest and have an average credit period of 30-60 days.

The amount due to related parties are outstanding against purchases of petroleum products, vessel hires and port charges, administrative charges and amounts related to the transfer of the sales and purchasing activities of the Civil Aviation Division. The above balance is unsecured, bears no interest and is payable on demand.

The Group has an amount of AED 4,991,992 thousand (2017: AED 1,052,359 thousand) held with banks owned by the Government of Abu Dhabi.

As at 31 December 2018, the Group has a term loan from banks owned by the Government of Abu Dhabi amounting to AED 5,276,563 thousand.

The following transactions were carried out with related parties during the year:

	2018 **AED'000**	2017 AED'000
Revenue - ADNOC group	**1,341,437**	1,011,976
Purchases - ADNOC	**16,483,092**	13,929,609
Administrative expenses - ADNOC	**42,151**	1,940
Vessel hire and port charges – ADNOC group	**83,100**	96,193
Transfer of property, plant and equipment (to)/from related party	**(38,736)**	696,226
Dividend paid (note 24)	**(1,323,000)**	(2,134,688)
Rendering of service (note 17)	**299,928**	72,213
Transfer of city gas assets - ADNOC Group	**(90,830)**	-
Recovery of expenses incurred related to City Gas (note 10)	**30,749**	-

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

8 Related party balances and transactions (continued)

	2018	2017
	AED'000	AED'000
Capital contribution repayment (note 12)	**-**	(6,304,418)
Recoverable expenses (note 19)	**-**	(198,403)
End of service benefits transferred	4,291	-

Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2018	2017
	AED'000	AED'000
Short term benefits	**25,550**	10,982
Pension contribution	**1,240**	572
	26,790	11,554

The Group has elected to use the exemption under IAS 24 *Related Party Disclosures* for Government related entities on disclosing transactions and related outstanding balances with government related parties owned by the Government of Abu Dhabi other than the Parent Company and entities it owns and control.

The Group provides in the normal course of business petroleum distribution services to entities owned and controlled by the Government of Abu Dhabi.

In September 2017, the Company entered into an agreement with ADNOC Distribution Assets LLC (the "SPV") for the operation and maintenance of certain of the assets transferred to the SPV by Takreer with an effective date of 1 October 2017, for which the SPV will compensate the Company on the basis of an 8% return over and above the operating expenditure incurred by the Company for such operations (the "Owner Consideration") and the Company will compensate the SPV for the use of such assets (the "Operator Consideration"). The Company and the SPV also signed an asset use fee letter confirming that the Owner Consideration will be the same as, and will therefore offset, the Operator Consideration.

In September 2017, the Company entered into an agreement with the Parent Company and the SPV to provide support services relating to the Parent Company's civil aviation fuel supply business and to operate and maintain certain assets belonging to the SPV with an effective date of 30 September. The SPV will compensate the Company on the basis of an 8% return over and above the operating expenditure incurred by the Company for such support services and operations.

Notes to the carve-out financial statements for the year ended 31 December 2018 (continued)

8 Related party balances and transactions (continued)

In November 2017, the Company entered into an agreement with the Parent Company relating to its supply of Butane, Propane and Mixed Liquefied Petroleum Gas (“LPG”) which specifies the pricing mechanism for those products effective 1 October 2017. As per the new arrangement for LPG cylinders, the Parent Company will charge the Company the regulated price with a deduction for Cylinder OPEX as defined in the agreement and an agreed margin whereas historically the Company paid the Parent Company’s official selling prices. The agreement is effective until 31 December 2022 unless terminated or extended as per the terms of the agreement. This reimbursement will be recorded as reduction from the purchase price of the LPG cylinders.

In November 2017, the Company entered into an agreement with the Parent Company for supply of refined petroleum products. As per this arrangement, the contract price effective 1 October 2017 applicable to gasoline and diesel shall be equal to the sum of (a) the mean of Platt’s Average as defined in the agreement, plus (b) a fixed premium. For illuminating kerosene and aviation fuel, the contract price shall be the Parent Company’s official selling prices.

Also, during the initial five-year term only, to the extent that during any invoicing period the difference between the contract price payable by the Company to the Parent Company for any litre of a gasoline or diesel and the relevant retail price for the same litre of gasoline or diesel, is less than a specified level, such contract price shall be reduced for that period so that the difference equals such specified level.

In addition, if at the end of any quarter, during the initial five-year term, it is determined that, for any grade of gasoline (ULG 91, 95 or 98) or diesel, the difference between the actual revenue per litre achieved by the Company for sales at the pump and the price paid by the Company to the Parent Company for the quantities sold, is less than a specified level, then the Parent Company will pay the Company an amount equal to the per-litre difference, multiplied by the total volumes sold of the affected grade. The agreement is effective until 31 December 2022 unless terminated or extended as per the terms of the agreement.

In 2018, the Group adjusted the purchase price of certain products supplied by ADNOC due to market conditions with effect from 1 January 2018. During the period, the Group has made further adjustments to the pricing of these products effective for the periods from 1 July 2018. These adjustments have been reflected in inventory and direct costs.

9 Cash and cash equivalents

Cash and cash equivalents in the statement of cash flows consist of the following amounts:

	2018 AED’000	2017 AED’000
Cash held by ADNOC	**346,730**	1,578,582
Cash on hand and in bank	**5,126,229**	1,206,870
Cash and bank balances	**5,472,959**	2,785,452
Term deposit with maturities above 3 months	**(130,000)**	(130,000)
	5,342,959	2,655,452

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

9 Cash and cash equivalents (continued)

Cash held by ADNOC are funds held by ADNOC on behalf of the Group and are available on demand. These funds as approved by both parties carries interest rate ranging from 1.20% to 1.70% per annum effective December 2017.

Cash and bank balances include short-term and call deposits amounting to AED 4,991 million (2017: AED 1,052 million) carrying rate ranging from 0.02% to 3% (2017: 0.01% to 0.05%) per annum.

10 Assets classified as held for sale

On 2 November 2017, the Company and Abu Dhabi National Oil Company (ADNOC) entered into a business transfer agreement relating to the transfer of the Company's Natural Gas business excluding compressed natural gas operations subject to certain conditions precedent. Effective 1 July 2018, assets of AED 90.8 million (note 8) were transferred to ADNOC which included work in progress amounting to AED 16 million along with AED 74 million that were held for sale. The assets were transferred at net book value and the Company continues to handle the operations of the division on behalf of the Parent Company.

The company also recovered net operations cost of AED 30.8 million (note 8) for handling the city gas business for the period 1 July to 31 December 2018.

11 Share capital

The original share capital of the Company as per the Law No. 13 of 1973 was AED 30 million divided into 300,000 shares, each valued at AED 100.

By virtue of the decision of the board of directors of the Parent Company dated 17 October 1984, the share capital of the Company was increased to AED 200 million divided into 2 million shares, each valued at AED 100.

By virtue of the decision of the Supreme Petroleum Council dated 6 October 1998, the share capital of the Company was increased to AED 600 million divided into 6 million shares, each valued at AED 100.

By virtue of the decision of the Supreme Petroleum Council dated 9 July 2006, the share capital of the Company was increased to AED 1,000 million.

In accordance with the Article of Association of the Company which became effective on 22 November 2017, the authorised capital and number of ordinary shares was amended as follows:

	2018	2017
Authorised:		
25,000,000,000 ordinary shares of AED .08 each	**2,000,000**	2,000,000
Issued and fully paid up:		
12,500,000,000 ordinary shares of AED .08 each	**1,000,000**	1,000,000

12 Capital contribution

On 10 October 2016, the Supreme Petroleum Council (Executive Committee) approved to write off the amounts payable to ADNOC amounting to AED 42,520,001 thousand against the accumulated losses of the Company. An amount of AED 6,304,418 thousand has been further recognised as an additional capital contribution from ADNOC to the Company. On 13 November 2017, the Board of Directors approved the repayment of the capital contribution of AED 6,304,418 thousand to ADNOC.

13 Legal reserve

In accordance with the UAE Federal Law No. 2 of 2015, and the Articles of Association of the Company, 10% of the profit is transferred to a non-distributable statutory reserve. Such transfers are required to be made until the reserve is equal to 50% (2017: 50%) of the paid up share capital.

14 Long term debt

	2018 **AED'000**	2017 AED'000
Term loan	**5,484,400**	5,479,201

On 16 October 2017, ADNOC Distribution signed a mandate letter (the "Mandate Letter") with a consortium of banks where the consortium agreed to underwrite a 5 year, USD 2,250 million unsecured credit facility (the "Facility"). The Facility is bifurcated further into a term facility commitment of USD 1,500 million and a revolving facility commitment of USD 750 million. The purpose of the facility is for general corporate and working capital purposes including payment of dividend, repayment of debt and payment of transaction costs associated with the facility. There are no financial covenants included in the facility documents.

The transaction costs allocated to the revolving facility have been capitalised and will be amortised on a straight-line basis over the term of the agreement. Transaction costs amounting to AED 10,693 thousand as at 31 December 2018 (2017: 13,462) is presented as other non-current asset in the carve-out financial statements.

On 16 November 2017, the Group made a drawdown amounting to USD 375,000 thousand and AED 4,128,750 thousand. The Facility carries variable interest at USD LIBOR plus a 0.875% for USD denominated facility portion and EIBOR plus a margin of 0.60% for AED denominated facility portion. The term facility is to be repaid at final maturity which is 5 years from the date of the facility agreement.

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

14 Long term debt (continued)

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those which cash flows were, or future cash flows will be, classified in the Group's carve-out financial statements of cash flows as cash flows from financing activities.

	2018 **AED'000**	2017 AED'000
At 1 January	**5,479,201**	-
Financing cash flows (i)	**-**	5,478,541
Other charges (ii)	**5,199**	660
	5,484,400	5,479,201

(i) The cash flows from bank loans and repayments of long term debt in the statement of cash flows.

(ii) Other charges include amortisation of transaction costs of the term loan.

15 Provision for employees' end of service benefit

Movement in the provision recognised in the carve-out statement of financial position is as follows:

	2018 **AED'000**	2017 AED'000
At 1 January	**223,937**	236,926
Charge for the year (note 22)	**24,759**	26,314
Transfer to a related party (note 8)	**(4,291)**	-
Payments	**(31,978)**	(39,303)
At 31 December	**212,427**	223,937

16 Trade and other payables

	2018 **AED'000**	2017 AED'000
Trade payables	**591,824**	414,978
Operating accruals	**397,447**	249,978
Capital accruals	**332,515**	207,978
Vat payable	**249,600**	-
Coupon and prepaid card sales outstanding	**97,578**	82,362
Contract retentions payable	**71,044**	67,496
Advances from customers	**48,895**	27,511
Other payables	**160,133**	108,518
	1,949,036	1,158,821

17 Revenue

The Company derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major lines of business. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 Operating Segments (note 26):

	2018 **AED'000**	2017 AED'000
Corporate	**4,733,114**	4,049,801
Retail	**15,703,503**	13,746,259
Aviation	**2,193,846**	1,696,871
Others	**263,028**	263,363
	22,893,491	19,756,294

Management expects that AED 1,573 thousand is the remaining performance obligations as of the year ended 2018, which will be recognised as revenue during the next reporting period.

In connection with the transfer of the sales and purchasing activities of the Division, the Company entered into a service agreement (the "Aviation Service Agreement"), pursuant to which the Parent Company reimburses the Company for and pays an additional margin of 8% of the total distribution and administrative costs of the Division incurred by the Company for handling the operations of the Division and providing certain aviation refuelling and other related services to its civil aviation customers.

The cost of the Division's related handling operations plus the additional margin amounting to AED 299,928 thousand (2017: AED 72,213 thousand) is recognised as revenue in the carve-out financial statements (note 8).

Notes to the carve-out financial statements for the year ended 31 December 2018 (continued)

18 Direct costs

	2018 AED'000	2017 AED'000
Materials (note 6)	**17,796,743**	15,303,357
Staff costs (note 22)	**11,642**	12,684
Overheads	**12,277**	11,463
Depreciation (note 5)	**3,444**	2,697
	17,824,106	15,330,201

19 Distribution and administrative expenses

	2018 AED'000	2017 AED'000
Staff costs (note 22)	**1,834,171**	1,824,276
Depreciation (note 5)	**501,321**	456,950
Repairs, maintenance and consumables	**131,701**	154,722
Distribution and marketing expenses	**127,809**	120,176
Utilities	**81,596**	96,102
Insurance	**9,455**	11,246
Others	**342,177**	258,265
Recoverable expenses (note 8)	**-**	(198,403)
	3,028,230	2,723,334

20 Other income

	2018 AED'000	2017 AED'000
Gain on disposal of property, plant and equipment	**7,488**	73
Miscellaneous income	**230,244**	192,911
	237,732	192,984

Miscellaneous income consists mainly of convenient store income for the consigned goods and sales of scrap items, used oil, batteries, tyres.

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

21 Impairment losses and other operating expenses

	2018 AED'000	2017 AED'000
Impairment loss of trade receivables (note 7)	**11,150**	69,166
Inventories written off (note 6)	**5,583**	2,774
Impairment loss for obsolete inventories (note 6)	**-**	3,488
Others	**19,962**	-
	36,695	75,428

22 Staff costs

	2018 AED'000	2017 AED'000
Salaries and allowances	**1,638,278**	1,679,268
Other benefits	**233,473**	177,025
Employees' end of service benefit (note 15)	**24,759**	26,314
	1,896,510	1,882,607
Staff costs are allocated as follows:		
Distribution and administrative expenses (note 19)	**1,834,171**	1,824,276
Capital work-in-progress	**50,697**	45,647
Direct costs (note 18)	**11,642**	12,684
	1,896,510	1,882,607

Other benefits consist mainly of medical expenses, trainings, leave and travel expenses and uniforms.

23 Basic and diluted earnings per share

Earnings per share amounts are calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of share outstanding during the year.

	2018	2017 (Restated)
Profit attributable to owners of the Company (AED '000)	**2,128,153**	1,804,207
Weighted average number of shares for the purpose of basic earnings per share('000) (note 11)	**12,500,000**	12,500,000
Earnings per share	**0.170**	0.144

On 22 November 2017, the authorised number of ordinary shares was amended to 25,000,000 thousand shares of AED .8 each. Accordingly, the weighted average number of shares for the purpose of the basic earnings per share for the year ended 31 December 2017 was restated.

There are no dilutive securities, therefore diluted EPS is the same as basic EPS.

24 Dividend

The Board of Directors, in their meeting held on 13 November 2017 and based on the authority provided by the Parent Company, has approved an interim dividend of AED 2,134,688 thousand.

The Board of Directors proposed a cash dividend of 5.88 fils per share to the shareholders in respect of the fiscal year ended 31 December 2017. The dividend comprised of AED 735 million, which was approved at the Annual General Meeting, held on 8 April 2018 and paid on 11 April 2018.

The Board of Directors proposed a cash dividend of 5.88 fils per share to the shareholders in respect of the first half of 2018. The dividend comprised of AED 735 million which was approved at the General Assembly Meeting held on 14 October 2018 and paid on 20 October 2018.

The Board of Directors proposed a final dividend of 5.88 fils per share to the shareholders in respect of the year ended 31 December 2018.

25 Commitments

The capital expenditure contracted for at the reporting date but not yet incurred amounted to AED 113.9 million (2017: AED 300.9 million.)

The Group has entered into numerous operating lease agreements relating to land on which certain petrol stations have been constructed. The minimum lease payments under these lease agreements are shown below.

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

25 Commitments (continued)

	2018	2017
	AED'000	AED'000
Not later than one year	**7,736**	3,200
Later than one and not later than five years	**14,042**	23,310
Later than five years	**14,750**	16,950
	36,528	43,460

26 Segment reporting

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 *Operating Segments*. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors, as the chief operating decision maker, in order to allocate resources to the segment and to assess its performance. Information reported to the Board of Directors for the purpose of resource allocation and assessment of segment performance focuses on the financial performance of each business segments only. No information that includes the segments' assets and liabilities are reported to the Board of Directors.

For operating purposes, The Group is organised into four major business segments:

(i.) Corporate segment, which involves sale of petroleum products and ancillary products.
(ii.) Retail segments, which involves sale of petroleum products through service stations services and convenience stores catering the consumers.
(iii.) Government aviation segment, engages in the provision of fuel and fuelling services to strategic customers as well as fuelling services to the Parent Company's aviation customers.
(iv.) Operating segments Allied Services and Natural Gas have been aggregated as 'Other' reportable segment of the Group. Allied services involves property management and vehicle inspection services.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at the rates determined by management taking into consideration the cost of funds.

The Group operates primarily in United Arab Emirates and accordingly no further geographical analysis of revenues, profit, assets and liabilities is given.

Segment revenue reported represents revenue generated from external customers. There were no inter-segment sales in current and previous year. Profit for the year is the measure reported to the Board of Directors for the purpose of resource allocation and assessment of segment performance.

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

26 Segment reporting (continued)

Information regarding these segments are as follows:

	Corporate AED'000	Retail AED'000	Aviation AED'000	Others AED'000	Unallocated AED'000	Total AED'000
31 December 2018						
Revenue	**4,733,114**	**15,703,503**	**2,193,846**	**263,028**	**-**	**22,893,491**
Direct costs	**(3,948,285)**	**(12,396,625)**	**(1,469,510)**	**(9,649)**	**(37)**	**(17,824,106)**
Gross profit	**784,829**	**3,306,878**	**724,336**	**253,379**	**(37)**	**5,069,385**
Distribution and administrative expenses	**(248,199)**	**(2,164,935)**	**(418,614)**	**(196,430)**	**(52)**	**(3,028,230)**
Other income	**84,986**	**96,647**	**1,839**	**30,927**	**23,333**	**237,732**
Impairment losses and other operating expenses	**(3,718)**	**(23,198)**	**(2,884)**	**(1,311)**	**(5,584)**	**(36,695)**
Interest income	**-**	**-**	**-**	**-**	**64,451**	**64,451**
Finance cost	**-**	**-**	**-**	**-**	**(178,490)**	**(178,490)**
Profit/(loss) for the year	**617,898**	**1,215,392**	**304,677**	**86,565**	**(96,379)**	**2,128,153**
Depreciation - net	**30,436**	**423,715**	**35,456**	**42,453**	**-**	**532,060**
31 December 2017						
Revenue	4,049,801	13,746,259	1,696,871	263,363	-	19,756,294
Direct costs	(3,278,108)	(10,876,911)	(1,157,874)	(17,308)	-	(15,330,201)
Gross profit	771,693	2,869,348	538,997	246,055	-	4,426,093
Distribution and administrative expenses	(219,458)	(2,054,410)	(201,702)	(236,340)	(11,424)	(2,723,334)
Other income	64,876	86,490	8,056	30,819	2,743	192,984
Impairment losses and other operating expenses	(36,511)	(100)	(10,314)	(22,241)	(6,262)	(75,428)
Interest income	-	-	-	-	2,663	2,663
Finance costs	-	-	-	-	(18,771)	(18,771)
Profit/(loss) for the year	580,600	901,328	335,037	18,293	(31,051)	1,804,207
Depreciation - net	18,783	352,302	14,491	55,598	-	441,174

26 Segment reporting (continued)

Unallocated income consists mainly of gain on sale of fixed assets, insurance recovery and other miscellaneous income.

Depreciation has been allocated in distribution and administrative expenses, direct costs and work-in-progress inventories (note 5). Reconciliation of depreciation net of Civil Aviation Division carve-out is as follows:

	2018	2017
Depreciation (note 5)	**532,060**	460,653
Less: amount relating to Civil Aviation Division carve-out	**-**	(19,479)
Depreciation - net	**532,060**	441,174

27 ADNOC Group central fund for risk financing

The Group is a participant in a centralised fund, administered by ADNOC, to finance certain self-insured risks. The fund is made up of premium discounts, investment income and contributions from participants, as agreed upon from time to time. Under the scheme, the Group is obliged to provide additional funding, if required. As at 31 December 2018, the Group’s share in the fund held by ADNOC was AED 630 thousand (2017: AED 668 thousand).

28 Contingencies and litigations

As at 31 December 2018, the Group had contingent liabilities amounting to AED 902.1 thousand (2017: AED 1,208 thousand) in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group’s carve-out financial statements if concluded unfavourably.

29 Financial instruments

Capital risk management

The primary objective of the Group's capital risk management activities is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure, and makes adjustments to it, in light of changes in economic conditions.

The Group monitors capital using a leverage ratio, which is net debt divided by total capital defined as equity plus net debt. The capital structure of the Group consists of debt, which includes long term debts, cash and cash equivalents and equity comprising share capital, statutory reserve and retained earnings.

The leverage ratio, determined as net debt to net debt plus equity, at the year-end was as follows:

	2018 AED '000	2017 AED '000 (Restated)
Debt	**5,484,400**	5,479,201
Cash and cash equivalent (note 9)	**(5,342,959)**	(2,655,452)
Net debt	**141,441**	2,823,749
Net debt	**141,441**	2,823,749
Equity	**3,587,601**	2,929,448
Net debt plus equity	**3,729,042**	5,753,197
Leverage ratio	**3.8%**	49.0%

Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and price risk), commercial and credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group has no significant currency risk exposure from its operations as a majority of the Group's transactions are in UAE Dirham or US Dollars. The UAE Dirham is pegged to the US Dollar, hence, balances in US Dollars are not considered to present a significant foreign exchange risk.

29 Financial instruments (continued)

Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and Group's debt obligations with floating interest rates. Consequently, the Group's income and operating cash flows are dependent on changes in market interest rates. Deposits/placements issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to manage these risks based on management's assessment of available options and placing any surplus funds with ADNOC for treasury management or with creditworthy banks (note 9).

The deposits and placements are on rollover basis for three months or less, as such the carrying amounts have not been discounted as the impact of discounting is not deemed to be significant.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates at the financial position date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the financial position date was outstanding for the whole year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would have decreased/increased by AED 27,422 thousand (2017: AED 27,396 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(iii) Price risk

The Group is exposed to commodity price risk arising from retail prices of the liquid fuels. Liquid fuel prices are set by the UAE Ministry of Energy, which limits and may result in reductions in the profit margins on these products. There can be no assurance that the UAE Ministry of Energy will continue to set retail prices at a level that provides the same or a similar profit margin, and any reduction in the profit margin on these products would have a material adverse impact on our results of operations and financial position. Under the new supply agreements, ADNOC will provide the Group protection against reduction in per-litre gross profits below certain specified levels (note 8).

29 Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables, due from group companies and committed transactions. Management assesses the credit quality of its customers, taking into account financial position, past experience and others factors. Individual risk limits are based on management's assessment on a case-by-case basis.

The Group's policy is to place cash and cash equivalents and term deposits with reputable banks and financial institutions and the Group's management does not expect any losses from non-performance of its counterparties as it believes that adequate allowance has been created against the impaired receivables.

The Group's trade receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount of the trade receivables as disclosed in note 7.

(c) Liquidity risk

The Group limits its liquidity risk by ensuring adequate cash from operations is available to meet its funding requirements. The Group monitors its risk of shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., bank deposits, trade receivables and other financial assets), and projected cash flows from operations. The Group's objective is to maintain liquidity through credit lines available from banks. As at 31 December 2018, the Group had access to a USD 750 million credit facility which was fully unutilised (note 14).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 2017 based on the contractual undiscounted payments.

	Less than 1 year	More than 1 year AED '000	Total AED '000
At 31 December 2018			
Long term debt	**-**	**5,484,400**	**5,484,400**
Due to related parties	**4,308,817**	**-**	**4,308,817**
Trade and other payables (excluding advances from customers and coupon and prepaid card sales outstanding)	**1,802,564**	**-**	**1,802,564**
Total	**6,111,381**	**5,484,400**	**11,595,781**

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

29 Financial instruments (continued)

Financial risk management (continued)

(d) Liquidity risk (continued)

	Less than 1 year	More than 1 year AED ’000	Total AED ’000
At 31 December 2017			
Long term debt	-	5,479,201	5,479,201
Due to related parties	2,495,549	-	2,495,549
Trade and other payables (excluding advances from customers and coupon and prepaid card sales outstanding)	1,048,948	-	1,048,948
Total	3,544,497	5,479,201	9,023,698

Whilst the Parent Company account is payable on demand or within agreed payment terms, the Parent Company considers the ability of the Group to pay, and its cash position prior to any payment request or transfer. The Parent Company account includes the cost of supplying the Group with its inventories as the Parent Company is the principal supplier of petroleum products to the Group (note 8).

Fair value estimation

The carrying value less any impairment provision of trade receivables and payables, approximate to their fair values as they are mainly short-term in nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for financial instruments.

30 Financial instruments by category

	2018 AED’000	2017 AED’000
Financial assets:		
Cash and bank balances	**5,472,959**	2,785,452
Due from related parties	**996,859**	361,634
Trade and receivables and other current assets (excluding prepaid expenses)	**2,230,588**	2,174,888
	8,700,406	5,321,974

Notes to the carve-out financial statements
for the year ended 31 December 2018 (continued)

30 Financial instruments by category (continued)

	2018	2017
	AED'000	AED'000
Financial liabilities:		
Trade and other payables (excluding advances from customers and coupon and prepaid card sales outstanding)	**1,802,564**	1,048,948
Due to related parties	**4,308,817**	2,495,549
Long term debt	**5,484,400**	5,479,201
	11,595,781	9,023,698

For the purpose of the financial statement disclosure, non-financial assets amounting to AED 26,843 thousand (2017: AED 36,653 thousand) have been excluded from trade receivables and other current assets and financial liabilities amounting to AED 146,473 thousand (2017: AED 109,873 thousand) have been excluded from trade and other payables.

31 Investment in Abraaj Holding

During the year, the Group was not involved in any transaction or had any business relationships with Abraaj Group or its affiliates

32 Approval of carve-out financial statements

The carve-out financial statements were approved by the Board of Directors and authorised for issue on 13 February 2019.