ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Review report and unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019

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ABU DHABI NATIONAL OIL COMPANY FOR DISTRIBUTION PJSC

Directors' report
for the nine-month period ended 30 September 2019

The Directors present their report together with the unaudited interim condensed consolidated financial information of Abu Dhabi National Oil Company for Distribution PJSC (the "Company") and its subsidiary (collectively referred to as "the Group") for the nine-month period ended 30 September 2019.

Principal activities

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

Review of business

During the period, the Group reported a revenue of AED 15,910,515 thousand (30 September 2018: AED 16,921,821thousand). Profit for the period was AED 1,721,354 thousand (30 September 2018: AED 1,680,969 thousand).

The appropriation of the results for the period is follows:

	AED '000
Retained earnings as at 31 December 2018	2,074,641
Profit for the period	1,721,354
Dividends declared and paid	(1,928,750)
Retained earnings as at 30 September 2019	**1,867,245**

for the Board of Directors

Chairman

31 October 2019
Abu Dhabi, UAE

Deloitte & Touche (M.E.)
Level 11, Al Sila Tower
Abu Dhabi Global Market Square
Al Maryah Island
P.O. Box 990
Abu Dhabi
United Arab Emirates

Tel: +971 (0) 2 408 2424
Fax:+971 (0) 2 408 2525
www.deloitte.com

REPORT ON REVIEW OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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

Introduction

We have reviewed the accompanying unaudited condensed consolidated interim statement of financial position of Abu Dhabi National Oil Company for Distribution PJSC ("ADNOC Distribution" or the "Company") and its subsidiary (collectively referred to as "the Group") as at 30 September 2019 and the related unaudited condensed consolidated interim statements of profit or loss and comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this unaudited interim condensed consolidated financial information in accordance with International Accounting Standards 34, '*Interim Financial Reporting*' as issued by International Accounting Standards Board (IASB). Our responsibility is to express a conclusion on this unaudited interim condensed consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying unaudited condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 as issued by the IASB.

Deloitte & Touche (M.E.)

R.P.J

Rama Padmanabha Acharya
Registration Number 701
31 October 2019
Abu Dhabi
United Arab Emirates

Unaudited condensed consolidated statement of financial position as at 30 September 2019

	Notes	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)	1 January 2018 AED'000 (audited)
ASSETS				
Non-current assets				
Property, plant and equipment	5	**5,401,666**	5,541,653	5,313,897
Right-of-use assets	3	**90,428**	87,061	88,615
Advances to contractors		**117,617**	88,832	100,558
Other non-current assets	10	**8,621**	10,693	13,462
Total non-current assets		**5,618,332**	5,728,239	5,516,532
Current assets				
Inventories	6	**975,491**	1,173,854	1,344,014
Trade receivables and other current assets	7	**3,110,062**	2,249,668	2,283,326
Due from related parties	8	**1,359,358**	996,859	361,634
Cash and bank balances	9	**5,799,405**	5,472,959	2,785,452
		11,244,316	9,893,340	6,774,426
Assets classified as held for sale		**-**	-	74,819
Total current assets		**11,244,316**	9,893,340	6,849,245
Total assets		**16,862,648**	15,621,579	12,365,777
EQUITY AND LIABILITIES				
Equity				
Share capital		**1,000,000**	1,000,000	1,000,000
Statutory reserve		**500,000**	500,000	500,000
Hedge reserve		**(133,859)**	-	-
Retained earnings		**1,867,245**	2,074,641	1,418,902
Total equity		**3,233,386**	3,574,641	2,918,902
Non-current liabilities				
Lease liabilities	3	**84,341**	84,357	87,672
Long term debt	10	**5,488,255**	5,484,400	5,479,201
Derivative financial instruments	12	**102,620**	-	-
Provision for employees' end of service benefit		**208,208**	212,427	223,937
Total non-current liabilities		**5,883,424**	5,781,184	5,790,810
Current liabilities				
Lease liabilities	3	**5,368**	7,901	1,695
Trade and other payables	11	**2,698,626**	1,949,036	1,158,821
Due to related parties	8	**5,006,871**	4,308,817	2,495,549
Derivative financial instruments	12	**34,973**	-	-
Total current liabilities		**7,745,838**	6,265,754	3,656,065
Total liabilities		**13,629,262**	12,046,938	9,446,875
Total equity and liabilities		**16,862,648**	15,621,579	12,365,777

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 this these unaudited interim condensed consolidated financial information.

Unaudited condensed consolidated statement of profit or loss and comprehensive income for the nine-month period ended 30 September 2019 (unaudited)

		3 months ended 30 September		9 months ended 30 September	
	Notes	**2019 AED'000**	2018 AED'000	**2019 AED'000**	2018 AED'000
Revenue	**13**	**5,636,711**	5,955,265	**15,910,515**	16,921,821
Direct costs		**(4,391,879)**	(4,678,559)	**(12,187,608)**	(13,036,517)
Gross profit		**1,244,832**	1,276,706	**3,722,907**	3,885,304
Distribution and administrative expenses	**14**	**(702,475)**	(717,125)	**(1,995,788)**	(2,209,374)
Other income		**30,407**	30,357	**112,114**	113,713
Impairment losses and other operating expenses		**(7,834)**	(2,247)	**(47,625)**	(9,788)
Operating profit		**564,930**	587,691	**1,791,608**	1,779,855
Interest income		**36,284**	19,603	**90,404**	33,578
Finance costs		**(52,684)**	(49,625)	**(160,658)**	(132,464)
Profit for the period		**548,530**	557,669	**1,721,354**	1,680,969
Other comprehensive income	**12**	**(9,380)**	-	**(133,859)**	-
Total comprehensive income for the period		**539,150**	557,669	**1,587,495**	1,680,969
Earnings per share:					
Basic and diluted	**15**	**0.044**	0.045	**0.138**	0.134

The accompanying notes form an integral part of this these unaudited interim condensed consolidated financial information.

Unaudited condensed consolidated statement of changes in equity
for the nine-month period ended 30 September 2019

	Share capital AED'000	Statutory reserve AED'000	Hedge reserve AED'000	Retained earnings AED'000	Total AED'000
Balance as at 1 January 2018 (restated) (audited)	1,000,000	500,000	-	1,418,902	2,918,902
Total comprehensive income for the period	-	-	-	1,680,969	1,680,969
Dividend declared and paid	-	-	-	(735,000)	(735,000)
Balance as at 30 September 2018 (unaudited)	1,000,000	500,000	-	2,364,871	3,864,871
Balance as at 31 December 2018 (audited)	1,000,000	500,000	-	2,074,641	3,574,641
Net profit for the period	-	-	-	1,721,354	1,721,354
Other comprehensive income for the period	-	-	(133,859)	-	(133,859)
Dividends declared (note 20)	-	-	-	(1,928,750)	(1,928,750)
Balance as at 30 September 2019 (unaudited)	1,000,000	500,000	(133,859)	1,867,245	3,233,386

The accompanying notes form an integral part of this these unaudited interim condensed consolidated financial information.

Unaudited condensed consolidated statement of cash flows for the nine-month period ended 30 September 2019 (unaudited)

	9 months ended 30 September	
	2019	2018
	AED'000	AED'000
Cash flows from operating activities		
Profit for the period	**1,721,354**	1,680,969
Adjustments for:		
Depreciation of property, plant and equipment	**387,205**	379,376
Depreciation of rights of use	**2,132**	2,034
Recoveries on receivables	**(30,271)**	(5,023)
Expected credit losses on receivables	**17,343**	7,098
Employees' end of service benefit charge	**17,553**	18,606
Loss/(gain) on disposal of property, plant and equipment	**273**	(2,768)
Reversal of write downs of finished goods to net realisable value	**(104,541)**	-
Impairment of property, plant and equipment	**28,728**	-
Inventories written off	**1,476**	-
Interest income	**(90,404)**	(33,578)
Finance costs	**160,658**	132,464
Operating cash flows before movements in working capital	**2,111,506**	2,179,178
Decrease/(increase) in inventories	**301,428**	(20,511)
Increase in trade receivables and other current assets	**(832,688)**	(198,185)
Increase in due from related parties	**(362,624)**	(223,135)
(Decrease)/increase in trade and other payables	**(410,610)**	474,344
Increase in due to related parties	**698,054**	1,554,137
Cash generated from operating activities	**1,505,066**	3,765,828
Payment of employees' end of service benefit	**(21,648)**	(24,074)
Net cash generated from operating activities	**1,483,418**	3,741,754
Cash flows from investing activities		
Payments for purchases of property, plant and equipment	**(348,622)**	(443,321)
Payments for advances to contractors	**(54,568)**	(27,489)
Proceeds from disposal of property, plant and equipment	**-**	3,335
Increase in term deposit	**(3,197,775)**	-
Interest received	**75,627**	32,741
Net cash used in investing activities	**(3,525,338)**	(434,734)
Cash flows from financing activities		
Finance costs paid	**(82,374)**	(68,310)
Payment of lease liabilities	**(12,035)**	(4,506)
Dividend paid	**(735,000)**	(735,000)
Net cash used in financing activities	**(829,409)**	(807,816)
Net (decrease)/increase in cash and cash equivalents	**(2,871,329)**	2,499,204
Cash and cash equivalents at beginning of the period	**5,342,959**	2,655,452
Cash and cash equivalents at end of the period	**2,471,630**	5,154,656
Non-cash transaction		
Dividend payables	**1,193,750**	-

The accompanying notes form an integral part of this these unaudited interim condensed consolidated financial information.

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019

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, compressed 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 Dubai, Ajman, Fujairah, Ras Al Khaimah, Umm Al Quwain 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 provides a compressed natural gas distribution network in Abu Dhabi.

Details of the Company's subsidiary are as follows:

Name of Subsidiary	**Ownership interest**		**Country of incorporation**	**Principal activities**
	2019	2018		
ADNOC Distribution Global Company LLC	**100%**	100%	U.A.E	Commercial agencies, commercial enterprises, retail and distribution, investment, institution and management

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

2 Application of International Financial Reporting Standards (IFRS)

2.1 Application of IFRS beginning 1 January 2018

The Group previously applied IFRS through the year ended 31 December 2016. Such financial statements were only provided to its Parent and were not publically available. In connection with its initial public offering ("IPO") in November 2017 as described in Note 1, the Group prepared carve-out financial statements for the years ended 31 December 2016 and 2015. These carve-out financial statements were prepared in accordance with IFRS except for the exclusion of the Group's civil aviation business, which remained with the Parent after the IPO. Accordingly, the carve-out financial statements for the years ended 31 December 2016 and 2015 did not include an explicit and unreserved statement of compliance with IFRS.

The comparative information included in the financial statements for the year ended 31 December 2017 was extracted from the carve-out financial statements prepared for the IPO and accordingly the financial statements for the year ended 31 December 2017 also did not include an explicit and unreserved statement of compliance with IFRS.

As explained in Note 3, the Group intends to prepare financial statements in accordance with IFRS for the year ending 31 December 2019. These financial statements will include an explicit and unreserved statement of compliance with IFRS. As such, the Group re-applied IFRS 1 'First time adoption of International Financial Reporting Standards' with a date of transition of 1 January 2018. With the exception of the opening balance sheet adjustments related to lease accounting described in Note 3, there is no impact on the previously reported balances on account of the transition to IFRS, and all other accounting policies remain unchanged from those set out in the Group's annual financial statements for the year ended 31 December 2018.

2.2 New and revised IFRS in issue but not yet effective

There are no applicable new standards and amendments to published standards or IFRIC interpretations that have been issued that are expected to have a material impact on the condensed consolidated financial information of the Group.

3 Summary of significant accounting policies

Basis of preparation

The financial statements of the Group for the year ending 31 December 2019 will be prepared in accordance with IFRS. This unaudited interim condensed consolidated financial information for the nine-month ended 30 September 2019 has been prepared in accordance with IAS 34, Interim Financial Reporting.

The unaudited interim condensed consolidated financial information is prepared in UAE Dirhams (AED), which is the Company's functional currency and the Group's presentation currency and all values are rounded to the nearest thousands (AED'000) except when otherwise indicated.

3 Summary of significant accounting policies (continued)

Basis of preparation (continued)

The unaudited interim condensed consolidated financial information does not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018. In addition, results for the nine-month period ended 30 September 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

Basis of measurement

This unaudited interim condensed consolidated financial information have been prepared under the historical cost convention except for a financial asset at fair value through other comprehensive income (FVOCI) and derivative financial instruments that have been measured at fair value.

Judgments, estimates and risk management

The preparation of the unaudited interim condensed consolidated financial information requires management to make judgments, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual financial statements for the year ended 31 December 2018, except for those related to leases under IFRS 16, which are described in Note 4.

Significant accounting policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16 and derivative financial instruments.

Transition to IFRS

When the Group adopted IFRS beginning 1 January 2018, it also adopted IFRS 16 'Leases,' which replaced the existing guidance on leases, including IAS 17 'Leases", IFRIC 4 'Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".

IFRS 16 stipulates that all leases and the associated contractual rights and obligations should generally be recognised in the Group's statement of financial position, unless the term is 12 months or less or the lease is for a low value asset. Thus, the classification required under IAS 17 "Leases" into operating or finance leases is eliminated for lessees. For each lease, the lessee recognises a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalised, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortised over the useful life. They are subsequently measured at cost less accumulated depreciation and impairment loss. Right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset.

3 Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Transition to IFRS (continued)

The Group has applied IFRS 16 as of its IFRS transition date, recording an opening balance sheet adjustment. During the first time application of IFRS 16 to operating leases, the right to use the leased assets was generally measured at the amount of lease liability, using the interest rate at the time of first time application. The off-balance sheet lease obligations as at 1 January 2018 are reconciled as follows to the recognised lease liabilities as at 31 December 2018.

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current and prior years.

	2018 **AED'000**
Impact on profit for the year	
Increase in depreciation expenses	2,722
Increase in finance costs	5,164
Decrease in other expenses	(5,472)
Decrease in profit for the year	2,414

Impact on assets, liabilities and equity as at 1 January 2018	**As previously reported** **AED '000**	**Opening balance sheet adjustments** **AED '000**	**Opening IFRS balance** **AED '000**
Right-of-use assets (1), (2)	-	88,615	88,615
Trade and other receivables	2,293,120	(9,794)	2,283,326
Net impact on total assets	2,293,120	78,821	2,371,941
Lease liabilities (1), (3)	-	89,367	89,367
Net impact on total liabilities	-	89,367	89,367
Retained earnings	1,429,448	(10,546)	1,418,902

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

3 Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Transition to IFRS (continued)

Impact on assets, liabilities and equity as at 31 December 2018	**As previously reported AED '000**	**Opening balance sheet adjustments AED '000**	**IFRS balance AED '000**
Right-of-use assets (1), (2)	-	87,061	87,061
Trade and other receivables	2,257,431	(7,763)	2,249,668
Net impact on total assets	2,257,431	79,298	2,336,729
Lease liabilities (1), (3)	-	92,258	92,258
Net impact on total liabilities	-	92,258	92,258
Retained earnings	2,087,601	(12,960)	2,074,641

Group as a lessee

(1) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in 'Other expenses' and an increase in depreciation and interest expense.

(2) Equipment under finance lease arrangements previously presented within property, plant and equipment is now presented within the line item right-to-use assets. There has been no change in the amount recognised.

(3) Lease liability on leases previously classified as finance leases under IAS 17 and previously presented within obligations under finance leases is now presented in the line "lease liabilities". There has been no change in the liability recognised.

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group. Under IFRS 16, lessees must present:

- short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities (the Group has included these payments as part of payments to suppliers and employees);
- cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 17 (the Group has opted to include interest paid as part of financing activities); and
- cash payments for the principal portion for lease liability, as part of financing activities.

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

3 Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Transition to IFRS (continued)

Group as a lessee (continued)

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by AED 2,272 thousand and net cash used in financing activities increased by the same amount.

Other right-of use assets were measured at the amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 1 January 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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

	30 September 2019 AED'000	31 December 2018 AED'000	1 January 2018 AED'000
Properties	**90,428**	87,061	88,615
Total right-of-use assets	**90,428**	87,061	88,615

The additions during the period for right-of-use assets amount to AED 5,499 thousand (31 December 2018: AED 4,074 thousand).

<u>The Group's leasing activities and how these are accounted for:</u>

The Group leases various leasehold properties. Leasehold contracts are typically made for fixed periods of 15-20 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Previously, leases of properties were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

3 Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Transition to IFRS (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received; and
- restoration costs.

First time adopter exemptions

In applying IFRS for the first time, the Group used the following exemptions permitted by IFRS 1:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Derivative Financial Instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

3 Summary of significant accounting policies (continued)

Significant accounting policies (continued)

Derivative Financial Instruments (continued)

Hedge accounting (continued)

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirement

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Group applies straight-line amortisation. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non-financial item. Furthermore, if the Group expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

<u>Cash flow hedges</u>

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ‘finance cost’ line item.

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

4 Critical judgments and key sources of estimation uncertainty

Changes in judgements and estimation uncertainty

The critical judgements and estimates used in the preparation of this unaudited interim condensed consolidated financial information are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2018 except for the changes highlighted below:

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Estimates of future cash outflows have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100 per cent of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of lease.

Derivative financial instruments

The fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participant

5 Property, plant and equipment

	AED'000
Cost	
1 January 2019 (audited)	9,067,858
Additions	276,219
Impairment	(28,728)
Disposals	(8,039)
30 September 2019 (unaudited)	**9,307,310**
Accumulated depreciation	
1 January 2019 (audited)	3,526,205
Charge for the period	387,205
Disposals	(7,766)
30 September 2019 (unaudited)	**3,905,644**
Carrying amount	
30 September 2019 (unaudited)	**5,401,666**
31 December 2018 (audited)	5,541,653

6 Inventories

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Finished goods	**847,570**	1,182,056
Spare parts and consumables	**58,374**	44,772
Lubricants raw materials, consumables and work in progress	**41,508**	30,649
LPG cylinders	**43,485**	36,364
	990,937	1,293,841
Less: Allowance for write down of finished goods to net realisable value	**(234)**	(104,775)
Allowance for slow moving and obsolete raw materials, spare parts, consumables and LPG cylinders	**(15,212)**	(15,212)
	(15,446)	(119,987)
	975,491	1,173,854

The Ministry of Energy regulates prevailing Gasoline and Gasoil selling prices for all retail distribution companies on a monthly basis. The allowance for write down of finished goods to net realisable value established at 31 December 2018 was utilised subsequently.

The Group is carrying finished goods of AED 83 million on behalf of a customer as at 30 September 2019.

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

7 Trade receivables and other current assets

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Trade receivables	**2,879,155**	2,021,689
Less: loss allowance	**(21,873)**	(40,698)
	2,857,282	1,980,991
Prepaid expenses	**18,900**	19,080
Receivable from employees	**103,457**	111,930
VAT receivables	**1,809**	412
Other receivables	**128,614**	137,255
	3,110,062	2,249,668

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.

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Due from related parties		
Abu Dhabi National Oil Company (ADNOC)	**1,071,191**	597,176
ADNOC Logistics and Services	**137,373**	195,365
ADNOC Drilling	**64,824**	70,385
ADNOC Onshore	**33,228**	53,297
ADNOC Offshore	**13,850**	35,120
ADNOC Gas Processing	**23,218**	19,241
ADNOC Sour Gas	**5,025**	10,102
Others	**10,649**	16,173
	1,359,358	996,859
Due to related parties		
Abu Dhabi National Oil Company (ADNOC)	**4,978,934**	4,279,215
ADNOC Refining	**15,448**	15,424
ADNOC Logistics and Services	**12,489**	14,178
	5,006,871	4,308,817

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

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 expenses, transfer of property, plant and equipment 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 5,587,956 thousand (31 December 2018: AED 4,991,992 thousand) held with banks owned by the Government of Abu Dhabi.

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

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

	9 months ended 30 September	
	2019 (unaudited) AED'000	2018 (unaudited) AED'000
Revenue - ADNOC Group	**881,209**	1,094,135
Purchases – ADNOC Group	**9,526,420**	14,020,015
Transfer of city gas assets - ADNOC Group	**-**	90,830
Recovery of operating expenses incurred relating to city gas assets- ADNOC	**-**	15,023

In the prior periods, the Group adjusted purchase price of certain products supplied by ADNOC due to market conditions with effect from 1 January 2018, which was further reduced for the periods from 1 July 2018. These adjustments have been reflected in inventory and direct costs.

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.

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

9 Cash and cash equivalents

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

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Cash held by ADNOC	**3,954**	346,730
Cash on hand and in bank	**5,795,451**	5,126,229
Cash and bank balances	**5,799,405**	5,472,959
Term deposit with maturities above 3 months from acquisition date	**(3,327,775)**	(130,000)
	2,471,630	5,342,959

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 are non-interest bearing.

Cash and bank balances include short-term and call deposits amounting to AED 5,588 million (31 December 2018: AED 4,991 million) carrying rate ranging from .02% to 3.20% (31 December 2018: 0.02% to 3%) per annum.

10 Long term debt

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Term loan	**5,488,255**	5,484,400

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 8,621 thousand as at 30 September 2019 (31 December 2018: AED 10,693 thousand) is presented as other non-current asset in the unaudited interim condensed consolidated financial information.

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 unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

11 Trade and other payables

	30 September 2019 AED'000 (unaudited)	31 December 2018 AED'000 (audited)
Trade payables	**422,031**	591,824
Dividend payable	**1,193,750**	-
Capital accruals	**234,329**	332,515
VAT payable	**234,468**	249,600
Operating accruals	**196,612**	397,447
Coupon and prepaid card sales outstanding	**106,950**	97,578
Contract retentions payable	**80,361**	71,044
Advances from customers	**31,555**	48,895
Other payables	**198,570**	160,133
	2,698,626	1,949,036

12 Derivative financial instruments

During the period, the Group entered into a floating to fixed interest rate swaps with corresponding banks to hedge the interest rate risk relating to a portion of the floating interest rates payable on the term loans, with all critical terms matching. These derivatives contracts have been designated as cash flow hedge under IFRS 9.

As at 30 September 2019, the fair value of the derivative financial instrument was as follows:

	30 September 2019 AED'000 (unaudited)
Current liabilities	**34,973**
Non – current liabilities	**102,620**
	137,593

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (continued)

13 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 16):

	30 September 2019 AED'000	30 September 2018 AED'000
Corporate	**3,587,991**	3,506,499
Retail	**10,588,065**	11,614,519
Aviation	**1,558,410**	1,595,745
Others	**176,049**	205,058
	15,910,515	16,921,821

14 Distribution and administrative expenses

	30 September 2019 AED'000	30 September 2018 AED'000
Staff costs	**1,225,913**	1,345,935
Depreciation	**389,337**	381,410
Utilities	**110,104**	122,100
Repairs, maintenance and consumables	**81,892**	97,501
Distribution and marketing expenses	**49,079**	91,530
Insurance	**7,041**	8,324
Others	**132,422**	162,574
	1,995,788	2,209,374

15 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 period.

	9 months ended 30 September	
	2019 (unaudited)	2018 (unaudited)
Profit attributable to owners of the Company (AED '000)	**1,721,354**	1,680,969
Weighted average number of shares in issue ('000)	**12,500,000**	12,500,000
Earnings per share	**0.138**	0.134

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

16 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 is reported to the Board of Directors.

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

- Corporate segment, which involves sale of petroleum products and ancillary products.
- Retail segment, which involves sale of petroleum products through service stations, and convenience stores catering the consumers.
- 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.
- Operating segments Allied Services and subsidiary results 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 to the chief operating decision maker.

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

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (unaudited)

16 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
30 September 2019 (unaudited)						
Revenue	**3,587,991**	**10,588,065**	**1,558,410**	**176,049**	**-**	**15,910,515**
Direct costs	**(2,919,073)**	**(8,245,585)**	**(1,022,957)**	**-**	**7**	**(12,187,608)**
Gross profit	**668,918**	**2,342,480**	**535,453**	**176,049**	**7**	**3,722,907**
Distribution and administrative expenses	**(171,757)**	**(1,432,849)**	**(282,551)**	**(108,617)**	**(14)**	**(1,995,788)**
Other income	**35,391**	**70,271**	**-**	**412**	**6,040**	**112,114**
Impairment losses and other operating expenses	**(4,501)**	**(9,398)**	**(3,361)**	**(82)**	**(30,283)**	**(47,625)**
Interest income	**-**	**-**	**-**	**-**	**90,404**	**90,404**
Finance costs	**-**	**-**	**-**	**-**	**(160,658)**	**(160,658)**
Profit/(loss) for the period	**528,051**	**970,504**	**249,541**	**67,762**	**(94,504)**	**1,721,354**
Depreciation – net	**27,143**	**320,307**	**24,762**	**16,297**	**828**	**389,337**
30 September 2018 (unaudited)						
Revenue	3,506,499	11,614,519	1,595,745	205,058	-	16,921,821
Direct costs	(2,899,652)	(9,074,034)	(1,053,563)	(9,268)	-	(13,036,517)
Gross profit	606,847	2,540,485	542,182	195,790	-	3,885,304
Distribution and administrative expenses	(170,209)	(1,575,633)	(310,974)	(154,991)	2,433	(2,209,374)
Other income	6,306	67,328	1,839	28,289	9,951	113,713
Impairment losses and other operating expenses	(3,365)	(29)	(2,412)	(1,272)	(2,710)	(9,788)
Interest income	-	-	-	-	33,578	33,578
Finance costs	-	-	-	-	(132,464)	(132,464)
Profit/(loss) for the period	439,579	1,032,151	230,635	67,816	(89,212)	1,680,969
Depreciation – net	19,867	298,076	25,614	35,819	2,034	381,410

Unallocated income consists mainly of gain on sale of property, plant and equipment, insurance recovery and other miscellaneous income.

Notes to the unaudited interim condensed consolidated financial information for the nine-month period ended 30 September 2019 (unaudited)

17 Contingencies and litigation

As at 30 September 2019, the Group had contingent liabilities amounting to AED 902.1 thousand (31 December 2018: AED 902.1 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 financial statements if concluded unfavourably.

18 Commitments

The capital expenditure contracted for at the reporting date but not yet incurred amounted to AED 346.9 million (31 December 2018: AED 113.9 million).

19 Seasonality of results

There is no material impact of seasonality on the Group's operating results.

20 Dividends

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. The dividend comprised of AED 735 million, which was approved at the Annual General Meeting, held on 4 April 2019 and paid on 9 April 2019.

As authorized by the Shareholders at the General Assembly Meeting held 4 April 2019, the Board of Directors approved on 29 September 2019 a cash dividend of 9.55 fils per share to the shareholders in respect of the first half of 2019. The dividend comprised of AED 1,194 million and was paid on 3 October 2019.

21 Approval of the unaudited interim condensed consolidated financial information

The unaudited interim condensed consolidated financial information were approved by the Board of Directors and authorised for issue on 31 October 2019.