

Company Registration No. 05975475

TAQA BRATANI LIMITED

Report and Financial Statements

For the year ended 31 December 2016



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TAQA BRATANI LIMITED

Report and Financial Statements 2016

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TAQA BRATANI LIMITED

Report and Financial Statements 2016

Officers and Professional Advisers

Directors

Neil Fowler
David Gibson
Alexander Hutchison
Donald Taylor
Edward LaFehr (resigned 21st June 2016)
Saeed Hamad Al Dhaheri (appointed 22nd June 2016, resigned 30 May 2017)
Peter Jones (resigned 14th November 2016)
Awad Saeed Bakhit Saeed Alketbi (appointed 31st May 2017)
Vivek Gambhir (appointed 31st May 2017)
Mohammed Abdulla Falah Jaber Al Ahbabi (appointed 31st May 2017)

Secretary

Alexander Hutchison
c/o CMS Cameron McKenna LLP
Cannon Place
78 Cannon Street
London
EC4N 6AF

Registered Office

c/o CMS Cameron McKenna LLP
Cannon Place
78 Cannon Street
London
EC4N 6AF

Independent Auditors

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

TAQA BRATANI LIMITED

Strategic Report

The directors present their strategic report and the audited financial statements for the year ended 31 December 2016.

Principal Activity

The Company is involved in the exploration, development and production of offshore oil and gas fields in the UK sector of the North Sea.

Business Review

During 2016, the Company has continued to develop and exploit its oil and gas production, exploration, pipeline and terminal interests in the UK continental shelf against the backdrop of a rapid and sustained decline in oil and gas prices. The Company has responded to these market conditions with an increased focus on cost management and asset integrity with the aim of improving profitability through safe, reliable and efficient operations. This has resulted in a significant reduction in cost base, and increased efficiency and reliability, helping improve the sustainability of production from older, higher-cost oil and gas fields. A disciplined and focused approach to costs helped reduced net G&A and operational expenditures per barrel. As a result of lower commodity prices however, the Company has recognised a non-cash, post-tax PP&E impairment of \$303m, and a goodwill impairment of \$183m, at the end of 2016.

The Company continues to place the highest priority on the safety of its workforce, driving a culture of continuous improvement and a no complacency approach.

Key Performance Indicators

The directors currently consider the key performance indicators of the Company to be as follows:

| KPI | KPI Type | At / for the year ended 31 December 2016 | At / for the year ended 31 December 2015 | Movement |
|--------------------------------|----------------------|--|--|--------------|
| Production | <i>Non-Financial</i> | 48.8mboepd | 55.1 mboepd | (6.3m) boepd |
| Operating Efficiency | <i>Non-Financial</i> | 77.92% | 78.14% | (0.22%) |
| Free cashflow before financing | <i>Financial</i> | \$162m | (\$39m) | \$201m |
| Operating costs | <i>Financial</i> | \$450m | \$621m | (\$171m) |
| Net Loss | <i>Financial</i> | \$576m | \$775m | (\$199m) |
| Capex | <i>Financial</i> | \$74m | \$414m | (\$340m) |

Outlook for 2017

During 2017, the Company will continue its efforts to improve margins and cost performance, with the aim of improving profitability through safe, reliable and efficient operations.

The Company aims to generate positive cashflow at low oil and gas prices, whilst at the same time improving core operations through reliability and maintenance improvements.

Capital expenditure will increase during 2017 and 2018 as the Company invests in profitable projects to increase production and reduce costs per barrel. The Company will also commence the plugging and abandoning of wells during 2017 as fields reach their economic cessation of production dates, and decommissioning subsea wells that are not producing using a mobile rig contract recently executed with Paragon Offshore. Safely and efficiently executing decommissioning operations will increasingly be part of the activity of the Company in the years ahead.

TAQA BRATANI LIMITED

Strategic Report

Financial Review

The Company's loss for the financial year was \$576m (2015: loss \$775m). This loss has been transferred to reserves. No dividends were paid in the year (2015: \$nil).

Sales revenues totalled \$704m (2015: \$1,160m) and the average crude oil price achieved in the year was \$42/bbl (2015: \$52/bbl) and the average gas price achieved was 34p per therm (2015: 41p/therm).

Cost of Sales, including field operating costs, transportation tariffs, DD&A and PP&E impairments amounted to \$1,229m (2015: \$2,457m). Depreciation, depletion and amortisation (DD&A) amounted to \$829m (2015: \$1,761m), including a PP&E impairment charge of \$474m (2015 \$1,122m). In addition, a goodwill impairment charge of \$183m was recognised (2015: \$227m). Total Administrative expenses were \$4m (2015: \$8m).

Finance costs were \$148m (2015: \$139m). These are mainly related to the unwinding of discounts on abandonment provisions and interest payable on loans from the Company's parent, TAQA International B.V. (see note 7).

The cash deficit balance at the end of 2016 was \$961,613 (2015: \$76,665). Under group cash management procedures, any surplus cash is transferred to a fellow group company with the amount receivable under this in-house banking arrangement at year-end being \$333m included within intercompany receivables (2015: \$181m). Net cash generated from operating activities was \$244m (2015: \$435m). Investing activities saw an outflow of \$82m (2015: \$474m), mainly related to drilling and field development costs. Net cash from financing activities was an outflow of \$163m (2015: \$39m inflow) mainly relating to cash transfers to a fellow group company under the group cash management agreement.

Following the reduction in oil prices throughout 2015 and 2016, and consequent impairment charges booked in the 2015 financial statements, the Company's parent, TAQA International B.V., by way of a capital contribution to the Company on 21 September 2016 of \$271m, absolutely, irrevocably and unconditionally released, waived and forever discharged absolutely the Company from all obligations and liabilities (past, present and future) in relation to payment of the loan principal balances. This capital contribution represents demonstrable financial support of the Company in the delivery of its goals and objectives.

Risks and uncertainties

The Company is exposed to a number of risks inherent in exploring for, developing and producing crude oil and natural gas which include:

Ability to Find, Develop or Acquire Additional Reserves

The Company's future success depends on its ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Exploration and development drilling may not result in commercially productive reserves. Successful acquisitions require an assessment of a number of factors, many of which are uncertain. These factors include recoverable reserves, exploration potential, future oil and gas prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain.

Asset Integrity and Operational Hazards

Oil and gas drilling and producing operations are subject to many risks, including the possibility of fire, explosions, mechanical failure, pipe failure, chemical spills, accidental flows of oil, natural gas or well fluids, sour gas releases, storms or other adverse weather conditions and other occurrences or accidents, which could result in personal injury or loss of life, damage or destruction of properties, environmental damage, interruption of business, regulatory investigations and penalties and liability to third parties. Many of the Company's production assets are relatively mature and subject to increased risk of failure, for example through corrosion and reduced reliability and /or increased maintenance and renewal costs. Risks of equipment failure due to deterioration with age and use are generally not insurable, but are monitored through regular inspections and maintenance programmes.

Volatility of Oil and Gas Prices

Prices received for crude oil and natural gas are sensitive to numerous worldwide factors, many of which are beyond the Company's control. Changes in world commodity prices may significantly affect the results of the Company, the cash generated from operating activities and the value of the Company's oil and gas properties. The volume of economic oil and gas reserves may also reduce as a result of a material and sustained decrease in commodity prices.

TAQA BRATANI LIMITED

Strategic Report

HSE

To mitigate any risks with regards to HSE the Group has in place an HSE management plan which attempts to ensure that all our operations are conducted within normal industry standards and procedures. We also seek to ensure that all our contractors have the appropriate systems and procedures in place to ensure safe operations. Response plans for various contingencies are in place and regularly tested.

Any incident that occurs during operations is fully investigated by the Group and/or its contractors to ensure that any remedial actions that are identified are fully implemented.

Insurance

The Company has a comprehensive insurance programme in place, subject to certain limits and deductibles to cover damage or significant loss for various insurable risks which may occur during operations including costs resulting from an unplanned release of hydrocarbons to the environment.

Other

Disabled employees

The Company gives full consideration to the applications for employment from disabled persons where the candidate's particular aptitudes are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. Where existing employees become disabled, it is the Company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

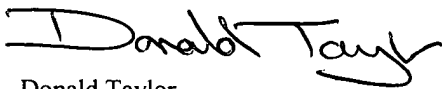
Employee involvement

The Company provides employees with information relating to the economic and financial factors affecting its performance. Meetings are held between local management and employees to allow a free flow of information and ideas.

Supplier payment policy

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that the all the trading terms and conditions have been complied with. At 31 December 2016, the Company had an average of 26 days purchases owed to trade creditors (2015: 27 days).

Approved by the Board of Directors and signed on behalf of the Board



Donald Taylor
28 September 2017

TAQA BRATANI LIMITED – Company Registration No.05975475

Directors' Report

The directors present their report for the year ended 31 December 2016.

Dividends

The Company's loss for the financial year was \$576m (2015: loss \$775m). This loss has been transferred to reserves. No dividends were paid during the year (2015: nil).

Going Concern

The Company's business activities and key performance indicators are presented in the Strategic Report and the company's financial risk management objectives are described in note 19 together with a discussion of its exposures to price, credit, liquidity and foreign exchange.

The Company has an externally reviewed oil and gas reserves base, significant technical and managerial expertise and the support of its parent entities in the pursuit of its business goals, as evidenced by the capital contribution effected on 21st September 2016. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, including of the Abu Dhabi National Energy Company PJSC which controls and 100% owns the Company (indirectly), the directors have a reasonable expectation that the Company has the resources and the controlling company support to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

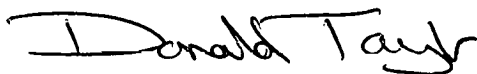
Directors

The present membership of the board is set out on page 1.

Auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information. Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

Approved by the Board of Directors and signed on behalf of the Board



Donald Taylor
28 September 2017

TAQA BRATANI LIMITED

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law. The directors have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

United Kingdom law and IAS 1 requires that directors must not approve financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Company for that year. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and the Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report to the Members of TAQA BRATANI LIMITED

We have audited the financial statements of TAQA Bratani Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Jamie Dixon (Senior Statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Aberdeen
28 September 2017

TAQA BRATANI LIMITED

Income Statement Year ended 31 December 2016

| | | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|-------------------------------------|-------|---|---|
| | Note | | |
| Revenue | 3 | 704,462 | 1,160,243 |
| Cost of sales | | (751,224) | (1,334,721) |
| PP&E Impairment | 12 | (473,661) | (1,122,034) |
| Gross Loss | | (520,423) | (1,296,512) |
| Exploration and evaluation expenses | 10 | (22,268) | (4,572) |
| Administrative expenses | | (4,129) | (7,734) |
| Foreign exchange gain | | 17,873 | 9,348 |
| Operating Loss | 4 | (528,947) | (1,299,470) |
| Goodwill impairment charge | 10,11 | (182,626) | (227,472) |
| Finance income | 7 | 755 | 373 |
| Finance costs | 7 | (147,510) | (138,624) |
| Loss before tax | | (858,328) | (1,665,193) |
| Income tax credit | 8 | 282,678 | 889,788 |
| Loss for the year | 21 | (575,650) | (775,405) |

Statement of Comprehensive Loss Year ended 31 December 2016

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|--|-------------------------------|-------------------------------|
| Loss for the year | (575,650) | (775,405) |
| Total Comprehensive Loss for the year | (575,650) | (775,405) |

TAQA BRATANI LIMITED

Statement of Changes in Equity Year ended 31 December 2016

| | Note | \$'000 |
|----------------------|------|-----------|
| At 1 January 2015 | | 562,852 |
| Loss for the year | 21 | (775,405) |
| At 31 December 2015 | | (212,553) |
| Loss for the year | 21 | (575,650) |
| Capital contribution | 21 | 271,203 |
| At 31 December 2016 | | (517,000) |

TAQA BRATANI LIMITED

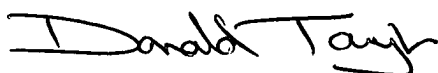
Statement of Financial Position As at 31 December 2016

| | Note | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|---------------------------------------|------|-------------------------------|-------------------------------|
| Non-current assets | | | |
| Intangible assets | 10 | 3,968 | 204,130 |
| Property, plant & equipment | 12 | 983,453 | 1,745,260 |
| Deferred tax asset | 9 | 1,167,399 | 829,600 |
| | | <u>2,154,820</u> | <u>2,778,990</u> |
| Current assets | | | |
| Inventories | 14 | 10,658 | 16,612 |
| Trade and other receivables | 13 | 461,412 | 318,434 |
| | | <u>472,070</u> | <u>335,046</u> |
| Total assets | | <u>2,626,890</u> | <u>3,114,036</u> |
| Current liabilities | | | |
| Cash and cash equivalents | | (962) | (77) |
| Trade and other payables | 15 | (236,760) | (274,364) |
| Interest bearing loans and borrowings | 16 | - | (174,587) |
| | | <u>(237,722)</u> | <u>(449,028)</u> |
| Non-current liabilities | | | |
| Interest bearing loans and borrowings | 16 | - | (96,616) |
| Provisions | 17 | (2,906,168) | (2,780,945) |
| | | <u>(2,906,168)</u> | <u>(2,877,561)</u> |
| Total liabilities | | <u>(3,143,890)</u> | <u>(3,326,589)</u> |
| Net liabilities | | <u>(517,000)</u> | <u>(212,553)</u> |
| Equity | | | |
| Issued share capital | 20 | 193,266 | 193,266 |
| Share premium | 20 | 188,636 | 188,636 |
| Capital contribution | 21 | 271,203 | - |
| Retained earnings | 21 | (1,170,105) | (594,455) |
| Total equity | | <u>(517,000)</u> | <u>(212,553)</u> |

These financial statements were approved by the Board of Directors on 28 September 2017.

Signed on behalf of the Board of Directors

Donald Taylor
Director



TAQA BRATANI LIMITED

Statement of Cash Flows Year ended 31 December 2016

| | | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|--|------|---|---|
| | Note | | |
| Net cash generated in operating activities | 22 | 243,733 | 435,460 |
| Investing activities | | | |
| Purchase of property, plant & equipment | | (74,356) | (467,513) |
| Expenditure on exploration and evaluation assets | | (7,439) | (6,912) |
| Net cash used in investing activities | | (81,795) | (474,425) |
| Financing activities | | | |
| Repayment of interest bearing loans and borrowings | | - | (196,444) |
| Interest paid | | (10,525) | (31,636) |
| Cash (transfer) drawing to/from group treasury | | (152,298) | 266,927 |
| Net cash generated financing activities | | (162,823) | 38,847 |
| Net decrease in cash and cash equivalents | | (885) | (118) |
| Cash and cash equivalents at 1 January | | (77) | 41 |
| Cash and cash equivalents at 31 December | | (962) | (77) |

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

1. Corporate information and basis of preparation

TAQA Bratani Limited is a company incorporated and domiciled in the United Kingdom. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Strategic Report.

These financial statements are presented in US Dollars, which is also the functional currency of the Company. The financial statements have been prepared on the historical cost basis. After making enquiries, including of the Abu Dhabi National Energy Company PJSC which controls and 100% owns the Company (indirectly), the directors have a reasonable expectation that the Company has the resources and the controlling company support to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. The principal accounting policies adopted are set out below.

2.1 Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of TAQA Bratani Limited for the year ended 31 December 2016 were authorised for issue by the board of directors on 28 September 2017 and the statement of financial position was signed on the board's behalf by Donald Taylor. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Company for the year ended 31 December 2016.

2.2 Changes in accounting policy 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 2016:

- Amendments to IFRS11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS16 and IAS38: Clarification of Acceptable Methods of Depreciation & Amortisation
- Amendments to IAS1 Disclosure Initiative
- **Annual Improvements 2012-2014 Cycle**
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Change in methods of disposal)
 - IAS 19 Employee Benefits
 - IAS 34 Interim Financial Reporting

2.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, 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 reporting date. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.3 Significant accounting judgements, estimates and assumptions *continued*

Judgements continued

Impairment of non-financial assets – Indicators of impairment

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

Acquisition accounting

When the Company makes an acquisition, significant judgement is required to determine whether the transaction or other event constitutes a business or represents only an asset or group of assets that do not constitute a business. The conclusion whether an acquired set of assets and activities is a business or not can lead to significantly different accounting results.

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 Company 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 Company. Such changes are reflected in the assumptions when they occur.

Recoverability of Exploration and Evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that their carrying amounts may exceed their recoverable amounts.

Reserves base – Oil and gas assets

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, 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 Company'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 recognised in the 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.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.3 Significant accounting judgements, 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 re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor.

Impairment testing of non-financial assets

The Company'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 of disposal. 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 Company 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 costs of disposal 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 the price assumptions, foreign exchange rate assumptions and discount rates used in the cash flow models.

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 Company's annual oil and gas reserves and resources review process includes an external audit process conducted by appropriately qualified parties. 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 impairment reversal, and may result in subsequent impairment charges or reversals, as well as affecting the unit-of-production depreciation charge in the income statement.

Provision for decommissioning

Decommissioning costs will be incurred by the Company at the end of the operating life of certain of the Company'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 changes due to changes in commodity price. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.3 Significant accounting judgements, estimates and assumptions *continued*

Income taxes

The Company recognises the net future tax benefit related to deferred income tax assets 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 Company 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 Company to realise 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 Company operates could limit the ability of the Company 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.

2.4 Summary of significant accounting policies

Revenue recognition

Oil and gas

Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when 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 Company'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 is '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 recognised on an entitlements basis.

Interest income

Interest income is recognised 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 balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the 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 at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Taxes continued

from the initial recognition of goodwill or 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.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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 utilised except where 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.

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. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. The measurement of deferred income tax assets and liabilities reflects the tax consequences of the periods in which they are expected to be recovered or settled.

The carrying amount of deferred income tax assets is reviewed at each balance sheet 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 utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 Company 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 Company 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 re-measured to fair value at the acquisition date through the income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss as a change to comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Business combinations and goodwill continued

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised 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 Company re-assesses 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 recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of the net assets acquired over the aggregate consideration transferred, the difference is recognised 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 Company's 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 Company determines that some other method better reflects the goodwill associated with the operation disposed of.

Fair value measurement

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 the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Current versus non-current classification

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

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

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 Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation

The financial statements are presented in US Dollars (\$), which is the Company's functional and presentation currency. Functional currency is the currency of the primary economic environment in which an entity operates. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date and all differences are taken to the income statement. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates 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 at the date when the fair value was determined.

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 the Company undertakes its activities under joint operations, the Company as a joint operator recognises 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 Company accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Oil and gas joint ventures

Certain of the Company'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 Company 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 of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Finance Leases

Finance leases, which transfer to the Company substantially all of the risks and benefits incidental to ownership of

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Leases continued

the leased item, are capitalised at the inception 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 income statement.

Leased assets are depreciated over the useful life of the asset. However if, there is no reasonable certainty that the Company 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 Leases

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

Intangible assets

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

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

| | |
|-------------------|---------|
| Computer software | 4 years |
|-------------------|---------|

The amortisation period and the amortisation method for an intangible asset with a finite useful life 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Emission Rights

Purchased emission rights are recognised initially at cost within intangible assets. Emission rights are not amortised as their carrying value equals their residual value as there is no consumption of economic benefit while the emission right is held. Emission rights are derecognised when utilised or when no future economic benefits are expected.

Oil and natural gas exploration, evaluation and development expenditure

Exploration & evaluation costs - Capitalisation

Pre-licence costs and geological and geophysical exploration costs incurred prior to obtaining the rights to explore are recognised in the income statement when incurred. Exploration licences are recognised as an exploration and evaluation ("E&E") asset. The cost of that licence 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 licence. 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 capitalised as intangible exploration and evaluation ("E&E") assets. E&E costs are not amortised prior to the conclusion of appraisal activities.

At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered at each field level then, 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

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Oil and natural gas exploration, evaluation and development expenditure continued

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 income statement.

Exploration and evaluation assets swaps

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at amortised cost. Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the assets given up nor the assets received can be reliably estimated.

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 capitalised within oil and gas properties.

Property, plant and equipment

Property, plant and equipment- general

Property, plant and equipment are 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 Company recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised 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 recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning obligation of an asset after its use 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 (except for oil and gas properties) as follows:

| | |
|---|--------------|
| Office equipment, fixtures and fittings | 3 to 5 years |
|---|--------------|

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 derecognised 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 income statement in the year the asset is derecognised.

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 recognised 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, except in the case of assets whose useful life is shorter than the lifetime of the field, in which case

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Property, plant and equipment continued

the straight-line method is applied. The unit-of-production rate for the amortisation 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.

Development and production asset swaps

Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on de-recognition of the asset given up is recognised in the consolidated income statement.

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 Company, the expenditure is capitalised. 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 capitalised when the recognition criteria are met and amortised 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.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. 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 capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur.

Impairment of non-financial assets

The Company 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 Company 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 and 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. Where 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 determining fair value less costs of disposal, 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 recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Impairment of non-financial assets continued

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the assets' or cash-generating units' recoverable amount. A previously recognised 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 recognised. 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 recognised for the asset in prior years. Any such impairment reversal is recognised in the income statement.

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

Goodwill

Goodwill is tested for impairment annually during the fourth quarter of each year and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units (or group of cash generating units) is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. For the purposes of testing goodwill for impairment, relevant deferred tax balances are treated as part of the CGU or group of CGUs.

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 income statement. The recoverable amount of the segment is determined as the higher of its fair value less costs of disposal and its value in use.

Inventories

Inventories 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.

Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions for 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 liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL)) 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 recognised immediately in profit or loss.

Financial assets

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

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Financial instruments continued

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortised cost less impairment loss (except for debt investments that re designated 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.

De-recognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company 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 Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised 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 amortised cost using the effective interest method or at FVTPL.

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

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading and are not designated at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised 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 amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.4 Summary of significant accounting policies *continued*

Financial instruments continued

De-recognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Pensions

Contributions made to defined contribution pension schemes are recognised in the income statement in the period in which they become payable.

Cash and short-term deposits

Cash and short-term deposits in the 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 cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Provisions

General

Provisions are recognised when the Company 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Asset retirement obligations

The Company has legal obligations in respect of site restoration and abandonment of oil and gas properties at the end of their useful lives (decommissioning costs). The Company records a provision for the site restoration and abandonment based upon estimated costs at the end of their useful lives with a corresponding asset recognised 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 recognised as part of the cost of each specific asset. The cash flows are discounted at an appropriate rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised 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 cost estimates or discount rate changes are added to or deducted from the cost of the relevant asset.

Contingencies

From time to time the Company 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 Company.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

2.5 Future change in accounting policies – standards issued but not yet effective

Standards, amendments and interpretations that are issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective, however no material impact from the adoption of the new and amended standards on the Company's financial position or performance is expected.

- IFRS 15: Revenue from Contracts with Customers
- IFRS 16 Leases
- Amendment to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendment to IAS 7: Statement of Cash Flows relating to Disclosure Initiative
- Amendment to IAS 12 Income Taxes relating to recognition of deferred taxes for unrealised losses
- Amendments to IAS40 Investment Property relating to transfers of investment property
- IFRIC22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRSs 2014-2016 Cycle
 - o IFRS1 First Time Adoption of IFRS
 - o IFRS12 Disclosure of Interest in Other Entities

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

3. Revenue

Revenue recognised in the income statement is analysed as follows:

| | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|-------------------------------|---|---|
| Oil, gas and condensate sales | 652,341 | 1,052,411 |
| Processing revenue | 29,883 | 69,314 |
| Other revenue | 22,238 | 38,518 |
| | <u>704,462</u> | <u>1,160,243</u> |

Revenues have been derived from one business segment. Annual revenue from one external customer exceeds more than 10% of the Company's revenues and amounts to \$476m (2015: \$830m).

4. Operating loss

| | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|---|---|---|
| Operating loss is stated after charging: | | |
| Depreciation, depletion and amortisation | 351,881 | 634,458 |
| Exploration and evaluation costs written off | 22,268 | 4,572 |
| Impairment of PP&E assets | 473,661 | 1,122,034 |
| Impairment of goodwill | 182,626 | 227,472 |
| Minimum lease payments under operating leases | 21,144 | 26,935 |
| | <u></u> | <u></u> |

5. Auditors' remuneration

| | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|---|---|---|
| Fees payable to the Company's auditors for the audit of the Company's annual accounts | 286 | 420 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Audit related assurance services | 63 | 70 |
| Tax advisory and compliance services | 368 | 383 |
| | <u></u> | <u></u> |
| Total audit and non-audit fees | <u>717</u> | <u>873</u> |

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

6. Staff numbers and costs

Average monthly number of persons employed

| | Year Ended 31 December 2016 No. | Year Ended 31 December 2015 No. |
|-------------------------|--|--|
| Offshore based | 259 | 257 |
| Office & administration | 268 | 291 |
| | <u>527</u> | <u>548</u> |

| | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|--|---|---|
| Staff costs (including directors) during the year | | |
| Wages and salaries | 65,768 | 84,311 |
| Social security costs | 8,312 | 10,897 |
| Pensions costs | 11,192 | 13,838 |
| | <u>85,272</u> | <u>109,046</u> |

7. Finance income and finance costs

| | Year Ended 31 December 2016 \$'000 | Year Ended 31 December 2015 \$'000 |
|---|---|---|
| Finance Income | | |
| Bank interest income | 755 | 50 |
| Other income | - | 323 |
| | <u>755</u> | <u>373</u> |
| Finance Costs | | |
| Interest on interest bearing loans and borrowings | 8,776 | 19,676 |
| Unwinding of discount on provisions (note 17) | 138,419 | 140,271 |
| Other interest | 315 | 660 |
| | <u>147,510</u> | <u>160,607</u> |
| Less: Capitalised Interest | - | (21,983) |
| | <u>147,510</u> | <u>138,624</u> |

The capitalisation rate applied in determining the amount of borrowing costs to capitalise in 2015 was 4.4 %.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

8. Income Tax

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|------------------------------|-------------------------------|-------------------------------|
| Current income tax charge | 63,684 | 20,091 |
| Credit for prior periods | (8,563) | (1,476) |
| | <u>55,121</u> | <u>18,615</u> |
| Deferred taxation (credit) | (335,498) | (770,810) |
| Impact of rate change | 17,522 | (169,802) |
| Adjustment for prior periods | (19,823) | 32,209 |
| | <u>(337,799)</u> | <u>(908,403)</u> |
| | <u>(282,678)</u> | <u>(889,788)</u> |

The tax assessed for the year differs from that resulting from applying the standard rate of UK corporation tax for oil and gas companies of 40% (2015: 50%) to the profit before tax. The differences are explained below:

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|--|-------------------------------|-------------------------------|
| Loss before tax | <u>(858,328)</u> | <u>(1,665,193)</u> |
| Tax on loss at UK corporation tax rate of 40% (2015: 50%) | (343,331) | (832,597) |
| Expenses not deductible for tax purposes | 126,024 | 187,534 |
| Tax rate adjustment | 17,522 | (169,802) |
| PRT charges | (2,558) | 10,813 |
| PRT temporary differences | (48,798) | (110,801) |
| Finance credits | (477) | (316) |
| Charges / (Credits) for prior periods | (28,386) | 30,733 |
| Other | (2,674) | (5,352) |
| Total tax | <u>(282,678)</u> | <u>(889,788)</u> |

The tax rate shown above of 40% (2015: 50%) includes the 10% supplementary charge to corporation tax on UK North Sea profits (2015: 20%) and the standard UK corporation tax charge for oil and gas companies of 30%.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

8. **Income Tax** *continued*

The deferred tax credit for 2016 includes \$170.5m (2015: \$571.1m) relating to impairment of PP&E recognised in the year (see note 12). There is no tax credit arising in respect of the impairment of goodwill in 2016 and 2015, as goodwill impairment connected with oil licences is no longer tax deductible. This follows from changes made in 2011 by the UK Government which removed goodwill connected with oil licences from the scope of tax deductions available under the intangibles assets regime, recognising that for prior periods there was scope for different interpretations. The Company has recognised credits in respect of tax deductions for goodwill in years prior to 2011, which remain subject to HMRC enquiries.

9. **Deferred tax**

The deferred tax asset (liability) included in the statement of financial position is as follows:

| | \$'000 |
|----------------------|---------------|
| At 1 January 2015 | (78,802) |
| Movement in the year | 908,402 |
| At 31 December 2015 | 829,600 |
| Movement in the year | 337,799 |
| At 31 December 2016 | 1,167,399 |

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

10. Intangible assets

| | Emissions Rights \$'000 | Software \$'000 | Exploration & Evaluation Assets \$'000 | Goodwill \$'000 | Total \$'000 |
|---|-------------------------------|--------------------|--|--------------------|-----------------|
| Cost | | | | | |
| At 1 January 2015 | 2,153 | 31,803 | 19,206 | 613,031 | 666,193 |
| Additions | 1,700 | 1,264 | 3,948 | - | 6,912 |
| Transfers to property, plant and equipment | - | - | (3,746) | - | (3,746) |
| Derecognised | (3,602) | - | (4,572) | - | (8,174) |
| At 31 December 2015 | 251 | 33,067 | 14,836 | 613,031 | 661,185 |
| Additions | 1,457 | 982 | 7,439 | - | 9,878 |
| Derecognised | (1,708) | - | (22,268) | - | (23,976) |
| At 31 December 2016 | - | 34,049 | 7 | 613,031 | 647,087 |
| Amortisation and impairment | | | | | |
| At 1 January 2015 | - | 21,352 | - | 202,933 | 224,285 |
| Provided in year | - | 5,298 | - | 227,472 | 232,770 |
| At 31 December 2015 | - | 26,650 | - | 430,405 | 457,055 |
| Provided in year | - | 3,438 | - | 182,626 | 186,064 |
| At 31 December 2016 | - | 30,088 | - | 613,031 | 643,119 |
| Net book value | | | | | |
| At 31 December 2016 | - | 3,961 | - | - | 3,968 |
| At 31 December 2015 | 251 | 6,417 | 14,836 | 182,626 | 204,130 |

Note 11 provides further details of the goodwill balance and impairment testing.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

11. Impairment testing of PP&E and goodwill

Carrying Amounts & Allocation to CGUs

When an indicator of impairment arises, the property, plant and equipment (PP&E) of the Company is divided into cash generating units (CGUs) for the purposes of impairment testing.

The goodwill balance represents the requirement on accounting for business combinations to recognise deferred tax positions associated with timing differences generated on acquisition. Goodwill has not been allocated below the whole company segment (grouped CGU's) as this is the lowest level at which goodwill is monitored for internal management purposes. Goodwill is therefore tested for impairment at the whole company level.

Determining Recoverable Amount

For the purposes of impairment testing the recoverable amount of each CGU represents the Company's assessment of fair value less costs of disposal (FVLCD). In determining FVLCD, an appropriate discounted cash flow valuation model is 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 measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used.

Key Assumptions used in FVLCD calculation

Reserve and resource volumes

Reserve and resource volumes form the basis of the production profiles within the discounted cash flow models. Management engage external reserve auditors to review the Company's internal estimates of volume, of proved, probable and possible reserves in each field and location based upon geological data and analysis. Where significant, the contingent resources 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.

Commodity prices

Commodity prices follow a market view for the first six years (between \$56 and \$71 per barrel) and inflated at 2.1% thereafter.

Foreign exchange rates

Foreign exchange rates are based on forward average rates for 2016 and thereafter on management's long term rate assumptions. Management's long term assumptions are set with reference to a range of underlying economic indicators.

Discount rates

The discount rate used reflects the estimated weighted average cost of capital for relevant market participants. A 7.5% post-tax discount rate is applied (2015: 7.5%).

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

11. Impairment testing of PP&E and goodwill *continued*

Sensitivity to changes in assumptions

The impairment tests are particularly sensitive to commodity prices, foreign exchange rates and discount rates.

12. Property, plant & equipment

| | Development & Production Assets \$'000 | Leasehold Equipment \$'000 | Office Equipment & Other Assets \$'000 | Total \$'000 |
|-------------------------------------|--|----------------------------------|--|-----------------|
| Cost | | | | |
| At 1 January 2015 | 5,949,533 | 9,084 | 1,679 | 5,960,296 |
| Additions | 406,857 | - | - | 406,857 |
| Transfers from intangible assets | 3,746 | - | - | 3,746 |
| At 31 December 2015 | 6,360,136 | 9,084 | 1,679 | 6,370,899 |
| Additions | 63,735 | - | - | 63,735 |
| At 31 December 2016 | 6,423,871 | 9,084 | 1,679 | 6,434,634 |
| Depletion and depreciation | | | | |
| At 1 January 2015 | 2,862,819 | 4,649 | 1,679 | 2,869,147 |
| Provided in year | 633,454 | 1,004 | - | 634,458 |
| Impairment charge | 1,122,034 | - | - | 1,122,034 |
| At 31 December 2015 | 4,618,307 | 5,653 | 1,679 | 4,625,639 |
| Provided in year | 350,987 | 894 | - | 351,881 |
| Impairment charge | 473,661 | - | - | 473,661 |
| At 31 December 2016 | 5,442,955 | 6,547 | 1,679 | 5,451,181 |
| Net book value | | | | |
| At 31 December 2016 | 980,916 | 2,537 | - | 983,453 |
| At 31 December 2015 | 1,741,829 | 3,431 | - | 1,745,260 |

Provision for impairment on property, plant and equipment

During the year ended 31 December 2016, a pre-tax impairment charge of \$473.7m (2015: \$1,122.0m), post-tax \$303.2m (2015: \$550.9m) was recognised in the income statement, representing the write-down in the NNS & Brae CGUs primarily as a result of lower commodity prices.

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

The key assumptions for the FVLCD calculations are outlined in note 11 to the financial statements

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

13. Trade and other receivables

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|----------------------------------|-------------------------------|-------------------------------|
| Trade receivables | 4,668 | 112,109 |
| Amounts due from group companies | 345,025 | 196,089 |
| VAT receivable | 1,351 | 1,925 |
| Other receivables | 1,568 | 3,447 |
| Prepayments and accrued income | 108,800 | 4,864 |
| | <u>461,412</u> | <u>318,434</u> |

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

14. Inventories

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|-------------------------|-------------------------------|-------------------------------|
| Materials and equipment | <u>10,658</u> | <u>16,612</u> |

15. Trade and other payables

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|--------------------------------|-------------------------------|-------------------------------|
| Trade payables | 16,319 | 19,934 |
| Amounts due to group companies | 3,476 | 2,776 |
| Corporation tax | 81,573 | 48,359 |
| Other taxes payable | 15,922 | 17,362 |
| Other payables | 16,985 | 28,779 |
| Accruals and deferred income | 102,485 | 157,154 |
| | <u>236,760</u> | <u>274,364</u> |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and general and administrative costs.

The Company's policy is to agree terms of payment with suppliers when entering into transactions and abide by these terms. Trade payables of the Company at 31 December 2016 were equivalent to 26 days purchases (2015: 27 days). The Company has financial risk management policies in place to ensure that all payables are paid within the credit period.

The directors consider that the carrying amount of trade payables approximates to their fair value.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

16. Interest bearing loans and borrowings

| | Interest rate % | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|---|--------------------|-------------------------------|-------------------------------|
| \$713m related party loan | 8 | - | 38,236 |
| \$77m related party loan | 6m LIBOR + 3.5 | - | 25,767 |
| \$316m related party loan | 6m LIBOR + 3.0 | - | 63,200 |
| \$140m related party loan | 6m LIBOR + 3.0 | - | 84,000 |
| \$100m related party loan | 6m LIBOR + 3.0 | - | 60,000 |
| Loan from related party (note 23) | | - | 271,203 |
| Less: included within current liabilities | | - | 174,587 |
| | | - | 96,616 |

Interest of \$nil (2015: \$1,749,458) had accrued by the balance sheet date and is classified within amounts due to group companies (note 15).

On 21st September 2016, TAQA International B.V., the Company's immediate parent, by way of a capital contribution to the Company of \$271m absolutely, irrevocably and unconditionally released, waived and forever discharged absolutely the Company from all obligations and liabilities (past, present and future) in relation to payment of the loan principal balances.

17. Provisions

| | \$'000 |
|-----------------------------------|-----------|
| <i>Decommissioning provisions</i> | |
| At 1 January 2016 | 2,780,945 |
| Unwinding of discount (note 7) | 138,419 |
| Utilised during year | (28,432) |
| Changes in estimates | 15,268 |
| Exchange adjustment | (32) |
| At 31 December 2016 | 2,906,168 |

The decommissioning provision relates to the Company's oil and gas assets. These costs are expected to be incurred over the next 18 years. The provision has been estimated using existing technology at current prices, escalated at 2%, and discounted at 5%. 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.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

18. Operating lease arrangements

The Company has entered into lease arrangements for supply boat vessels and office space, with renewal terms at the option of the Company, at lease payments based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases. At the balance sheet date, the Company's future minimum lease payments under non-cancellable operating leases due to expire in the relevant time period were as follows:

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|---|-------------------------------|-------------------------------|
| Not later than one year | 19,197 | 21,144 |
| After one year but not more than five years | 32,874 | 52,304 |
| After five years | 967 | 2,118 |

19. Financial risk management and financial instruments

Financial Risk Management Objective and Policies

The primary financial instruments of the Company comprise inter-company loans, cash, trade receivables and trade payables. The Company's strategy to date has been to finance acquisitions and operations through inter-company borrowings. The Company may consider the use of derivative financial instruments to minimise exposure to fluctuations in foreign exchange rates, interest rates and commodity prices, but to date has not used such instruments. The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk, commodity price risk and credit risk. The Company's risk management position and exposure relative to each of these is outlined below:

Liquidity Risk

At the year-end the Company had a cash deficit of \$961,613 (2015: deficit of \$76,665). Under group cash management procedures any surplus cash is transferred to a fellow group company with the amount receivable under this in-house banking arrangement at year end being \$333m included within intercompany receivables. The combination of cash flow from operations and inter-company credit available is considered by management to be sufficient to enable the Company to meet its short to medium term expenditure requirements. The Company does not hold financial assets for the purposes of managing liquidity risk.

At 31 December 2016, bank letters of credit totalling \$112m (2015: \$140m) had been issued on behalf of the Company under these facilities, which were provided as security for the costs of decommissioning obligations in the UK. The Company has provided indemnities to the issuing banks.

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 Company's exposure to foreign currency fluctuations for the year ended 31 December 2016 primarily related to sterling denominated gas revenues and the significant levels of sterling denominated capital and operating costs.

The Company has taken the decision not to hedge these exposures as management believe that US\$ exchange rates underlie the sterling denominated revenues and costs to a significant degree and the Company's controlling parent manages foreign exchange risk at a group level.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

19. Financial risk management and financial instruments *continued*

Foreign Currency Risk continued

The table below demonstrates the sensitivity of the Company's profit before tax and equity (due to changes in the fair value of monetary assets and liabilities) to a reasonably possible change in sterling exchange rates with all other variables held constant:

| | Increase / decrease in sterling (US\$) rate | Effect on profit before tax \$'000 | Effect on equity \$'000 |
|------------------|--|---|-------------------------------|
| 31 December 2016 | (+ or –) 5% | 7,878 | 7,878 |
| 31 December 2015 | (+ or –) 5% | 8,840 | 8,840 |

Commodity Price Risk

The Company is exposed to commodity price risk on all crude oil sales and management have taken the decision not to limit this exposure by the use of derivative financial instruments. The Company enters into physical commodity contracts in the normal course of business. These contracts are not derivatives and are treated as executory contracts, which are recognised and measured at cost when the transactions occur.

Commodity price risk associated with gas sales is limited to three long-term sales agreements. The majority of gas sales are made under an agreement that remains in place until 1 October 2017, with the other 2 agreements based on life of field production.

Credit Risk

Credit risk is the risk that a counter-party will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company 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.

The Company's maximum exposure to credit risk in respect of its financial assets is their carrying value. All trade receivable balances are less than 30 days old as at the year-end and none are past due date. The Company only sells hydrocarbons to recognised and creditworthy parties, typically the trading arm of large, international oil and gas companies. The VAT receivable balance is due within 30 days of the year-end and is considered to represent minimal credit risk. Cash balances are held with internationally recognised banking institutions and are considered to represent minimal credit risk.

The only material financial liabilities of the Company, other than the related party loan balance and lease obligations, are trade payables. For the Company's non-operated interests payments to suppliers occur only after goods and services have been received. For operated interests material or long-term contracts will generally only be awarded after a tender process during which supplier creditworthiness will be evaluated.

Fair values of financial instruments

The directors consider the book value of all financial assets and liabilities in the financial statements to not be materially different from fair value. No fair value hierarchy analysis of financial instruments has been presented given the nature of the financial instruments of the Company and given that no financial instruments are subsequently measured at fair value after initial recognition.

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

20. Issued share capital and share premium

| | No. | Share capital \$'000 | Share premium \$'000 | Total \$'000 |
|---|-------------|-------------------------|----------------------------|-----------------|
| Authorised, allotted, called up and fully paid Ordinary shares of £1 each: | | | | |
| At 31 December 2015 and 2016 | 120,577,257 | 193,266 | 188,636 | 381,902 |

21. Reserves

| | Capital Contribution \$'000 | Retained earnings \$'000 |
|----------------------------|-----------------------------------|--------------------------------|
| At 1 January 2015 | - | 180,950 |
| Loss for the year | - | (775,405) |
| At 31 December 2015 | - | (594,455) |
| Loss for the year | - | (575,650) |
| Capital Contribution | 271,203 | - |
| At 31 December 2016 | 271,203 | (1,170,105) |

On 21st September 2016, TAQA International B.V., the Company's immediate parent, by way of a capital contribution to the Company of \$271m absolutely, irrevocably and unconditionally released, waived and forever discharged absolutely the Company from all obligations and liabilities (past, present and future) in relation to payment of the loan principal balances (see note 16).

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

22. Net cash from operating activities

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|---|-------------------------------|-------------------------------|
| Loss before tax for the year | (858,328) | (1,665,193) |
| Adjustments to reconcile profit for the year to net cash from operating activities: | | |
| Depreciation, depletion and amortisation | 355,319 | 639,756 |
| Impairment of goodwill | 182,626 | 227,472 |
| Impairment of PP&E assets | 473,661 | 1,122,034 |
| Unwinding of discount on provisions | 138,419 | 140,271 |
| Finance costs | 8,776 | 19,676 |
| Decommissioning payments | (28,432) | (26,602) |
| Capitalised interest | - | (21,983) |
| De-recognition of intangible assets | 22,519 | 8,174 |
| Operating cash flows before movements in working capital | 294,560 | 443,605 |
| Decrease in current assets | 12,395 | 160,205 |
| (Decrease) in current liabilities | (58,828) | (91,056) |
| Taxes paid | (4,394) | (77,294) |
| Net cash generated in operating activities | 243,733 | 435,460 |

23. Related parties

Transactions of the Company with other group companies

At the year-end loan balances with the Company's parent, TAQA International B.V., totalled \$nil (2015: \$272,952,641). Included in the loan balance is interest of \$nil (2015: \$1,749,458) which had accrued by the balance sheet date, and is classified within amounts due to group companies (note 15).

At the balance sheet date the Company had current balances due to fellow group companies of \$3,476,134 (2015: \$2,776,353) (note 15), comprised as follows:

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

23. Related parties *continued*

| | Transaction value for the year end 31 December | | Amounts owed to related parties as at 31 December | |
|-------------------------------|---|----------------|--|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Abu Dhabi Energy Company PJSC | 3,450 | 4,567 | 3,361 | 1,027 |
| TAQA International BV | - | - | - | 1,749 |
| TAQA North Limited | 133 | 233 | 115 | - |
| TAQA Energy Limited | 57 | 401 | - | - |
| TAQA Insurance Limited | 11,600 | 16,720 | - | - |
| | <u>15,240</u> | <u>21,921</u> | <u>3,476</u> | <u>2,776</u> |

At the balance sheet date the Company had current balances due from fellow group companies of \$345,025,129 (2015: \$196,089,651) (note 13), comprised as follows:

| | Transaction value for the year end 31 December | | Amounts owed by related parties as at 31 December | |
|--------------------------------|---|----------------|--|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Abu Dhabi Energy Company PJSC | 837 | 786 | - | - |
| TAQA Atrush BV | 906 | 1,885 | 11 | 7 |
| TAQA Financial Services BV | - | - | 332,898 | 180,547 |
| TAQA North Limited | 26 | 540 | - | 28 |
| TAQA Energy Limited | 1,059 | 1,211 | 220 | 103 |
| Takoradi International Company | - | 22 | - | - |
| TAQA Bratani LNS Limited | 7,117 | 8,890 | 11,896 | 15,404 |
| | <u>9,945</u> | <u>13,334</u> | <u>345,025</u> | <u>196,089</u> |

The above transactions are largely for services provided by group companies except for TAQA Insurance Limited which is in relation to the group insurance policy.

Transactions of the Company with directors

There were no transactions with directors during the year other than their remuneration as executives, disclosed below.

Remuneration of key management personnel

Compensation of key management personnel (including directors) is as follows:

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

23. Related parties *continued*

| | 31 December 2016 \$'000 | 31 December 2015 \$'000 |
|------------------------------|-------------------------------|-------------------------------|
| Short-term employee benefits | 3,052 | 4,209 |
| Post-employment benefits | 120 | 234 |
| | <u>2,872</u> | <u>4,443</u> |

Included within the above is the remuneration of Directors. The aggregate of emoluments for the period including under incentive schemes of the highest paid director was \$574k (2015: \$686k).

Edward LaFehr and Saeed Hamad Al Dhaheri were remunerated through other Group companies and the Directors do not believe it practical to apportion their remuneration between their services as Director of the Company and as Directors of the other Group companies.

24. Controlling party

At 31 December 2016, the Company was controlled and 100% owned (indirectly) by Abu Dhabi National Energy Company PJSC, incorporated in the United Arab Emirates and whose consolidated financial statements are publicly available on the TAQA website, www.taqaglobal.com/investors. The ultimate parent of the Company is Abu Dhabi Water and Electrical Authority (ADWEA), whose financial statements are not publicly available. ADWEA is wholly owned by the government of Abu Dhabi.

25. Capital Management

The ultimate parent company manages the Company's capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders. Efficient access to debt markets is managed by Abu Dhabi National Energy Company PJSC with inter-company financing being provided to the Company by the group as required.

26. Commitments and contingencies

Amounts contracted for at the reporting date but not provided in the financial statements amounted to \$85m (2015: \$137m).

The Company is contracted to buy gas from certain 3rd party fields tied back to the Company's NNS fields. The amounts involved are variable and will predominately be incurred between 2016 and 2023.

The Company has entered into decommissioning security agreements 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.

The Company initially provided a 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 Company has previously

TAQA BRATANI LIMITED

Notes to the Financial Statements Year ended 31 December 2016

26. Commitments and contingencies *continued*

been in good faith discussions with the other parties to the deeds regarding whether and to what extent the Company 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 U.K. 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 company would expect that if or when the discussions with counter-parties resume, it would most likely be on that basis. If the Company 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, TAQA is able to meet the security arrangements for decommissioning obligations by way of provision of a parent company guarantee, so long as TAQA continues in majority-ownership of the Government of Abu Dhabi.