Abu Dhabi National Energy Company PJSC (TAQA)
Annual Report 2017

Infrastructure for Growth

We are a leading global energy company, headquartered in Abu Dhabi, with operations in 11 markets around the world. We deliver long-term solutions to meet the energy needs of our partners, both now and in the future.

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FINANCIAL HIGHLIGHTS

TAQA delivered an improved performance in the 2017 financial year, as the oil and gas business benefited from higher hydrocarbon prices and sustained cost efficiencies, and the power and water business continued to deliver strong income.

Net profit* (AED)
160MM
(2016: 19.0 BN net loss)

Revenue (AED)
16.7BN
(2016: 16.1 BN)

EBITDA (AED)
9.1BN
(2016: 8.5 BN)

Free cash flow (AED)
7.4BN
(2016: 7.3 BN)

* Net profit attributable to shareholders

OPERATIONAL HIGHLIGHTS

In 2017 TAQA focused on creating value through the careful management of assets while continuing to maintain strict discipline on the cost base.

Power & Water
We have a high-quality portfolio of modern power and water assets, delivering power safely and reliably to our customers around the world.

Gross power generation capacity
17,410MW
(2016: 17,410 MW)

Gross power generation
89,778GWH
(2016: 93,246 GWH)

Gross water desalination capacity
917MIGD
(2016: 917 MIGD)

Gross water desalination
249,469MIG
(2016: 257,169 MIG)

Oil & Gas
We own and operate oil and gas assets in five countries; both onshore and offshore, and conventional as well as unconventional.

Proven and probable reserves
413.7MMBOE
(2016: 427.4 MMBOE)

Total average daily production
126,200BOED
(2016: 137,300 BOED)

Underground gas storage capacity
4.6 BN NM^3
(2016: 4.6 BN NM^3)

CHAIRMAN'S LETTER

TAQA produced a solid financial and operating performance in 2017, with the company's global oil and gas business benefitting from higher hydrocarbon prices and enhanced efficiency, while the power and water business continued to deliver steady income streams.

H.E. Saeed Mubarak Al-Hajeri
Chairman of the Board

As TAQA charts a new strategic path, it will be able to draw on its experience in building a global business, and the technical expertise that runs through all our operations, whether in the UAE, the wider Middle East, Europe, North America, Africa or India.

Having completed a two-year transformation program in 2016, TAQA is now well positioned to contribute further to the economic diversification strategy being pursued by the Abu Dhabi government – our main shareholder.

Our base in Abu Dhabi, the capital of the UAE, has given us a stable economic and financial environment, while our regional business networks are critical to sourcing attractive opportunities in the future. Across the region, policy makers are encouraging greater investment in vital infrastructure, which will be key to fostering economic growth and providing employment in countries that benefit from youthful demographic profiles.

As TAQA charts a new strategic path, it will be able to draw on its experience in building a global business, and the technical expertise that runs through all our operations, whether in the UAE, the wider Middle East, Europe, North America, Africa or India.

The first production of oil from Iraq in July 2017 was a major achievement, and following successful commercial negotiations, TAQA has received its first payments from the Kurdistan Regional Government.

In the coming years, we intend to deploy our investment, project management and technical expertise on projects that will deliver stable and attractive returns to our investors, with a focus on the power and water sector. This business has been very successful for TAQA. Our eight plants in the UAE produce the bulk of Abu Dhabi's power and water, our power plant in Morocco makes TAQA the largest independent producer in the North Africa region, and we also have interests in India, Oman and the United States.

While our assets are operating at a high level, we believe TAQA can increase efficiency even further at its assets, especially in Abu Dhabi, where we have identified potential synergies across our plants. And as the UAE economy diversifies and expands further, driving up demand for power and water, TAQA will continue to play a strategically important role in ensuring reliable supply.

Since oil prices fell sharply in 2014, TAQA has worked hard to transform the company. We have already seen positive operational and financial results of our work, where the transformation program has contributed to the reduction of costs by AED 13.2 billion. In the coming months and years, we should continue to further reap the financial rewards. I believe that the company has emerged much stronger, and has proven the ability to withstand challenging operating environments. We are now in a position to take advantage of opportunity as global markets recover.

For this, I would like to extend my thanks to the management team and all of TAQA's employees around the world for their dedication and commitment to excellence on a daily basis.

On behalf of the Board, I would like to thank His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the United Arab Emirates, Supreme Commander of the UAE Armed Forces and Ruler of Abu Dhabi, and His Highness Sheikh Mohammed bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, Deputy Supreme Commander of the UAE Armed Forces and Chairman of the Abu Dhabi Executive Council, for their support of and significant contribution to TAQA and its future development. I would also like to express our gratitude to His Highness Sheikh Hazza bin Zayed Al Nahyan, Vice Chairman of the Abu Dhabi Executive Council, for his significant support of TAQA, as well as to His Excellency Dr Ahmed Mubarak Al Mazrouei, Secretary-General of the Executive Council.

Saeed Mubarak Al-Hajeri
Chairman of the Board

Our sectors
www.taqaglobal.com/our-sectors

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MARKET OVERVIEW

In 2017 the global economy grew in what the IMF described as "the broadest synchronized growth surge since 2010". This led to increased demand for hydrocarbons, while OPEC held to its production cut deal. Oil prices made gains on signs that the global glut would shrink. The year ended with oil prices rising above US$60 per barrel, their highest since the end of 2015.

2017 average AECO gas price

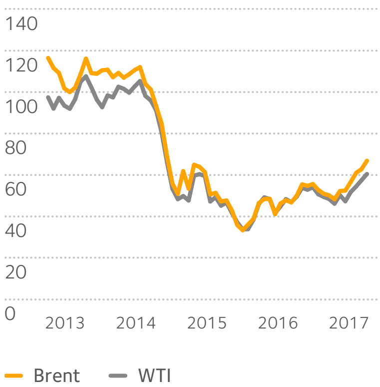
US$1.67/MMBTU

2017 average brent crude oil price

US$54.4/BBL

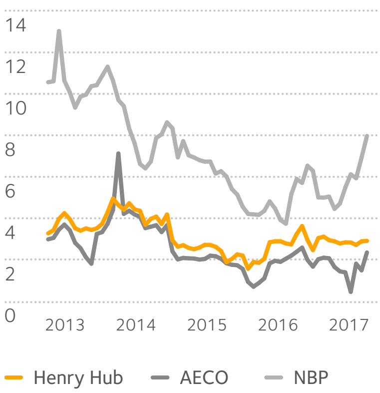
Crude oil

$/bbl



Natural gas

$/MMBtu



Crude Oil

Global oil demand in 2017 averaged 98 million barrels per day (mmb/d), and the average brent crude oil price for the year was US$54.4 per barrel, compared to US$44 in 2016, according to the World Bank. The increase in prices was driven by effective control of supply through the OPEC agreement on cuts, coupled with expectations of accelerating global economic growth.

The increasing maturity of US shale oil, has been a key swing factor for hydrocarbon prices in recent years, and has helped push total US oil production upwards through the 10 million barrels a day mark for the first time in 48 years in November 2017. Some analysts predict a further 2 million barrels per day will be added to US production by the end of 2019.

However, the shale industry still faces challenges in overcoming sensitivity to relatively small price changes, and when prices fall below US$40, US shale production tends to decrease quickly. Analysts have commented that to achieve greater stability, the US industry needs to move away from a pro-cyclical financing model and generate more organically grown demand.

Additionally, lower production costs are further intensifying upstream competition. The full-cycle breakeven cost to develop new oil projects globally declined by nearly 25% since 2014 to a global average of US$42 per barrel in 2017, according to IHS Markit research. Deepwater operators have cut costs by almost 35% in the same timeframe, with most major deep-water development breaking even at around US$45 per barrel in 2017.

Looking ahead, most structural and some cyclical savings will survive a potential market upturn. Cyclical cost savings, such as those associated with rig day rates, materials, equipment, and oil field services, are correlated with oil prices and upstream capital expenditure, but are unlikely to return to pre-2014 levels in the next couple of years due to industry overcapacity. Structural savings include reduction in drilling days, better completion, improved well productivity, digitization, and optimal project design. These savings are largely uncorrelated with oil prices and are unlikely to unwind.

The OPEC deal on supply limits, and Russia's participation in the agreement, look likely to hold firm in 2018, which could result in global inventories being drawn down. In the medium term, other factors are likely to start to shape the supply of crude, particularly the probability that development is likely to expand in Asia, led by China and India.

Natural Gas

After a steady start to 2017, the AECO gas price – the benchmark used in the Canadian natural gas market – experienced a volatile year, largely due to logistical bottlenecks, high storage and rising supply. Maintenance on the TransCanada Corporation pipeline system in particular resulted in market access issues, cutting off some storage options and causing supplies to increase.

The average AECO gas price in 2017 was US$1.67 per million British units (mmbtu), but the the price fluctuated dramatically between June and the end of October, touching negative territory at times as severe transportation bottlenecks led to a supply glut, before recovering strongly as the onset of winter increased demand. Meanwhile, the main US benchmark, Henry Hub spot prices averaged US$2.96/mmbtu in 2017, up 47 cents/mmbtu from a 17-year low in 2016.

The price environment in Alberta is expected to remain a challenge for producers in 2018. Market access continues to be a major issue for the industry. TransCanada has planned a number of pipeline expansion projects to increase export capacity out of Alberta but these will not be completed until at least 2020.

While North America market dynamics are the key determining factor for Canadian gas production, in the long term, global supply and demand fundamentals may have a more profound impact. The Chinese government, in particular, is pushing ahead with plans to increase the proportion of natural gas in the country's energy mix, and as a result, demand for liquified natural gas globally is likely to rise over the coming years. This could provide the impetus for the launch of LNG projects in Canada, opening a new export avenue to producers.

At a Glance
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CHIEF OPERATING OFFICER'S MESSAGE

TAQA is now concentrating on achieving optimal returns from its assets, while positioning the company for growth in the coming years, particularly in power and water.

Saeed Hamad Al Dhaheri
Acting Chief Operating Officer

"The company has been working hard to lower its finance costs, and is gradually reducing its debt levels, which will have a positive impact on our financial performance in the coming years."

Stability and Growth

In 2017, TAQA focused on creating value through the careful management of our assets, while continuing to maintain strict discipline on our cost base.

Our operational and financial performance indicates a return to stability, having come through an extremely adverse operating environment due to the sharp fall in global oil prices. A rise in average hydrocarbon prices in 2017 from the previous year improved the financial performance of our oil and gas business, while our power and water business continued to deliver steady income.

The company has been working hard to lower its finance costs, and is gradually reducing its debt levels, which will have a positive impact on our financial performance in the coming years.

TAQA has therefore been able to continue to record strong cash flow generation, and improved profitability, with total revenues increasing 4% to AED 16.7 billion, and the company turning to a net profit of AED 160 million.

TAQA is now concentrating on achieving optimal returns from its assets, while positioning the company for growth in the coming years, particularly in power and water, where we can draw on significant experience and expertise. Our initial focus will be on identifying synergies across our power and desalination plants in the UAE and driving efficiencies, while the company will also explore new opportunities in the sector.

Driving Efficiencies in Power and Water

TAQA's roots lie in the provision of power and water desalination capabilities in Abu Dhabi, and this has remained a key part of our business, even as we expand our international assets in this area.

We are a majority owner of eight power and water plants across the UAE, supplying more than 90 per cent of Abu Dhabi's power and water requirements. Our power and water production for the Emirate was steady at 64,064 GWh of electricity and 249,469 million imperial gallons of desalinated water in 2017.

Our power operations also include six countries outside the UAE: Ghana, India, Morocco, Oman, Saudi Arabia and the United States. In 2017, the company's international power generation assets remained stable, producing 25,800 GwH of power and recording technical availability of 92.1%.

Together, our power and water production puts TAQA in the top quartile of companies in the sector globally.

Optimizing Oil and Gas Assets

TAQA's oil and gas operations delivered an improved financial performance in 2017, with higher global hydrocarbon prices resulting in a rise in income even though production decreased slightly year on year.

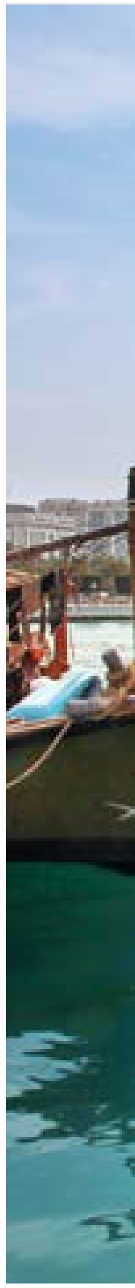
TAQA's production volumes totaled 126,200 barrels of oil equivalent per day (boed), 8% lower than in 2016 due to capital expenditure reductions in the 2015–2016 period and planned North Sea platform maintenance.

In the North Sea, our focus is to maximize asset reliability and extend the economic life of our fields. During 2017, a significant part of this work included redirecting Otter production from the Eider to the North Cormorant platform and thereafter converting Eider into a utility platform, where it will continue to provide power and water to support and extend the life of TAQA's wider North Sea operations.

Also, during 2017, TAQA successfully undertook a series of planned shutdowns across all its northern North Sea platforms.

In North America, TAQA continued to invest in developing key strategic resources in Central Alberta to enhance production and reserves.

Meanwhile, in Iraq, TAQA marked a notable milestone, commencing production at the Atrush field in the Kurdistan region in July 2017. The company immediately began exporting oil, and received the first payments from the Kurdistan Regional Government.



TAQA's roots lie in the provision of power and water desalination capabilities in Abu Dhabi, and this has remained a key part of our business, even as we expand our international assets in this area.

Implementing Operational Best Practice
Ownership, accountability and transparent reporting are key values for TAQA. Safe operations and the protection of all our workers represents a non-negotiable core priority. We have a robust business continuity plan in place, and completed a simulation at our headquarters last year, successfully identifying areas for improvement in business disaster readiness – a focus for the business continuity and HSSE teams for 2018. In 2017, our HSSE metrics were impressive despite the harsh environments and intensive work at many of our operations.

Responsbility to Communities
We take our responsibilities to the communities we work in very seriously. At the Atrush project, TAQA actively promotes the employment of Iraqi nationals, and we are therefore focusing on training and up-skilling. The proportion of Iraqi nationals has already increased to 69% of the total workforce, from 53% in 2015. Moreover, TAQA has been working with over 350 farmers to assist them in improving their agricultural practices and enhancing food security, through classroom and field training and the provision of equipment. The program has resulted in a 60% increase in crop yields. Meanwhile, in the UAE, TAQA initiated a donation campaign during the Holy Month of Ramadan, offering gifts to children for Eid celebrations, receiving more than 1,300 items.

I would like to take this opportunity to thank my colleagues at TAQA, across all our global operations, for their hard work and dedication. I am confident that our pursuit of operational excellence has put the company in a strong position to overcome the challenges that we face and take advantages of new opportunities in the coming years. I would also like to express my gratitude to TAQA's board of directors for their valued guidance and continued support.

Saeed Hamad Al Dhaheri
Acting Chief Operating Officer

BOARD OF DIRECTORS

A new board of directors was elected in 2017, which combined continuity of TAQA experience with new members who bring experience across a range of sectors.

H.E. Saeed Mubarak Al Hajeri
Chairman of the Board

Elected to the Board in 2011, elected Chairman in 2014.

Career and experience: H.E. Saeed Mubarak Al Hajeri has more than 23 years' experience in international finance. In addition, he is a member of the Executive Advisory Board of MSCI Barra and a Board member of various Abu Dhabi and UAE government entities. Al Hajeri is an Executive Director at Abu Dhabi Investment Authority (ADIA). He previously held the position of Governor of the Board of the CFA Institute.

Qualifications and recognition: Al Hajeri has a bachelor of business administration from Lewis & Clark College in the United States and holds the designation of Chartered Financial Analyst (CFA). He also attended the Executive Education Program at Harvard Business School. He was elected by the World Economic Forum in 2007 as one of the top 250 Young Global Leaders for his contribution to the public and financial sectors in the United Arab Emirates.

H.E. Khaleefa Al Qamzi
Vice-Chairman

Elected to the Board in 2017.

Career and experience: H.E. Khaleefa Al Qamzi is currently the Director of Evaluation and Follow-up at Abu Dhabi Investment Authority (ADIA). Since joining ADIA in 1997, he has held several executive positions. He is also a Board Member at Abu Dhabi Water and Electricity Authority (ADWEA), Abu Dhabi Securities Exchange, Abu Dhabi Distribution Company and Al Ain Distribution Company. He was a board member of the Abu Dhabi Chamber of Commerce and Industries.

Qualifications and recognition: Al Qamzi holds an executive MBA in business administration from Zayed University, UAE.

H.E. Abdulaziz Abdulrahman Al Hemaidi
TAQA Board Member

Elected to the Board in 2011.

Career and experience: H.E. Abdulaziz Abdulrahman Al Hemaidi has held various positions at Abu Dhabi Water and Electricity Authority (ADWEA) including Managing Director of both Abu Dhabi Water and Electricity Company and Abu Dhabi Distribution Company.

Before joining ADWEA in 1997, he held key positions at Abu Dhabi Health Services Company, Al Ain International Airport and the Privatization Committee for Water and Electricity Sector of the Emirate of Abu Dhabi.

Al Hemaidi is a Board member at Abu Dhabi General Services Company (Musanada) and Abu Dhabi Water and Electricity Company (ADWEC). He is Chairman of Shuweihat Asia Power Company and an Advisor at Al Ain Distribution Company.

Qualifications and recognition: Al Hemaidi is a civil engineering graduate from United Arab Emirates University.

H.E. Salem Sultan Al Dhaheri
TAQA Board Member

Elected to the Board in 2011.

Career and experience: H.E. Salem Sultan Al Dhaheri is currently Deputy Director at Abu Dhabi Investment Authority (ADIA), having held various positions since joining the authority in 1993. Al Dhaheri is also a Member of the Board of Directors and Member of the Audit Committee of several public and private companies.

Qualifications and recognition: Al Dhaheri is a Certified Public Accountant. He has a bachelor's degree in accounting from Metropolitan State College in Denver, United States.

H.E. Khaled Abdulla Al Mass
TAQA Board Member

Elected to the Board in 2014.

Career and experience: H.E. Khaled Abdullah Al Mass is the Chairman of Imass Investment and a Board Member of the National Health Insurance Company (Daman), the Tourism Development & Investment Company (TDIC) as well as The National Investor. He has previously served as a Board member in companies specialising in a variety of fields, including real estate, finance and direct investments and has held senior management positions at financial institutions, including Abu Dhabi Investment Company and National Bank of Abu Dhabi (NBAD).

Qualifications and recognition: Al Mass has a bachelor's degree in management from Marylhurst University, United States.

H.E. Dr. Saif Saleh Al Sayari
TAQA Board Member

Elected to the Board in 2017.

Career and experience: H.E. Dr. Saif Saleh Al Sayari joined Abu Dhabi National Energy Company PJSC (TAQA) in 2010 and has held senior leadership positions with the responsibility of developing alternative and technology-driven energy initiatives. He is currently the Acting Director-General of the Abu Dhabi Water and Electricity Authority (ADWEA). Prior to joining TAQA, Al Sayari held various technical and managerial positions at Abu Dhabi National Oil Company (ADNOC). Al Sayari is a Board Member at several ADWEA and TAQA power plants in the UAE.

Qualifications and recognition: Al Sayari holds a PhD in petroleum engineering from Imperial College London, UK.

H.E. Mohammed Sahoo Al Suwaidi
TAQA Board Member

Elected to the Board in 2017.

Career and experience: H.E. Mohammed Sahoo Al Suwaidi held the position of the Acting Chief Executive Officer of Nawah Energy Company, the company responsible for the operations and maintenance of the Barakah nuclear reactors in the UAE. Al Suwaidi has previously held executive-level positions at Abu Dhabi National Oil Company (ADNOC) and its subsidiaries, including his position as Chief Executive Officer of Abu Dhabi Gas Industries Limited (GASCO) for over ten years. Al Suwaidi also served as a Board Member of Emirates Nuclear Energy Corporation (ENEC) and Barakah One Company. Moreover, Al Suwaidi is a member of various committees in several other public and private companies.

Qualifications and recognition: Al Suwaidi holds a bachelor's degree in chemical engineering from the University of Southern California in Los Angeles, United States.

EXECUTIVE MANAGEMENT

Our Executive Team have successfully driven TAQA to be a sustainable and efficient business, with safe operations at its centre.

Saeed Hamad Al Dhaheri
Acting Chief Operating Officer

Saeed Al Dhaheri joined TAQA in 2014 and was appointed acting Chief Operating Officer in 2016. Al Dhaheri is a Board member at Massar Solutions, Sohar Aluminium and TAQA Morocco.

Career and experience: Prior to joining TAQA, Al Dhaheri held leadership positions at Abu Dhabi Media Company, Etihad Rail and Abu Dhabi Health Services Company (SEHA) and he previously served on the United Printing & Publishing Board of Directors.

Qualifications and recognition: Al Dhaheri has a master's degree in management from Abu Dhabi University and bachelor's degree in international business from Eckerd College, United States.

Awad Al Ketbi
Acting Executive Vice-President, Business Support

Awad Al Ketbi joined TAQA in 2014 and was appointed acting Executive Vice-President Business Support in 2016. He is responsible for TAQA's HR, HSSE, IT, procurement, business continuity and general services functions. Al Ketbi was previously TAQA's Chief Technology Officer.

Career and experience: Prior to joining TAQA, he held IT leadership positions at Tawazun Economic Council and Tawam Johns Hopkins Hospital in Abu Dhabi Emirate.

Qualifications and recognition: Al Ketbi has a bachelor's degree in management information systems from the American University in Dubai.

Mohammed Al Ahbabi
Acting Chief Financial Officer

Mohammed Al Ahbabi joined TAQA in January 2016 as deputy CFO and was appointed acting CFO in September 2016. He is responsible for TAQA's corporate finance function.

Career and experience: Al Ahbabi started his career at Abu Dhabi Company for Onshore Oil Operations (ADCO). He joined Abu Dhabi Health Services Company (SEHA) in 2009 where he held the position of CFO before joining TAQA.

Qualifications and recognition: Al Ahbabi has a bachelor's degree in finance and banking from United Arab Emirates University and an MBA from New York Institute of Technology.

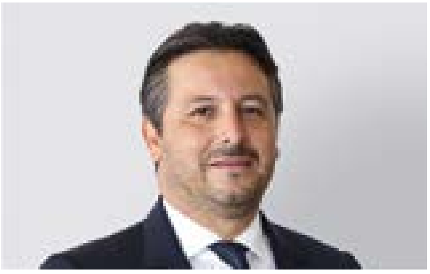
Saeed Rashed Al Darei
Executive Vice-President, Government Affairs and Corporate Communications and Board Secretary

Saeed Al Darei joined TAQA in 2013 and is responsible for the Company's public affairs, corporate communications and investor relations functions.

Career and experience: Before joining TAQA in 2013, Al Darei held leadership positions at several Abu Dhabi government entities including the Department of Social Services and Commercial Buildings (DSSCB), the Department of Municipalities and Agriculture (DMA), the Department of Transport (DoT), and the Department of Civil Service (DCS).

Qualifications and recognition: Al Darei holds a bachelor's degree in management, sociology and leadership from Gonzaga University, United States.

Abdelmajid Iraqui
Acting Executive Officer Global Power & Water



Abdelmajid Iraqui is responsible for managing TAQA's global power and water businesses.

He is also the Managing Director for the African business which includes TAQA Morocco, a listed company in the Casablanca Exchange and Takoradi International Company, a power plant in Ghana.

Career and experience: Before joining TAQA in 2006, Iraqui was CFO and regional Director at CMS Energy.

Qualifications and recognition: Iraqui has a bachelor's degree in finance from Eastern Michigan University, and a master's degree in business administration from the University of Michigan in the United States.

Vivek Gambhir
Acting General Counsel

Vivek Gambhir joined TAQA in 2011 as deputy general counsel and was appointed acting general counsel in October 2015.

Career and experience: Prior to joining TAQA, Gambhir worked in London for 12 years as a partner in an international law firm where he headed up their international power practice. Gambhir has worked in a number of jurisdictions on various international assignments, including London, Hong Kong and India.

Qualifications and recognition: Gambhir holds qualifications to practice law in England.

TAQA AT A GLANCE

We are a local organization with a global reach. Our strategy is set regionally and executed by our highly skilled workforce.

We are TAQA

We are an international energy and water company listed in Abu Dhabi. Our business is separated into two divisions: Power & Water, and Oil & Gas.

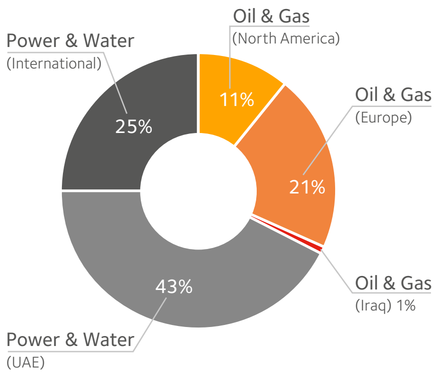
Revenue
(AED)

16.7BN

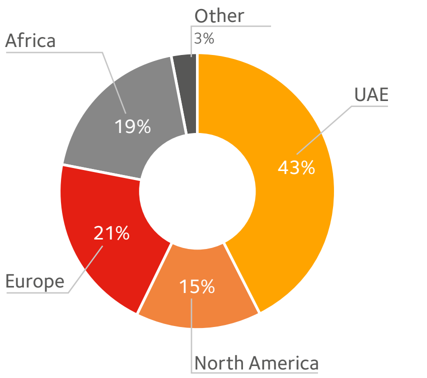
(2016: 16.1 BN)

We have a portfolio of high quality assets around the world includng power plants, water desanitation facilities, oil and gas exploration and production facilities, pipelines and gas storage.

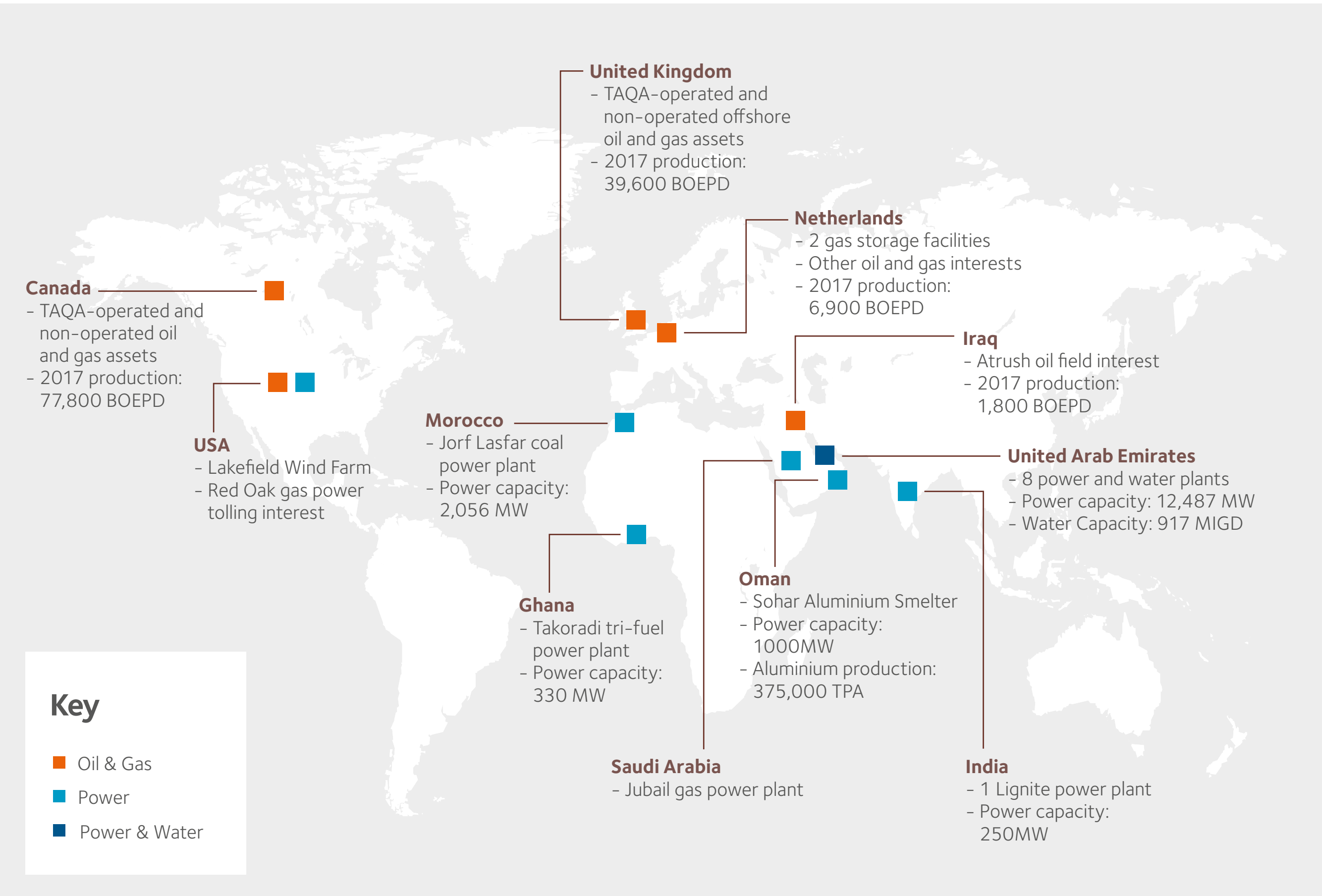
By Division (%)



By Geography (%)



Our Global Interests



Our Purpose, Vision and Values

In TAQA, we have a powerful sense of purpose, a clear vision for the future and shared set of values. These are the pillars of our business, driving our strategy and the way we interact amongst ourselves and with all our stakeholders, whether they be customers, investors, governments, industry partners or the communities touched by our activities.

OUR PURPOSE

We believe that energy has the power to improve lives and bring prosperity. From Abu Dhabi to new horizons, we embrace the challenge of delivering affordable and reliable energy and water. That's why, every day, our people deliver solutions that make a difference.

OUR VISION

To be the leading international energy and water operator from Abu Dhabi.

OUR VALUES

Our people live and support our values everyday.

- Safe & Sustainable
- Pursuing Excellence
- Stronger Together
- Courageous & Creative
- Trusting & Trusted

Our strategy

Operational Excellence & Technology Application	Long-term Value Creation and Portfolio Alignment	Strong Financial Management
• Prioritize health and safety • Continuous focus on operational excellence • Application of leading technologies to deliver strong financial and operational performance	• Diversified mix of assets, generating stable cashflows and exposure to commodity price recovery • Reduced operating costs following transformation program • Contribute to Abu Dhabi's economic diversification strategy	• Prudent and rigorous financial decision making • Carefully planned and executed capital expenditure programs • Maintenance of strong cash and liquidity position

Strategic Role in Abu Dhabi Economy

75%
Ownership by the Abu Dhabi Government

85%
Approximate percentage of Abu Dhabi's power and water needs supplied by TAQA

2005
Listed on Abu Dhabi Securities Exchange

OVER US$28BN
Assets

Operations in
11 COUNTRIES

POWER & WATER

TAQA's power and water portfolio delivered a robust operating performance in 2017, delivering 89,778 GWh of gross power generation and 249,469 MIG of gross water desalination. This compares well with international peers and places TAQA in the industry's top quartile. The company's management has taken a strategic approach to promote operational excellence and higher productivity across all of TAQA's operations.

2017 Power and Water Capacity

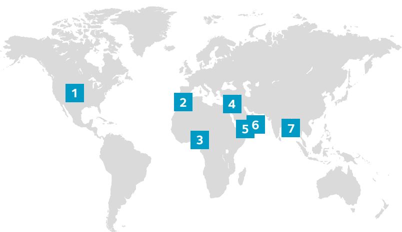
917MIGD

Gross Water Desalination Capacity

17,410MW

Global Gross Power Generation Capacity

Power & Water Locations



1. United States
2. Morocco
3. Ghana
4. Saudi Arabia
5. UAE
6. Oman
7. India

Middle East

Driven by a high power and water commercial availability of 97.3% and 99.5% respectively, the company's UAE operations produced 64,064 GWh of electricity and 249,469 MIG of desalinated water in 2017.

The Fujairah F1 consolidation and refinancing project was successfully completed in December 2017, and represented the final phase of the F1 30 MIGD RO Expansion Project, originally commissioned in December 2015. It involved the merger of the initial F1 power water purchase agreement (PWPA) and the F1 RO water purchase agreement into one single PWPA and the refinancing of the project company on a longer maturity through a US$400 million bond, which was five times subscribed.

However, during 2017, our Taweelah B plant suffered from higher than expected outages, while the Al Fujairah 2 project also experienced a forced outage. In Oman, an incident at the Sohar Aluminium smelter resulted in an unplanned outage. A recovery plan was immediately implemented and as at the end of 2017, the majority of the plant was in operation, and insurance payments will cover damage and losses connected to the incident.

Africa

In 2017, TAQA's business in Morocco, which is listed on the Casablanca Stock Exchange, delivered high availability and improved financial results. With an availability rate of 92.5% for units 1 to 6, TAQA Morocco's availability and reliability performances in Jorf Lasfar were extremely competitive, ranking in the top decile of producers globally. In recent years, operations in Morocco have improved significantly with substantial progress made in reducing Equivalent Forced Outage Rates (EFOR) for units 1 to 6 and the number of trips. Consequently, the company has seen increases in its financial results in Morocco for the year 2017, with a strong net income and a positive share price performance.

"TAQA's strategy is to focus on the company's core Middle East and North Africa power and water business to create more value and opportunities for shareholders, and to maintain the company's leading position as a top-quartile global operating company."

Despite a difficult first half, the Takoradi Plant in Ghana recovered impressively during the rest of the year, with significant improvements on operational performance and net income. Technical availability rose from 51.4% in the first half of 2017, when the plant experienced extended outages, to 93.95% in the second half. During the year, Takoradi generated sufficient cash to self-finance its debt payments.

Fatima Bendahbia
Director of Maintenance Strategy and Planning
TAQA Morocco

"We're focused on maximizing the reliability and efficiency of all operations at the plant so we can maintain TAQA's position as the leader in power generation in Morocco. Even now, the energy sector in Morocco is still in development, so maintaining our position is important for future opportunities."

Hanan Al Hadrami
Asset Management Analyst,
Power and Water
Abu Dhabi

"We rely on good communication and awareness across the company, as well as a strong business understanding to help resolve issues that arise. It's fascinating and enriching to work in this field as you have the chance to maintain great relationships with our assets in the long run, and to learn a lot along the way."

2017 Performance

249,469MIG
Gross Water Desalination

89,778GWH
Gross Power Generation

India

In 2017, the Neyveli power plant produced 952 GWh and achieved a technical availability of 84.3%, experiencing lower dispatch demand, as well as forced outages and an extension of the planned annual overhaul. TAQA divested the Sorang Hydro-Power project in May 2017 to Greenko, a transaction that yielded a non-cash profit of AED 86 million.

United States

In the United States, TAQA has an 85% interest in a tolling agreement for the 832-megawatt natural gas-fired combined cycle Red Oak power plant, through its subsidiary TAQA Gen X. The plant, which began operations in 2012, supplies to the Pennsylvania, New Jersey, Maryland power market, the world's largest wholesale electricity market at 194 GW.

In June 2017, Carlyle Group sold its ownership interests in Red Oak to Morgan Stanley infrastructure, which enabled the repayment in full to TAQA Gen X of the AED 109 million subordinated account receivable from Red Oak that had accumulated under the tolling agreement over several years.

Meanwhile, TAQA's 205.5-megawatt Lakefield Wind Project (LWP) in Minnesota produced 592,7 GWh of renewable energy, compared to 572 GWh in 2016, with the project generating consistent and recurring cash flows. The Indiana Police Power and Light Company purchases the power generated by the project's 137 turbines under a 20-year Power Purchase Agreement. TAQA holds a 50% interest in LWP, which is operated by EDF.

Leading Excellence and Sustainability

TAQA's strategy is to focus on the company's core Middle East and North Africa power and water business to create more value and opportunities for shareholders, and to maintain the company's leading position as a top-quartile global operating company. TAQA is committed to generating strong, stable and predictable cash flows and will continue to enhance its ability to deliver security of supply, economies of scale and employ talented local employees.

Gross Power Generation
(GWh)

2017	89,778
2016	93,246
2015	91,117
2014	82,723

Gross Water Desalination
(MIG)

2017	249,469
2016	257,169
2015	264,127
2014	260,100

On building sustainable solutions
www.taqaglobal.com/sustainability

Health & Safety
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OIL & GAS

TAQA was able to sustain its improved cost base even as oil prices have begun to recover. These higher prices also helped support increased investment in our asset base and delivered positive cash flows to the group. TAQA also achieved a key milestone in 2017, beginning production at the Atrush field in the Kurdistan region of Iraq after several years of planning and development work.

Total Average Daily Production (BOED)

126,200

Global total average daily production (BOED)

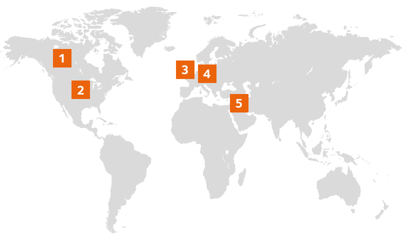
413.7MMBOE

Reserves

70%

Reserve Replacement Ratio (2p)

Oil & Gas Locations



1. Canada
2. United States
3. United Kingdom
4. Netherlands
5. Iraq

A reduction in capital expenditure in the 2015–2016 period, naturally meant that production in 2017 was slightly lower than the previous year, while maintenance programs at the company's North Sea assets also had an impact on volumes.

The company's oil and gas operations produced 126,200 barrels of oil equivalent per day (boe/d) in 2017, down 8% from 2016. However, operating netbacks per barrel increased in North America and Europe by 52% and 36% respectively from 2016 levels. The increase was driven by higher realized prices and sustained cost efficiencies.

North America

In North America, TAQA's business continued to implement a disciplined program of cost management, including focus on the optimal use of capital. The business recorded strong production levels throughout the year, averaging 77,800 boe/d, due to proactive base management on existing wells and strong new well outcomes. TAQA North generated free cash flows of AED 253 million for the TAQA Group, while annual capital investment approximately doubled from the previous year to AED 477 million, and is positioned to rise further in 2018.

The majority of the new investment in Central Alberta was deployed in the development of TAQA North's Upper Mannville play, northwest of the town of Rocky Mountain House, which contains the largest resources in the business unit's portfolio. In late 2017, TAQA gained approval to upgrade its largest operated compressor station in the heart of the Upper Mannville play to a full gas plant. This project will commence in 2018, with completion scheduled for 2020.

In Grand Prairie, capital was utilized to continue developing the Pouce Coupe / Valhalla Montney and the Red Rock Chinook plays. At Pouce Coupe / Valhalla, TAQA North also entered into a joint venture with a mid-stream company to expand the existing gas processing facility, with the expansion scheduled to come on line in late 2018.

TAQA North's reserve replacement ratio for 2017 was 60%, a strong outcome in light of the capital constraints of recent years and evidence of the continued resource potential of TAQA's North American asset base.

Natural gas transportation constraints remain a significant challenge for producers in the Western Canadian Basin and have also contributed to suppressing the local Alberta benchmark AECO gas price versus other major indices. TAQA North continues to optimize its contracted transportation capacity on major export pipelines to market centers, and diversify its gas sales points, where the right opportunities arise.

Pat Breen
Vice President, Commercial
TAQA North

"

One of the valuable lessons I've learnt during my time here is that priorities can change overnight and you have to be quick on your feet. I love what I do and so I spend a lot of time coaching and mentoring. I am constantly inspired by our people across the business, especially in TAQA North.

"

Saeed Almenhali
VP, Projects assurance and new ventures
Abu Dhabi

"

We can really be proud of our Iraq operations, because this started as a greenfield project. It has been an interesting experience working with different teams, to take this project from the field development plan, through the capital investment process to the start of production at four wells.

"

Europe

During 2017, TAQA's oil and gas business in Europe produced slightly lower volumes than the previous year, while the business remained focused on maximizing economic recovery from its assets and extending the life of the North Sea oil and gas fields. The European business recorded a net income of AED 243 million in 2017 and generated AED 566 million free cash flow, despite increasing its capital expenditure and abandonment spending. Total European production averaged 46,500 boe/d, while capital expenditure stood at AED 400 million.

TAQA UK's operated assets successfully completed all planned shutdowns on plan and without incident. In the North Sea, the company's long-term strategy is to boost recovery from existing assets, and this agenda was pushed forward by the Eider bypass project, which was successfully completed in October 2017. The Eider platform is expected to cease production in early 2018, enabling significant reduction in operational expenditure. Eider has been converted into a utilities platform, producing power for the North Cormorant and the Otter multi-phase pump, which is scheduled to be installed in October 2018.

In the UK and Netherlands, due to stronger-than-expected reservoir performance and high reliability, non-operated production performance exceeded expectations. This was despite the unplanned outage of the Forties Pipeline System in December 2017. All capacity at Gas Storage Bergermeer in the Netherlands for the storage year 2017/18 was sold, with auctions oversubscribed.

Iraq

The Atrush field in the Kurdistan region of Iraq has operated without any disruption since production began in July 2017. In the third quarter of the year, TAQA received its first payments following the signature of a commercial agreement with the Kurdistan Regional Government. In 2018, the company plans to continue assessing results from the Phase 1 development and working on appraisal studies, which will inform planning for future development and assessment of the undeveloped Atrush resources base.

On building sustainable solutions
www.taqaglobal.com/sustainability

At a Glance
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FINANCIAL REVIEW

TAQA reported a net profit attributable to shareholders of AED 160 million for the 2017 financial year, as the oil and gas business benefited from higher hydrocarbon prices and sustained cost efficiencies, and the power and water business continued to deliver strong income.

Mohammed Al Ahbabi
Acting Chief Financial Officer

AED160MM
Net Profit

AED15.4BN
Total Liquidity

Revenues
AED BN

2017	16.7
2016	16.1
2015	19.3

EBITDA
AED BN

2017	9.1
2016	8.5
2015	9.6

Free Cash Flow*
AED BN

2017	7.4
2016	7.3
2015	6.5

* Free cash flow represents operating less investing cash flows.

A difficult global operating environment for the oil and gas business in recent years meant that this was the first net profit the company had reported since 2012. It compares to a net loss of AED 19 billion in 2016, when the company recorded an exceptional impairment charge of AED 22 billion.

TAQA's total revenues stood at AED 16.7 billion, an increase of 4% on 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) increased by 7% to AED 9.1 billion, with sustained cash cost savings contributing to the improved EBITDA margin.

The company continues to benefit from the two-year transformation program, which finished in 2016, having delivered a AED 13.2 billion reduction in costs, including capital and operating expenditure. In 2017, operating expenditure in the oil and gas business was approximately 40% lower than 2014 levels.

In 2017, TAQA generated free cash flow of AED 7.4 billion, a slight increase of 1% from 2016. This was primarily due to our financial discipline, and a strong focus on maximizing operational efficiency.

TAQA continues to actively manage its balance sheet through a gradual deleveraging process. During 2017, the company reduced its total debt by AED 1.9 billion, while interest paid reduced by AED 324 million.

With US$1.25 billion of bonds maturing in 2018, TAQA arranged a US$1.25 billion bridge loan with an international consortium of banks in late 2017 to give the company flexibility in accessing the capital markets. The loan was used to refinance a US$750 million bond maturing in January 2018, with the balance US$500 million used to repay a portion of the drawing on the company's revolving credit facility.

Total liquidity remains strong at AED 15.4 billion as at the end of 2017, comprising AED 4.2 billion in cash and cash equivalents and AED 11.2 billion of undrawn credit facilities.

Effective financial management remains a priority for TAQA, with the company's financial strategy containing four key elements: Maximising value from its existing asset base; prioritising portfolio optimization where appropriate; pursuing effective risk management strategies and diversifying funding sources; and deleveraging the balance sheet while maintaining prudent levels of cash.

Mohammed Al Ahbabi
Acting Chief Financial Officer


855VS5310

HEALTH & SAFETY, SECURITY & ENVIRONMENT

The safety of everyone who works with us is our highest priority – our goal is zero injuries across all operations.

Awad Al Ketbi
Acting Executive Vice-President, Business Support

> **In 2018, as we look to a better and stronger future, TAQA is committed towards ensuring that all its employees and workers are guaranteed safe and reliable working conditions.**

TAQA considers implementing the highest standards of Health, Safety, Security and Environment (HSSE) to be the bedrock of all its operations, which often involves the challenge of operating equipment and plants in harsh environments around the globe. One of the company's main goals is to eliminate injuries and to minimize all losses wherever we operate.

During 2017, TAQA pushed forward this agenda by integrating the Crisis and Emergency Management (CEM) process into the company's Business Continuity Management (BCM) protocols and developed a framework for key performance indicators (KPIs) in the area of process safety, in line with global best practice. These KPIs will be piloted in 2018, and the company will continue to deploy its comprehensive video training program to embed its 12 Essential Safety Rules in everyday operations.

Continual efforts to improve occupational and operational safety and to protect the environment resulted in a reduction in the number of spills and injuries in the year. Across the company's operations, the Recordable Injury Rate (RIR) stood at 0.35, while spills numbered 36 and Lost Time Injuries (LTI) stood at 8.

TAQA's continuous improvement in safety performance reflects a drive and commitment to adopt the correct means of doing business and sustained efforts to enhance the company's processes, whether they are management systems, training, workforce and contractor engagement, alongside a thorough incident investigation and audit system.

Audit/Assessments Requirements – Three tiers

Self Assessment	Internal Audits	External Audits
Tier 1	Tier 2	Tier 3
Annually	1–2 yearly	3 yearly
Management System Focus	Selected Focus Audits	Selected Focus Audits
		Management System Focus

In 2017, TAQA integrated the CEM process into the company's business continuity management protocols and developed a framework for key performance indicators (KPIs).

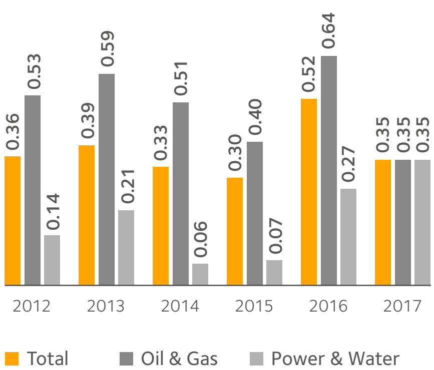
Committed Towards A Safer Future

In 2018, as we look towards a better and stronger future, TAQA is still committed towards ensuring that all its employees and workers are guaranteed safe and reliable working conditions, coupled with the highest health and safety standards that are in line with our global best practice and international guidelines.

We will maintain our focus on the 12 Essential Safety Rules as we roll-out a comprehensive video tool to allow focused learning and further embedding of our safety rules across the globe. This in turn will further promote our culture of safety, security, sustainability and excellence.

Awad Al Ketbi
Acting Executive Vice-President,
Business Support

Recordable Injury Rate
per 200,000 hours



Oil and Gas

TAQA North continued the implementation of the company's refreshed HSSE management system and focus on operational excellence. The region's total RIR stood at 0.26, with no record of any serious injuries.

Meanwhile, TAQA's operation in Europe also delivered strong HSSE performance in 2017, given the unit recorded a total 4.2 million man-hours of work. The UK operation's recordable incidents were at their lowest rate in the company's history, with its total RIR falling to 0.28, with only one lost time incident. In the Netherlands, RIR stood at 2.2, with four lost time incidents, of which the most severe was a leg injury sustained by a painter who fell from a step ladder.

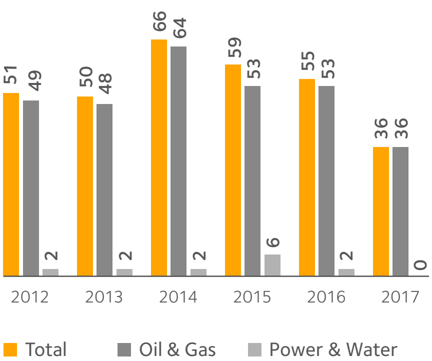
The company's environmental performance was also very strong in Europe, with a total of less than 0.6 tonnes of hydrocarbon spilled in seven minor separate events over the course of the year.

Despite the challenges of operating in Iraq, the company is proud of the safety and environmental record at TAQA's facilities at the Atrush block, which began operations in July. As a result of the structural approach taken with regards to operational readiness, the construction, pre-commissioning and start up procedures were carried out smoothly with zero accidents reported.

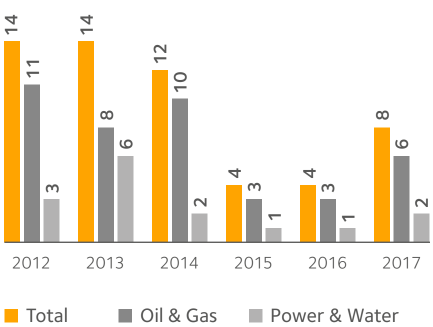
Power and Water Division

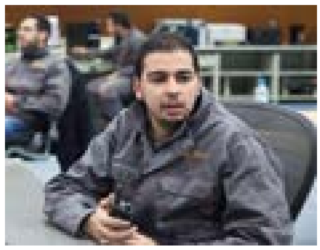
Globally, the RIR for TAQA's power and water business stood at 0.35 in 2017, compared to 0.27 in 2016. While this remains an impressive rate, the company deeply regrets that there was one fatality at the company's operations in Morocco, which involved a scaffolding contractor who suffered a severe electric shock. Following a thorough investigation, TAQA has taken note of the causes of the incident and the key lessons learned. The company has commissioned an independent review of the training and learning for contractors, as well as a high-level review of the HSSE management system, its implementation and compliance measured against a recognized international benchmark. Those two reviews are aimed at developing timely and effective actions to achieve the ultimate aim of zero accidents.

Reportable Spills



Lost Time Injury





In 2017, TAQA's Oil and Gas operations around the world delivered strong HSSE performance, with the Power and Water division benefiting from independent review of processes.

OUR COMMUNITIES

Supporting the communities in which we operate is fundamental to our sustainable success. In addition to the direct value we bring through employment, taxes and other financial contributions, we work hard to be a trusted partner and valued community member through offering our time, skills and financial resources.

Supporting Healthy Lives

TAQA and its employees carry out numerous healthcare initiatives in their regions of operation.

In 2017, TAQA's employees in Europe far surpassed their fund-raising target of £50,000 for the year. In the UK, over £76,000 was raised by the staff, with £61,000 donated to the ARCHIE Foundation at the Royal Aberdeen Children's Hospital, covering the cost of a specialist children's pain nurse for a year, and funding several activities supported by the charity. In the Netherlands, over €17,000 was donated to Clini Clowns, a charity providing entertainment for hospitalized children.

In our North American operations, we financially supported the STARS helicopter air ambulances which offer life-saving transport to critically ill and injured patients across three regions in Canada. To date we have donated around C$1.5 million to this service. We also continued our support of the Alberta Children's Hospital Foundation (ACHF), supporting research into paediatric brain development and traumatic brain injury, including rapid lifesaving interventions. In Morocco, we supported The Emergency Medical Assistance Service of El Jadida, which in 2016 made 1,200 free-of-charge emergency interventions. Our Moroccan business also supported the Sheikh Zaïd Ibn Soltan Foundation, which in addition to supporting medical students, also provided medical 'caravans' that enabled over 500 cataract surgeries.

"

We work hard to be a trusted partner and valued community member through offering our time, skills and financial resources.

"

TAQA's employees all around the world supported community engagement and outreach, participating in various initiatives, ranging from offering clothes and toys to the needy to promoting education and supporting healthcare programs.

Promoting Education

In the UK, as part of our ongoing support of programs that inspire STEM careers, we are supporting the Aberdeen Science Centre – which offers STEM engagement opportunities that encourage active learning. TAQA funded the center's new Engineering Club.

Moreover, the year 2017 saw TAQA in the UK support the cost of a full uniform for each intern on Project SEARCH, a one-year scheme run in partnership with charity Inspire, the University of Aberdeen and North East Scotland College. Each year, the project helps 12 young people with learning disabilities and autism spectrum disorders to work toward full-time employment through internships in various departments at the university. The project works alongside socially responsible employers to find suitable permanent employment for each intern upon the completion of the program.

In the UK, Greenpower is a national engineering competition which challenges school pupils to design, construct and race electric cars. TAQA supports the local Grampian heat of the competition, in addition to supporting the purchase of a car kit to sponsor a participating team each year.

In Morocco, TAQA supported several organizations that share our desire to promote and enable education, including the AMOS Association which encourages literacy for mothers and pre-school education for deprived children.

In Iraq, we have been working with over 350 farmers to assist them in improving their agricultural practices through education, enhancing their communities' food security. With classroom and field training and equipment provision, farmers have reported an annual increase in yields of over 60%.

Community Engagement

In Canada, we revamped our Community Investment campaign to emphasise active rather than monetary support for initiatives. We arranged various opportunities to facilitate employee support of local charities. In addition to active community participation, we managed to raise C$75,000 dollars for the United Way through employee pledges and a live auction.

In Morocco, TAQA once again supported the traditional annual Moley Adbellah Moussem tribal gathering, which features over 1,500 horse riders and attracts over 450,000 visitors. The company also supported the Jawhara International Festival, which brings together hundreds of artists and musicians from across the El Jadida region and draws millions of visitors each year.

In India, TAQA plays a leading role in improving health, hygiene and environmental standards in villages close to the company's plant, by providing funds to lay roads, provide water storage tanks for clean water supply, construct storm water drains, and build classrooms and toilets for schools.

TAQA in the Netherlands also established a culture fund, which in 2017 supported 49 cultural projects in the Alkmaar and Bergen regions.

In Abu Dhabi, TAQA supported the pioneering Emirates Autism Center, which promotes the inclusion of autistic young people in schools, the workplace and wider society.

Environmental Stewardship

Across all our operations, we seek to both minimize our own environmental footprint and support organizations that promote and support environmental stewardship.

Every year, in Morocco we join with the Doukkala Association and the Province of El Jadida for "Environment Week". We also support the annual "Clean beaches" operation with the Mohammed VI Foundation for the protection of the Sidi Bouzid and Sidi Abed beaches.

In 2017 in the Netherlands, the Dutch gas sector signed a 'Code of Conduct – Marginal Fields', drawn up in close consultation with oil and gas stakeholders to provide general guidelines for the responsible management of the environment in projects for small fields on land. Through the Code of Conduct, the sector actively engages with its stakeholders with the aim to be an engaged, reliable and approachable player in the local environment.

CORPORATE GOVERNANCE

As a public company, we continually strive for the highest standards of corporate governance.

Structure of Board

TAQA's Board of Directors comprises seven Directors with a broad range of backgrounds, expertise and commercial experience. Each Director is elected for a term of three years and, at the end of that period, the Board may be reconstituted. Save for one Executive Director, all other Directors are Independent Directors and have technical skills and experience that will be of benefit to TAQA. Whenever Directors are chosen, consideration is given to whether or not a Director is able to dedicate adequate time and effort to his or her membership and that such membership is not in conflict with his or her other interests. The Board meets in person on a periodic basis pursuant to a formal schedule.

The current Board members were elected during the Company's Annual General Meeting held on 19 April 2017. At a meeting of the Board held on the same date, H.E. Saeed Mubarak Al-Hajeri was elected as the Chairman of the Board of Directors.

Board Committees

Presently the Board has the following two committees – each of which has been established by a written charter setting forth its scope and responsibilities:

- Audit Committee
- Nomination and Remuneration Committee

Audit Committee: The basic duties of the Audit Committee are monitoring the integrity of the Company's financial statements and its reports (annual reports, semi-annual reports, and quarterly reports), and reviewing the financial and accounting policies and procedures of the Company, as well as ensuring the independence of the Company's external auditor. It is also responsible for evaluating the integrity and quality of the Company's internal control policies and all the duties mentioned in Article (48) and the Article (49) of the Chairman of Authority's Board of Directors' Resolution No. (7 R.M), and those indicated further below.

The present members of the Audit Committee are:

1. H.E. Salem Sultan Al Dhaheri
(Chairman)
Independent Board member

2. H.E. Abdulaziz Abdulrahman Al Hemaidi
Independent Board member

3. H.E. Mohammed Sahoo Al Suwaidi
Independent Board member

The Committee convenes not less than once every three months and additionally whenever the need arises. The minutes of the Audit Committee meetings are signed by all the Committee members present. The management provides the necessary information to the Audit Committee to enable it to discharge its functions.

The establishment of the Audit Committee was approved by a resolution of the Board of Directors in a meeting held on 30 October 2007. The Committee's charter was last updated in November 2017 and adopted by the Board on 9 December 2017.

Nomination and Remuneration Committee: The basic duties of the Nomination and Remuneration Committee are to regularly ensure the independence of the independent Board members, to review the remuneration matters related to the Company, and to nominate members of the Board of Directors and determine their remuneration and all the basic duties included in Article (47) of of the Chairman of Authority's Board of Directors' Resolution No. (7 R.M).

The present members of the Nomination and Remuneration Committee are:

1. H.E. Khaleefa Al Qamzi
(Chairman)
Independent non-Executive Member

2. H.E. Khaled Abdulla Al Mass
Independent, non-Executive Member

3. H.E. Abdulaziz Abdulrahman Al-Hemaidi
Independent, non-Executive Member.

The establishment of the Nomination and Remuneration Committee was approved by a resolution by the Board of Directors in a meeting held on 20 January 2008, and the Committee's charter was last updated in November 2016 and approved by the Board on 6 December 2016.

Internal Controls

Internal controls are processes established by TAQA's Board of Directors, management and employees, designed to achieve reasonable assurance regarding the achievement of TAQA's objectives related to: (i) effectiveness and efficiency of operations, (ii) reliability of financial and non-financial reporting, and (iii) compliance with laws and regulations.

Internal Controls' Components: The internal controls framework at TAQA is composed of four key components:

1. Control Environment

- The structure of the Board of Directors along with its committees' structure and mandates, that establish the custodianship and supervisory roles over the design and implementation of internal controls across TAQA.
- The managerial organizational structure approved by the Board of Directors, and designed to achieve its objectives by defining accountabilities, roles and responsibilities towards the implementation of internal controls across TAQA.
- The code of business ethics that describes and reinforces conduct based on TAQA's guiding core values.
- The internal controls and assurance function that reports to the Board's Audit Committee to ensure independence from management and conducts monitoring activities pertaining to the fourth component.

CORPORATE GOVERNANCE CONTINUED

2. Risk Assessment

- TAQA's risk management processes established and designed to identify, assess, manage and report risks according to predefined risk tolerance and assessment criteria.
- TAQA has issued its enterprise risk management procedure during 2017 and will be implementing it during 2018. Ensuring that risks are being identified, assessed, monitored and managed across the Group.

3. Control Activities

A set of key Group policies, procedures, guidelines and management committees, governing various disciplines within the business such as finance, human resources, health, safety, security and environment (HSSE), including:

- The delegation of authority Group policy, launched in 2016 and updated in 2017 integrating key financial and non-financial authorities and streamlining authorities across TAQA.
- The Code of Ethics and polices related to anti-bribery and corruption, gifts, hospitality and entertainment, conflict of interest, insider trading, fraud and whistle blowing policies.
- The Executive Management Committee established during 2016 to review, assess and provide recommendations pertaining to TAQA's key affairs.
- The Capital Investment Committee established during 2017 to review and endorse capital investment proposals and projects.
- The commitment to operational excellence which defines TAQA's HSSE management system and sets expectations.
- The monthly, quarterly and annual managerial reporting processes of financial and operational plans, budgets, forecasts as well as actual results.
- The establishment of the Supervising Committee for insider trading, which was approved by the Board of Directors in 2017 and supervises the application of the Insider Trading Policy and submission of periodic reports to the Abu Dhabi Securities Exchange and/or SCA.

4. Monitoring Activities

The ongoing monitoring and review of the internal control systems to test its fitness for purpose, and to confirm business compliance. Including:

- The internal controls and assurance function led by the Group Vice President of Internal Control and Assurance, and Compliance Officer is responsible for overseeing the internal audit and the internal controls functions with a direct reporting line to the Audit Committee and is ultimately accountable to the Board.
- The function is primarily and directly responsible for auditing TAQA's internal controls to confirm that they are adequate, for identifying and reviewing any perceived shortfalls or weaknesses, and for testing compliance with the internal control framework.
- TAQA's internal controls and assurance function prepares annual risk-based audit plans pursuant to which it audits and reviews specific functions and activities within TAQA and its subsidiaries. The annual audit plan is designed to prioritise potential areas of risk for TAQA.
- TAQA's external auditor conducts quarterly reviews and annual audits of its financial statements, providing reasonable assurance of the reliability of management financial reporting and internal controls.
- Pursuant to Article (10) of Ministerial Resolution 518, the Board appoints an external auditor, based on the recommendation of the Audit Committee. At the General Assembly meeting held on 19 April 2017, and based on the recommendation of the Board of Directors, the shareholders appointed Ernst and Young (Abu Dhabi) as the Company's external auditors for the fiscal year 2017.

As a public company, we continually strive for the highest standards of corporate governance as we understand its value in driving business performance and improving business decisions.

SHAREHOLDER & BONDHOLDER INFORMATION

Long-term credit ratings
Moody's Investor Services
A3 (stable outlook)
Fitch Ratings
A (stable outlook)

Professional Advisors
Auditors
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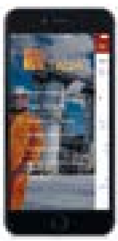
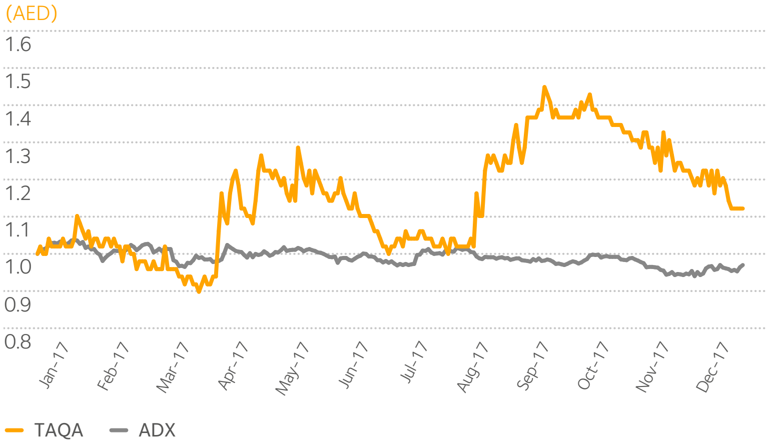
F +971 2 691 4666

www.taqaglobal.com
For information on investor relations email:
ir@taqaglobal.com

TAQA's IR App
Our IR App will keep you up-to-date with the latest developments. Download it from the App Store and Google Play store.



Shareholder information
TAQA share price performance 2017



Bond Maturity Schedule

Issue size	Maturity	Coupon
US$750 million	January-18	2.500%
US$500 million	August-18	7.250%
US$500 million	September-19	6.250%
US$750 million	June-21	3.625%
US$750 million	December-21	5.875%
MYR 650 million	March-22	4.650%
US$1,250 million	January-23	3.625%
€180 million	May-24	2.750%
US$750 million	May-24	3.875%
US$1,000 million	June-26	4.375%
$912.5 million	October-36	6.500%

ABU DHABI NATIONAL ENERGY COMPANY PJSC BOARD REPORT

On behalf of the board of Directors of Abu Dhabi National Energy Company PJSC (TAQA or the Company), I am pleased to present the financial statements of TAQA for the year ended 31 December 2017.

Since oil prices fell sharply in 2014, TAQA has worked hard to transform the company. TAQA has already seen positive operational and financial results of this work, with the transformation program resulting in the reduction of costs by AED 13.2 billion. It has been able to continue to record strong cash flow generation, and improved profitability, with total revenues increasing 4% in 2017 to AED 16.7 billion, and the company turning to a net profit. TAQA has been working hard to lower finance costs, and is gradually reducing its debt levels, which will have a positive impact on financial performance in the coming years.

TAQA reported a net profit attributable to shareholders of AED 160 million for the 2017 financial year, as the oil and gas business benefited from higher hydrocarbon prices and sustained cost efficiencies, and the power and water business continued to deliver strong income.

TAQA's total revenues stood at AED 16.7 billion in 2017, an increase of 4% on 2016. Earnings before interest, tax, depreciation, and amortization (EBITDA) increased by 7% to AED 9.1 billion, with sustained cash cost savings contributing to the improved EBITDA margin.

The company continues to benefit from the two-year transformation program, which finished in 2016, having delivered an AED 13.2 billion reduction in costs, including capital and operating expenditure. In 2017, operating expenditure in the oil and gas business was approximately 40% lower than 2014 levels.

In 2017, TAQA generated free cash flow of AED 7.4 billion, which was 1% higher than in 2016. This increase was primarily a result of the aforementioned higher EBITDA which was utilized to support increased levels of investment.

Full year 2017 financial highlights:

- **2017 total revenues** of AED 16.7 billion, an increase of 4% on 2016 (2016: AED 16.1 billion) primarily driven by higher commodity prices that benefited the oil and gas business, while the power and water business remained steady.
- **2017 EBITDA** of AED 9.1 billion, up 7% on 2016 (2016: AED 8.5 billion) supported by higher revenues and sustained cash cost savings.
- **TAQA turned to net profit in 2017**. Profit attributable to equity holders of AED 160 million.
- **2017 free cash flow** of AED 7.4 billion, which was 1% higher than in 2016 (2016: AED 7.3 billion). This increase was primarily a result of the aforementioned higher EBITDA which was utilized to support increased levels of investment.
- **Total liquidity remains strong** at AED 15.4 billion, including AED 4.2 billion in cash and cash equivalents and AED 11.2 billion of undrawn credit facilities.

Operational highlights: Power & Water

- **Global power and water business** delivered a robust operating performance, with 89,778 GWh of gross power generation and 249,469 MIG of gross water desalination. This places TAQA in the global industry's top quartile producers. Global power technical availability decreased slightly to 92.1% in 2017, from 93.6% in 2016, due partly to unplanned outages at a power plant in Ghana.
- **UAE operations** produced 64,064 GWh of electricity and 249,469 MIG of desalinated water, meeting the majority of Abu Dhabi's water and electricity requirements.

Operational highlights: Oil & Gas

- **Production volumes** of 126,200 barrels of oil equivalent per day (boe/d) in 2017, down by 8% from 2016 (137,300 boe/d), impacted by natural decline, prior capital expenditure reductions and planned North Sea platform maintenance.
- **Operating margins** per barrel increased, driven by higher realized prices and sustained cost efficiencies.
- **Production at the Atrush Block** in the Kurdistan Region of Iraq began in July 2017 and TAQA received its first payments from the Kurdistan Regional Government.

Saeed Mubarak Al Hajeri
Chairman of the Board
Abu Dhabi National Energy Company PJSC (TAQA)

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI NATIONAL ENERGY COMPANY PJSC (TAQA)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi National Energy Company PJSC (TAQA) and its subsidiaries (the Group), which comprise of the consolidated statement of financial position as at 31 December 2017 and the consolidated income statement, consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Consolidated 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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Going concern assessment

As explained in note 2.1 to the consolidated financial statements, the Group's accumulated losses as at 31 December 2017 amounted to AED 2,707 million. As at 31 December 2017, the current liabilities of the Group exceeded its current assets by AED 10 million. The consolidated financial statements have been prepared on a going concern basis. Management's assessment of whether the Group will be able to continue meeting its obligations under its financing arrangements were important for the going concern assumption and, as such, was a significant aspect of our audit. This assessment was largely based on the availability of sufficient funding and the expectations of, and the estimates made by management in their cash flow forecasts. The expectations and estimates can be influenced by subjective elements such as estimated future cash flows, forecasted results and margins from operations, and are sensitive, in particular, to expected oil and gas prices in the foreseeable future.

How our audit addressed the area of focus

We evaluated the Group's capability to meet its current requirements, which are less than one year via existing access to funding and unused credit facilities such as the revolving facilities and other facilities in place.

We also evaluated the assumptions and forecasts made by management in the 2018 Budget. We have evaluated the assumptions made with respect to the oil and gas prices, expenditure for oil and gas assets, the operating results and the cash flows considered by management, in order to assess the Group's ability to continue meeting its payment obligations and its obligations under the financing arrangements in the year ahead.

Impairment of oil and gas assets at TAQA North, TAQA Bratani, TAQA Energy and TAQA Atrush

The Group has significant interests in oil and gas assets mainly in Canada, United Kingdom, Netherlands and Iraq. Management performed an impairment test with respect to the oil and gas assets since indicators of impairment existed at the balance sheet date.

This area was important to our audit as the assessment process was complex and judgmental, was based on assumptions that are affected by expected future market or economic conditions and due to the size of the oil and gas assets asset carrying value representing 13% of the balance sheet total as at 31 December 2017. The impairment assessment requires management to make assumptions to be used in the underlying cash flow forecasts. The assumptions include a forecast of oil and gas prices, discount rates, estimation of oil and gas reserves, valuation of contingent resources and overall market and economic conditions, which have been disclosed in note 15 of the consolidated financial statements.

How our audit addressed the area of focus

We have assessed the risk associated with the carrying value of the oil and gas assets, many of which are supported by an assessment of future cash flows by performing audit procedures on impairment assessments undertaken by management.

We worked with our oil and gas and valuation experts utilizing external data in assessing and corroborating the assumptions used in impairment testing, the most significant being future market oil and gas prices, reserves and resources volumes, foreign exchange rates and discount rates. We also performed audit procedures on the mathematical integrity of the impairment models and undertook sensitivity analysis and procedures to evaluate the completeness of the impairment charge and exploration costs write offs.

We also assessed whether the consolidated financial statement disclosures appropriately reflect the requirements of IFRS relating to oil and gas asset impairments.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABU DHABI NATIONAL ENERGY COMPANY PJSC (TAQA) CONTINUED

Report on the Audit of the Consolidated Financial Statements continued

Impairment assessment of property, plant and equipment for local independent water and power producers (IWPPs)

Certain components of the Group have entered into a number of Power and Water Purchase Agreements (PWPA) locally in the United Arab Emirates, with an offtaker, for periods, which are shorter than the useful life of the plants, which was an impairment trigger. Management has performed its impairment test with respect to these assets (classified as property, plant and equipment) with a carrying value of AED 38,370 million as at 31 December 2017. Management's impairment analysis was significant to our audit because the assessment of the recoverable value of the plants incorporates significant assumptions, mainly relating to cash flows beyond the term of the contracts, including an assumption of the expected extension of the PWPAs and operating costs, availability of new technology, requirements of the country and economic estimates such as discount rates and inflation rates used to project the future cash flows. Further, the carrying amount of property, plant and equipment affected by the above assumptions represents 37% of the total assets of the Group and was therefore material to the consolidated financial statements.

How our audit addressed the area of focus

We involved component auditors to perform audit procedures in respect of the risk-adjusted models for the plant which included an assessment of the prices used during the expected extension period of the PWPA, operating costs, inflation rates and the discount rates used. We involved the component auditors in the assessment of the probability weightings applied to differing scenarios and the validation of the mathematical integrity of the valuation models developed by management as part of the impairment assessment. The component auditors were involved in analysing the extent to which these assumptions would need to change before the impact was material and assessed the likelihood of these movements occurring. We also assessed the disclosures in note 15 relating to the significant assumptions and analysis performed by management.

Recoverability of deferred tax assets

As disclosed in note 10 to the consolidated financial statements, the Group had deferred tax assets of AED 5,462 million at 31 December 2017. The main element included in the deferred tax assets relates to asset retirement obligations on the North sea oil and gas assets, where TAQA Bratani will receive tax relief for decommissioning expenditure it expects to incur in the future. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process was complex and judgmental and was based on assumptions that are affected by expected future market or economic conditions. Further, the recoverability assessment was based on management assumptions of availability of future taxable profits and historic taxable profits against which this expenditure would offset.

How our audit addressed the area of focus

We have evaluated the methodology used by management in relation to the recognition of deferred tax asset balances considering compliance with prevailing laws, relevant accounting standards and our industry knowledge. The assumptions and estimates made by management including management budgets and forecasts in relation to recognition of the deferred tax asset balances and the likelihood of recoverability of these assets have been tested for reasonableness and to the extent that the analysis relies on historical data such as prior year taxable profits or tax losses suffered, the figures have where possible been compared to supporting documentation.

We included, in our team, local and international tax specialists to analyze the assumptions used to determine tax positions and we corroborated the assumptions with supporting evidence.

Other information included in the Annual Report

Other information consists of the information included in Annual Report, other than the consolidated financial statements and our auditor's report thereon. We obtained the Board of Directors' Report, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report. Management is responsible for the other information.

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

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

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and in compliance with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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.

Report on Other Legal and Regulatory Requirements

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

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015, and the Articles of Association of the Company;

iii) the Company has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of account and records of the Company;

v) based on the information that has been made available to us, the Company has not purchased or invested in any shares or stocks during the year ended 31 December 2017;

vi) note 36 reflects the disclosures relating to related party transactions and the terms under which they were conducted;

vii) note 8 reflects the disclosure relating to social contributions made during the year; and

viii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2017, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which have a material impact on its activities or its financial position as at 31 December 2017.

Signed by

Anthony O'Sullivan
Partner
Ernst & Young
Registration No. 687

21 March 2018
Abu Dhabi

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 AED million	2016 AED million
Revenues			
Revenue from oil and gas	4.1	**4,951**	4,234
Revenue from electricity and water	4.2	**9,436**	9,546
Fuel revenue	4.3	**1,676**	1,672
Gas storage revenue		**218**	290
Other operating revenue	4.4	**399**	376
		16,680	16,118
Cost of sales			
Operating expenses	5	**(7,216)**	(7,066)
Depreciation, depletion and amortization	6	**(2,955)**	(6,339)
Dry hole expenses	14	**(22)**	(53)
Provisions for impairment	7	**–**	(22,020)
		(10,193)	(35,478)
GROSS PROFIT (LOSS)		**6,487**	(19,360)
Administrative and other expenses	8	**(508)**	(580)
Finance costs	9.1	**(4,380)**	(4,636)
Changes in fair values of derivatives and fair value hedges		**(84)**	(78)
Net foreign exchange gains		**42**	159
Gain on derecognition of a subsidiary	23	**86**	–
Share of results of associates	16	**96**	56
Share of results of a joint venture	17	**29**	21
Gain on sale of land and oil and gas assets		**78**	58
Finance income	9.2	**46**	28
Other gains (losses)		**123**	(10)
PROFIT (LOSS) BEFORE TAX		**2,015**	(24,342)
Income tax (expense) credit	10	**(972)**	6,109
PROFIT (LOSS) FOR THE YEAR		**1,043**	(18,233)
Attributable to:			
Equity holders of the parent		**160**	(19,034)
Non-controlling interests		**883**	801
PROFIT (LOSS) FOR THE YEAR		**1,043**	(18,233)
Basic and diluted earning (loss) per share attributable to equity holders of the parent (AED)	11	**0.03**	(3.14)

The attached notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 AED million	2016 AED million
Profit (loss) for the year		**1,043**	(18,233)
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair values of derivative instruments in cash flow hedges – net		**732**	1,007
Share of other comprehensive income of associates	16	**1**	18
Realized gain of foreign currency translation reserve on derecognition of a subsidiary	23	**52**	–
Exchange differences arising on translation of overseas operations		**(76)**	(92)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**709**	933
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans		**12**	(2)
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods		**12**	(2)
Other comprehensive income for the year		**721**	931
Total comprehensive income (loss) for the year		**1,764**	(17,302)
Attributable to:			
Equity holders of the parent		**557**	(18,550)
Non-controlling interests		**1,207**	1,248
		1,764	(17,302)

The attached notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	**2017 AED million**	2016 AED million
ASSETS			
Non-current assets			
Property, plant and equipment	12	**71,610**	73,512
Operating financial assets	13	**8,642**	8,557
Intangible assets	14	**2,232**	2,411
Investment in associates	16	**1,017**	914
Investment in joint venture	17	**151**	147
Advance and loans to associates	18	**702**	702
Deferred tax assets	10	**5,462**	6,119
Other assets	19	**582**	241
		90,398	92,603
Current assets			
Inventories	20	**2,785**	2,800
Operating financial assets	13	**1,198**	1,103
Accounts receivable and prepayments	21	**4,252**	4,107
Cash and short-term deposits	22	**4,400**	3,879
		12,635	11,889
TOTAL ASSETS		**103,033**	104,492
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	24	**6,066**	6,066
Contributed capital	24	**25**	25
Other reserves	25.1	**3,689**	3,612
Accumulated losses		**(2,707)**	(2,802)
Foreign currency translation reserve		**(1,928)**	(1,904)
Cumulative changes in fair value of derivatives in cash flow hedges		**(1,617)**	(2,026)
		3,528	2,971
Non-controlling interests	26	**5,366**	4,789
Loans from non-controlling interest shareholders in subsidiaries	27	**242**	312
		5,608	5,101
TOTAL EQUITY		**9,136**	8,072

The attached notes 1 to 40 form part of these consolidated financial statements.

	Notes	2017 AED million	2016 AED million
Non-current liabilities			
Interest bearing loans and borrowings	28	**61,750**	63,662
Islamic loans	29	**1,331**	1,446
Deferred tax liabilities	10	**909**	930
Asset retirement obligations	30	**14,120**	14,037
Advances and loans from related parties	31	**266**	273
Loans from non-controlling interest shareholders in subsidiaries		**69**	267
Other liabilities	32	**2,807**	3,503
		81,252	84,118
Current liabilities			
Accounts payable, accruals and other liabilities	33	**4,675**	4,453
Interest bearing loans and borrowings	28	**6,964**	6,882
Islamic loans	29	**180**	170
Amounts due to related parties	34	**88**	89
Income tax payable		**545**	613
Bank overdrafts	22	**193**	95
		12,645	12,302
TOTAL LIABILITIES		**93,897**	96,420
TOTAL EQUITY AND LIABILITIES		**103,033**	104,492

Chairman of the Board of Directors

Director

Acting Chief Operating Officer

Acting Chief Financial Officer

The attached notes 1 to 40 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to owners of the parent		
	Issued capital AED million	Contributed capital AED million	Other reserves AED million
Balance at 1 January 2016	6,066	25	3,546
(Loss) profit for the year	–	–	–
Other comprehensive income (loss) for the year	–	–	–
Total comprehensive income (loss) for the year	–	–	–
Transfer to other reserve (note 25)	–	–	66
Capital contributed during the year (note 24)	–	18,682	–
Offset against accumulated losses (note 24)	–	(18,682)	–
Dividends declared to subsidiaries' non-controlling interests	–	–	–
Repayment of loans	–	–	–
Balance at 31 December 2016	6,066	25	3,612
Profit for the year	–	–	–
Other comprehensive income (loss) for the year	–	–	–
Total comprehensive income (loss) for the year	–	–	–
Transfer to other reserve (note 25)	–	–	77
Dividends declared to subsidiaries' non-controlling interests	–	–	–
Repayment of loans	–	–	–
Balance at 31 December 2017	**6,066**	**25**	**3,689**

The attached notes 1 to 40 form part of these consolidated financial statements.

Attributable to owners of the parent						
Accumulated losses AED million	Foreign currency translation reserve AED million	Cumulative changes in fair value of derivative for cash flow hedges AED million	Total AED million	Non-controlling interests AED million	Loans from non-controlling interest shareholders in subsidiaries AED million	Total equity AED million
(2,382)	(1,812)	(2,604)	2,839	4,035	457	7,331
(19,034)	–	–	(19,034)	801	–	(18,233)
(2)	(92)	578	484	447	–	931
(19,036)	(92)	578	(18,550)	1,248	–	(17,302)
(66)	–	–	–	–	–	–
–	–	–	18,682	–	–	18,682
18,682	–	–	–	–	–	–
–	–	–	–	(494)	–	(494)
–	–	–	–	–	(145)	(145)
(2,802)	(1,904)	(2,026)	2,971	4,789	312	8,072
160	–	–	160	883	–	1,043
12	(24)	409	397	324	–	721
172	(24)	409	557	1,207	–	1,764
(77)	–	–	–	–	–	–
–	–	–	–	(630)	–	(630)
–	–	–	–	–	(70)	(70)
(2,707)	**(1,928)**	**(1,617)**	**3,528**	**5,366**	**242**	**9,136**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 AED million	2016 AED million
OPERATING ACTIVITIES			
Profit (loss) before tax		**2,015**	(24,342)
Adjustments for:			
Depreciation, depletion and amortization	6	**2,955**	6,339
Amortization of deferred expenditure		**37**	35
Release of onerous contracts provision		**(8)**	(19)
Employee benefit obligations, net		**(2)**	(4)
Loss on exchange – loans and borrowings and operating financial assets		**100**	39
Provisions for impairment	7	**–**	22,020
Dry hole expenses	14	**22**	53
Exploration and evaluation costs derecognized during the year	14	**59**	40
Gain on sale of land oil and gas assets		**(78)**	(58)
Gain on derecognition of a subsidiary	23	**(86)**	–
Interest expense and notional interest	9	**3,668**	3,925
Accretion expense	9	**712**	711
Share of results of associates	16	**(96)**	(56)
Share of results of a joint venture	17	**(29)**	(21)
Unrealized losses on fair valuation of derivatives and fair value hedges		**115**	112
Interest income	9	**(46)**	(28)
Construction costs	5	**–**	22
Revenue from operating financial assets	13	**(1,514)**	(1,535)
Working capital changes:			
Inventories		**16**	35
Account receivables and prepayments and other assets		**(133)**	466
Amount due to ADWEA and other related parties		**(1)**	(64)
Accounts payables, accruals and other liabilities		**202**	(73)
Income tax paid		**(518)**	(712)
Asset retirement obligations payments	30	**(345)**	(143)
Cash received from service concession arrangements	13	**1,705**	1,721
Net cash from operating activities		**8,750**	8,463

The attached notes 1 to 40 form part of these consolidated financial statements.

	Notes	2017 AED million	2016 AED million
INVESTING ACTIVITIES			
Proceeds from sale of non-core assets		**–**	78
Purchase of property, plant and equipment		**(1,244)**	(852)
Construction costs paid		**–**	(22)
Movement in capex liabilities		**14**	(241)
Dividend received from associates		**6**	11
Dividend received from joint ventures		**20**	22
Loan repayment by associates		**–**	2
Purchase of intangible assets	14	**(85)**	(101)
Interest received		**46**	28
Acquisition of other assets		**(66)**	(130)
Net cash used in investing activities		**(1,309)**	(1,205)
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received		**5,505**	4,704
Repayment of Islamic loans		**(172)**	(157)
Repayment of interest bearing loans and borrowings		**(7,607)**	(6,719)
Interest paid		**(3,659)**	(3,983)
Dividend paid to non-controlling interest shareholders		**(624)**	(463)
Repayment of loans to non-controlling interest shareholders in subsidiaries		**–**	(34)
Repayment of loans from non-controlling interest shareholders		**(268)**	(143)
Repayment of loans from ADWEA		**(7)**	(7)
Net cash used in financing activities		**(6,832)**	(6,802)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**609**	456
Net foreign exchange difference		**(186)**	(109)
Cash and cash equivalents at 1 January	22	**3,784**	3,437
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**4,207**	3,784

The attached notes 1 to 40 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

1 Corporate information

Abu Dhabi National Energy Company PJSC (TAQA or the Company) was established on 21 June 2005 pursuant to the provisions of Emiri Decree number 16/2005 as a public joint stock company with Abu Dhabi Water and Electricity Authority (ADWEA) as its founding shareholder and 100% owner. During the period from 23 July 2005 to 1 August 2005, 24.9% of TAQA's shares were offered to the public on the Abu Dhabi Securities Exchange through an Initial Public Offering (IPO) and 24.1% were offered through a private offering with the remaining 51.0% interest holding in the Company retained by ADWEA and, accordingly, the Company is a subsidiary of ADWEA. Following the issuance of mandatory convertible bonds and conversion of the bonds into ordinary shares during the third quarter of 2008, ADWEA's holding increased to 52.4%. Public ownership increased to 24.8% and the balance of 22.8% was held by the Farmers' Fund and other government entities. In 2017, ADWEA purchased all of the Farm Owners' Fund's shareholding, bringing ADWEA's shareholding to 74.1%.

As at the balance sheet date, the Company continues to be a subsidiary of ADWEA which was established pursuant to the provisions of Law 2 of 1998, concerning the regulation of the Water and Electricity Sector. In February 2018, Law No. (11) of 2018 on the establishment of the Energy Department (Law No. 11) was published. Pursuant to this law, all of ADWEA's assets, rights and obligations will be transferred to the Energy Department when the implementing regulation will be issued by the Executive Council of Abu Dhabi. Please refer to note 40 for additional information.

The principal activity of TAQA is to own and invest in companies engaged in power generation, water desalination and exploration, development, production and storage of oil and gas, supplemented by developing alternative and technology-driven energy initiatives in addition to other investments as considered appropriate to meet its objectives. TAQA's registered head office is PO Box 55224, Abu Dhabi, United Arab Emirates.

The consolidated financial statements of TAQA and its subsidiaries (the Group) for the year ended 31 December 2017 include the financial statements of TAQA and all its subsidiaries. Details of the major operating subsidiaries are provided in note 37 to the consolidated financial statements. Information on other related party relationships of the Group are provided in note 36.

The consolidated financial statements of the Group were authorized for issuance by the Board of Directors on 21 March 2018.

2.1 Basis of preparation

The consolidated financial statements of TAQA have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the applicable requirements of the UAE Federal Law No. (2) of 2015.

The consolidated financial statements are prepared on a historical cost basis, except for investment carried at FVTOCI financial assets and derivative financial instruments that have been measured at fair value. The carrying values of recognized assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortized cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED), which is also the functional currency and presentation currency of the parent Company. All values are rounded to the nearest million (AED million) except when otherwise indicated.

During the year, the Group incurred a profit of AED 160 million (2016: loss of AED 19,034 million), and as at 31 December 2017, accumulated losses of the Group are AED 2,707 million (2016: AED 2,802 million). As at 31 December 2017, the current liabilities of the Group exceed its current assets by AED 10 million (2016: AED 413 million). The consolidated financial statements have been prepared on a going concern basis. The Group has sufficient short to medium-term liquidity to meet ongoing commitments and therefore it is concluded that adequate support is available to evidence that the going concern assumption is appropriate for the preparation of the 2017 consolidated financial statements.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and each of its subsidiaries as at 31 December 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over the investee, including:

- The contractual arrangement with the other vote holders of an investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Total comprehensive income within a subsidiary is attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if that results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2017:

New and amended standards and interpretations

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IAS 7 Disclosure Initiative – Amendments to IAS 7.
- IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses – Amendments to IAS 12.
- Annual Improvements 2014–2016 Cycle
  - Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12.

2.4 Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

Service concession arrangements

Some of the Group's foreign subsidiaries have entered into power purchase agreements (PPA) with offtakers in countries where they are operating. Management has determined these arrangements to be service concession arrangements under IFRIC 12 Service Concession Arrangements by applying the requirements of the interpretation to the facts and circumstances in each location. The Group's domestic (United Arab Emirates) subsidiaries have entered into long-term Power and Water Purchase Agreements (PWPA) with Abu Dhabi Water and Electricity Company (ADWEC). Management does not consider the PWPA to fall within the scope of IFRIC Interpretation 12 Service Concession Arrangements.

Operating lease commitments – subsidiaries as lessor

As mentioned above the Group's domestic subsidiaries have entered into PWPAs. Under the PWPAs, the subsidiaries receive payment for the provision of power and water capacity, whether or not the offtaker (ADWEC) requests power or water output (capacity payments), and for the variable costs of production (energy and water payments). The Group has determined the PWPAs are lease arrangements and that, based on the contractual arrangements in place, management considers that the Group retains the principal risks and rewards of ownership of the plants and so accounts for the PWPAs as operating leases. When there are amendments to the PWPAs, management reconsiders whether the Group continues to retain the principal risks and rewards of ownership of the plants.

Power and Water Purchase Agreements

As mentioned above, management does not consider the domestic subsidiaries' PWPAs to fall within the scope of IFRIC 12 Service Concession Arrangement. Based on management's estimate of the useful life and residual value of the assets, the offtaker is not determined to control any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise. The classification of the PWPA as an operating lease is based on the judgment applied by management which considers that the Group retains the principal risks and rewards of ownership of the plants, based on management's estimate of the useful life and residual value of the assets. An estimate of the useful life of the asset and residual value is made and reviewed annually. The effects of changes in useful life are recognized prospectively, over the remaining life of the asset.

Impairment of non-financial assets – Indicators of impairment

Management determines at each reporting date whether there are any indicators of impairment relating to the Group's property, plant and equipment, leasehold land, intangible assets including exploration and evaluation assets or goodwill. A broad range of internal and external factors is considered as part of the indicator review process.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Oil and gas assets – Depreciation, depletion and amortization

Oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable oil and gas reserves are determined using estimates of oil in place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The volume of estimated oil and gas reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. Any difference between the amounts actually collected in future periods and the amounts expected to be recovered will be recognized in the consolidated income statement.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed and a provision applied according to the inventory type. In determining net realisable value, raw materials held for use in the production of inventories and not written down below cost if the finished product in which they will be incorporated are expected to be sold at or above cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.4 Significant accounting judgments, estimates and assumptions continued

Estimates and assumptions continued

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived based on quoted prices from active markets, their fair value is determined using valuation techniques including discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

Impairment testing of non-financial assets

The Group's impairment testing for non-financial assets is based on calculating the recoverable amount of each cash-generating unit or group of cash-generating units being tested. Recoverable amount is the higher of value in use and fair value less costs to sell. Value in use for relevant cash-generating units is derived from projected cash flows as approved by management and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested. Fair value less cost to sell for relevant cash-generating units is generally derived from discounted cash flow models using market based inputs and assumptions. Recoverable amount is most sensitive to price assumptions, foreign exchange rate assumptions and discount rates used in the cash flow models. The key assumptions used to determine the recoverable amount are further explained in notes 7 and 15 to the consolidated financial statements, which relate to impairment testing.

Estimation of oil and gas reserves

Oil and gas reserves and resources used for accounting purposes are estimated using internationally accepted methods and standards. The Group's annual oil and gas reserves and resources review process includes an external audit process conducted by appropriately qualified parties; except with reference to prospective resources (PR) at TAQA Atrush. PR at Atrush has been estimated based on work performed by an internal expert. All reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes in oil and gas reserves are an important indication of impairment or reversal of impairment and may result in subsequent impairment charges or reversals as well as affecting the unit-of-production depreciation charge in the consolidated income statement.

Provision for decommissioning

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning costs or asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at production sites. The expected timing of expenditure can also change, for example in response to changes in laws and regulations or their interpretation, and/or due to changes in commodity prices. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

Income taxes

The Group recognizes the net future tax benefit to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant assumptions related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

2.5 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, the difference is recognized as a gain in the consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or group of cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit or group of cash-generating units retained, except when the Group determines that some other method better reflects the goodwill associated with the operation disposed of.

Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets, at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current and non-current classification. An asset is current when it is:

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

All other assets are classified as non-current. A liability is current when:

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

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding sales taxes, royalties, and other similar levies as applicable.

Oil and gas

Revenue from the sale of oil and gas is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when the product is physically transferred into a delivery mechanism such as a vessel or a pipeline.

Lifting or offtake arrangements for oil and gas produced by certain of the Group's jointly owned assets are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative production entitlement and cumulative sales attributable to each participant at a reporting date represents 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within current assets and current liabilities respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognized on an entitlements basis.

Gas storage

The income from gas storage is recognized when the service is provided and accepted by customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.5 Summary of significant accounting policies continued

Revenue recognition continued

Power and water and fuel revenue

The revenue recognition of the Group's power and water business is as follows:

i) Where the Group determines that the PWPA/PPA meets the financial asset model requirements for service concession arrangements, consideration receivable is allocated by reference to the relative fair values of the services delivered. Construction revenue is recognized commensurate with completion of construction when the outcome of the contract can be estimated reliably by reference to the stage of completion, operating revenue is recognized as the service is provided and finance revenue is recognized using the effective interest rate method on the financial asset.

ii) Where the Group determines that the PWPA/PPA contains an operating lease, capacity payments are recognized as operating lease rental revenue on a systematic basis to the extent that capacity has been made available to the offtaker during the year. Those payments, which are not included as capacity payments (e.g. fuel revenue), are recognized as revenue in accordance with the contractual terms of the PWPA/PPA.

iii) Energy and water payments are recognized as revenue when the contracted power and water is delivered to the offtaker.

iv) Fuel revenue represents reimbursements from the offtakers in the power and water subsidiaries at market prices for fuel consumed in power generation in accordance with the terms of the power and water purchase agreements and the power purchase agreements. Fuel revenue is recognized as and when fuel is consumed in the production of power and water.

Liquidated damages

Liquidated damages in respect of loss of revenue due to late commissioning are included in revenue net of liquidated damages payable to the offtaker when the right to receive the liquidated damages is established.

Finance income

Interest income is recognized as the interest accrues using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated income statement.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underling transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

Functional currency is the currency of the primary economic environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gain or loss that arises from using this method.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All differences are taken to the consolidated income statement with the exception of all monetary items that provide an effective hedge of a net investment in a foreign operation. These are recognized in other comprehensive income until the disposal of the net investment, at which time they are reclassified to the consolidated income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates approximating as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates approximating at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

ii) Group companies

On consolidation, the assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognized in other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or joint venture, any excess of the cost over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in the consolidated income statement in the period in which the investment is acquired. Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. The consolidated income statement reflects the Group's share of the results of the operations of the associate or joint venture. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Where there has been a change recognized directly in other comprehensive income or equity of the associate or joint venture, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income or the consolidated statement of changes in equity, as appropriate. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate or a joint venture is included in the consolidated income statement. This is the profit attributable to equity holders of the associate or joint venture and therefore is the profit after tax and non-controlling interests of the joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of the Group. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case the Group calculates the amount of the impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value then recognizes the loss in the consolidated income statement.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained asset is a financial asset, the Group measures and recognizes the retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss. The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an associate. There is no remeasurement to fair value upon such changes in ownership interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.5 Summary of significant accounting policies continued

Interests in joint operations

A joint operation is a joint arrangement whereby parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognizes in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly.
- Its liabilities, including its share of any liabilities incurred jointly.
- Its revenue from the sale of its share of the output arising from the joint operation.
- Its share of the revenue from the sale of the output by the joint operation.
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRS applicable to the particular assets, liabilities, revenues and expenses.

Oil and gas joint ventures

Certain of the Group's activities in the oil and gas segment are conducted through joint operations where the venturers have a direct ownership interest in and jointly control the underlying assets of the venture. The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases, which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the consolidated income statement on a straight-line basis over the lease term.

Group as a lessor – Operating leases

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as a lessor – Finance leases

Leases where the Group transfers substantially all the risks and benefits of ownership of the asset are classified as financial leases. The amounts due from the lessee are recorded in the statement of financial position as financial assets and are carried at the amount of the net investment in the lease after making provision for bad and doubtful debts.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Amortization for intangible assets with finite lives is calculated on a straight-line basis as follows:

Tolling agreement	14 years
Connection rights	34–40 years
Computer software	3 years

The amortization period and the amortization method for intangible assets with finite useful lives are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated income statement when the asset is derecognized.

Accounting policies relating to intangible assets arising from oil and gas exploration and evaluation expenditure are explained below under oil and natural gas exploration, evaluation and development expenditure.

Oil and natural gas exploration, evaluation and development expenditure

Exploration & evaluation costs – capitalisation

Pre-license costs and geological and geophysical exploration costs incurred prior to obtaining the rights to explore are recognized in the consolidated income statement when incurred. Exploration licenses are recognized as an exploration and evaluation (E&E) asset. The cost of that license includes the directly attributable costs of its acquisition. Examples of such costs may include non-refundable taxes and professional and legal costs incurred in obtaining the license. Costs incurred after the rights to explore have been obtained, such as geological and geophysical costs, drilling costs, appraisal and development study costs and other directly attributable costs of exploration and evaluation activity, including technical and administrative costs for each exploration asset, are capitalized as intangible E&E assets. E&E costs are not amortized prior to the conclusion of appraisal activities.

At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered then, following development sanction, the carrying value of the relevant E&E asset is reclassified as a development and production (D&P) asset. This category reclassification is only performed after the carrying value of the relevant E&E asset has been assessed for impairment, and, where appropriate, its carrying value adjusted. If commercial reserves are not discovered at the completion of appraisal activity of each asset and it is not expected to derive any future economic benefits, the E&E asset is written off to the consolidated income statement.

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas properties.

Property, plant and equipment

Property, plant and equipment – general

Property, plant and equipment including leasehold land is stated at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Day-to-day servicing and maintenance costs are recognized in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning obligation of an asset at the end of its useful life is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

Building, equipment, plant and machinery	20–40 years
Oil and gas properties	Unit of production
Leasehold land	Straight-line from commencement to expiry of lease

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

The cost of spare parts held as essential for the continuity of operations and which are designated as strategic spares are depreciated on a straight-line basis over their estimated operating life. Spare parts used for normal repairs and maintenance are expensed when issued.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognized.

Property, plant and equipment – oil and gas properties

Oil and gas properties in the development and production phase (D&P assets) and other related assets are stated at cost, less accumulated depreciation and accumulated impairment losses (net of reversal of previously recognized impairment losses, if any). The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of the decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas properties are depreciated on a unit-of-production basis over the proved and probable (2P) reserves of the field concerned. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with estimated future development expenditure. Depreciation on oil and gas properties does not commence until the commencement of production from the property.

Property, plant and equipment – major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalized. Where an asset or part of an asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset (or asset part) which is immediately written off. Inspection costs associated with major maintenance programs are capitalized when the recognition criteria are met and amortized over the period to the next inspection. Day-to-day servicing and maintenance costs are expensed as incurred.

Property, plant and equipment – capital work in progress

Capital work in progress is included in property, plant and machinery at cost on the basis of the percentage completed at the reporting date. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the above policies when construction of the asset is completed and commissioned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.5 Summary of significant accounting policies continued

Property, plant and equipment continued

Property, plant and equipment – leasehold land

Leasehold land represents 99 years leasehold rights over certain plots of land in the UAE transferred at nominal amount from ADWEA. At the date of transfer, the Company recorded the fair value of these plots of land under property, plant and equipment. Subsequently, these plots of land are measured at initial fair value less accumulated depreciation and accumulated impairment losses (net of reversal of previously recognized impairment losses), if any.

Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. When the grant relates to an asset, it is recognized as a reduction to the carrying amount of the asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Initial spares fee

The fee paid for initial spares to be provided under a specific long-term maintenance contract is capitalized and amortized over the equivalent operating hours of the related power generating equipment.

Non-current assets and disposal groups held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through sale rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than continuing use.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of classification. Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In the case of VIU calculations, assumptions are also made regarding the cash flows from each asset's ultimate disposal. In determining fair value less costs of disposal, recent appropriate market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment on an annual basis at the reporting date. Impairment is determined for goodwill by assessing the recoverable amount of the group of cash-generating units, to which the goodwill is allocated. When the recoverable amount of the group of cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. Where applicable, for the purposes of testing goodwill for impairment, any of the related deferred tax liabilities recognized on acquisition that led to the creation of goodwill, and remain at the reporting date as estimated by the management are treated as part of the relevant group of cash-generating units.

Exploration & evaluation (E&E) costs

An impairment review is performed if and when facts and circumstances indicate that the carrying amount of an E&E asset may exceed its recoverable amount. For the purpose of E&E asset impairment testing, cash-generating units are grouped at the operating segment level. An impairment test performed in the E&E phase therefore involves grouping all E&E assets within the relevant segment with the development & production (D&P) assets belonging to the same segment. The combined segment carrying amount is compared to the combined segment recoverable amount and any resulting impairment loss identified within the E&E asset is written off to the consolidated income statement. The recoverable amount of the segment is determined as the higher of its fair value less costs to sell and its value in use.

Inventories
Inventories of fuel for the purpose of powering electricity generation facilities are valued at the lower of cost, determined on the basis of weighted average cost, and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories of oil and oil products, which represent production from oil and gas facilities of the Group which are tanked at storage facilities awaiting sale, are valued at market value.

Service concessions
The Group accounts for service concession arrangements under IFRIC 12 when the following conditions are met:

- the grantor (usually a government entity) controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor (usually a government entity) controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

In view of the above, concession infrastructure that does not meet the requirements of IFRIC 12 is presented as property, plant and equipment. Under IFRIC 12, the operator's rights over the plant operated under concession arrangements are accounted for based on the party primarily responsible for payment:

- the "intangible asset model" is applied when users have primary responsibility to pay for the concession services; and
- the "financial asset model" is applied when the grantor has the primary responsibility to pay the operator for the concession services.

Where the grantor guarantees the amounts that will be paid over the term of the contract (e.g. via a guaranteed internal rate of return), the financial asset model is used to account for the concession infrastructure, since the grantor is primarily responsible for payment. The financial asset model is used to account for Build, Operate and Transfer (BOT) contracts entered into with the grantor. The Group recognizes financial assets from service concession arrangements in the consolidated statement of financial position as operating financial assets.

Pursuant to these principles:

- infrastructure to which the operator is given access by the grantor of the concession at no consideration is not recognized in the consolidated statement of financial position; and
- start-up capital expenditure is recognized as follows:
  - under the intangible asset model, the fair value of construction and other work on the infrastructure represents the cost of intangible asset and should be recognized when the infrastructure is built provided that this work is expected to generate future economic benefits;
  - under the financial asset model, the amount receivable from the grantor is recognized at the time the infrastructure is built, at the fair value of the construction and other work carried out; and
  - when the grantor has a payment obligation for only part of the investment, the cost is recognized in receivables for the amount guaranteed by the grantor, with the balance included in intangible assets.

Financial instruments
Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

Financial assets
All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets
Debt instruments that meet the following conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Amortized cost and effective interest method
The effective interest method is a method of calculating the amortized 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.

Income is recognized on an effective interest basis for debt instruments measured subsequently at amortized cost. Interest income is recognized in profit or loss in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

2.5 Summary of significant accounting policies continued

Financial assets continued

Financial assets at fair value through other comprehensive income (FVTOCI)

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the cumulative changes in fair value relating to investment carried at FVTOCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the investments.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Financial assets at fair value through profit or loss (FVTPL)

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) on initial recognition (see above). Debt instruments that do not meet the amortized cost criteria (see above) are measured at FVTPL. In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instrument as at FVTPL.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss.

Therefore:

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognized in profit or loss; and
- for financial assets that designated as at FVTOCI, any foreign exchange component is recognized in other comprehensive income.

Impairment of financial assets

Financial assets that are measured at amortized cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, 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 past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Derecognition of financial assets

The Group derecognizes 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 risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralised borrowing for the proceeds received.

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

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair value relating to investment carried at FVTOCI is not reclassified to profit or loss, but is reclassified to retained earnings.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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 recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, financial guarantee contracts issued by the Group, and commitments issued by the Group to provide a loan at below-market interest rate are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in profit or loss. Such gains or losses that are recognized in profit or loss incorporate any interest paid on the financial liabilities and are included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss.

Gains or losses on financial guarantee contracts and loan commitments issued by the Group that are designated by the Group as at fair value through profit or loss are recognized in profit or loss. Fair value is determined in the manner described in note 38.

Financial liabilities subsequently measured at amortized cost

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortized cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortized cost are determined based on the effective interest method. Interest expense that is not capitalized as part of costs of an asset is included in the finance costs in the consolidated income statement.

The effective interest method is a method of calculating the amortized 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 (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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments and are recognized in the consolidated statement of comprehensive income.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

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2.5 Summary of significant accounting policies continued

Derivative financial instruments and hedge accounting

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 and interest rate swaps. Further details of derivative financial instruments are disclosed in note 38.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized 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.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the entity 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 highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. Note 38 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of changes in fair values of derivative instruments in cash flow hedges. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in changes in fair values of derivatives and fair value hedges line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss, and is included in the 'other gains and losses' line item. Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

Normal purchase or sale exemption

Contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IFRS 9, which is known as the 'normal purchase or sale exemption'. These contracts are accounted for as executory contracts. The Group recognizes such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

Pensions and other post-employment benefits

Employees' end of service benefits

The Group provides end of service benefits to certain employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period and year, the expected costs of these benefits are accrued over the years of employment. With respect to its UAE national employees, the Group makes contributions to the Abu Dhabi Retirement Pensions and Benefits Fund calculated as a percentage of the employees' salaries. Where the Group's obligations are limited to these contributions made to pension and benefit funds, these contributions are expensed on a monthly basis and paid when due.

Defined benefit pension plan

The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. The cost of providing benefits under defined benefit plans is determined using the projected unit credit method. Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognizes related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation in consolidated statement of profit or loss by function:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- Net interest expense or income.

Cash and short-term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Asset retirement obligations/ decommissioning liability

Certain subsidiaries have legal obligations in respect of site restoration and abandonment of their power generation and water desalination assets and oil and gas properties at the end of their useful lives (decommissioning costs). The Group records a provision for the site restoration and abandonment based upon estimated costs at the end of their useful lives. Accordingly, a corresponding asset is recognized in property, plant and equipment. Decommissioning costs are recorded at the present value of expected costs to settle the obligations using estimated cash flows and are recognized as part of the cost of each specific asset. The cash flows are discounted at a rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated income statement as a finance cost. The estimated future costs of the asset retirement obligation are reviewed annually and adjusted as appropriate. Changes to provisions based on revised costs estimates or discount rate applied charges are added to or deducted from the cost of the relevant asset.

Production bonuses

The Group's production sharing contract contains a legal obligation for production bonuses to be paid to the Kurdistan Regional Government when certain production targets are achieved. The Group records a provision for these bonuses when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. This is assessed based on the Group's share of proved and probable reserves under the production sharing contract.

Contingencies

From time to time the Group receives claims in the ordinary course of business. Liabilities and contingencies in connection with these matters are periodically assessed based upon the latest information available, usually with the assistance of lawyers and other specialists. A liability is accrued only if an adverse outcome is more likely than not and the amount of the loss can be reasonably estimated. If one of these conditions is not met, the claim is disclosed as a contingent liability, if material. The actual outcome of a claim may differ from the estimated liability and consequently may affect the financial performance and position of the Group.

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2.6 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

IFRS 9

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The Group has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Group's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

Impairment – Financial assets and contract assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance for operating financial assets, trade receivables, and cash and cash equivalents by 2% to 4%.

IFRS 15

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

Management has assessed the impact of IFRS 15 in line with the current revenue recognition policies. Based on this assessment, management believes that there will not be any material impact on the adoption of IFRS 15 in line with revenue recognition policies as detailed out in note 2.5.

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16

In January 2016, the IASB issued IFRS 16 Leases which replaces the existing leasing standard (IAS 17 Leases) and requires the recognition of most leases on the balance sheet. IFRS 16 effectively removes the classification of leases as either finance or operating leases and treats all leases as finance leases for lessees with exemptions for short-term leases where the term is twelve months or less and for leases of low-value items. The accounting treatment for lessors remains essentially unchanged, with the requirement to classify leases as either finance or operating. The company will adopt IFRS 16 on the effective date of 1 January 2019. The Group has a transition team to assess the impact of IFRS 16 and implement the necessary changes to accounting systems, business processes and internal controls as a result of the new standard. The transition team is currently in the process of reviewing and categorising the company's contracts and implementing the required information systems changes; however, it is currently too early to quantify the impacts.

3 Operating segmental information

For management reporting purposes, the Group is organised into business units based on their geography, products and services, and has five reportable operating segments as follows:

- Power and Water Segment – UAE
- Power Segment – Others
- Oil and Gas Segment – North America
- Oil and Gas Segment – Europe
- Oil and Gas Segment – Atrush

Power and Water Segment – UAE

This segment is engaged in generation of electricity and production of desalinated water for supply in UAE.

Power Segment – Others

This segment is engaged in generation of electricity in Morocco, India, Ghana, Saudi Arabia and United States.

Oil and Gas Segment – North America

This segment is engaged in Upstream and Midstream oil and gas activities in Canada and the United States.

Oil and Gas Segment – Europe

This segment is engaged primarily in Upstream oil and gas activities in the United Kingdom, and Upstream and Midstream oil and gas activities in the Netherlands.

Oil and Gas Segment – Atrush

This segment is engaged primarily in Upstream oil and gas activities in Kurdistan, Iraq.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss. Group financing cost and income except for the subsidiaries with project financing arrangements and interest income is managed on a group basis and is not allocated to operating segments.

Investment in certain associates with activities other than power and water generation and oil and gas and available for sale investments are managed on a group basis and are therefore not allocated to operating segments. In addition, leasehold land is also managed on a group basis and therefore not allocated to operating segments.

Interest bearing loans and borrowings and Islamic loans except for the subsidiaries with project financing arrangements and bank overdrafts are managed on a group basis and are not allocated to operating segments.

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3 Operating segmental information continued

The following table presents revenue and profit information for the Group's operating segments:

	Power and water generation – UAE AED million	Power generation – others AED million	Oil and gas – North America AED million	Oil and gas – Europe AED million	Oil and gas – Atrush AED million	Adjustments eliminations and unallocated AED million	Consolidated AED million
Year ended 31 December 2017:							
Revenue from external customers	**7,121**	**4,094**	**1,853**	**3,506**	**106**	**–**	**16,680**
Operating expenses	**(1,648)**	**(2,625)**	**(906)**	**(2,004)**	**(33)**	**–**	**(7,216)**
Administrative and other expenses	**(108)**	**(101)**	**(116)**	**(55)**	**(31)**	**(97)**	**(508)**
Share of results of associates	**–**	**7**	**–**	**–**	**–**	**89**	**96**
Share of results of a joint venture	**–**	**–**	**–**	**–**	**–**	**29**	**29**
Earnings before interest, tax, depreciation and amortization (EBITDA)	**5,365**	**1,375**	**831**	**1,447**	**42**	**21**	**9,081**
Dry hole expenses	**–**	**–**	**–**	**(22)**	**–**	**–**	**(22)**
Depreciation, depletion and amortization	**(1,850)**	**(79)**	**(934)**	**(42)**	**(50)**	**–**	**(2,955)**
Earnings before interest and tax (EBIT)	**3,515**	**1,296**	**(103)**	**1,383**	**(8)**	**21**	**6,104**
Finance costs	**(1,797)**	**(324)**	**(113)**	**(542)**	**–**	**(1,604)**	**(4,380)**
Changes in fair value of derivatives and fair value hedges	**–**	**(84)**	**–**	**–**	**–**	**–**	**(84)**
Net foreign exchange gains (losses)	**(1)**	**29**	**3**	**(33)**	**–**	**44**	**42**
Gain from disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	**86**	**86**
Gain (loss) from sale of land and oil and gas assets	**–**	**–**	**79**	**(1)**	**–**	**–**	**78**
Interest income	**–**	**–**	**–**	**–**	**–**	**46**	**46**
Other gains (losses)	**2**	**70**	**(6)**	**–**	**–**	**57**	**123**
Income tax (expense) credit	**–**	**(243)**	**(168)**	**(564)**	**–**	**3**	**(972)**
Profit (loss) for the year	**1,719**	**744**	**(308)**	**243**	**(8)**	**(1,347)**	**1,043**
Year ended 31 December 2016:							
Revenue from external customers	7,170	4,088	1,560	3,296	4	–	16,118
Operating expenses	(1,673)	(2,633)	(1,014)	(1,746)	–	–	(7,066)
Administrative and other expenses	(127)	(120)	(139)	(58)	(28)	(108)	(580)
Share of results of associates	–	6	–	–	–	50	56
Share of results of a joint venture	–	–	–	–	–	21	21
Earnings before interest, tax, depreciation and amortization (EBITDA)	5,370	1,341	407	1,492	(24)	(37)	8,549
Provision for impairment	–	(150)	(11,249)	(9,107)	(1,514)	–	(22,020)
Dry hole expenses	–	–	–	(53)	–	–	(53)
Depreciation, depletion and amortization	(1,837)	(71)	(1,799)	(2,617)	–	(15)	(6,339)
Earnings before interest and tax (EBIT)	3,533	1,120	(12,641)	(10,285)	(1,538)	(52)	(19,863)
Finance costs	(1,953)	(379)	(128)	(529)	–	(1,647)	(4,636)
Changes in fair value of derivatives and fair value hedges	–	(78)	–	–	–	–	(78)
Net foreign exchange gains (losses)	–	27	(7)	66	–	73	159
Gain from sale of land and oil and gas assets	–	–	58	–	–	–	58
Interest income	–	–	–	–	–	28	28
Other gains (losses)	21	(17)	7	–	–	(21)	(10)
Income tax (expense) credit	–	(289)	2,340	4,009	–	49	6,109
Profit (loss) for the year	1,601	384	(10,371)	(6,739)	(1,538)	(1,570)	(18,233)

	Power and water generation – UAE AED million	Power generation – others AED million	Oil and gas – North America AED million	Oil and gas – Europe AED million	Oil and gas – Atrush AED million	Adjustments eliminations and unallocated AED million	Consolidated AED million
At 31 December 2017							
Investment in associates	**–**	**98**	**–**	**–**	**–**	**919**	**1,017**
Investment in joint venture	**–**	**–**	**–**	**–**	**–**	**151**	**151**
Advance and loans to associates	**–**	**–**	**–**	**–**	**–**	**702**	**702**
Operating financial assets	**–**	**9,840**	**–**	**–**	**–**	**–**	**9,840**
Leasehold land	**–**	**–**	**–**	**–**	**–**	**18,682**	**18,682**
Other assets	**46,490**	**3,607**	**9,742**	**9,780**	**2,467**	**555**	**72,641**
Segment assets	**46,490**	**13,545**	**9,742**	**9,780**	**2,467**	**21,009**	**103,033**
Liabilities	**34,723**	**7,439**	**2,810**	**11,973**	**227**	**36,725**	**93,897**
At 31 December 2016							
Investment in associates	–	94	–	–	–	820	914
Investment in joint venture	–	–	–	–	–	147	147
Advance and loans to associates	–	–	–	–	–	702	702
Operating financial assets	–	9,660	–	–	–	–	9,660
Leasehold land	–	–	–	–	–	18,682	18,682
Other assets	47,485	4,066	9,886	10,186	2,330	434	74,387
Segment assets	47,485	13,820	9,886	10,186	2,330	20,785	104,492
Liabilities	36,468	7,842	2,385	12,351	239	37,135	96,420
Other disclosures							
Year ended December 2017							
Additions to property, plant and equipment	**399**	**–**	**282**	**394**	**44**	**–**	**1,119**
Additions to intangible assets	**–**	**–**	**13**	**66**	**6**	**–**	**85**
Dry hole expenses	**–**	**–**	**–**	**(22)**	**–**	**–**	**(22)**
Year ended December 2016							
Additions to property, plant and equipment	281	–	412	298	155	18,691	19,837
Construction costs relating to operating financial assets	–	22	–	–	–	–	22
Additions to intangible assets	–	–	1	97	54	–	152
Provision for impairment	–	(150)	(11,249)	(9,107)	(1,514)	–	(22,020)
Dry hole expenses	–	–	–	(53)	–	–	(53)

- Inter-segment transactions are on an arm's length basis in a manner similar to transactions with third parties.
- Inter-segment revenues are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 Operating segmental information continued

Geographical information

The following tables present revenue, certain asset information relating to the Group based on geographical location of the subsidiaries:

	UAE AED million	North America AED million	Europe AED million	Africa AED million	Others AED million	Total AED million
Revenue						
Year ended 31 December 2017	**7,121**	**2,514**	**3,506**	**3,098**	**441**	**16,680**
Year ended 31 December 2016	7,170	2,224	3,296	3,102	326	16,118
Non-current assets						
At 31 December 2017	**39,883**	**8,724**	**4,728**	**8,270**	**21,461**	**83,066**
At 31 December 2016	41,295	8,911	6,809	8,201	19,505	84,721

Non-current assets for this purpose consist property, plant and equipment (including leasehold land), operating financial assets, intangible assets and other assets.

Other information

The following table provides information relating to the Group's major customers which contribute more than 10% towards the Group's revenue.

	Power and water generation – UAE AED million	Power generation – others AED million	Oil and gas – Europe AED million	Total AED million
Year ended 31 December 2017				
Customer 1	**7,121**	**–**	**–**	**7,121**
Customer 2		**2,822**	**–**	**2,822**
Customer 3	**–**	**–**	**1,913**	**1,913**
Total	**7,121**	**2,822**	**1,913**	**11,856**
Year ended 31 December 2016				
Customer 1	7,170	–	–	7,170
Customer 2	–	2,846	–	2,846
Customer 3	–	–	1,749	1,749
Total	7,170	2,846	1,749	11,765

4 Revenues

4.1 Revenue from oil and gas

	2017 AED million	2016 AED million
Gross oil and gas revenue	**5,198**	4,414
Less: royalties	**(247)**	(180)
	4,951	4,234

4.2 Revenue from electricity and water

	2017 AED million	2016 AED million
Operating lease revenue	**6,015**	5,834
Revenue from operating financial assets (note 13)	**1,514**	1,535
Sale of electricity	**663**	664
Energy payments and other related revenue	**1,244**	1,513
	9,436	9,546

4.3 Fuel revenue

Fuel revenue represents reimbursements from the offtakers of the power and water subsidiaries for fuel consumed in power generation in accordance with the terms of the power and water purchase agreements and the power purchase agreements. Fuel revenue is further analyzed as follows:

	2017 AED million	2016 AED million
Backup fuel in domestic subsidiaries reimbursed by ADWEC (note 36)	**15**	33
Reimbursement of coal and other fuel costs in foreign power subsidiaries	**1,661**	1,639
	1,676	1,672

4.4 Other operating revenue

	2017 AED million	2016 AED million
Net processing income	**208**	230
Tariff income	**28**	29
Gas trading	**41**	80
Others	**122**	37
	399	376

5 Operating expenses

	2017 AED million	2016 AED million
Staff costs	**341**	280
Repairs, maintenance and consumables used	**2,327**	2,382
Fuel expenses	**2,070**	1,943
Construction costs	**–**	22
Charges by operating and maintenance contractors	**1,494**	1,538
Oil and gas operating costs	**419**	304
Gas purchases for trading	**47**	87
Transportation costs	**126**	146
Gas storage expenses	**117**	100
Exploration and evaluation assets written off (note 14)	**59**	40
Others	**216**	224
	7,216	7,066

6 Depreciation, depletion and amortization

	2017 AED million	2016 AED million
Depreciation of property, plant and equipment and depletion of oil and gas assets (note 12)	**2,837**	6,206
Amortization of initial spares fees (note 19)	**5**	12
Amortization of intangible assets (note 14)	**113**	121
	2,955	6,339

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7 Provisions for impairment

	2017 AED million	2016 AED million
Provision for impairment on other non-current assets (note 12 and 14)	–	21,926
Provision for impairment on operating financial assets (note 13)	–	94
	–	22,020

Provision for impairment on non-current assets
2017:
During the year ended 31 December 2017, no impairment charges or reversals have been recognized:

Provision for impairment on net assets
2016:
During the year ended 31 December 2016, the following impairment charges have been recognized:

a) Pre-tax impairment charge of AED 9,107 million (post-tax: AED 6,019 million) was recognized in the consolidated income statement, representing the write down of certain assets in the Europe to their recoverable amounts. These assets are included in the oil and gas – Europe segment.

b) Pre-tax impairment charge of AED 11,249 million (post-tax: AED 9,188 million) was recognized in the consolidated income statement, representing the write down of certain assets in the United States and Canada to their recoverable amounts. These assets are included in the oil and gas – North America segment.

c) Pre-tax impairment charge of AED 1,514 million (post-tax: AED 1,514 million) was recognized in the consolidated income statement, representing the write down of certain assets in Atrush to their recoverable amounts. These assets are included in the oil and gas – Atrush segment.

d) Pre-tax impairment charge of AED 150 million (post-tax: AED 150 million) was recognized in the consolidated income statement, representing the write down of net assets of the group's subsidiary in Ghana to its recoverable amount. These assets are included in power and water – others segment.

The recoverable amounts for these assets were based on their fair value less costs of disposal (FVLCD). In determining FVLCD, appropriate discounted cash flow valuation models were used, incorporating market assumptions.

The key assumptions for the FVLCD calculations are outlined in note 15 to the consolidated financial statements.

8 Administrative and other expenses

	2017 AED million	2016 AED million
Salaries and related expenses	**460**	499
Professional fees and business development expenses	**110**	95
Corporate social contributions	**1**	1
Others	**246**	283
	817	878
Recoveries	**(309)**	(298)
Total	**508**	580

9 Finance costs and finance income
9.1 Finance costs

	2017 AED million	2016 AED million
Finance costs relating to bonds and notes	**1,710**	1,770
Finance costs relating to interest bearing loans and borrowings and Islamic loans	**1,136**	1,064
Interest expense on interest rate swaps	**793**	1,089
Restructuring fee for interest rate swaps	**29**	–
Asset retirement obligations accretion expense (note 30)	**695**	705
Notional interest expense on loan from ADPC (note 31)	**1**	2
Other accretion expense	**16**	6
	4,380	4,636

9.2 Finance income

	2017 AED million	2016 AED million
Finance income on loan to associate (note 36)	**–**	2
Finance income on short-term deposits	**46**	26
	46	28

10 Income tax
The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	2017 AED million	2016 AED million
Consolidated income statement		
Current income tax:		
Current income tax charge	**405**	504
Adjustment in respect to income tax of previous years	**(69)**	(33)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**636**	(6,580)
Income tax credit reported in the consolidated income statement	**972**	(6,109)

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10 Income tax continued

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable statutory tax rate for the years ended 31 December 2017 and 2016 is as follows::

	2017 AED million	2016 AED million
Profit (loss) before tax	**2,015**	(24,342)
Non-taxable profit (including income in non-taxable jurisdictions)	**(660)**	(72)
Total taxable profit (loss)	**1,355**	(24,414)
Applicable tax credit (charge) at statutory rates – weighted average of 22% (2016: 25%)	**(299)**	6,095
Adjustment in respect to income tax of previous years	**76**	33
Withholding taxes	**(12)**	(10)
Tax incentives	**(20)**	(1)
Special production taxes on upstream activities	**(9)**	31
Others	**(708)**	(39)
Income tax (expense) credit reported in the consolidated income statement	**(972)**	6,109

Deferred tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2017 AED million	2016 AED million	**2017 AED million**	2016 AED million
Deferred tax assets:				
Temporary difference on property, plant and equipment	**(886)**	(708)	**(178)**	4,283
Temporary difference arising on asset retirement obligations	**4,423**	4,914	**(491)**	(105)
Tax losses	**657**	735	**(78)**	293
Others	**1,268**	1,178	**90**	469
	5,462	6,119	**(657)**	4,940
Deferred tax liabilities:				
Temporary difference on property, plant and equipment	**922**	855	**67**	(2,563)
Temporary difference arising on asset retirement obligations	**–**	–	**–**	(1,442)
Tax losses	**–**	–	**–**	455
Others	**(13)**	75	**(88)**	1,910
	909	930	**(21)**	(1,640)

Based on the latest available forecast of future profits, the Group has determined AED 1,650 million of tax losses (2016: AED 2,990 million) are unlikely to be utilized in the foreseeable future. Hence, no deferred tax benefit has been recognized, though these losses remain available for offset against future taxable profits.

During the year, the Group recognized a provision of AED 92 million (2016: AED 325 million) related to deferred tax asset in North America assets.

11 Basic and diluted losses per share

Basic earning (loss) per share amounts are calculated by dividing earning (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earning (loss) per share amounts are calculated by dividing the earning (loss) attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the profit (loss) and shares data used in the earnings (losses) per share computations:

	2017	2016
Profit (loss) for the year attributable to owners of the parent (AED million)	**160**	(19,034)
Weighted average number of ordinary shares issued (million)	**6,066**	6,066
Basic earning (loss) per share (AED)	**0.03**	(3.14)

No figure for diluted earning (loss) per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised. The weighted average number of shares take into account the treasury shares as at year end.

12 Property, plant and equipment

	Leasehold land (note 24) AED million	Capital work in progress AED million	Building, equipment, plant and machinery AED million	Oil and gas assets AED million	Plant spares AED million	Total AED million
2017						
Cost:						
At 1 January 2017	**18,682**	**1,863**	**58,634**	**63,728**	**337**	**143,244**
Additions	**–**	**59**	**400**	**648**	**12**	**1,119**
Disposals of assets	**–**	**(256)**	**(140)**	**(360)**	**(6)**	**(762)**
Transfers (note 14)	**–**	**(598)**	**62**	**570**	**(6)**	**28**
Exchange adjustment	**–**	**3**	**754**	**355**	**–**	**1,112**
At 31 December 2017	**18,682**	**1,071**	**59,710**	**64,941**	**337**	**144,741**
Depreciation and depletion:						
At 1 January 2017	**–**	**–**	**17,221**	**32,294**	**118**	**49,633**
Charge for the year (note 6)	**–**	**–**	**1,961**	**869**	**7**	**2,837**
On disposal of assets	**–**	**–**	**(30)**	**(264)**	**(2)**	**(296)**
Exchange adjustment	**–**	**–**	**496**	**171**	**–**	**667**
At 31 December 2017	**–**	**–**	**19,648**	**33,070**	**123**	**52,841**
Impairment:						
At 1 January 2017	**–**	**344**	**301**	**19,454**	**–**	**20,099**
Exchange adjustment	**–**	**8**	**40**	**143**	**–**	**191**
At 31 December 2017	**–**	**352**	**341**	**19,597**	**–**	**20,290**
Net carrying amount:						
At 31 December 2017	**18,682**	**719**	**39,721**	**12,274**	**214**	**71,610**

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12 Property, plant and equipment continued

	Leasehold land (note 24) AED million	Capital work in progress AED million	Building, equipment, plant and machinery AED million	Oil and gas assets AED million	Plant spares AED million	Total AED million
2016						
Cost:						
At 1 January 2016	–	1,833	58,586	62,910	337	123,666
Additions	18,682	94	228	833	–	19,837
Disposals of assets	–	–	(41)	(31)	–	(72)
Transfers (note 14)	–	(50)	50	108	–	108
Exchange adjustment	–	(14)	(189)	(92)	–	(295)
At 31 December 2016	18,682	1,863	58,634	63,728	337	143,244
Depreciation and depletion:						
At 1 January 2016	–	–	15,299	28,235	103	43,637
Charge for the year (note 6)	–	–	2,072	4,119	15	6,206
On disposal of assets	–	–	(30)	(22)	–	(52)
Exchange adjustment	–	–	(120)	(38)	–	(158)
At 31 December 2016	–	–	17,221	32,294	118	49,633
Impairment:						
At 1 January 2016	–	353	254	4,572	–	5,179
Impairment charge during the year (note 7)	–	–	56	14,892	–	14,948
Exchange adjustment	–	(9)	(9)	(10)	–	(28)
At 31 December 2016	–	344	301	19,454	–	20,099
Net carrying amount:						
At 31 December 2016	18,682	1,519	41,112	11,980	219	73,512

Capital work in progress additions include capitalized borrowing costs of AED nil (2016: AED 65 million).

Property, plant and equipment with a carrying amount of AED 38,393 million (2016: AED 40,105 million) are pledged as security for the related loans.

Effective 31 December 2016, the Company entered into a framework agreement (the agreement) with ADWEA with the intention of ADWEA to support the Company by granting the Company certain plots of land in the UAE. In accordance with the agreement the Company received a 99 year leasehold right to certain plots of land owned by ADWEA at nominal amount. At the date of the transfer, the Company recorded fair value of leasehold land, amounting to AED 18,682 million, under property, plant and equipment with a corresponding amount recorded as an equity contribution from ADWEA.

13 Operating financial assets

	2017 AED million	2016 AED million
The movement in operating financial assets is as follows:		
At 1 January	**9,660**	10,014
Recognized during the year (note 4.2)	**1,514**	1,535
Consideration received during the year	**(1,705)**	(1,721)
Impairment charge for the year (note 7)	**–**	(94)
Exchange gains (losses) recognized in the consolidated income statement	**371**	(74)
At 31 December	**9,840**	9,660

Analyzed in the consolidated statement of financial position as follows:

	2017 AED million	2016 AED million
Non-current portion	**8,642**	8,557
Current portion	**1,198**	1,103
	9,840	9,660

Jorf Lasfar
The subsidiary has the right of possession for the site and the plant units for a period of 30 years ending in September 2027. After the 30-year period, the ownership of the site and the plants will be transferred to the offtaker.

During 2009, Office National de l'Electricité (ONE), TAQA Morocco (formerly Jorf Lasfar Energy Company) and TAQA signed a strategic partnership agreement to extend the capacity of JLEC by two new units of an approximate gross capacity of 350 MW each. As per this agreement, TAQA Morocco or an affiliate will build, own, and operate the new units 5 and 6 under a 30-year power purchase agreement with ONE.

Neyveli
The subsidiary has a 30-year PPA with the offtaker ending in December 2032. On the expiry date of the PPA, the offtaker has the option to acquire the plant at a price equal to 50% of the terminal value as defined in the PPA.

Takoradi
The subsidiary had originally signed a 25-year PPA with the offtaker ending in March 2024. On expiry date of the PPA, the plant is to be transferred to the offtaker at a nominal amount. The expansion project has increased the existing 220 MW capacity to 330 MW. As a result of the expansion, the PPA term has been extended to 2039.

Operating financial assets with a carrying amount of AED 9,332 million (2016: AED 9,157 million) are pledged as security for the related borrowings in the subsidiaries

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14 Intangible assets

	Exploration and evaluation assets AED million	Tolling agreement AED million	Connection rights AED million	Goodwill AED million	Computer software AED million	Total AED million
2017						
Cost:						
At 1 January 2017	**2,968**	**836**	**1,388**	**9,292**	**260**	**14,744**
Additions	**80**	**–**	**–**	**–**	**5**	**85**
Transfers to oil and gas assets (note 12)	**(28)**	**–**	**–**	**–**	**–**	**(28)**
Dry hole expenses written off	**(22)**	**–**	**–**	**–**	**–**	**(22)**
Derecognized during the year (note 5)	**(59)**	**–**	**–**	**–**	**–**	**(59)**
Exchange adjustment	**19**	**–**	**–**	**–**	**–**	**19**
At 31 December 2017	**2,958**	**836**	**1,388**	**9,292**	**265**	**14,739**
Amortization:						
At 1 January 2017	**–**	**487**	**418**	**–**	**217**	**1,122**
Amortization for the year (note 6)	**–**	**61**	**41**	**–**	**11**	**113**
At 31 December 2017	**–**	**548**	**459**	**–**	**228**	**1,235**
Impairment:						
At 1 January 2017 and 31 December 2017	**1,987**	**–**	**–**	**9,292**	**–**	**11,279**
Net book value before fair value adjustment:						
At 31 December 2017	**971**	**288**	**929**	**–**	**37**	**2,225**
Fair value adjustment on effective fair value hedges (note 38.2 (iv))	**–**	**7**	**–**	**–**	**–**	**7**
Net book value after fair value adjustment:						
At 31 December 2017	**971**	**295**	**929**	**–**	**37**	**2,232**
2016						
Cost:						
At 1 January 2016	3,026	836	1,388	9,457	256	14,963
Additions	148	–	–	–	4	152
Transfers to oil and gas assets (note 12)	(108)	–	–	–	–	(108)
Dry hole expenses written off	(53)	–	–	–	–	(53)
Derecognized during the year (note 5)	(40)	–	–	–	–	(40)
Exchange adjustment	(5)	–	–	(165)	–	(170)
At 31 December 2016	2,968	836	1,388	9,292	260	14,744
Amortization:						
At 1 January 2016	–	426	380	–	195	1,001
Amortization for the year (note 6)	–	61	38	–	22	121
At 31 December 2016	–	487	418	–	217	1,122
Impairment:						
At 1 January 2016	–	–	–	4,301	–	4,301
Impairment charge during the year	1,987	–	–	4,991	–	6,978
At 31 December 2016	1,987	–	–	9,292	–	11,279
Net book value before fair value adjustment:						
At 31 December 2016	981	349	970	–	43	2,343
Fair value adjustment on effective fair value hedges (note 38.2 (iv))	–	68	–	–	–	68
Net book value after fair value adjustment:						
At 31 December 2016	981	417	970	–	43	2,411

Exploration and evaluation assets

On 12 March 2013, the Kurdistan Regional Government (KRG) exercised its option of Government Participation in the Atrush block. During Q4 2016, the contractors concluded the negotiations with the KRG, resulting in the signing of a PSC Amendment and Facilitation Agreement. The PSC Amendment formally changes TAQA's interest in the block from 53.2% to 39.9%. The Facilitation Agreement describes the accelerated cost recovery mechanism in which the contractors will capture the monies owed by the KRG. An amount of AED 391 million (2016: AED 367 million) is held in a receivables account for reimbursement of petroleum costs, out of which AED 301 million (2016: AED nil) is held in non-current other assets account (note 19).

Impairment testing of exploration and evaluation assets

In 2016, the exploration and evaluation assets in the oil and gas Atrush segment was tested for impairment due to the existence of triggering events as stated in IFRS 6 (Exploration for and Evaluation of Mineral Resources). This resulted in an impairment charge of AED 1,987 million being booked in the prior year. No such impairment/impairment reversal was required in 2017. The recoverable amount for the assets is based on their VIU. In determining VIU, an appropriate discounted cash flow valuation model is used, incorporating market based assumptions. The key assumptions for the oil and gas asset VIU calculations are outlined in note 15 together with the approach management has taken in determining the value to ascribe to each. The valuation models are life of asset models and therefore no extrapolation assumptions have been necessary or applied. The fair value measurements were categorized as Level 3 fair values based on the inputs to the valuation models.

Tolling agreement

As part of the acquisition of BE Red Oak Holding LLC on 31 December 2008, the Group acquired a fuel conversion services, capacity and ancillary services purchase agreement (Tolling Agreement) for an amount of AED 836 million (US$227.5 million). Under the terms of the Tolling Agreement, the Group is entitled to the economic rights (revenue from sale of electricity, capacity payments and any other ancillary services) of a power plant located in New Jersey, USA and the Group is obligated to supply the fuel and also make certain fixed and variable payments to the operator. The tolling agreement cost is being amortized on a straight-line basis over the term of the agreement.

Connection rights

The intangible assets arose from the transfer, made by the Company's subsidiaries Emirates CMS Power Company, Shuweihat CMS International Power Company, Arabian Power Company and Taweelah Asia Power Company during the years ended 31 December 2002, 2005, 2006 and 2008 respectively, of certain assets to a related party in accordance with the terms of individual agreements and represent the acquisition cost of the right of connection to the transmission systems at the connection sites for a period of 38, 33, 37 and 40 years respectively. The connection rights cost are being amortized on a straight-line basis over 38, 33, 37 and 40 years respectively, being the expected period of benefit.

15 Impairment testing of goodwill

In 2016, the Group performed goodwill impairment testing, at the reporting date. Goodwill was allocated to the following cash-generating units (CGUs):

- Power generation assets – others
- Oil and gas assets – Europe (UK and Netherlands)
- Oil and gas assets – North America

The carrying amount of goodwill was allocated to each of the cash-generating units as summarised below, prior to being fully impaired in 2016:

	Oil and gas – Europe AED million	Oil and gas – North America AED million	Power generation assets – other AED million	Total AED million
2016				
At 1 January 2016	2,485	2,569	102	5,156
Impairment during the year	(2,320)	(2,569)	(102)	(4,991)
Exchange adjustment	(165)	–	–	(165)
At 31 December 2016	–	–	–	–

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15 Impairment testing of goodwill continued

Oil and gas assets

2017

During the year ended 31 December 2017, no impairment charges or reversals have been recognized on property, plant and equipment.

2016

In 2016, the recoverable amount for all the oil and gas assets is based on their fair value less cost of disposal (FVLCD). In determining FVLCD, appropriate discounted cash flow valuation models are used, incorporating market based assumptions. The key assumptions for the oil and gas asset FVLCD calculations are outlined below together with the approach management has taken in determining the value to ascribe to each. The valuation models are life of asset models and therefore no extrapolation assumptions have been necessary or applied. The fair value measurements were categorized as Level 3 fair values based on the inputs to the valuation models. The FVLCD was calculated as below (refer note 7):

a) North America: FVLCD was AED 6,089 million post-tax.

b) Atrush: FVLCD was AED 1,844 million post-tax.

c) Europe: FVLCD was AED 4,430 million post-tax.

Impairment Approach and Key Assumptions:

The calculation of recoverable amount for oil and gas assets is based upon the following key assumptions:

- Reserve and resource volumes;
- Inflation rates;
- Contingent resources valuation;
- Cash flows relating to gas storage;
- Discount rates;
- Foreign exchange rates; and
- Commodity prices.

In the VIU calculations, assumptions are also made regarding the cash flows from each asset's ultimate disposal.

Reserve and resource volumes

Reserve and resource volumes form the basis of the production profiles within the discounted cash flow models. The Group's annual oil and gas reserves (proved, probable and possible) and resources review process includes an external audit process conducted by appropriately qualified parties; except with reference to prospective resources (PR) at TAQA Atrush. PR at Atrush has been estimated based on work performed by internal expert. Where significant, the contingent resources within a segment are also reviewed and reported on. The data generated for each field and location takes into consideration the development plans approved by senior management and reasonable assumptions that an external party would apply in appraising the assets.

Inflation rates

Estimates are obtained from published indices for the countries from which products and services are originated, as well as data relating to specific commodities. Forecast figures are used if data is publicly available. The Company assumed inflation rates ranging from 2% to 5% in perpetuity (2016: 2.1% to 5%).

Contingent resources valuation

Contingent resources are valued internally using risk-adjusted discounted cash flow models and calibrated for reasonability with reference to any precedent transactions and/or publicly available comparable market data, using methods consistent with those applied to resource valuations.

Cash flows relating to gas storage
Cash flows relating to gas storage are based on assumptions on delivery capacity, injection capacity, working volumes and expected availability. The assumptions have been approved by management and in most cases validated by third party consultants and are supported by non-binding expressions of interests on demand for working volumes.

Discount rates
Discount rates used reflect the estimated weighted average cost of capital rates for potential acquirer group companies developed for each of the locations. A post-tax discount rate ranging from 8.5% to 13% (2016: 8.5% to 13%), was used to calculate the recoverable amounts at the reporting date.

Foreign exchange rates and commodity prices
A summary of the 2017 key assumptions are provided below:

	2018	2019	2020	2021	2022[1]
WTI (US$/bbl)	55	58	63	68	68
AECO gas (CAD$/mmbtu)	2	2.25	2.50	2.75	3.00
Brent (US$/bbl)	57	60	65	70	70
Summer/Winter gas spread (Euro/MWh)	1.40	1.65	2.00	3.00	3.00
US$/CAD$	0.80	0.77	0.77	0.77	0.77
US$/Euro	1.16	1.16	1.16	1.16	1.16
US$/GBP	1.33	1.33	1.35	1.37	1.43

[1] Prices are escalated at 2% (2016: 2.1%) thereafter.

Power and water assets
The recoverable amount for power and water assets is based on VIU. In determining VIU discounted cash flow valuation model was used, incorporating market based assumptions. The key assumptions for VIU calculations are outlined below together with the approach management has taken in determining the value to ascribe to each. The valuation models are life of asset models and therefore no extrapolation assumptions have been necessary or applied. Management believes it is appropriate to use cash flow forecasts over such periods due to the long-term power and water purchase agreements associated with the facilities.

The calculation of VIU for power and water generation assets is most sensitive to the following assumptions:

- Inflation rates; and
- Discount rates.

Inflation rates
Estimates are obtained from published indices for the countries from which products and services are originated. Forecast figures are used if data is publicly available. The Company assumed inflation rates ranging from 2% to 5% in perpetuity (2016: 2.1% to 5%).

Discount rates
Discount rates used represent the current market assessment of the risks specific to the assets, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The future cash flows are discounted using post-tax rates ranging from 7% to 11% (2016: 7% to 11%).

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16 Investment in associates

The Group has the following investments in associates:

	Country of incorporation and operation	Ownership 2017	Ownership 2016
Massar Solutions PJSC (note i)	UAE	**49.0%**	49.0%
Jubail Energy Company (note ii)	Saudi Arabia	**25.0%**	25.0%
Sohar Aluminium Company LLC (note iii)	Oman	**40.0%**	40.0%

i) Massar Solution PJSC (formerly Al Wathba Company for Central Services PJSC) is mainly involved in the leasing and management of vehicles and equipment.

ii) Jubail Energy Company (Jubail) is involved in the generation of electricity.

iii) Sohar Aluminium Company LLC (Sohar) is involved in the construction, ownership and operation of an aluminium smelter and an associated combined cycle power plant.

The Group's associates are accounted for using the equity method and the reporting dates of the associates are identical to TAQA. The following table analyzes the carrying amount and share of profit and other comprehensive income of TAQA's associates.

	2017 AED million	2016 AED million
Carrying amount of investments	**1,017**	914
Group's share of the associates:		
Profit for the year	**96**	56
Other comprehensive income	**1**	18
Total comprehensive income	**97**	74

In order for Jubail to reduce its exposure to interest rates fluctuations on loans from banks, the Company's associate has entered into an interest rate arrangement with counterparty banks for a notional amount that mirrors the draw down and repayment schedule of the loans.

17 Investment in joint venture

The Group has the following investment in a joint venture:

	Principal activity	Country of incorporation and operation	Ownership 2017	Ownership 2016
LWP Lessee, LLC	Wind Power	USA	**50%**	50.0%

The Group's joint venture is accounted for using the equity method and the reporting dates of the joint ventures are identical to TAQA. The following table analyzes the carrying amount and share of profit of the Group's joint ventures.

	2017 AED million	2016 AED million
Carrying amount of investment in joint ventures	**151**	147
Share of joint ventures' profit for the year	**29**	21

18 Advance and loans to associates

	2017 AED million	2016 AED million
Mezzanine loan – non-current	**397**	397
Advance – non-current	**305**	305
	702	702

The balances above mainly arise from the loans and advances made to Sohar Aluminium Company LLC in previous years.

19 Other assets – non-current

	2017 AED million	2016 AED million
Deferred expenditure	**123**	117
Initial spares fee (note (i))	**1**	6
Derivatives in effective hedges – interest rate swap (note 38.1)	**5**	2
Derivatives in effective hedges – forward foreign exchange contracts (note 38.1)	**13**	12
Loan receivable from joint venture partner	**50**	–
Petroleum cost receivable from joint venture partner	**251**	–
Others	**139**	104
Total	**582**	241

The loan receivable from the joint venture partner in Atrush, is at a rate of 7% per annum, and is receivable within 2 to 5 years.

(i) Initial spares fee:

	2017 AED million	2016 AED million
Cost:		
Balance at 1 January and 31 December	**146**	146
Amortization:		
At 1 January	**(140)**	(128)
Charge for the year (note 6)	**(5)**	(12)
At 31 December	**(145)**	(140)
Net carrying amount at 31 December	**1**	6

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20 Inventories

	2017 AED million	2016 AED million
Fuel and crude oil	**1,636**	1,579
Spare parts and consumables	**1,373**	1,413
	3,009	2,992
Provision for slow moving and obsolete items	**(224)**	(192)
	2,785	2,800

The cost of inventories recognized as an expense in the consolidated income statement is AED 1,761 million (2016: AED 1,807 million).

Inventories with a carrying amount of AED 2,726 million (2016: AED 2,707 million) are pledged as security for loans of the UAE domestic subsidiaries and certain foreign subsidiaries in the power business. Movements in the provision for slow moving and obsolete items are as follows:

	2017 AED million	2016 AED million
At 1 January	**192**	227
Provision increase (decrease) during the year	**32**	(35)
At 31 December	**224**	192

21 Accounts receivable and prepayments

	2017 AED million	2016 AED million
Trade receivables (note (i))	**1,094**	1,044
Amounts due from related parties (note (ii))	**1,286**	1,278
Accrued revenue	**396**	345
Advances to O&M contractors	**6**	42
Crude stock underlift	**264**	242
Deposits	**39**	17
Advances to suppliers	**61**	44
Prepaid insurance	**40**	21
Income tax prepaid	**367**	246
Derivatives in effective hedges – forward foreign exchange contracts (note 38.1)	**10**	4
Other receivables	**689**	824
	4,252	4,107

(i) Trade receivables
As at 31 December 2017, trade receivables at nominal value of AED 22 million (2016: AED 22 million) were impaired and fully provided for. Trade receivables are non-interest bearing and are recoverable within 30–90 working days. Movements in the provision for impairment of receivables are as follows:

	2017 AED million	2016 AED million
At 1 January	**22**	14
Provision movement	**–**	8
At 31 December	**22**	22

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due but not impaired				
	Total AED million	Neither past due nor impaired AED million	< 30 days AED million	30–60 days AED million	60–90 days AED million	90–120 days AED million	> 120 days AED million
2017	**1,094**	**839**	**39**	**25**	**35**	**45**	**111**
2016	1,044	864	24	47	36	34	39

Subsequent to the reporting date, the Group collected AED 34 million (2016: AED nil) of balances past due for more than 120 days.

(ii) Amounts due from related parties

	2017 AED million	2016 AED million
Abu Dhabi Water and Electricity Company (ADWEC)	**1,281**	1,273
Others	**5**	5
	1,286	1,278

The amounts due from ADWEC, a fellow subsidiary of ADWEA, in respect of available capacity and supply of water and electricity, are payable within 30–90 working days.

As at 31 December 2017, amounts due from related parties at nominal value of AED nil (2016: AED 8 million) were impaired and fully provided for.

As at 31 December, the ageing analysis of receivable from related parties is as follows:

			Past due but not impaired				
	Total AED million	Neither past due nor impaired AED million	< 30 days AED million	30–60 days AED million	60–90 days AED million	90–120 days AED million	> 120 days AED million
2017	**1,286**	**912**	**71**	**286**	**5**	**1**	**11**
2016	**1,278**	**803**	**59**	**347**	**–**	**–**	**69**

Trade receivables and amounts due from related parties net of provisions are expected, on the basis of past experience, to be fully recoverable.

22 Cash and cash equivalents

	2017 AED million	2016 AED million
Cash at banks and on hand	**3,224**	3,776
Short-term deposits	**1,176**	103
Total cash and short-term deposits	**4,400**	3,879
Bank overdrafts	**(193)**	(95)
Net cash and cash equivalents	**4,207**	3,784

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Bank overdrafts carry interest at floating rates and are secured by guarantees from certain shareholders of the subsidiaries.

At 31 December 2017, the Group had available AED 11,161 million (2016: AED 11,131 million) of undrawn committed borrowing facilities in respect of which all conditions precedent have been met.

23 Derecognition of a subsidiary

On 30 May 2017, in accordance with the purchase agreement entered into between TAQA India Power Ventures Private Limited, Himachal Sorang Power Limited (HSPL) and Greenko East Coast Power Projects Pvt. Limited (Greenko), the Group handed over the management control of its subsidiary, HSPL to Greenko. Accordingly, the Group does not hold any beneficial interest in HSPL with effect from this date.

The lenders have sent a notice indicating their intention to invoke their pledge on the shares HSPL held by the Group and in response the Group has provided its no objection for the same.

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23 Derecognition of a subsidiary continued
The legal formalities for the transfer of share are expected to be completed in due course. The Group neither holds any management control nor retain any beneficial interest in HSPL. Accordingly, management has derecognized all the assets and liabilities of HSPL held as at 30 May 2017 from its consolidated financial statements. A gain of AED 86 million was recognized by the Company on derecognition of HSPL as follows:

	At 30 May 2017 AED million
Non-current assets	**336**
Current assets	**45**
Non-current liabilities	**(339)**
Current liabilities	**(180)**
Net liabilities derecognized	**(138)**
Currency translation reserve recycled to profit and loss	**52**
Gain on derecognition of subsidiary	**86**

24 Share capital
(i) Issued capital

	2017 AED million	2016 AED million
Balance as at 31 December	**6,066**	6,066

(ii) Contributed capital

	2017 AED million	2016 AED million
Balance as at 1 January	**25**	25
Capital contributed during the year (note i)	**–**	18,682
Transfer to accumulated losses (note ii)	**–**	(18,682)
Balance as at 31 December	**25**	25

i) Effective 31 December 2016, the Company entered into a framework agreement (the Agreement) with ADWEA whereby ADWEA granted the Company 99 years leasehold rights over certain plots of land in the UAE at a nominal amount. At the date of the transfer, the Company recorded the fair value of leasehold land amounting to AED 18,682 million, under property plant and equipment with a corresponding amount recorded as an equity contribution from ADWEA.

ii) The Company's Board of Directors and Shareholders issued a resolution to transfer equity contributions amounting to AED 18,682 million to accumulated losses.

25 Reserves
25.1 Other reserves

	Statutory reserve AED million	Legal reserve AED million	Total AED million
Balance at 1 January 2016	2,678	868	3,546
Transfers during the year	–	66	66
Balance at 31 December 2016	2,678	934	3,612
Transfers during the year	16	61	77
Balance at 31 December 2017	**2,694**	**995**	**3,689**

Statutory reserve
As required by the UAE Federal Law No. (2) of 2015 and the articles of association of the Company and its subsidiaries, 10% of the consolidated profit for the year is transferred to the statutory reserve. The Company and its subsidiaries may resolve to discontinue such transfers when the reserve equals 50% of the share capital. The reserve is not available for distribution.

Legal reserve – subsidiaries
In accordance with the Articles of Association of certain domestic subsidiaries, 10% of the profit for the year is transferred to a legal reserve. The subsidiaries may resolve to discontinue such annual transfers when the reserve totals 50% of their share capital or in accordance with a resolution taken to this effect by the shareholders at the Annual General Meeting upon the recommendation of the Board of Directors of these subsidiaries. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders of the subsidiaries.

25.2 Foreign currency translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

26 Non-controlling interests

	2017 AED million	2016 AED million
Relating to Abu Dhabi Water and Electricity Authority (ADWEA)	**680**	663
Relating to non-controlling interest shareholdings in subsidiaries	**4,686**	4,126
	5,366	4,789

ADWEA is treated as a non-controlling interest in these consolidated financial statements due to its 10% equity interest in eight domestic subsidiaries of TAQA (refer to note 37 for details).

Financial information of subsidiaries that have material non-controlling interests are provided below:

	Country of incorporation and operation	Proportion of equity interests held by non-controlling interests	
		2017	2016
Gulf Total Tractebel Power Company PJSC	UAE	**46.0%**	46.0%
Arabian Power Company PJSC	UAE	**46.0%**	46.0%
Shuweihat CMS International Power Company PJSC	UAE	**46.0%**	46.0%
Taweelah Asia Power Company PJSC	UAE	**46.0%**	46.0%
Emirates SembCorp Water and Power Company PJSC	UAE	**46.0%**	46.0%
Fujairah Asia Power Company PJSC	UAE	**46.0%**	46.0%
Ruwais Power Company PJSC	UAE	**46.0%**	46.0%
Emirates CMS Power Company PJSC	UAE	**46.0%**	46.0%

All of the Group's subsidiaries that have material non-controlling interest are similar in nature. Therefore the following disclosures have been provided on an aggregated basis:

	2017 AED million	2016 AED million
Revenue	**7,121**	7,170
Profit	**1,710**	1,566
Other comprehensive income	**700**	969
Total comprehensive income	**2,410**	2,535
Profit allocated to non-controlling interests	**787**	720
Other comprehensive income allocated to non-controlling interests	**322**	446
Non-current assets	**39,926**	41,339
Current assets	**5,598**	5,026
Non-current liabilities	**(30,549)**	(32,891)
Current liabilities	**(4,038)**	(3,790)
Total equity	**10,937**	9,684
Equity attributable to parent	**5,906**	5,229
Equity attributable to non-controlling interests	**5,031**	4,455
	10,937	9,684
Cash flows from operating activities	**4,349**	4,208
Cash flows used in investing activities	**(313)**	(252)
Cash flows used in financing activities	**(3,584)**	(3,958)
Net increase (decrease) in cash and cash equivalents	**452**	(2)
Dividends paid to non-controlling interests	**429**	370

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27 Loans from non-controlling interest shareholders in subsidiaries

	2017 AED million	2016 AED million
S2 Offshore Holding Company	**177**	189
Fujairah F2 CV	**65**	116
Asia Gulf Power Holding	**–**	7
	242	312

The above loans are interest free, with no repayment terms and are unsecured and are subject to terms of repayment as resolved by the Board of Directors of the subsidiaries. Accordingly they have been treated as equity.

28 Interest bearing loans and borrowings

	2017 AED million	2016 AED million
Revolving credit facilities (note i)	**7,517**	3,372
Abu Dhabi National Energy Company Global Medium-term notes (note ii)	**23,713**	28,157
Abu Dhabi National Energy Company bonds (note iii)	**3,315**	3,316
Ruwais Power Company bond (note iv)	**2,968**	2,966
Emirates Sembcorp Water & Power Company bond (note v)	**1,396**	–
Term loans (note vi)	**29,805**	32,733
	68,714	70,544
Disclosed in the consolidated statement of financial position as follows:		
Non-current liabilities	**61,750**	63,662
Current liabilities	**6,964**	6,882
	68,714	70,544

The Group's interest bearing loans and borrowings (before deducting prepaid finance costs) are repayable as follows:

	2017 AED million	2016 AED million
Within 1 year	**7,071**	6,981
Between 1–2 years	**5,072**	7,132
Between 2–3 years	**10,248**	4,417
Between 3–4 years	**8,365**	6,068
Between 4–5 years	**2,599**	9,024
After 5 years	**36,088**	37,555
	69,443	71,177

(i) Revolving credit facilities

	2017 AED million	2016 AED million
Non-current liabilities		
US$3.1 billion facility, net of transaction costs	**7,517**	3,372

a) TAQA North has a US$640 million revolving credit facility with TAQA providing a parent guarantee. At 31 December 2017, no amount (2016: AED nil) was drawn under this credit facility. The facility, which has a feature allowing TAQA North to request extension of the facility annually, is due to expire in May 2019.

b) On 12 August 2015, TAQA refinanced all existing tranches of its revolving credit facilities with a US$3.1 billion, 5 year multicurrency revolving credit facility with a syndicate of 15 banks. Amounts borrowed under revolving credit facility carry interest of LIBOR or EURIBOR plus a margin.

c) On 29 December 2017, TAQA entered into a bridge facility agreement for US$1.25 billion, with a syndicate of 6 banks. The facility has a tenor of 1 year and carry interest of LIBOR plus a margin. At 31 December 2017, no amount was drawn down under this credit facility. Subsequent to the year end, this facility was fully drawn down.

(ii) Abu Dhabi National Energy Company Global Medium-term Notes

	Issue rate %	Effective interest rate %	Repayment date	**2017 AED million**	2016 AED million
Current liabilities					
US$750,000,000, net of discount and transaction costs	99.50%	4.32%	March 2017	**–**	2,756
US$500,000,000, net of transaction costs	100%	6.18%	October 2017	**–**	1,841
US$750,000,000 net of discount and transaction costs	99.48%	2.71%	January 2018	**2,754**	–
US$500,000,000, net of discount and transaction costs	99.85%	7.29%	August 2018	**1,836**	–
Total current				**4,590**	4,597
Non-current liabilities					
US$750,000,000, net of discount and transaction costs	99.48%	2.71%	January 2018	**–**	2,747
US$500,000,000, net of discount and transaction costs	99.85%	7.29%	August 2018	**–**	1,825
US$500,000,000, net of discount and transaction costs	99.20%	6.40%	September 2019	**1,831**	1,820
US$500,000,000, net of discount and transaction costs	99.66%	3.87%	June 2021	**1,820**	1,817
US$250,000,000, net of premium and transaction costs	102.48%	3.16%	June 2021	**934**	930
US$750,000,000, net of discount and transaction costs	99.52%	6.00%	December 2021	**2,742**	2,740
US$1,250,000,000, net of discount and transaction costs	99.40%	3.75%	January 2023	**4,565**	4,561
Euro 180,000,000, net of discount and transaction costs	97.62%	3.10%	May 2024	**778**	670
US$750,000,000, net of discount and transaction costs	99.37%	4.02%	May 2024	**2,734**	2,731
US$500,000,000, net of discount and transaction costs	99.00%	4.60%	June 2026	**1,812**	1,809
US$500,000,000, net of premium and transaction costs	104.60%	3.84%	June 2026	**1,907**	1,910
Total non-current				**19,123**	23,560
Total				**23,713**	28,157

The notes liability is stated net of premium, discount and transaction costs incurred in connection with the notes arrangements, amounting to AED 43 million (2016: AED 59 million), net of premium of AED 84 million as of 31 December 2017 (2016: AED 94 million), which are amortized to the consolidated income statement over the repayment period of the notes using the effective interest rate method. Interest on the US dollar notes is payable semi-annually. Accrued interest is included under accruals and other liabilities.

(iii) Abu Dhabi National Energy Company Bonds

In 2006, TAQA issued long-term fixed interest rate bonds at a discount. The bonds are recorded at amortized cost using effective interest rates and are direct, unconditional, and unsecured obligation of the Company.

The following table summarises the terms of the bond payable:

	Issue rate %	Effective interest rate %	Repayment date	**2017 AED million**	2016 AED million
Non-current liabilities					
US$1,500,000,000 net of discount and transaction costs	99.05%	6.60%	October 2036	**3,315**	3,316

The bonds liability is stated net of discount and transaction costs incurred in connection with the bond arrangements, amounting to AED 36 million as of 31 December 2017 (2016: AED 40 million), which are amortized in the consolidated income statement over the repayment period of the bond using the effective interest rate method. Interest on the US dollar bonds is payable semi-annually. Accrued interest is included under accruals and other liabilities.

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28 Interest bearing loans and borrowings continued

(iv) Ruwais Power Company Bond

In 2013, Ruwais Power Company, a subsidiary of the Group, issued a long-term fixed interest rate bond of US$825 million (AED 3,030 million). The bond is recorded at amortized cost using the effective interest rate and is secured by a number of security documents including the subsidiary's contractual rights, cash deposits, other assets and guarantees. The bond carries a coupon of 6% with maturity in August 2036.

	Issue rate %	Effective interest rate %	Repayment date	2017 AED million	2016 AED million
Non-current liability					
US$825,000,000 bond, net of discount and transaction costs	6.00%	6.18%	August 2036	**2,968**	2,966

The bond liability is stated net of transaction costs incurred in connection with the bond arrangements, amounting to AED 62 million as at 31 December 2017 (2016: AED 64 million), which are amortized in the profit or loss over the repayment period of the bond using effective interest rate method. Interest on the bonds is payable semi-annually. Bond is payable in August 2036.

(v) Emirates Sembcorp Water & Power Company Bond

In 2017, Emirates Sembcorp Water & Power Company, a subsidiary of the Group, issued a long-term fixed interest rate bond of US$400 million (AED 1,470 million). The bond is recorded at amortized cost using the effective interest rate and is secured by a number of security documents including the subsidiary's contractual rights, cash deposits, other assets and guarantees. The bond carries a coupon of 4.45% with maturity in August 2035.

	Issue rate %	Effective interest rate %	Repayment date	2017 AED million	2016 AED million
Non-current liability					
US$400,000,000 bond, net of discount and transaction costs	4.45%	4.79%	February 2029 to August 2035	**1,396**	–

The bond liability is stated net of transaction costs incurred in connection with the bond arrangements, amounting to AED 74 million as at 31 December 2017 (2016: AED nil), which are amortized in the profit or loss over the repayment period of the bond using effective interest rate method. Interest on the bonds is payable semi-annually. The bond is payable starting from February 2029 till August 2035.

(vi) Term loans

Term loans which are shown at amortized cost are in respect of the following subsidiaries:

	2017 AED million	2016 AED million
Abu Dhabi National Energy Company PJSC (TAQA)	**663**	638
Emirates CMS Power Company PJSC (ECPC)	**319**	421
Gulf Total Tractebel Power Company PJSC (GTTPC)	**2,875**	3,066
Shuweihat CMS Power Company PJSC (SCIPCO)	**1,338**	1,590
Arabian Power Company PJSC (APC)	**1,570**	1,780
Taweelah Asia Power Company PJSC (TAPCO)	**4,362**	4,802
Emirates SembCorp Water and Power Company PJSC (ESWPC)	**2,598**	3,441
Fujairah Asia Power Company PJSC (FAPCO)	**6,348**	6,604
Ruwais Power Company PJSC (RPC)	**4,489**	4,674
TAQA Morocco (formerly Jorf Lasfar Energy Company S.A.)	**1,443**	1,471
Jorf Lasfar Energy Company 5&6 S.A.	**2,828**	2,822
Himachal Sorang Power Limited	**–**	371
Takoradi International Company	**972**	1,053
	29,805	32,733

Abu Dhabi National Energy Company PJSC (TAQA):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Non-current				
Term loan	JPYLIBOR + 0.60%	2019	**663**	638

On 17 April 2014, TAQA signed a JPY 20.4 billion (AED 735 million) Samurai term loan facility agreement. The five-year loan was arranged at a rate of 60 basis points over Japanese Yen LIBOR. The term loan is unsecured, with the outstanding amount to be paid at the maturity date as one bullet payment. Term loan is stated net of prepaid finance cost of AED 1 million (2016: AED 1 million). The loan is fully hedged into US$ (note 38).

Emirates CMS Power Company PJSC (ECPC):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Term loan (1)	LIBOR + 1.30%	2018	**110**	105
Non-current				
Term loan (1)	LIBOR + 1.30%	2020	**209**	316
Total			**319**	421

The term loan facility (1) is repayable in half yearly installments until June 2020 in accordance with an agreed upon installment schedule. Term loan (1) is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of ECPC, a pledge of shares in the company by both shareholders and a pledge of equity interest in Taweelah Shared Facilities Company LLC. Term loan (1) is also subject to various covenants as stipulated in the loan facility agreement. Term loan (1) is stated net of prepaid finance cost of AED 5 million (2016: AED 7 million).

Under the terms of its loan facility agreement, ECPC is required to enter into interest rate swap agreements to mitigate its interest rate exposure (note 38).

Gulf Total Tractebel Power Company PJSC (GTTPC):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Term loan	LIBOR + 0.65%	2018	**203**	192
Non-current				
Term loan	LIBOR + (0.65%–0.95%)	2029	**2,672**	2,874
Total			**2,875**	3,066

The term loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of GTTPC, a pledge of shares in the company by both shareholders and a pledge of equity interest in Taweelah Shared Facilities Company LLC. The term loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its Facility Agreement, GTTPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

The term loan above is stated net of prepaid finance cost of AED 16 million (2016: AED 18 million).

Shuweihat CMS Power Company PJSC (SCIPCO):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Term loan	LIBOR + 1.75%	2018	**289**	265
Non-current				
Term loan	LIBOR + 1.75%	2021	**1,049**	1,325
Total			**1,338**	1,590

The amount of the conventional term loan facility is US$1,035 million (AED 3,802 million) and is repayable in 35 semi-annual installments starting from December 2004 in accordance with an agreed upon installment schedule.

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28 Interest bearing loans and borrowings continued
(vi) Term loans continued
The term loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of SCIPCO. The term loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, SCIPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

The term loan is stated net of prepaid finance costs of AED 5 million (2016: AED 8 million).

Arabian Power Company PJSC (APC):

	Effective interest rate %	Maturity	2017 AED million	2016 AED million
Current				
Term loan	LIBOR + 1.55%	2018	**221**	210
Non-current				
Term loan	LIBOR + (1.55%–1.65%)	2019-2023	**1,349**	1,570
Total			**1,570**	1,780

During 2003, APC obtained loan facilities from a syndicate of banks to finance the acquisition, refurbishment and extension of the UAN power and desalination plant.

The term loan facility is US$855 million (AED 3,140 million) and was fully drawn at 31 December 2008. The term loan facility is repayable from January 2009 in accordance with an agreed upon repayment schedule with the last repayment due on 21 July 2023.

The loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of APC and a pledge of the shares in the company by both shareholders. The loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, APC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

The term loan is stated net of prepaid finance costs of AED 16 million (2016: AED 17 million).

Taweelah Asia Power Company PJSC (TAPCO):

	Effective interest rate %	Maturity	2017 AED million	2016 AED million
Current				
Term loan (1)	LIBOR + 0.85%	2018	**188**	189
Term loan (2)	LIBOR + 0.825%	2018	**249**	251
			437	440
Non-current				
Term loan (1)	LIBOR + 0.85%	2025	**1,691**	1,879
Term loan (2)	LIBOR + 0.825%	2025	**2,234**	2,483
			3,925	4,362
Total			**4,362**	4,802

During 2005, TAPCO obtained loan facilities from a syndicate of banks to finance the acquisition, refurbishment and extension of the Taweelah B power and water desalination plant.

The term loan facility (1) amounting to US$911 million (AED 3,346 million) was fully drawn during 2008. Term loan facility (1) is stated net of prepaid finance cost of AED 21 million (2016: AED 24 million). The term loan facility (2) amounting to US$1,200 million (AED 4,407 million) was fully drawn during 2008. Term loan facility (2) is stated net of prepaid finance cost of AED 19 million (2016: AED 21 million).

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of TAPCO and a pledge of shares in the company by both shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, TAPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

Emirates SembCorp Water and Power Company PJSC (ESWPC):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Term loan	LIBOR + 0.85%	2018	**159**	187
Non-current				
Term loan	LIBOR + (0.85%–1.20%)	2029	**2,439**	3,254
Total			**2,598**	3,441

During 2006, ESWPC obtained loan facilities from a syndicate of banks to finance the acquisition and extension of the Fujairah Power and Desalination Plant.

The amount of the term loan facility is US$1,270 million (AED 4,667 million). The term loan is repayable from February 2010 in accordance with an agreed upon repayment schedule with the last repayment on 31 January 2029. The term loan is stated net of prepaid finance costs of AED 23 million (2016: AED 25 million).

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the ESWPC and a pledge of shares in the company by both shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreements.

Under the terms of its loan facility agreement, ESWPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

During 2017, ESWPC restructure its term loan and ultimately make an early repayment of AED 655 million. Due to this company's future payments have been revised.

Fujairah Asia Power Company PJSC (FAPCO):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Term loan (1)	LIBOR + 0.60%	2018	**125**	102
Term loan (2)	LIBOR + 0.50%	2018	**188**	154
			313	256
Non-current				
Term loan (1)	LIBOR + 0.60%	2030	**2,414**	2,539
Term loan (2)	LIBOR + 0.50%	2030	**3,621**	3,809
			6,035	6,348
Total			**6,348**	6,604

During 2007, the Company obtained loan facilities from a syndicate of banks (term loan facilities (1) and (2)) to finance the construction of the Fujairah F2 power production and water desalination plant.

The term loan facility (1) is AED 3,144 million was fully drawn down in 2011. The term loan is repayable from 28 January 2011 in accordance with an agreed upon repayment schedule with the last repayment due on 28 July 2030. Term loan (1) is stated net of prepaid finance cost of AED 28 million (2016: AED 31 million).

The term loan facility (2) is AED 4,716 million was fully drawn down in 2011. The term loan is repayable from 28 January 2011, in accordance with an agreed upon repayment schedule, with the last repayment due on 28 July 2030. Term loan (2) is stated net of prepaid finance cost of AED 43 million (2016: AED 46 million).

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of FAPCO. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, FAPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

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28 Interest bearing loans and borrowings continued
(vi) Term loans continued
Ruwais Power Company PJSC (RPC):

	Effective interest rate %	Maturity	2017 AED million	2016 AED million
Current				
Interest bearing term loans	LIBOR + (1.9%–2.35%)	2018	**202**	189
Non-current				
Interest bearing term loans	LIBOR + (1.9%–2.5%)	2031	**4,287**	4,485
Total			**4,489**	4,674

During 2009, the Company obtained term loans facility of US$2,025 million with a stand-by facility of US$67 million (respectively AED 7,437 million and AED 246 million), of which US$2,205 million (AED 7,437 million) was drawn at 31 December 2011. The stand-by facility was canceled in 2012. The loans are repayable starting February 2012 in accordance with an agreed upon repayment schedule with the last repayment on 31 August 2031. The loans carry interest at a variable rate of LIBOR plus a margin ranging from 1.9% and 2.5% per annum. The term loans are stated net of prepaid finance costs of AED 142 million (2016: AED 153 million).

The loans are secured by a number of security documents including a commercial mortgage over all assets of the Company. The loans are also subject to various covenants as stipulated in the loan facility agreement. Under the terms of the loan facility agreement, the Company is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

TAQA Morocco (formerly Jorf Lasfar Energy Company S.A.):

	Effective interest rate %	Maturity	2017 AED million	2016 AED million
Current				
Term loan	5.30%	2018	**157**	145
Non-current				
Term loan	5.30%	2027	**1,286**	1,326
Total			**1,443**	1,471

During the year ended 31 December 2009, TAQA's wholly owned subsidiary TAQA Morocco availed an 18 year loan with a syndicate of banks of MAD 7,400 million (AED 3,440 million) with a yearly variable interest rate capped at 6.75%. The principal and interest are to be paid quarterly with the final installment maturing on 31 March 2027.

At 31 December 2017, AED 1,443 million (2016: AED 1,471 million) was outstanding on this loan. The term loan is secured by a number of security documents including the subsidiary's contractual rights, cash deposits, other assets and guarantees from the Moroccan Government and TAQA.

Jorf Lasfar Energy Company 5&6 S.A. (JLEC 5&6):

	Effective interest rate %	Maturity	2017 AED million	2016 AED million
Current				
Term loan	LIBOR + (3.92%–7.00%)	2018	**283**	246
Non-current				
Term loan	LIBOR + (3.92%–7.00%)	2028	**2,545**	2,576
Total			**2,828**	2,822

During the year ended 31 December 2012, JLEC 5&6 secured multi-currency debt facilities totalling approximately US$1.4 billion equivalent (AED 5.1 billion) with several lenders. These facilities are comprised of a US$216.0 million term facility, Euro term facilities totalling EUR 456.2 million, and Moroccan Dirham facilities totalling MAD 5,450 million. The Moroccan Dirham facilities consist of a MAD 4.5 billion term loan facility, MAD 700 million medium-term VAT facility and MAD 250 million working capital facility that is renewable annually. Interest is payable semi-annually on amounts borrowed under all term loans and the VAT facility, and quarterly under the working capital facility. The USD and EUR term loan facilities and the MAD working capital facility carry interest at applicable reference interest rates plus margins. The MAD term loan and VAT facility are fixed rate loans. Loan principal drawn under the term loan facilities is repayable semi-annually according to repayment schedules specified in each loan facility, through the final scheduled repayment date of 31 May 2028. During the year AED 257 million was repaid, net off by an unfavorable movement in foreign exchange and amortization of prepaid finance cost amounting to AED 263 million.

The loans are secured by a number of security documents including security assignments/pledges over the subsidiary's contractual rights, cash deposits, accounts receivable, and other assets, as well as pledges over the shares of JLEC 5&6 and its offshore shareholder, TAQA Power Ventures B.V. and guarantees from the Moroccan government and TAQA.

At 31 December 2017, AED 2,828 million (2016: AED 2,822 million) was outstanding on this loan.

Under the terms of its loan facility agreement, JLEC 5&6 is required to enter into interest rate swap agreements and foreign exchange swap agreements to hedge its interest cost exposure against fluctuations in interest rates and foreign exchange exposure against fluctuations in foreign exchange rates (note 38).

Himachal Sorang Power Limited (HSPL):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Term loan	12.73%	2018	**–**	50
Non-current				
Term loan	12.73%	2025	**–**	321
Total			**–**	371

On 30 May 2017, in accordance with the purchase agreement entered into between TAQA India Power Ventures Private Limited, Himachal Sorang Power Limited (HSPL) and Greenko East Coast Power Projects Pvt. Limited (Greenko), the Group handed over the management control of its subsidiary, HSPL to Greenko. Accordingly, the Group does not hold any beneficial interest in HSPL with effect from this date (note 23).

Takoradi International Company (TICO):

	Effective interest rate %	Maturity	**2017 AED million**	2016 AED million
Non-current				
Term loan	LIBOR + (4.25%–4.35%)	2027	**972**	1,053

During the year ended 31 December 2012, TICO secured debt facilities worth US$330 million (AED 1,211 million). Amounts borrowed under these facilities carry interest of 6 month LIBOR plus of 4.35% for the International Finance Corporation facility and 4.25% for the Development Finance Institution facility. The term loan are secured by a number of security documents including the subsidiary's contractual rights, cash deposits, other assets and guarantees.

Under the terms of its loan facility agreement, TICO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 38).

29 Islamic loans

Islamic loans are with respect to the following subsidiaries:

	2017 AED million	2016 AED million
Shuweihat CMS Power Company PJSC	**335**	402
Emirates CMS Power Company PJSC	**124**	163
Arabian Power Company PJSC	**460**	521
Abu Dhabi National Energy Company PJSC	**592**	530
	1,511	1,616
Disclosed in the consolidated statement of financial position as follows:		
Non-current liabilities	**1,331**	1,446
Current liabilities	**180**	170
	1,511	1,616
The Group's Islamic loans (before deducting prepaid finance costs) are repayable as follows:		
Within 1 year	**182**	170
Between 1–2 years	**204**	181
Between 2–3 years	**192**	205
Between 3– 4 years	**172**	192
Between 4–5 years	**84**	172
After 5 years	**689**	709
	1,523	1,629

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29 Islamic loans continued

(i) Shuweihat CMS Power Company PJSC

	Effective rental rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Islamic Ijara loan	LIBOR + 1.75%	2018	**72**	67
Non-current				
Islamic Ijara loan	LIBOR + (1.65%–1.75%)	2021	**263**	335
Total			**335**	402

The Islamic Ijara loan is secured by an assignation of identified parts of the plant and equipment purchased under the Islamic financing arrangement, and is repayable in thirty five semi-annual installments starting from December 2004.

The Islamic Ijara loan is stated net of prepaid finance costs of AED 3 million (2016: AED 4 million).

Under the terms of its loan facility agreements, the subsidiaries are required to enter into rental rate swap agreements to hedge their rental cost exposure against fluctuations in rental rates (note 38).

(ii) Emirates CMS Power Company PJSC

	Effective rental rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Islamic Ijara loan	LIBOR + 1.30%	2018	**43**	40
Non-current				
Islamic Ijara loan	LIBOR + 1.30%	2020	**81**	123
Total			**124**	163

The Islamic Ijara loan is secured by an assignment of identified parts of the plant and equipment purchased under the Islamic financing arrangement, and is repayable in thirty three semi annual installments commencing from 30 June 2004. A fluctuating profit charge is paid under the Islamic financing agreement, which is based on LIBOR plus a margin.

Under the terms of its loan facility agreements, the subsidiaries are required to enter into rental rate swap agreements to hedge their rental cost exposure against fluctuations in rental rates (note 38).

The Islamic Ijara loan is stated net of prepaid finance costs of AED 2 million (2016: AED 2 million).

(iii) Arabian Power Company PJSC

	Effective rental rate %	Maturity	**2017 AED million**	2016 AED million
Current				
Muqawala	LIBOR + 1.55%	2018	**65**	63
Non-current				
Muqawala	LIBOR + (1.55%–1.65%)	2023	**395**	458
Total			**460**	521

The Muqawala loan is in respect of the procurement and manufacturing of certain generation assets under an Islamic loan facility agreement dated 2 July 2003. The facility of US$250 million (AED 918 million) is repayable in thirty semi annual installments commencing from January 2009. The Muqawala loan is stated net of prepaid finance costs of AED 5 million (2016: AED 5 million).

Under the terms of its loan facility agreements, the subsidiaries are required to enter into rental rate swap agreements to hedge their rental cost exposure against fluctuations in rental rates (note 38).

(iv) Abu Dhabi National Energy Company PJSC

	Effective rental rate %	Maturity	**2017 AED million**	2016 AED million
Non-current				
Islamic Sukuk loan	4.71%	2020	**592**	530

In November 2011, TAQA established a MYR 3.5 billion (AED 3.7 billion) Sukuk program. During the year ended 31 December 2012, an amount of MYR 650 million (AED 790 million) was issued under the program. The Group has entered into a cross currency rate swap arrangement to hedge the Group's exposure against fluctuation in currency rates. The 10 year Sukuk was raised with a profit of 4.65% with a full swapped rate to US$ of 5.3% (note 38.1 (ii)).

The loan is stated net of discount and transaction costs incurred in connection with the loan arrangements, amounting to AED 2 million (2016: AED 2 million), which are amortized to the consolidated income statement over the repayment period of the notes using effective interest rate method.

30 Asset retirement obligations

As part of the land lease agreements between ADWEA and the Company's domestic subsidiaries, the subsidiaries have a legal obligation to remove the power and water desalination plants at the end of the plants' useful lives, or before if the subsidiaries became unable to continue their operations to that date, and to restore the land. The subsidiaries shall at their sole cost and expense dismantle, demobilise, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas. The fair value of the ARO liability has been calculated using an expected present value technique. This technique reflects assumptions such as costs, plant useful life, inflation and profit margin that third parties would consider to assume the settlement of the obligation.

In addition, the Company's foreign subsidiaries involved in the oil and gas sector make provision for the future cost of decommissioning oil and gas properties and facilities at the end of their economic lives. The economic life and the timing of the decommissioning liabilities are dependent on Government legislation, commodity prices and the future production profiles of the respective assets. In addition, the costs of decommissioning are subject to inflationary/deflationary pressures in the cost of third party service provision.

	2017 AED million	2016 AED million
ARO liability at 1 January	**14,103**	13,446
Utilized during the year	**(345)**	(143)
Provided during the year	**1**	10
Accretion expense (note 9.1)	**695**	705
Revision in estimated cash flows	**(344)**	60
Exchange adjustment	**87**	25
ARO liability at 31 December	**14,197**	14,103
Disclosed in the consolidated statement of financial position as follows:		
Current liabilities (note 33)	**77**	66
Non-current liabilities	**14,120**	14,037
	14,197	14,103

31 Advances and loans from related parties

	2017 AED million	2016 AED million
Loans from related parties (note (i))	**45**	44
Advances from related parties	**221**	229
	266	273

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31 Advances and loans from related parties continued
(i) Movements in the loan balances during the year were as follows:

	2017 AED million	2016 AED million
Balance at 1 January	**44**	42
Notional interest expense (note 9.1)	**1**	2
Balance at 31 December	**45**	44

Loans from related parties as at 31 December 2017 and 31 December 2016 are from the Abu Dhabi Power Corporation (ADPC).

During 2005, the Company's subsidiary was granted a loan amounting to AED 70 million by a fellow subsidiary of the Company. The loan is interest free and unsecured and is due for payment in full in June 2025. On inception, the Company's management measured the loan at its fair value of AED 24 million. The difference of AED 46 million between the loan amount of AED 70 million and its fair value has been treated as an equity contribution from the ultimate holding company.

32 Other liabilities – non-current

	2017 AED million	2016 AED million
Provisions recognized on onerous contract	**8**	10
Negative fair value of derivatives – interest rate swaps (note 38.1)	**2,303**	2,848
Negative fair value of derivatives – forward exchange contracts (note 38.1)	**13**	47
Negative fair value of derivatives – cross currency interest rate swaps (note 38.1)	**325**	428
Employee benefits obligations	**49**	49
Others	**109**	121
	2,807	3,503

33 Accounts payable, accruals and other liabilities

	2017 AED million	2016 AED million
Trade payables	**810**	563
Payable to joint venture partners	**69**	119
Accrued interest expenses	**839**	900
Accrual for operating costs	**867**	897
Payable for capital expenditure	**281**	269
Provisions recognized on onerous contract	**1**	16
Negative fair value of derivatives – interest rate swaps (note 38.1)	**484**	592
Negative fair value of derivatives – cross currency interest rate swaps (note 38.1)	**31**	26
Negative fair value of derivatives – forward exchange contracts (note 38.1)	**19**	38
Negative fair value of derivatives – futures and forward contracts (note 38.1)	**105**	17
Asset retirement obligations (note 30)	**77**	66
Dividends payable to non-controlling interests	**126**	120
Crude stock overlift	**55**	21
Others	**911**	809
	4,675	4,453

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled between 30 to 60 day terms.
- Payables to joint venture partners are non-interest bearing and have an average term of 60 days.
- Interest payable is normally settled throughout the financial year in accordance with the terms of the loans.

34 Amounts due to related parties

	2017 AED million	2016 AED million
Amounts due to fellow subsidiaries – ADWEC & ADPC	**8**	6
Others – amounts due to ADWEA and related parties	**80**	83
	88	89

35 Commitments and contingencies

(i) Capital expenditure commitments

The authorized capital expenditure contracted for at 31 December 2017 but not provided for amounted to AED 752 million (2016: AED 605 million).

(ii) Operating lease commitments

Group as a lessor:

Future capacity payments to be received by the Group under power and water purchase agreements (PWPA) based on projected plant availability as at 31 December are as follows:

	2017 AED million	2016 AED million
Within one year	**5,757**	5,745
After one year but not more than five years	**23,398**	24,129
More than five years	**43,175**	42,827
	72,330	72,701

Group as a lessee:

Future minimum payments under non-cancellable operating leases as at 31 December are as follows:

	2017 AED million	2016 AED million
Within one year	**320**	422
After one year but not more than five years	**932**	1,505
More than five years	**111**	251
	1,363	2,178

Joint Venture:

The Group's joint venture has future minimum rentals payable under a non-cancellable operating lease as at 31 December 2017 amounting to AED 1,448 million (31 December 2016: AED 1,630 million), of which the Group's share is AED 724 million (31 December 2016: AED 815 million).

Associates:

Sohar Aluminium Company LLC, one of the Group's associates, has future minimum rentals payable under a non-cancellable operating lease as at 31 December 2017 amounting to AED 838 million (2016: AED 961 million), of which the Group's share is AED 335 million (2016: AED 384 million).

(iii) Other commitments

a) As at the reporting date TAQA North has entered into contractual commitments, mainly pipeline usage and commitments, under which they are committed to spend AED 737 million prior to 31 December 2018 (31 December 2016: AED 349 million).

(iv) Contingencies

a) As a result of acquisitions made in prior periods, there are contingent liabilities arising from (a) tax assessments or proposed assessments and (b) certain other disputes, all of which are being contested. Pursuant to the Purchase and Sale Agreements between TAQA and the sellers, the sellers have provided TAQA and its subsidiaries with indemnity obligations with respect to such contingent liabilities for the periods prior to date of the respective acquisitions.

TAQA GEN X LLC (GENX) is the owner by assignment of a Fuel Conversion Services, Capacity and Ancillary Services Purchase Agreement dated as of 17 September 1999 (the Tolling Agreement) by and between AES Red Oak, L.L.C. (AES) and Williams Energy Marketing & Trading Company, as well as other ancillary rights and agreements. GENX entered into an Energy Management Agreement (EMA) and an International Swap & Derivatives Master Agreement (ISDA) both dated 28 December 2010 with Morgan Stanley Capital Group Inc. to manage the energy products under the Tolling Agreement and ancillary rights and agreements. The Group guaranteed the obligations of GENX to Morgan Stanley Capital Group Inc. under the EMA and ISDA agreement. Payments under this guarantee shall not exceed US$100 million (AED 367 million) (31 December 2016: US$100 million) over the life of the EMA. No payments have been made to date (31 December 2016: nil).

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35 Commitments and contingencies continued

(iv) Contingencies continued

TAQA Bratani Ltd. has entered into decommissioning deeds for certain North Sea Assets acquired by it, pursuant to which it may be required to provide financial security to the former owners of the assets, either by means of (a) placing monies in trust or procuring the issuance of letters of credit in an amount equal to its share of the net decommissioning costs of the subject fields plus an allowance for uncertainty; or (b) procuring a guarantee from a holding company or affiliate which satisfies a minimum credit rating threshold; or (c) providing security in such other form as may be agreed by parties to the deeds. TAQA Bratani Ltd. initially provided TAQA's (parent company) guarantee, but in the interim the parent company's credit rating was reduced to below the minimum credit rating specified in the deeds. The Group has previously been in good faith discussions with the other parties to the deeds regarding whether and to what extent the Group will be required to replace or supplement some or all of the parent guarantee with other acceptable credit support but no outcomes were concluded, and the parent guarantee remains in place. However, since that time, the UK. Government has introduced a legislative framework that is designed to allow security arrangements for North Sea decommissioning obligations to be made on a post-tax basis, to the extent parties to the decommissioning deeds adopt modified decommissioning deeds, and the Group would expect that if or when the discussions with counter-parties resume, it would most likely be on that basis. If the Group was required to replace the parent guarantee in its entirety, the amount it would have to procure through the issuance of letters of credit or other collateral, could be in excess of US$1.0 billion.

In respect of certain other North Sea Assets acquired by members of the Group, the Group is able to meet the security arrangements for decommissioning obligations by way of provision of a parent company guarantee, so long as the Group continues in majority – ownership of the Government of Abu Dhabi.

b) In addition to the above, there are certain guarantees and letters of credit arising in the ordinary course of business to which TAQA and certain other subsidiaries are parties. These do not create any material additional obligations other than what is disclosed in the consolidated statement of financial position as at period end.

36 Related party transactions and balances

As stated in note 1 to the financial statements, the Group is a subsidiary of ADWEA, which is wholly owned by the Government of Abu Dhabi and as such the Group is a government related entity as defined by IAS 24. The Group is therefore exempt from disclosing certain information relating to transactions and balances with entities related to the same government.

Collectively but not individually significant transactions

All domestic power and water production is acquired by ADWEC (a fellow subsidiary of the Group) under long-term PWPAs. Natural gas fuel is supplied by ADWEC to the domestic subsidiaries at no cost in accordance with the terms of the PWPAs.

The following table provides a summary of significant related party transactions included in the consolidated income statement during the year:

	2017 AED million	2016 AED million
Fellow subsidiary (Abu Dhabi Water and Electricity Company):		
Sale of electricity and water	**7,097**	7,119
Fuel revenue (note 4.3)	**15**	33
Other revenue	**9**	18
Others:		
Interest income on loan to associate (note 9.2)	**–**	2
Notional interest expense on loan from ADPC (note 9.1)	**(1)**	(2)
Government entities:		
Licensing fees	**17**	15
Fuel expense	**10**	25
Finance cost	**47**	48
Insurance fees	**30**	41

Balances with related parties and governmental agencies

Balances with related parties that are disclosed in the consolidated statement of financial position as follows:

	2017 AED million	2016 AED million
Non-current assets:		
Advance and loans to associates (note 18)	702	702
Accounts receivable:		
Amounts due from fellow subsidiaries (note 21)	1,286	1,278
Bank balance with government owned bank	626	451
Non-current liabilities:		
Loan from a fellow subsidiary – ADPC (note 31)	45	44
Advances from a fellow subsidiary (note 31)	221	229
Bank loans with government owned bank	139	145
Current liabilities:		
Amounts due to fellow subsidiaries – ADWEC & ADPC (note 34)	8	6
Amounts due to ADWEA and other related parties (note 34)	80	83
Overdraft with government owned bank	91	91
At 31 December, the Company had available undrawn bank facilities with government owned entities	325	325

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms approved by the management. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Other transactions

As detailed in note 24, effective 31 December 2016, the Company entered into a framework agreement (the agreement) with ADWEA whereby ADWEA granted the Company 99 years leasehold rights over certain plots of land in the UAE at a nominal amount. At the date of the transfer, the Company recorded the fair value of leasehold land under property plant and equipment with a corresponding amount recorded as an equity contribution from ADWEA.

Compensation of key management personnel

For certain subsidiaries, key management personnel are provided by operation and maintenance companies under contractual agreements with the subsidiaries.

The remuneration of senior key management personnel of the Group during the year was as follows:

	2017 AED million	2016 AED million
Short-term benefits	11	17
Post-employment benefits	1	1
	12	18

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37 Subsidiaries

The consolidated financial statements include the financial statements of TAQA and all its subsidiaries. The Group's major operating subsidiaries are listed below:

	Country of incorporation	Percentage holding 31 December 2017	Percentage holding 31 December 2016
Domestic Subsidiaries			
Emirates CMS Power Company PJSC (ECPC)	UAE	**54%**	54%
Gulf Total Tractebel Power Company PJSC (GTTPC)	UAE	**54%**	54%
Arabian Power Company PJSC (APC)	UAE	**54%**	54%
Shuweihat CMS International Power Company PJSC (SCIPCO)	UAE	**54%**	54%
Taweelah Asia Power Company PJSC (TAPCO)	UAE	**54%**	54%
Emirates Semb Corp Water and Power Company PJSC (ESWPC)	UAE	**54%**	54%
Fujairah Asia Power Company PJSC (FAPCO)	UAE	**54%**	54%
Ruwais Power Company PJSC (RPC)	UAE	**54%**	54%
Taweelah Shared Facilities Company LLC (TSFC)*	UAE	**48%**	48%
Shuweihat Shared Facilities Company LLC (SSFC)*	UAE	**38%**	38%
Foreign Subsidiaries			
TAQA GEN XLP	Delaware, USA	**85%**	85%
TAQA Bratani Limited and TAQA Bratani LNS Limited	UK	**100%**	100%
TAQA Energy B.V.	Netherlands	**100%**	100%
TAQA North Ltd.	Canada	**100%**	100%
TAQA Atrush B.V.	Netherlands	**100%**	100%
TAQA Morocco (formerly Jorf Lasfar Energy Company, S.A.)	Morocco	**85.79%**	85.79%
Jorf Lasfar Energy Company 5&6 S.A.	Morocco	**90.62%**	90.62%
Takoradi International Company	Cayman Islands	**90%**	90%
TAQA Neyveli Power Company Private Ltd.	India	**100%**	100%

* These entities are treated as subsidiaries even though TAQA's holding in these entities are below 50% due to the Group's control through the direct holding in these subsidiaries by two of the Group's subsidiaries being above 50%, thus enabling TAQA to have the ability to exercise control in the Board.

Further details on the main subsidiaries are as follows:

Domestic subsidiaries

Emirates CMS Power Company PJSC (ECPC)

Emirates CMS Power Company PJSC (ECPC) is a private joint stock company registered and incorporated in the United Arab Emirates (UAE) and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. ECPC is 60% owned by Emirates Power Company PJSC, a 90% owned subsidiary of Abu Dhabi National Energy Company PJSC (TAQA) and 40% owned by CMS Generation Taweelah Limited.

ECPC has a management operation and maintenance agreement with Taweelah A2 Operating Company whereby the latter has undertaken to manage the day-to-day operations and maintain ECPC's plant. The ECPC has entered into a power and water purchase agreement (PWPA) with Abu Dhabi Water and Electricity Company (ADWEC), a related party (a wholly-owned subsidiary of ADWEA). Under the PWPA, ECPC undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until October 2021 in accordance with various agreed terms and conditions. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by ECPC at the end of the PWPA term.

Gulf Total Tractebel Power Company PJSC (GTTPC)

Gulf Total Tractebel Power Company PJSC (GTTPC) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. GTTPC is 60% owned by Gulf Power Company, a 90% owned subsidiary of TAQA and 40% owned by Total Tractebel Emirates Power Company.

GTTPC has a management operation and maintenance agreement with Total Tractebel Emirates O & M Company, whereby the latter has undertaken to manage the day-to-day operations and maintain the GTTPC plant. Further, GTTPC has entered into a power and water purchase agreement with ADWEC. Under the agreement, GTTPC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until May 2023 in accordance with various agreed terms and conditions. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by GTTPC at the end of the PWPA term.

Following completion of the A10 extension project, the PWPA was amended resulting in an extension to the term by an additional six years until April 2029. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant and its A10 extension will be retained by the Company at the end of the PWPA term.

Arabian Power Company PJSC (APC)

Arabian Power Company PJSC (APC) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. APC is 60% owned by Arabian United Power Company, a 90% owned subsidiary of TAQA and 40% owned by ITM Investment Company Limited.

APC has a management operation and maintenance agreement with ITM O & M Company Limited, whereby the latter has undertaken to manage the day-to-day operations and maintain APC's plant. Further, APC has entered into a PWPA with ADWEC. Under the PWPA, APC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until July 2027 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by APC at the end of the PWPA term.

Shuweihat CMS International Power Company PJSC (SCIPCO)

Shuweihat CMS International Power Company PJSC (SCIPCO) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. SCIPCO is 60% owned by Al Shuweihat Power Company, a 90% subsidiary of TAQA and 40% owned by Shuweihat Limited.

SCIPCO has a management operation and maintenance agreement with Shuweihat O & M Limited Partnership, whereby the latter has undertaken to manage the day-to-day operations and maintain SCIPCO's plant. Further, SCIPCO has entered into a PWPA with ADWEC. Under the agreement, SCIPCO undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until June 2025 in accordance with various agreed terms and conditions. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by SCIPCO at the end of the PWPA term.

Taweelah Asia Power Company PJSC (TAPCO)

Taweelah Asia Power Company PJSC (TAPCO) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. TAPCO is 60% owned by Taweelah United Power Company, a 90% subsidiary of TAQA and 40% owned by Asia Gulf Power Holding Company Limited.

TAPCO has a management operation and maintenance agreement with Asia Gulf Power Service Company Limited, whereby the latter has undertaken to manage the day-to-day operations and maintain TAPCO's plant. Further, TAPCO has entered into a PWPA with ADWEC. Under the PWPA, TAPCO undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until March 2028 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by TAPCO at the end of the PWPA term.

Emirates SembCorp Water and Power Company PJSC (ESWPC)

Emirates SembCorp Water & Power Company PJSC (ESWPC) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water. ESWPC is 60% owned by Union Power Holding Company, a 90% subsidiary of TAQA and 40% owned by SembCorp Gulf Holding Company Limited.

ESWPC has a management operation and maintenance agreement with SembCorp Gulf O & M Company Limited, whereby the latter has undertaken to manage the day-to-day operations and maintain ESWPC's plant. Further, ESWPC has entered into a PWPA with ADWEC. Under the PWPA, ESWPC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until December 2035 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by ESWPC at the end of the PWPA term.

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37 Subsidiaries continued

Domestic subsidiaries continued

Fujairah Asia Power Company PJSC (FAPCO)

Fujairah Asia Power Company PJSC (FAPCO) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the UAE grid. FAPCO is 60% owned by Fujairah Water and Electricity Company, a 90% subsidiary of TAQA and 40% owned by Fujairah F2 CV.

During the year, the principal activities of the Company were to develop, finance, design and construct a power generation and desalination plant (the Plant).

FAPCO has a management operation and maintenance agreement with Fujairah F2 O & M Company Ltd, whereby the latter has undertaken to manage the day-to-day operations and maintain the Company's plant until 2030. FAPCO has entered into a power and water purchase agreement (PWPA) with Abu Dhabi Water and Electricity Company (ADWEC), a related party and a wholly-owned subsidiary of ADWEA. Under the PWPA, the Company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until July 2030 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by FAPCO at the end of the PWPA term.

Ruwais Power Company PJSC (RPC)

Ruwais Power Company PJSC (RPC) is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water. RPC is 60% owned by Ruwais Power Holding Company, a 90% subsidiary of TAQA and 40% owned by Shuweihat 2 Holding Company Limited.

During the year, the principal activities of RPC were to develop, finance, design and construct a power generation and desalination plant (the Plant). In 2008, RPC entered into a turnkey agreement with third party contractors for the engineering, procurement and construction of the Plant in Ruwais for an amount of US$2.2 billion.

RPC has a management operation and maintenance agreement with S2 Operation and Maintenance Company W.L.L, whereby the latter has undertaken to manage the day-to-day operations and maintain the Company's plant. In July 2008, RPC has entered into a power and water purchase agreement (PWPA) with Abu Dhabi Water and Electricity Company (ADWEC), a related party, (a wholly-owned subsidiary of ADWEA). Under the PWPA, RPC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until August 2031 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by RPC at the end of the PWPA term.

Foreign operating subsidiaries

TAQA GEN X LP

TAQA GEN X limited partnership was incorporated during 2008 and is a 85% subsidiary of TAQA. During the fourth quarter of 2008, TAQA GEN X acquired 100% holding in BE Red Oak holding LLC, a company which holds a contractual interest in a tolling agreement for a combined cycle generation facility with a design electric generation capacity of approximately 764 MW located in Sayreville, New Jersey which facility is owned by AES Red Oak. The Tolling Agreement is defined as certain Fuel Conversion Services, Capacity and Ancillary Services Purchase Agreement dated 17 September 1999 between BE Red Oak and AES Red Oak, as amended. The acquisition was completed on 31 December 2008.

TAQA Bratani Limited and TAQA Bratani LNS Limited

TAQA Bratani Limited and TAQA Bratani LNS Limited were incorporated in 2006 to oversee TAQA's investments in the UK. In 2006, TAQA Bratani Limited and TAQA Bratani LNS Limited acquired the working interests of Talisman Energy Inc. in the Brae area of the UKCS (UK Continental Shelf). The interests in the Brae asset area includes part ownership of platforms, pipelines and offshore facilities, together with a large number of contracts which were entered into as part of the acquisition (mainly processing, tariffing and supply contracts). Control was transferred to the subsidiary on 31 December 2007. On 1 December 2008, TAQA Bratani Limited acquired a business from the UK subsidiaries of Shell UK Limited and Esso Exploration and Production UK Limited comprising a package of upstream assets in the Northern North Sea together with related infrastructure, personnel and processes. On 1 June 2013, TAQA Bratani completed the acquisition of certain UK North Sea oil and gas assets from a subsidiary of BP plc under a Sale and Purchase Agreement. This comprised of a package of assets in the Central North Sea in addition to additional stake in the Brae assets and infrastructures.

TAQA Energy B.V.

In January 2007, TAQA, through its wholly owned subsidiary TAQA Europa B.V., acquired BP Nederland Energie B.V. (subsequently renamed TAQA Energy B.V.) from Amoco Netherlands Petroleum Company (Amoco). TAQA Energy is involved in the exploration, production and transportation of oil and natural gas in the Netherlands. TAQA Energy is also involved in the peak gas business through the Alkmaar Piek Gas Installatie (PGI). In October 2009, TAQA Energy completed the acquisition of all issued and outstanding interest in DSM Energie Holding B.V. (DSM Energy) from the Netherlands based Royal DSM N.V. TAQA Energy took control of the company which includes new and existing licenses in the North Sea. Through TAQA Gas Storage B.V., TAQA Energy B.V. is involved in midstream operations from April 2015 holding a 60% stake and is the operator of Gas Storage Bergermeer (GSB). After the company's investment and development of this asset, GSB is now Europe's largest, open-access gas storage; providing the Northwest European gas market with 46 terawatt-hours (TWh) of seasonal storage capacity. GSB is considered a key facility in the Netherlands' ambition to become the gas hub for Northwest Europe.

TAQA NORTH Ltd.

TAQA NORTH, formerly Northrock Resources Limited (Northrock) is a Calgary-based oil and gas exploration company with operations in Alberta, British Columbia, Saskatchewan, Ontario and the Northwest Territories in Canada and in Montana, North Dakota and Wyoming in the United States. Northrock was acquired by TAQA in August 2007 from Pogo Producing Company and amalgamated with TAQA NORTH. TAQA NORTH subsequently entered into agreements to acquire Pioneer Canada Ltd. (Pioneer), a subsidiary of US-based Pioneer Natural Resources Company, and Calgary-based PrimeWest Energy Trust (PrimeWest). The former transaction closed on 27 November 2007 and the latter on 16 January 2008.

TAQA Morocco (formerly Jorf Lasfar Energy Company, SCA) and Jorf Lasfar Energy Company 5&6 S.A. (JLEC 5&6)
TAQA Morocco was incorporated in Morocco as a société en commandite par actions (which is similar to a limited partnership) in January 1997. TAQA Morocco was established to operate two existing power generation units at Jorf Lasfar, each having 330 MW gross capacity (units 1 and 2), and to construct and operate two units of 348 MW gross capacity each (units 3 and 4) at the same site.

Through the power purchase agreement (PPA), TAQA Morocco sells net electricity production generated by these four units to Morocco's state-owned "Office National de Electricite" (ONE) for a period of thirty years from financial close of the Jorf Lasfar project, which occurred in September 1997.

As of May 2007, the operating company, TAQA Morocco, became a wholly owned subsidiary of TAQA. During December 2013, TAQA Morocco issued new shares through a private placement by Moroccan institutional investors and an initial public offering on the Casablanca Stock Exchange. TAQA retained 85.79% of the ownership interest in TAQA Morocco.

In December of 2010, TAQA Morocco formed a subsidiary called Jorf Lasfar Energy Company 5&6 S.A., which was established to construct, own, and operate two units of approximately 350 MW gross capacity each (units 5 and 6) adjacent to the existing TAQA Morocco project. TAQA effectively owns 90.62% of Jorf Lasfar Energy Company 5&6 S.A., through TAQA Morocco and other affiliated companies.

Takoradi International Company (TICO)
TICO is the Ghana Branch of a Cayman Islands limited liability company. The company is authorized to develop, design, finance, construct, commission, complete, own, operate, and maintain a power generation plant to be located adjacent to the existing power station in Aboadze, near Takoradi, within the TTPP complex. As of May 2007, TAQA Generation, a wholly owned subsidiary of TAQA acquired a 90% interest in TICO.

TAQA Neyveli Power Company Private Ltd. (TNPCPL)
TNPCPL was incorporated on 17 November 1993, principally for the purposes of owning and operating the 250 MW lignite thermal power plant facility located in Neyveli, Tamil Nadu, Republic of India. TNPCPL sells the entire capacity of the power plant to TANGEDCO, the local state government owned utility, under a 30-year power purchase agreement. The plant was developed and constructed by SCECPL and commenced commercial operations in December 2002. The plant is operated by CMS (India) Operation and Maintenance Company Private Limited under a 30-year operation and maintenance agreement.

As of May 2007, the operating company, TNPCPL, became an indirect wholly owned subsidiary of TAQA.

TAQA Atrush B.V.
TAQA Atrush B.V. was incorporated in 2012 to acquire a 53.2% interest in the Atrush oil block in the Kurdistan region of Iraq from General Exploration Partners Inc, an affiliate of Aspect Energy International LLC. The acquisition completed in December 2012 and TAQA Atrush B.V. also became the operator. Currently, the field development plan for phase one of the project has been approved and the construction of 30,000 barrels per day production facility is in progress. The current plan is to do a multi-phase development for the whole block. During Q4 2016, the contractors concluded the negotiations with the KRG, resulting in the signing of a PSC Amendment and Facilitation Agreement. The PSC Amendment formally changes TAQA's interest in the block from 53.2% to 39.9%.

Other subsidiaries
O&M Companies
As part of the acquisition of Jorf Lasfar, SCECPL and TICO as described above, TAQA also acquired the related operating and maintenance companies.

Taweelah Shared Facilities Company LLC (TSFC)
TAQA acquired a controlling interest in Taweelah Shared Facilities Company LLC through its subsidiaries Taweelah Asia Power Company PJSC, Emirates CMS Power Company PJSC and Gulf Total Tractebel Power Company PJSC. TSFC is a closely held private company incorporated in United Arab Emirates which maintains shared utility facilities in Al Taweelah complex for the supply and discharge of sea water and provides other related services to TAQA subsidiaries.

Shuweihat Shared Facilities Company LLC (SSFC)
TAQA acquired a controlling interest in Shuweihat Shared Facilities Company LLC through its subsidiaries Ruwais Power Company PJSC and Shuweihat CMS International Power Company PJSC. SSFC is a closely held private company incorporated in United Arab Emirates which maintains shared utility facilities in Shuweihat complex for the supply and discharge of sea water and provides other related services to TAQA subsidiaries.

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38 Financial instruments
38.1 Hedging activities

	Notional amount 2017 AED million	Current 2017 AED million	Non-current 2017 AED million	Current 2016 AED million	Non-current 2016 AED million
Cash flow hedges					
Assets					
Interest rate swaps (note 19)	**698**	**–**	**5**	–	2
Forward foreign exchange contracts (notes 19 and 21)	**279**	**10**	**13**	4	12
		10	**18**	4	14
Liabilities					
Cross currency interest rate swap (notes 32 and 33)	**1,255**	**31**	**325**	26	428
Interest rate swaps (notes 32 and 33)	**24,820**	**484**	**2,303**	592	2,848
Forward foreign exchange contracts (notes 32 and 33)	**129**	**19**	**13**	38	47
		534	**2,641**	656	3,323
Fair value hedges					
Liabilities					
Futures and forward contracts (note 33)		**105**	**–**	17	–

(i) Interest Rate Swaps – Cash flow hedge
In order to reduce their exposure to interest rate fluctuations on variable interest bearing loans and borrowings (note 28) and Islamic loans (note 29) certain subsidiaries have entered into interest rate swap arrangements with counterparty banks for a notional amount that matches the outstanding interest bearing loans and borrowings and Islamic loans. The derivative instruments were designated as cash flow hedges. The following table summarises certain information relating to the derivatives for each subsidiary as of 31 December 2017 and 31 December 2016:

	Notional amount		Derivative liabilities		Derivative assets		Fix leg on instrument	
	2017 AED million	2016 AED million	**2017 AED million**	2016 AED million	**2017 AED million**	2016 AED million	**2017**	2016
ECPC	**329**	505	**14**	27	**–**	–	**2.78% to 4.76%**	2.78% to 4.76%
GTTPC	**2,604**	2,777	**107**	135	**–**	–	**2.89% to 5.20%**	2.89% to 5.20%
SCIPCO	**1,668**	2,004	**21**	41	**–**	–	**1.83% to 2.92%**	1.83% to 2.92%
APC	**1,641**	1,860	**126**	184	**–**	–	**4.60% to 4.89%**	4.60% to 4.89%
TAPCO	**3,732**	4,110	**273**	359	**–**	–	**0.81% to 5.28%**	0.81% to 5.28%
ESWPC	**2,619**	3,554	**222**	381	**–**	–	**3.62% to 5.85%**	3.62% to 5.85%
FAPCO	**5,777**	6,016	**1,023**	1,183	**–**	–	**0.53% to 5.72%**	0.53% to 5.72%
RPC	**4,632**	4,827	**912**	1,023	**–**	–	**4.62% to 5.40%**	4.62% to 5.40%
JLEC 5&6	**1,766**	1,994	**89**	107	**–**	–	**1.92% to 2.12%**	1.92% to 2.12%
TICO	**698**	755	**–**	–	**5**	2	**2.20% to 2.31%**	2.20% to 2.31%
	25,466	28,402	**2,787**	3,440	**5**	2		

(ii) Cross currency Swaps – Cash flow hedges
During 2012, the Group entered into a cross currency rate swap agreement to hedge the Group's exposure on the Malaysian Ringgit Sukuk issued during the year (note 29 (iv)). Under the terms of the cross currency rate swap, TAQA is required to pay a fixed rate of 5.3% per annum on an initial exchange amount of US$215 million and receive a fixed rate of 4.65% per annum on an amount of MYR 650 million. The derivative instrument had a negative fair value of AED 281 million at 31 December 2017 (2016: negative fair value AED 340 million), which was included within other liabilities, accounts payables, accruals and other liabilities in the consolidated financial position.

During April 2014, the Group entered into a cross currency interest rate swap agreement with Mitsubishi UFJ Securities International plc to hedge the Group's exposure on the Samurai term loan facility issued during the period (note 28 (v)). Under the terms of the cross currency interest rate swap, TAQA is required to pay a variable rate equal to LIBOR plus margin on an initial exchange amount of US$200 million and receive a variable rate equal to JPY LIBOR plus margin on an amount of JPY 20 billion. The swap has been designated as a cash flow hedge and the effective portion of gain and losses is recorded in equity. The derivative instrument had a negative fair value of AED 75 million as at 31 December 2017 (2016: negative fair value of AED 114 million), which is included within other liabilities, accounts payables, accruals and other liabilities, in the consolidated statement of financial position.

(iii) Forward Foreign Exchange Contracts

Shuweihat CMS International Power Company PJSC (SCIPCO)

SCIPCO uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at 31 December 2017 amounted to AED 153 million (2016: AED 222 million).

The derivative instruments which are entered into for the purpose of cash flow hedge had a positive fair value of AED 9 million at 31 December 2017 (2016: negative fair value of AED 20 million). An amount of AED 5 million representing the non-current derivative asset (2016: non-current derivative liability AED 8 million), has been included within other assets (note 19) and the current portion amounting to AED 4 million is included within accounts receivable and prepayments (note 21) (2016: accruals and other liabilities AED 12 million).

Fujairah Asia Power Company PJSC (FAPCO)

FAPCO uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The notional amount outstanding at 31 December 2017 was AED 92 million (2016: AED 146 million).

The derivative instrument had a positive fair value of AED 14 million (2016: AED 16 million) as of 31 December 2017. An amount of AED 8 million (2016: AED 12 million), representing the non-current portion of the derivative asset has been included within other assets (note 19) and the current portion amounting to AED 6 million (2016: AED 4 million) is included within accounts receivable and prepayments (note 21).

Ruwais Power Company PJSC (RPC)

RPC uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The notional amount outstanding at 31 December 2017 was AED 139 million (2016: AED 199 million).

The derivative instrument had a negative fair value of AED 29 million (2016: AED 61 million) as of 31 December 2017. An amount of AED 12 million (2016: AED 38 million), representing the non-current portion of the derivative liability has been included within other liabilities (note 32) and the current portion amounting to AED 17 million (2016: AED 23 million) is included within accounts payable, accruals and other liabilities (note 33).

Emirates CMS Power Company PJSC (ECPC)

During the year ended 31 December 2015, ECPC entered into forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuation relating to schedule maintenance cost payments to an overseas suppliers. The notional amount outstanding at 31 December 2017 was AED 34 million (2016: AED 146 million).

The derivative instrument had a negative fair value of AED 3 million (2016: AED 4 million) as of 31 December 2017. An amount of AED 1 million (2016: AED 1 million), representing the non-current portion of the derivative liability has been included with other liabilities (note 32) and the current portion amounting to AED 2 million (2016: AED 3 million) is included within accounts payable, accruals and other liabilities (note 33).

38.2 Hedging activities – Fair Value hedges

(i) Other

TAQA GEN X LLC, a subsidiary of TAQA utilizes derivative instruments, which include futures and forwards as a hedging strategy to manage the exposure in the fair value of the underlying Tolling Agreement. Forward and future transactions are contracts for delayed delivery of commodity instruments in which the counterpart agrees to make or take delivery at a specified price.

As at 31 December 2017, the net fair value of exchange-traded derivative instruments was AED 105 million shown under accruals and other liabilities (note 33) (2016: AED 17 million). The net realized and unrealized loss recognized in the consolidated income statement relating to such instruments are AED 23 million for the year ended 31 December 2017 (2016: gain of AED 149 million).

As at 1 January 2014, following the early adoption of IFRS 9, TAQA GEN X LLC designated a new hedge relationship. The Tolling Agreement recognized as an intangible at acquisition was adjusted for the change in fair value for movements in the designated hedge risk in a fair value hedge relationship. The changes in the fair value of the Tolling Agreement attributable to the hedged risk (note 14), for the year ended 31 December 2017 was a loss of AED 61 million (2016: AED 227 million) which was recognized in the consolidated income statement.

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38.3 Fair values
The fair values of the financial instruments of the Group are not materially different from their carrying values at the reporting date except for certain fixed interest borrowings and operating financial assets. Set out below is a comparison of the carrying amounts and fair values of fixed interest borrowings and operating financial assets:

	Carrying amount		Fair value	
	2017 AED million	2016 AED million	**2017 AED million**	2016 AED million
Operating financial assets	**9,840**	9,660	**10,290**	10,058
Interest bearing loans and borrowings (note i)	**31,392**	34,439	**33,901**	36,619

i) Interest bearing loans and borrowings relates to the Abu Dhabi National Energy Company Global Medium-term notes, Abu Dhabi National Energy Company bonds, Ruwais Power Company bond and Emirates SembCorp Water and Power Company bond.

The fair value of operating financial assets is estimated by discounting the expected future cash flows using appropriate interest rates for assets with similar terms, credit risk and remaining maturities.

The fair value of the interest bearing loans and borrowings is based on price quotations at the reporting date.

38.4 Fair value hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	31 December AED million	Level 1 AED million	Level 2 AED million	Level 3 AED million
2017				
Financial assets measured at fair value				
Interest rate swaps – hedged	**5**	**–**	**5**	**–**
Forward foreign exchange contracts	**23**	**–**	**23**	**–**
Financial assets disclosed at fair value				
Operating financial assets	**10,290**	**–**	**–**	**10,290**
Financial liabilities measured at fair value				
Interest rate swaps – hedged	**2,787**	**–**	**2,787**	**–**
Forward foreign exchange contracts	**32**	**–**	**32**	**–**
Cross currency interest rate swaps	**356**	**–**	**356**	**–**
Futures and forward contracts	**105**	**–**	**105**	**–**
Financial liabilities disclosed at fair value				
Interest bearing loans and borrowings	**33,901**	**33,901**	**–**	**–**
2016				
Financial assets measured at fair value				
Interest rate swaps – hedged	2	–	2	–
Forward foreign exchange contracts	16	–	16	–
Financial assets disclosed at fair value				
Operating financial assets	10,058	–	–	10,058
Financial liabilities measured at fair value				
Interest rate swaps – hedged	3,440	–	3,440	–
Forward foreign exchange contracts	85	–	85	–
Cross currency interest rate swaps	454	–	454	–
Futures and forward contracts	17	–	17	–
Financial liabilities disclosed at fair value				
Interest bearing loans and borrowings	36,619	36,619	–	–

There have been no transfers between categories within the fair value hierarchy during the year.

The fair values of the financial assets and financial liabilities measured at fair value included in the Level 1 category above, have been determined by market rates at the year end date.

The fair values of the financial assets and financial liabilities measured at fair value included in the Level 2 category above, have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis. The models incorporate various inputs including foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodities.

Investment carried at FVTOCI are categorized within Level 3 of the fair value hierarchy.

During the year ended 31 December 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

39 Financial risk management objectives and policies

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations and short-term deposits with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2017, after taking into account the effect of interest rate swaps, approximately 89% of the Group's borrowings are at a fixed rate of interest (2016: 89%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings and deposits, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax and equity is affected as follows:

	Effect on profit before tax AED million	Effect on equity AED million
2017		
+15 increase in basis point	**(12)**	**222**
-15 decrease in basis point	**12**	**(244)**
2016		
+15 increase in basis point	(11)	145
-15 decrease in basis point	11	(177)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to risk of changes in foreign exchange rates relates primarily to the operating activities (when revenue or expense are denominated in a difference currency from the functional currencies of the subsidiaries), carrying values of assets and liabilities in Canadian Dollars, Euros, Moroccan Dirhams and Indian Rupees and the Group's net investment in foreign subsidiaries.

The Group hedges part of its net exposure to fluctuations on the translation into AED of its foreign operations by holding certain borrowings in foreign currencies, primarily in Euros.

The following table demonstrates the sensitivity to a reasonably possible change in the Euro, GBP, CAD, Moroccan Dirham and Indian Rupees exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in foreign currency translation reserve). The Group's exposure to foreign currency changes for all other currencies is not material.

	Increase/decrease in Euro, GBP, Moroccan Dirham, Indian Rupees CHF and CAD rates	Effect on profit before tax AED million	Effect on equity AED million
2017	**+5%**	**(20)**	**19**
	-5%	**20**	**(19)**
2016	+5%	(40)	145
	-5%	40	(145)

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39 Financial risk management objectives and policies continued

Foreign currency risk continued
The movement in equity arises from changes in Euro borrowings in the hedge of net investments in the Netherlands. These movements will partly offset the translation of the Netherlands' operations net assets into AED.

Commodity price risk
TAQA GEN X LLC, a subsidiary of TAQA is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of gas and sale of electricity. Due to volatility in the prices of these commodities, the subsidiary's management has developed and enacted a risk management strategy regarding commodity price risk and its mitigation. The Group mitigates the commodity price risks using forward commodity contracts.

The following table shows the effect of price changes on the fair value of the forward commodity contracts on the profit before tax:

	Change in year end price	Effect on profit before tax AED million
2017	**+10%**	**(42)**
	-10%	**42**
2016	+10%	(25)
	-10%	25

The Group also enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognized and measured at cost when the transactions occur.

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and other financial instruments.

Trade and other receivables
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard.

Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance. The Group's largest 2 customers account for approximately 75% of outstanding trade receivables and amounts due from related parties at 31 December 2017 (2016: 54%). The requirement for impairment is analyzed at each reporting date on an individual basis for major costumers. Additionally, a large number of minor receivables are grouped into homogeneous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 21. The Group does not hold collateral as security.

Other financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with reputable banks and financial institutions. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2017 and 2016 is the carrying amounts as illustrated in note 21 except for derivative financial instruments. The Group's maximum exposure for derivative instruments is disclosed in note 38 and in the liquidity table below, respectively.

Liquidity risk
The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other borrowings. The Group's policy is that the amount of borrowings that mature in the next 12 month period should not cause the current ratio to be less than 90%. During 2018, 10% of the Group's debt will mature in less than one year (2016: 10%) based on the carrying value of borrowings reflected in the consolidated financial statements.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments:

	< 1 year AED million	1-5 years AED million	> 5 years AED million	Total AED million
At 31 December 2017				
Trade and other payables	**1,913**	**65**	**2**	**1,980**
Bank overdrafts	**193**	**–**	**–**	**193**
Interest bearing loans, borrowings and Islamic loans	**7,253**	**26,936**	**36,777**	**70,966**
Advances and loans from related parties	**–**	**196**	**70**	**266**
Loans from non-controlling interest shareholders in subsidiaries	**2**	**10**	**117**	**129**
Amounts due to ADWEA and other related parties	**88**	**–**	**–**	**88**
Derivative financial instruments	**1,260**	**3,624**	**2,007**	**6,891**
Total	**10,709**	**30,831**	**38,973**	**80,513**
At 31 December 2016				
Trade and other payables	2,764	–	–	2,764
Bank overdrafts	95	–	–	95
Interest bearing loans, borrowings and Islamic loans	7,151	27,391	38,264	72,806
Advances and loans from related parties	–	203	70	273
Loans from non-controlling interest shareholders in subsidiaries	8	40	454	502
Amounts due to ADWEA and other related parties	89	–	–	89
Derivative financial instruments	1,410	4,125	2,355	7,890
Total	11,517	31,759	41,143	84,419

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

	< 1 year AED million	1-5 years AED million	> 5 years AED million	Total AED million
At 31 December 2017				
Inflows	**733**	**2,025**	**1,043**	**3,801**
Outflows	**(1,260)**	**(3,624)**	**(2,007)**	**(6,891)**
Net	**(527)**	**(1,599)**	**(964)**	**(3,090)**
Discounted at the applicable interbank rates	**(484)**	**(1,494)**	**(804)**	**(2,782)**
At 31 December 2016				
Inflows	735	2,152	1,199	4,086
Outflows	(1,410)	(4,125)	(2,355)	(7,890)
Net	(675)	(1,973)	(1,156)	(3,804)
Discounted at the applicable interbank rates	(512)	(1,876)	(923)	(3,311)

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39 Financial risk management objectives and policies continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. There are no regulatory imposed requirements on the level of share capital which the Group has not met. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio within a range to meet the business needs of the Group. The Group includes within net debt, interest bearing loans and borrowings, Islamic loans, less cash and cash equivalents. Capital includes total equity including non-controlling interests less total cumulative changes in fair value of derivatives.

	2017 AED million	2016 AED million
Interest bearing loans and borrowings	**68,714**	70,544
Islamic loans	**1,511**	1,616
Less cash and cash equivalents	**(4,207)**	(3,784)
Net debt	**66,018**	68,376
Equity	**9,136**	8,072
Movement in cumulative changes in fair value of derivatives	**2,869**	3,600
Total capital	**12,005**	11,672
Capital and net debt	**78,023**	80,048
Gearing ratio	**85%**	85%

40 Subsequent event

In February 2018, Law No. (11) of 2018 on the establishment of the Energy Department (Law No. 11) was published. Pursuant to the law, all of ADWEA's assets, rights and obligations will be transferred to the Energy Department. The Energy Department will be responsible for strategic plans for the entire energy sector in the Emirate of Abu Dhabi. It will regulate the energy sector in all respects and license all institutions, entities and companies working in the energy sector. It will also propose fees and tariffs and submit them to the Executive Council for approval. It is expected that the Executive Council will issue a decision specifying the subsidiary bodies that will be subject to the supervision of the Energy Department.

As at the date of issue of the Company's consolidated financial statements, Law No. 11 is not yet in force as an implementing regulation as it is still to be issued by the Executive Council of Abu Dhabi. When this regulation is issued, all conflicting provisions of Law No. 2 will be repealed and it is expected that ADWEA's ownership of 74.1% will transfer to the Energy Department. Similarly, all balances and transactions will transfer to the Energy Department.

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