

The Oil and Gas Holding Company B.S.C. (c)

**CHAIRMAN'S REPORT, INDEPENDENT
AUDITOR'S REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS**

31 DECEMBER 2020

CHAIRMAN'S REPORT

For the year ended 31 December 2020

On behalf of the Board of Directors, it is with great pleasure that I present the 2020 Chairman's report for The Oil and Gas Holding Company B.S.C. (c)

The many roles of The Oil and Gas Holding Company B.S.C. (c) ("nogaholding" or the "Company") serve to align strategies with the National Oil and Gas Authority's ("NOGA") aim of fulfilling the Kingdom's constantly growing demand for energy such that the vision of the Kingdom can be achieved. The Company aims to fuel the economy by meeting Bahrain's energy and hydrocarbon needs and by providing necessary funds from oil and gas revenues to sustain the development of other sectors of the economy. Despite the adverse impact of COVID-19, nogaholding portfolio companies once again delivered a strong performance in 2020, steadfastly adhering to their strategy in the face of global economic downturn experienced in the past year.

The COVID-19 crisis is unlike anything the world has experienced in recent history. Just like the rest of companies around the world working in the oil, gas, and petrochemical sectors, our company's finances were impacted by strong headwinds from reduced demand and lower oil prices sparked by the pandemic, which halted flights around the world and plunged economies into recession. This however did not impact our operations. We have shown high preparedness, made contingency plans for the future and continue to operate as normal without any operational losses or shutdowns despite the significant impact of COVID-19.

From the start of the pandemic we embarked on a rigorous campaign to emphasis awareness, prevention, personal hygiene, and accountability. Appropriate risk assessment plans and business continuity plans were initiated to make sure our employees are safe, and operations are smooth. This was achieved through the establishment of a COVID-19 Taskforce, with representation from all our operating companies. Additionally in response to the economic slowdown caused by the pandemic, we initiated a three-stage cost containment exercise designed to manage the administrative and operational cost including cost cutting, non-essential projects cancellation, projects deferral, contract re-negotiation, and the de-prioritization of initiatives and projects with lower strategic importance. The portfolio companies have operated with high reliability and an exceptional level of safety performance was delivered.

The nogaholding group of companies has maintained its performance over the past 12 months and the financial results of nogaholding were in line with the stakeholders' expectations. It is appropriate to highlight the significant achievements during the year:

Achievements

- ❖ The Bahrain Petroleum Company B.S.C. (c) ("BAPCO") is currently undergoing major expansion and upgrade project, the Bapco Modernization Program ("BMP"), in order to sustain and build on BAPCO's position as one of the most competitive and complex refineries in the region. As of December 2020, 61% of the EPC project has already been completed. The project continued despite lock down and COVID-19 restrictions.
- ❖ On 26 October 2020, Bahrain National Gas Expansion Company S.P.C. ("Tawseah") concluded a refinancing arrangement to replace its existing borrowing with a consortium of banks with facility limit of US\$515 million.
- ❖ During the year ended 31 December 2020, 3 new petrol stations were commissioned by Bapco Retail Company S.P.C ("BRC") as part of monetization and expansion of fuel retail services stations.

CHAIRMAN'S REPORT (continued)
For the year ended 31 December 2020

- ❖ Even with adverse oil prices and global economic downturn nogaholding has maintained a B+ rating with a stable outlook by Fitch.

Along with the various ongoing projects, nogaholding is actively involved in multiple environmental initiatives as well:

- ❖ Mangrove nursery project undertaken by BAPCO aimed at promoting local mangrove ecosystems through the planting of over 4,000 seedlings per season at Ras Sanad.
- ❖ BAPCO has participated in a project aimed at creating the first sustainable garden in Bahrain powered by solar energy. It is expected that the garden will include features such as solar panels capable of producing 8.8KW of energy.
- ❖ BAPCO and NOGA have participated a solar energy pilot project involving the installation of over 20,000 solar panels within Bahrain.

nogaholding also continued to play a vital role in promoting best practice and encouraging operational excellence and benchmarking, risk management, business continuity management and business resilience within its portfolio companies. We look forward to continuing this in 2021, and delivering on our strategic investment and projects.

On behalf of the Board of Directors, I am proud that nogaholding group rose to the challenges, continued with the implementation of its long-term strategy, and satisfied customers, employees, and shareholders alike.

I would like to thank the Board for their diligence, and the management and employees of nogaholding for their creative and hard work throughout 2020 and I wish the company another successful year in 2021.

In closing, I would like to express my sincere thanks and appreciation to the political leadership and the Government of the Kingdom of Bahrain for their continued support and encouragement which enables nogaholding to deliver sustainable earnings and achieve its long term strategic objectives.



Shaikh Mohamed bin Khalifa Al Khalifa
Chairman



Independent auditor's report to the shareholder of The Oil and Gas Holding Company B.S.C. (c)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The Oil and Gas Holding Company B.S.C. (c) (the "Company") and its subsidiaries (together referred to as the "Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board of Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matters	- Accounting for oil and gas activities
	- Estimation of oil and gas reserves and its impact on impairment testing and depreciation charges

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.



*Independent auditor's report to the shareholder of
The Oil and Gas Holding Company B.S.C. (c) (continued)*

Report on the audit of the consolidated financial statements (continued)

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
<i>Accounting for oil and gas activities</i> As described in note 3 (iii), the Group has various agreements in place defining its relationships relating to the oil and gas activities with its shareholder and the Government of the Kingdom of Bahrain ("Government"). These agreements result in various rights and obligations of the Group in relation to those activities. The Directors exercise significant judgement in assessing the relevant factors to determine whether the Group acts as a principal or an agent with respect to those oil and gas activities under the various agreements. The Directors have determined that for the following key activities the Group is acting as principal or agent: - oil and gas producing activities (principal); - gas distribution services (agent); and - petroleum exploration activities (agent). In reaching their conclusions, the Directors take into account various factors including not only the written signed agreements in place but also the precedents set by the past and present practical operation of those agreements. This actual mode of operation of the agreements, with the mutual consent of all the parties concerned has created, over time constructive rights and obligations on the Group, resulting in the Group recognising certain oil and gas assets, liabilities, income and expenses, in a particular way. We considered this as a key audit matter as it is fundamental to the accounting treatments applied by the Group in relation to assets, liabilities, income and expenses included in the consolidated financial statements. <i>Refer to note 3 (iii) for the significant accounting judgements, estimates and assumptions.</i>	Our audit procedures included: - Evaluating, with the assistance of our internal financial reporting experts, the accounting assessment process carried out by the Directors with respect to the Group's oil and gas activities. We obtained an understanding of, and assessed the various agreements in place between the major parties and the accounting memorandum prepared by management, (supported by legal confirmations from the shareholder's in-house legal counsel and the Company's external lawyer), in order to assess the conclusions reached by management and the Directors and the judgements applied by them as part of this process; - Assessing the appropriate application of the principal versus agent accounting treatments for different activities carried out by the Group as mandated by the underlying agreements, by the application of past precedent and based on confirmations of interpretation to the Directors provided by the shareholder. We examined the business rules between the Group and the Government, based on which we were able to differentiate the activities for which the Group acts as a principal and for those activities for which it acts as an agent for the Government; - Assessing the appropriateness of the policies applied by the Directors in the preparation of the consolidated financial statements; and - Assessing the adequacy of the disclosures made in the consolidated financial statements around this matter.



*Independent auditor's report to the shareholder of
The Oil and Gas Holding Company B.S.C. (c) (continued)*

Report on the audit of the consolidated financial statements (continued)

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
<i>Estimation of oil and gas reserves and its impact on impairment testing and depreciation charges</i> The levels of oil and gas reserves drive a number of accounting considerations, including: • the amount of depreciation of oil and gas assets under the unit of production method applied by the Group; • potential impairment indicators in the case of significant write-downs of oil and gas reserves; and • the determination of the recoverable amount of the Group's oil and gas assets in the event of one or more impairment indicators. The estimation of oil and gas reserves is inherently complex. It also requires the Directors to make significant estimates and judgements due to the technical uncertainty in assessing quantities of oil and gas proven reserves and the related future economic benefits to be derived by the Group. The amount of depreciation for the year ended 31 December 2020 was material within the overall context of the consolidated financial statements. Accordingly, we have considered this to be a key audit matter. <i>Refer to notes 3 (v) and 3 (vi) for the significant accounting judgements, estimates and assumptions applied in the calculation of depreciation and impairment assessment.</i>	Our audit procedures included: - Obtaining the external third party expert report on valuation of reserves commissioned by the Directors and involving our own in-house expert to assist us in assessing the methodology and approach adopted by the third party expert; - Assessing the competence and objectivity of the third party expert; - Testing whether the impact of changes in reserves is accounted for in the appropriate period; - Testing whether the updated reserves estimates were included appropriately in the Group's consideration of impairment assessment and in calculations of depreciation; and - Assessing the adequacy of the disclosures made in the consolidated financial statements.



*Independent auditor's report to the shareholder of
The Oil and Gas Holding Company B.S.C. (c) (continued)*

Report on the audit of the consolidated financial statements (continued)

Other information (continued)

The Board of Directors is responsible for the other information. The other information comprises the Chairman's Report (but does not include the consolidated financial statements and our auditor's report thereon).

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the Bahrain Commercial Companies Law number (21) of 2001, as amended (the "Commercial Companies Law"), and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.



*Independent auditor's report to the shareholder of
The Oil and Gas Holding Company B.S.C. (c) (continued)*

Report on the audit of the consolidated financial statements (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

- A) As required by the Commercial Companies Law, we report that:
- i. the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
 - ii. the financial information included in the Chairman's Report is consistent with the consolidated financial statements;
 - iii. nothing has come to our attention which causes us to believe that the Company has, during the year, breached any of the applicable provisions of the Commercial Companies Law or the items of its Memorandum and Articles of Association which would have a material adverse effect on its activities for the year ended 31 December 2020 or its financial position as at that date; and
 - iv. satisfactory explanations and information have been provided to us by the management in response to all our requests.



*Independent auditor's report to the shareholder of
The Oil and Gas Holding Company B.S.C. (c) (continued)*

Report on the audit of the consolidated financial statements (continued)

Report on other legal and regulatory requirements (continued)

B) As required by the Ministry of Industry, Commerce and Tourism in its letter dated 30 January 2020 in respect of Article (8) of Section (2) of Chapter (1) of the Bahrain Corporate Governance Code, we report that the Company:

- i. has appointed a corporate governance officer; and
- ii. has Board of Directors approved written guidance and procedures for corporate governance.

The partner in charge of the audit resulting in this independent auditor's report is Elias Abi Nakhoul.

A stylized blue ink signature of 'PricewaterhouseCoopers'.

PricewaterhouseCoopers M.E Limited
Partner's registration number: 196
Manama, Kingdom of Bahrain
16 March 2021

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2020

	Note	2020 BD '000	2019 BD '000
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,104,923	1,064,602
Capital work-in-progress	6	1,352,519	907,846
Right-of-use assets	7	183,339	124,224
Investments in associates and joint venture	8	90,885	97,529
Long-term assets	9	25,923	24,418
Restricted cash and bank balances	10	126,624	127,348
Trade, other receivables and other assets	12	12,228	16,736
		2,896,441	2,362,703
Current assets			
Inventories	11	185,651	235,054
Trade, other receivables and other assets	12	281,981	384,212
Due from a related party	13	421,083	254,091
Derivative financial instruments	23	631	641
Cash and bank balances	14	269,977	482,709
		1,159,323	1,356,707
TOTAL ASSETS		4,055,764	3,719,410
EQUITY AND LIABILITIES			
Equity			
Share capital	15	1,184,400	1,184,400
Capital adjustment account	15	(421,609)	(421,609)
Contribution from the shareholder	4	438,913	438,913
Sinking fund reserve	16	160,125	160,125
Statutory reserve	17	334,219	334,219
Cash flow hedge reserve		(127,601)	(43,232)
Accumulated deficit		(357,186)	(307,653)
Equity attributable to the shareholder of the Parent		1,211,261	1,345,163
Non-controlling interests	18	5,390	6,387
Total equity		1,216,651	1,351,550


Mr. Khalid Amr Al Rumaihi
Member of the Audit Committee and member of the Board
of Directors


H.E. Shaikh Mohamed bin Khalifa Al Khalifa
Chairman of the Board of Directors


Mr. James Eastlack
Acting Chief Executive

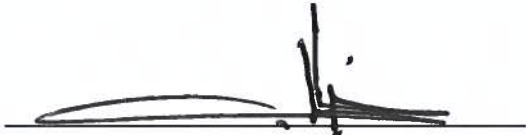
The attached notes 1 to 38 form part of these consolidated financial statements.

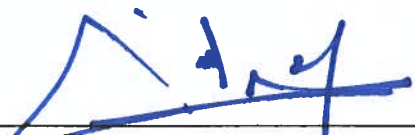
The Oil and Gas Holding Company B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2020

	Note	2020 BD '000	2019 BD '000
Liabilities			
Non-current liabilities			
Borrowings	19	1,970,214	1,499,728
Employees' end of service benefits	20	20,403	21,310
Trade and other payables	22	21,348	21,929
Derivative financial instruments	23	117,702	41,347
Lease liabilities	24	155,653	81,219
		2,285,320	1,665,533
Current liabilities			
Current maturities of long-term borrowings	19	11,232	28,730
Trade and other payables	22	384,956	544,268
Lease liabilities	24	31,221	42,697
Dividend payable	32	56,400	56,400
Short term borrowings	25	67,764	26,388
Income taxes payable	26	1,129	1,419
Retention payable		-	1,856
Derivative financial instruments	23	1,091	569
		553,793	702,327
Total liabilities		2,839,113	2,367,860
TOTAL EQUITY AND LIABILITIES		4,055,764	3,719,410


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 Member of the Audit Committee and member of the Board
 of Directors

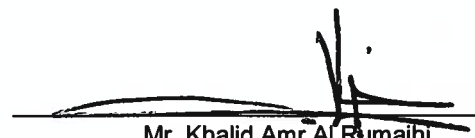

 H.E. Shaikh Mohamed bin Khalifa Al Khalifa
 Chairman of the Board of Directors

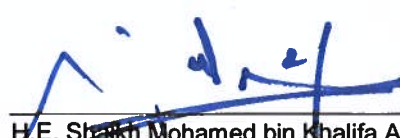

 Mr. James Eastlack
 Acting Chief Executive

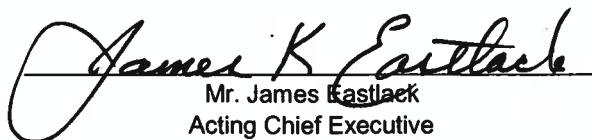
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The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020

	Note	2020 BD '000	2019 BD '000
Revenue	27	1,643,413	2,670,198
Cost of materials	28	(1,239,440)	(2,100,498)
Other income	29	136,791	123,903
Staff costs	30	(111,544)	(103,894)
Maintenance expenses		(102,431)	(112,415)
Impairment for doubtful trade and other receivables	12	(1,848)	(6,447)
Other expenses	30	(119,744)	(117,589)
Depreciation	5 & 7	(194,081)	(150,557)
Operating profit		11,116	202,701
Finance income	31	4,219	13,586
Finance costs	31	(62,625)	(57,095)
Share of (loss)/profit from associates and joint venture - net		(57)	8,633
(Loss)/profit before income tax		(47,347)	167,825
Income tax expense	26	(1,629)	(1,919)
Net (loss)/profit for the year		(48,976)	165,906
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Loss on cash flow hedges	23	(77,238)	(40,844)
Share of loss on cash flow hedge from an associate	8 & 23	(7,131)	(3,303)
Reclassified from cash flow hedge reserve to profit or loss	23	-	(3,036)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial loss arising on defined benefit retirement scheme	20	(42)	(379)
Share of actuarial loss from associates	8	(37)	(206)
Total other comprehensive loss for the year		(84,448)	(47,768)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(133,424)	118,138


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The attached notes 1 to 38 form part of these consolidated financial statements.

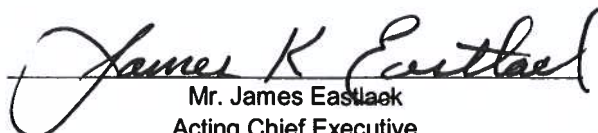
The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (continued)

For the year ended 31 December 2020

	Note	2020 BD '000	2019 BD '000
Net (loss)/profit for the year attributable to:			
Shareholder of the parent		(49,454)	165,324
Non-controlling interests	18	478	582
		<u>(48,976)</u>	<u>165,906</u>
Total comprehensive (loss)/income attributable to:			
Shareholder of the parent		(133,902)	117,556
Non-controlling interests	18	478	582
		<u>(133,424)</u>	<u>118,138</u>


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 Board of Directors


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 Chairman of the Board of Directors


 Mr. James Eastaek
 Acting Chief Executive

The attached notes 1 to 38 form part of these consolidated financial statements.

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020

		2020	2019
	<i>Note</i>	<i>BD '000</i>	<i>BD '000</i>
OPERATING ACTIVITIES			
Net (loss)/profit before tax for the year		(47,347)	167,825
Adjustments for:			
Depreciation			
Property, plant and equipment	5	149,568	128,432
Right-of-use assets	7	44,513	22,125
Bahrain crude oil purchases	13	-	861
Finance income		(4,219)	(13,586)
Finance costs	31	62,625	57,095
Share of loss/(profit) from associates and joint venture - net	8	57	(8,633)
Property, plant and equipment and capital work-in-progress written-off	30	1,139	1,661
Provision for slow-moving inventories	11	1,983	3,438
Provision for doubtful trade and other receivables	12	1,848	6,447
Provision for employees' end of service benefits	20	2,719	3,411
Fair valuation gain/(loss) on derivatives, net		(351)	2,381
		212,535	371,457
Working capital changes:			
Inventories		47,420	(34,299)
Trade and other receivables		94,066	(16,115)
Net movements in amounts due from a related party		(5,026)	(14,519)
Trade and other payables		(84,813)	27,663
Retention payable		(1,856)	(7,101)
Net cash flows from operations		262,326	327,086
Employees' end of service benefits paid	20	(3,668)	(1,344)
Income tax paid	26	(1,919)	(3,024)
Net cash flows from operating activities		256,739	322,718
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(154,070)	(44,934)
Additions to capital work-in-progress		(485,712)	(568,510)
Additions in associate	8	-	(29,824)
Dividends received from associates	8	1,131	7,540
Movement in long-term assets		(1,505)	575
Movement in restricted cash		724	(113,936)
Finance income received		2,465	13,586
Net cash flows used in investing activities		(636,967)	(735,503)
FINANCING ACTIVITIES			
Net movements in amounts due from a related party		(161,966)	(153,114)
Proceeds from borrowings and short term borrowings		1,404,974	839,450
Repayment of borrowings		(911,255)	(257,688)
Finance and transaction costs paid		(113,080)	(247,732)
Dividends paid	32	-	(56,550)
Dividends paid to non-controlling shareholders		(1,475)	-
Repayment of lease		(49,702)	(38,377)
Net cash flows from financing activities		167,496	85,989
NET DECREASE IN CASH AND CASH EQUIVALENTS		(212,732)	(326,796)
Cash and cash equivalents at 1 January		482,720	809,516
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	269,988	482,720

Non cash items:

1) Refer note 14 for details of non-cash items.

The attached notes 1 to 38 form part of these consolidated financial statements.

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

	Equity attributable to shareholder of the Parent							
	Share adjustment capital BD '000	Capital contribution from shareholder BD '000	Sinking fund reserve BD '000	Statutory reserve BD '000	Cash flow hedge reserve BD '000	Accumulated deficit* BD '000	Total BD '000	Non- controlling interests BD '000
At 1 January 2020	1,184,400	(421,609)	438,913	160,125	334,219	(43,232)	1,345,163	6,387
Net (loss)/profit for the year	-	-	-	-	-	(49,454)	(49,454)	478
Other comprehensive (loss)/income	-	-	-	-	(84,369)	(79)	(84,448)	-
Total comprehensive (loss)/income	-	-	-	-	(84,369)	(49,533)	(133,902)	478
Dividends paid by a subsidiary to non-controlling shareholders (note 18)	-	-	-	-	-	-	-	(1,475)
At 31 December 2020	1,184,400	(421,609)	438,913	160,125	334,219	(127,601)	1,211,261	5,390
								1,216,651

* Accumulated deficit includes non-distributable reserves arising from consolidation of subsidiaries amounting to BD 144,428 thousand (2019: BD 144,420 thousand).

The attached notes 1 to 38 form part of these consolidated financial statements.

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2020

	Equity attributable to equity shareholder of the parent						
	Share capital BD '000	Capital adjustment BD '000	Contribution from shareholder BD '000	Sinking fund reserve BD '000	Statutory reserve BD '000	Cash flow hedge reserve BD '000	Retained earnings / accumulated deficit* BD '000
At 1 January 2019	1,184,400	(421,609)	438,271	160,125	334,219	3,951	381,473
							2,080,830
							9,555
							2,090,385
Net profit for the year	-	-	-	-	-	-	165,324
Other comprehensive loss	-	-	-	-	-	(47,183)	(585)
Total comprehensive (loss)/income	-	-	-	-	-	(47,183)	164,739
Dividends proposed and paid (note 32)	-	-	-	-	-	-	(56,550)
Dividends paid by a subsidiary to non-controlling shareholders (note 18)	-	-	-	-	-	-	-
Amount due from related party set-off against retained earnings (note 1.1 and note 13)	-	-	-	-	-	-	-
Contribution in kind (note 8)	-	-	642	-	-	-	-
At 31 December 2019	1,184,400	(421,609)	438,913	160,125	334,219	(43,232)	(307,653)
							1,345,163
							6,387
							1,351,550
							165,906
							(47,768)
							582
							-
							582
							-
							(56,550)
							118,138
							(3,750)
							-
							(797,315)
							-
							642
							1,351,550

* Retained earnings / accumulated deficit include non-distributable reserves arising from consolidation of subsidiaries amounting to BD 144,420 thousand.

The attached notes 1 to 38 form part of these consolidated financial statements.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

1 ACTIVITIES

The Oil and Gas Holding Company B.S.C. (c) (the "Company" or "Nogaholding" and along with its subsidiaries, referred to as the "Group") is a closed Bahraini Joint Stock Company incorporated by Royal Decree number 77 of 2007 issued on 10 August 2007 and published in the Official Gazette on 16 August 2007 and is registered with the Ministry of Industry, Commerce and Tourism ("MOICT") under commercial registration number 66088 obtained on 1 August 2007. The Company is wholly owned by the Government of the Kingdom of Bahrain (also referred to as the "Government") through National Oil and Gas Authority ("Noga" or "Parent").

The Company was formed with the object of acquiring the Government's shareholding and stakes in various entities engaged in oil and gas activities with effect from 1 August 2007. Further, the objectives of the Company include investing funds in areas specified by the Board of Directors, acquiring real estate and movable properties required for carrying out its activities, establishing and participating in establishment of new ventures and acquiring and participating in the ownership of existing ventures or companies and selling its interests therein, within, and outside the Kingdom of Bahrain.

The postal address of the registered office of the Company is P.O. Box 1426, Manama, Kingdom of Bahrain.

The Group comprises of the Company and the following subsidiaries, associates, joint ventures and joint operations:

Name of the entity	Country of incorporation	Ownership interest		Year end	Principal activity
		2020	2019		
<u>Subsidiaries</u>					
The Bahrain Petroleum Company B.S.C. (c) ("Bapco")	Kingdom of Bahrain	100%	100%	31 December	Operating the Bahrain Refinery and marketing of refined petroleum products.
Bahrain National Gas Company B.S.C. (c) ("Banagas")	Kingdom of Bahrain	75%	75%	31 December	Processing and marketing of hydrocarbon liquids from associated gas.
Bahrain National Gas Expansion Company S.P.C. ("Banagas Expansion")	Kingdom of Bahrain	100%	100%	31 December	Processing and marketing of hydrocarbon liquids from associated and refinery off gas.
The Bahrain Aviation Fueling Company B.S.C. (c) ("Bafco")	Kingdom of Bahrain	60%	60%	31 December	Managing and operating the jet fuel pipeline.
Tatweer Petroleum – Bahrain Field Development Company W.L.L. ("Tatweer")	Kingdom of Bahrain	100%	100%	31 December	Producing oil and gas from Bahrain onshore field.
Bahrain Gasoline Blending W.L.L. ("BGB")	Kingdom of Bahrain	85%	85%	31 December	Sale and trade of solid, liquid and gaseous fuels and related products.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

1 ACTIVITIES (continued)

Name of the entity	Country of incorporation	Ownership interest		Year end	Principal activity
		2020	2019		
<u>Subsidiaries (continued)</u>					
Saudi Bahrain Pipeline Company S.P.C.	Kingdom of Bahrain	100%	100%	31 December	To own the Bahrain portion of the new oil pipeline between Saudi Arabia and Bahrain.
Aromatics Petchem Company W.L.L. ("Aromatics")	Kingdom of Bahrain	100%	100%	31 December	Production of petrochemical grade products from the heavy Naphtha obtained from the Bapco. Aromatics is currently not active.
Bapco Retail Company S.P.C. ("Bapco Retail")*	Kingdom of Bahrain	100%	100%	31 December	Domestic sales of refined petroleum products in the Kingdom of Bahrain.
<u>Associates</u>					
Gulf Petrochemical Industries Co. B.S.C. (c) ("GPIC")	Kingdom of Bahrain	33%	33%	31 December	Petrochemical processing and storage facilities.
Bahrain LNG W.L.L. ("BLNG")	Kingdom of Bahrain	30%	30%	31 December	Manufactures gas and distributes gaseous fuel.
Arab Shipbuilding and Repair Yard Co. B.S.C. (c) ("Asry")	Kingdom of Bahrain	37%	37%	31 December	Operate a dry dock and two floating docks to carry out shipbuilding, ship repair, engineering and related activities in dry dock, floating docks, etc.
<u>Joint venture</u>					
Schmidt Logistics Bahrain W.L.L. ("Schmidt") - joint venture	Kingdom of Bahrain	49%	49%	31 December	Warehousing and storage, Management consultancy activities, Packaging activities.
<u>Joint operations</u>					
Bahrain Lube Base Oil Company B.S.C. (c) ("BLBOC")	Kingdom of Bahrain	55%	55%	31 December	Manufacturing of lube based oil products.
BAC Jet Fuel Company W.L.L. ("BAC Jet")	Kingdom of Bahrain	50%	50%	31 December	Sale and trade of solid, liquid and gaseous fuels and related products.

* During 2019, the Company incorporated a wholly owned subsidiary, BRC, for the purpose of operating retail fuel distribution business in the Kingdom of Bahrain. On 3 December 2019, the Group transferred all of its fixed assets relating to domestic retail stations from Bapco to BRC for this

The consolidated financial statements were approved by the Board of Directors through a resolution dated 9 March 2021.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

1 ACTIVITIES (continued)

1.1 Bapco Modernization Program (BMP)

BMP is a major expansion and upgrade project of the Bahrain Refinery. BMP project consists of expansion of the crude distillation capacity and upgrading of the refinery capabilities in order to increase the Bahrain Refinery's competitiveness, improve the energy efficiency and enhance the environmental compliance to international standards. In February 2018, the Group entered into an Engineering Procurement and Construction (EPC) contract with a consortium of companies as its EPC contractors (hereinafter referred to as "EPC contractors"). On 20 December 2018, the Group's fully owned subsidiary, Bapco, signed debt financing facilities agreements (hereinafter referred to as "project debt finance arrangement") amounting to US\$ 4.1 billion which comprises covered export credit facilities, uncovered commercial and Islamic financing facilities with a consortium of banks to support and fund the implementation of BMP project. Financial close of the project debt finance arrangement happened on 9 May 2019.

As part of conditions precedent for the project debt finance arrangement, Bapco ceased its cash call mechanism on the cut-off date and net balance due from the Government as of this date amounting to BD 797,315 thousand was set-off against retained earnings. Subsequent to the approval by the Board of Directors a notification was sent to the Ministry of Finance for the same.

1.2 Relationship with the Government

The Group has various agreements in place defining its relationship with its shareholder and the Government of the Kingdom of Bahrain ("Government") that result in various rights and obligations of the Group. Refer to note 3 (iii) for further details of the principal vs agent considerations.

2 SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law.

Going concern

The Group's Board of Directors has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue the business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on a going concern basis.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instruments and investment at FVOCI which have been measured at fair value.

The consolidated financial statements are presented in Bahraini Dinars ("BD"), being the functional currency of the Company and all values are rounded to the nearest thousand (BD' 000), except when otherwise indicated.

New and amended standards and interpretations effective as of 1 January 2020

The Group's accounting policies are consistent with those of the previous financial year, except for Government grant and the following IASB's new and amended standards and interpretations which are effective as of 1 January 2020.

Amendments to IAS 1 and IAS 8 - Definition of material

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the consolidated financial statements as a whole; and
- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

Amendments to IFRS 7, IFRS 9 and IAS 39 - Interest rate benchmark reform

The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in profit or loss.

IBOR reforms and expectation of cessation of LIBOR will impact the Group's current risk management strategy and possibly accounting for certain financial instruments used for hedging. The Group has the following borrowings and hedging instruments which are exposed to the impact of LIBOR:

- Bank borrowings: BD 1,407,228 thousand
- Derivative financial instruments: BD 527,800 thousand

The Group has not yet converted any of its hedging instruments from LIBOR to an alternative benchmark rates as of the reporting date. The Group is assessing the impact to ensure a smooth transition from LIBOR to new benchmark rates. The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. For more details, please refer to Note 35.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Amendments to IFRS 16: Covid-19 related rent concessions (effective from 1 June 2020)

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

Amendments to IAS 1: Classification of liabilities as current/non-current (effective from 1 January 2023)

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

The amendments must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. On 15 July 2020, IASB deferred the effective date of amendments to 1 January 2023.

Amendments to IAS 16: Property, Plant and Equipment: Proceeds before intended use (effective from 1 Jan 2022)

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.

Amendments to IAS 37: Onerous contracts – cost of fulfilling a contract (effective from 1 January 2022)

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual Improvements to IFRS Standards 2018–2020 (effective from 1 January 2022)

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations). Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

These standards and interpretations had been issued but were not mandatory for annual reporting periods ending on 31 December 2020.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in the profit or loss; and
- Reclassifies any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current / non-current classification.

An asset is classified as 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.

All other assets are classified as non-current.

A liability is classified as current when:

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

The Group classifies all other liabilities as non-current.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- a) In the principal market for the asset or liability; or
- b) 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 Group.

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

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

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

The Group uses specific valuation techniques to value derivative financial instruments. For interest rate swaps - the present value of the estimated future cash flows based on observable yield curves are used.

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

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

For assets and liabilities that are recognised and measured at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Property, plant and equipment

Property, plant and equipment is stated at historical cost, less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All other repair and maintenance costs are charged to profit or loss as incurred.

Property, plant and equipment related to oil and natural gas production activities are depreciated on a unit-of-production basis over the proven developed 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 the straight-line method is applied. Other property, plant and equipment are generally depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Buildings	8 to 40 years
Oil and gas producing assets	5 to 15 years
Plant and machinery	6 to 20 years
Furniture and equipment	4 to 8 years
Motor vehicles	4 to 15 years
Hardware and software	3 to 5 years
Site work and aviation assets	10 years
Pipeline assets	40 years

Freehold land is not depreciated.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is de-recognised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

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 profit or loss in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

Capital work-in-progress

Capital work-in-progress represents capitalised expenditure incurred in setting up or constructing new facilities or other assets. Depreciation on capital work-in-progress is not charged until such time as the construction or set-up of these assets is completed and the asset is transferred to the respective category of property, plant and equipment i.e. when the asset is ready for usage as intended by management. 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 or group of the assets.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Where the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in associates or a joint venture is carried in the consolidated statement of financial position at cost, plus post acquisition changes in the Group's share of net assets of the associate or a joint venture, less any impairment in value. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

The consolidated statement of profit or loss and other comprehensive income reflects the share of results of operations of the associates or a joint venture. Where there has been a change recognised directly in the OCI of the associates or a joint venture, the Group recognises its share of any changes and discloses this, when applicable, in OCI. Unrealised profits and losses resulting from transactions between the Group and the associates or joint venture are eliminated to the extent of the Group's interest in the associates or joint venture.

The reporting dates of the associates or joint venture and the Group are identical and the associates' or joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2 'Impairment of non-financial assets'.

Joint operations

Joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation; and
- Expenses, including its share of any expenses incurred jointly.

Reimbursement of the costs of the operator of the joint arrangement

When the Group, acting as an operator or manager of a joint arrangement, receives reimbursement of direct costs recharged to the joint arrangement, such recharges represent reimbursements of costs that the operator incurred as an agent for the joint arrangement and therefore have no effect on the consolidated statement of profit or loss and other comprehensive income.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. This is further explained below:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

<i>Inventory categories</i>	<i>Valuation basis</i>
Refined finished products	Valued at the cost of production. Cost of production consisting of cost of purchased crude oil, an appropriate allocation of overheads and refining expenses. Cost is determined using the first-in, first-out (FIFO) method.
Work-in-process	Valued at the cost of production. Cost of production consisting of cost of purchased crude oil, an appropriate allocation of overheads and refining expenses. Cost is determined using the average cost method.
Raw material - crude oil	Purchase cost on a weighted average basis.
Stored and materials	Purchase cost on a weighted average basis.
Fully processed gas	Cost of feed gas consumed, production labour and allocation of fixed and variable production overheads based on normal level of activity, on weighted average basis.
Other inventories	Purchase cost on a weighted average basis.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset or a group of assets - cash-generating unit ("CGU") may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell 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. When the carrying amount of an asset or CGU 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 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 to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed approved budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in profit or loss.

An assessment is made at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's 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. Such reversal is recognised in profit or loss.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) **Financial assets**

a) **Initial recognition**

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL).

The classification of debt instrument at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of financial assets at FVTPL, trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus transaction costs.

In order for a debt instrument to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

b) Subsequent measurement

For purposes of subsequent measurement, all of the debt instruments of the Group, except for derivative financial instruments, are classified in amortised cost category. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR)/ effective profit rate (EPR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade, other receivables and other assets, long-term assets, cash and bank balances and due from a related party.

c) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

d) Impairment of financial assets

The Group applies a simplified approach in calculating ECLs for trade receivables. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Further disclosures relating to impairment of trade and other receivables are provided in note 12.

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by IFRS 9.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

ii) Financial liabilities

a) Initial recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at amortised cost.

Borrowings are recognised initially at fair value net of directly attributable transaction costs.

The Groups's financial liabilities are:

(i) Financial liabilities at FVTPL

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

(ii) Financial liabilities at amortised cost

Financial liabilities other than financial liabilities at FVTPL are classified as financial liabilities measured at amortised cost. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities at amortised cost mainly include trade and other payables, borrowings, lease liabilities, dividend payable and short-term borrowings. Financial liabilities are disclosed separately from financial assets in the consolidated statement of financial position unless there is a right to offset.

Fees paid on the establishment of bank borrowings are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Gains and losses are recognised in profit or loss when the liabilities are derecognised. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

b) Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non cash assets transferred or liabilities assumed, is recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

ii) Financial liabilities (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of cash in hand, bank balances, net of outstanding bank overdrafts and short term deposits with an original maturity of three months or less. Any restricted balances with banks are also excluded from cash and cash equivalents.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group 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 profit or loss.

Derivative financial instruments and hedge accounting

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract (i.e., the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts expected to have a similar response to changes in market factors.
- It is settled at a future date.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

The Group enters into derivative transactions with various counterparties. These include interest rate swaps and commodity derivatives. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

All derivatives are measured at FVTPL except for when the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged determines the method of recognising the resulting gain or loss. The group designates derivatives as hedges of a particular risk associated with the cash flows of recognised liabilities. (cash flow hedges).

The Group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are recycled to the profit or loss in the periods when the hedged item affects profit or loss. They are recorded in the income or expense lines in which the revenue or expense associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the periods when the hedged item affects profit or loss. When a forecast transaction is no longer expected to occur (for example, the recognised hedged asset is disposed of), the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the profit or loss.

Employees' end of service benefits

The Group makes contributions to the Social Insurance Organisation (SIO) scheme for its Bahraini employees calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

The Group also provides end of service benefits to its expatriate employees and certain Bahraini employees in accordance with the Bahrain labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment. The carrying value of the employees' end of service benefits approximates its present value of the obligation at the reporting.

The Group also operates two retirement plans for Bahraini employees and expatriates retired prior to October 1976. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method.

The Group also operates a defined benefit retirement scheme for its Bahraini employees, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' end of service benefits (continued)

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the consolidated statement of changes in equity and in the consolidated statement of financial position.

Leases

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below US\$ 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Borrowing costs

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Non-controlling interests

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of profit or loss and other comprehensive income, changes in equity and financial position respectively.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

The Group is engaged in the business of refining crude oil and selling of refined products both locally in the Kingdom of Bahrain and in international markets and selling of processed gas and lube based oil in international markets. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for agency arrangement (as described in note 2 (f) below). The revenue arrangements of the Group are described below.

a) Oil revenues

International sales of refined petroleum products

Revenue from the international sale of petroleum products is recognised at a point in time upon the satisfaction of performance obligations, which occurs when control transfers to the customer, which is generally when the product is physically transferred into a vessel or tanker. Consequently the Group's performance obligations are considered to relate only to the sale of petroleum product, with each barrel of oil equivalent considered to be a separate performance obligation under the contractual arrangements in place. The products are sold based on market prices plus a margin as per the contractual arrangements. The final quality testing of the product is also carried out prior to the loading and the acceptance happens at that point in time. Invoices are typically paid on 30 day terms.

Domestic sales of refined petroleum products

Sales are recognised at a point in time upon the satisfaction of performance obligations, which occurs when control transfers to the customer, usually on delivery of the goods. Rates for the domestic sales are notified by the Government of the Kingdom of Bahrain and the prevailing market prices as applicable. The transportation cost associated with the transfer of the product to the point of sale is recognised in cost of materials.

b) Gas revenues

Gas revenue represents the sales made by Banagas and Banagas Expansion and are recognised when the control of the goods have passed to the buyer, usually on delivery of the goods at prevailing market prices.

c) Lube based oil revenues

Lube based oil revenues represents the Group's share of sales made by BLBOC and are recognised when control of the goods is transferred to the buyer, usually on delivery of the goods at prevailing market prices.

d) Interest / profit income

Interest / profit income is recognised on an effective interest method.

e) Other income

Other income is recognised on an accrual basis when income is earned.

f) Principal vs agent considerations

The Group has assessed itself as an agent for the following arrangements:

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

i) Sale of crude oil on behalf of the Government

The Group also sells crude oil in its capacity as agent on behalf of the Government in relation to the Abu Saafa field. In such transactions the Group does not control the goods before they are transferred to customers, and hence, is an agent in these contracts because it does not have the ability to direct the use of the crude oil or obtain benefits from it. The Group charges a marketing fee on providing such services, which is recognised in other income.

ii) Service income

The Group has a service agreement to provide the following services to the Government or its customers on its behalf:

- distribute gas to the end users and manage the gas distribution network;
- the procurement of LNG and the management; and
- carry out oil and gas exploration activities, on the Government's behalf, in the Bahrain field as approved by the Government in advance.

The Group has concluded that it is acting as an agent in these arrangements. Accordingly, the Group records revenue on net basis for such arrangements (note 3). The revenue is recorded over time as the Group provides services and amounts are considered recoverable from the Government.

When another party is involved in providing goods or services to its customer, the Group determines whether it is a principal or an agent in these transactions by evaluating the nature of its promise to the customer. The Group is a principal and records revenue on a gross basis if it controls the promised goods or services before transferring them to the customer. However, if the Group's role is only to arrange for another entity to provide the goods or services, the Group is an agent and records revenue at the net amount that it retains for its agency services.

The above service income is included in other income.

Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax law used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Value Added Tax ("VAT")

Expenses and assets are recognised net of the amount of associated VAT, unless the VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of VAT receivable or payable. The net amount of VAT recoverable from, or payable to, the tax authority is included in prepayments and advances or other payables in the consolidated statement of financial position. Commitments and contingencies are disclosed net of the amount of VAT recoverable from, or payable to, the tax authority.

Foreign currencies

The Group's consolidated financial statements are presented in Bahraini Dinars ("BD"). Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using the functional currency.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Transactions and balances

Transactions in foreign currencies are initially recorded at their respective functional currency spot rates at the date the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to profit or loss.

Non-monetary items that are measured in terms of 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 is determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Group companies

Upon consolidation, the assets and liabilities of foreign operations are translated into Bahraini Dinars ("BD") at the rate of exchange prevailing at the reporting date and income and expenses for each statement of profit or loss and other comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in the other comprehensive income. On disposal of a foreign operation, the component of exchange differences relating to that particular foreign operation is recognised in profit or loss.

Government grant

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the related costs towards which they are intended to compensate are recognised as expenses.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

(i) Determining the lease term of contracts with renewal and termination options – the Company as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate. Management did not include the extension options in those lease terms stipulating that the lease cannot be renewed without the consent of both parties.

(ii) Joint arrangements

Judgement is required to determine when the Group has joint control over an arrangement, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, including the approval of the annual capital and operating expenditure work program and budget for the joint arrangement, and the approval of chosen service providers for any major capital expenditure as required by the joint operating agreements applicable to the entity's joint arrangements. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Judgement is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement. Specifically, the Group considers:

- the structure of the joint arrangement – whether it is structured through a separate vehicle;
- when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
 - (a) the legal form of the separate vehicle; or
 - (b) the terms of the contractual arrangement.
- other facts and circumstances, considered on a case by case basis.

For joint control, judgment is applied when assessing whether the arrangement is jointly controlled by all of its parties or by a group of the parties by taking decisions about relevant activities through unanimous consent of the parties sharing control. For joint control, judgment is also applied as to whether the joint arrangement is classified as a joint venture or joint operation taking into account specific facts and circumstances, such as the purpose and design of the arrangement, including with respect to its output, its relationship to the parties and its source of cash flows.

This assessment often requires significant judgement. A different conclusion about both joint control and whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

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3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

(iii) Principal vs agent considerations

The Group is party to a number of complex agreements with its shareholder and with the Government of Bahrain in relation to its portfolio of oil and gas activities. Under these contracts, the Group undertakes, among other activities, exploration, appraisal, production, development and delivery of petroleum and operation and maintenance of the gas distribution network on its own behalf or on behalf of the Government.

Where the Group is acting as a principal, it is able to recognise revenue based on the gross amount received or receivable in respect of its performance under a sales contract. When the Group is acting as an agent, it does not recognise revenue for any amounts received from a customer to be paid to the principal. The Group considers its overall risk profile in determining whether it has a service agreement or a working interest with respect to each of its respective functions.

Since the determination of whether the Group is acting as a principal or an agent is critical to the accounting for the various transactions involved in a given activity the Directors and management therefore carefully assess the substance of all transactions that meet the above mentioned criteria to determine in which capacity the Group is acting. In making these assessments, the Directors and management consider the following key criteria:

- if the Group is primarily responsible for delivering goods or services;
- if the Group does or does not have inventory risk;
- if the Group does or does not have latitude or discretion in establishing prices.

In addition, the Group takes into account the constructive rights and obligations established by the existing contracts and past precedents created, by mutual agreement between the parties. In particular, the Group seeks to determine whether it is responsible for the petroleum operations or is acting as an agent for the provision of petroleum services with respect to each of the functions. A further detailed assessment for each of the key respective functions is outlined below:

a) Oil producing activities

The Group considers itself to be the principal with respect to oil and gas production. The Group entered into an agreement with the Government for supply of Bahrain crude oil with effect from 1 January 2005. Under this agreement, the Government contracted to supply Bahrain crude oil at a fixed price of US\$ 1 per barrel for a fixed quantity of 900,000 barrels per month as compared to the prevailing market prices ("Old Arrangement"). On, and effective from, 22 October 2018, the Group entered into a revised Crude Oil Sale Agreement (COSA) with the Government.

In accordance with COSA, the Group continued to receive a minimum monthly quantity of 900,000 barrels up to 21 October 2018 under the Old Arrangement and from 22 October 2018 onward the Group started receiving a minimum monthly quantity of 38,700 barrels per day at a rate of US\$ 1 per barrel ("Baseline Crude Quantity"). Bapco, the Company's principal subsidiary, has also entered into a Crude Oil Sale and Purchase Agreement (COSPA) with Noga, Nogaholding and Tatweer effective from 1 January 2018 under which, Bapco pays a production cost contribution of US\$ 11 per barrel to Nogaholding on the Baseline Crude Quantity, which is indexed by 2.5% on the 1st January each year. Any additional quantity is supplied to Bapco at the prevailing market price. However, the market value of these additional quantities is not paid to the Government, instead it is received by Nogaholding from Bapco and used against its own oil production costs. Under the new arrangement, any cash amounts equal to the excess of income above production cost of the Group are remitted to the Government. However the Group retains the substantive right to the remitted cash, and therefore shows this as a receivable balance due from the Government.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

(iii) Principal vs agent considerations (continued)

a) Oil producing activities (continued)

The Group is also responsible for the production of non-associated gas. In line with the underlying agreements, the Group is able to utilise the produced gas on a first priority basis, free of cost for its petroleum activities. The Directors and management have assessed that the Group is responsible for the production and has control over the non-associated gas as determined by the respective agreements. The recognition of revenue relating to non-associated gas also involves estimates in relation to values attributable to performance obligations in accordance with various agreements between the Group and the Government.

The Group accordingly recognised Oil and Gas producing assets as it has determined that it is a principal with respect to oil and gas producing activities, has the ability to direct the use of the assets and has the rights to the resulting economic benefits of such activities.

b) Gas distribution services

The Group determined that it does not control the goods relating to Gas beyond the respective delivery points specified in the respective agreement and it does not have the ability to direct the use of or obtain benefits from the assets used in gas distribution services. Therefore, the Group has determined that it is an agent for this function based on the following factors:

- The Group is not primarily responsible for fulfilling the promise to provide the specified gas.
- The Group does not have inventory risk before or after the specified gas has been transferred to the customer as it merely supplies the gas in accordance with the end user agreements which are approved by the Government.
- The Group has no discretion in establishing the price for gas. The Group's consideration in these contracts is only based on an agreed percentage of mark-up on costs incurred by the Group for provision of services to the Government.

c) Petroleum Exploration activities

In relation to the petroleum exploration operations, the Group has determined that it is providing a service to the Government in accordance with its existing contracts. The assessment has incorporated factors around the risks and rewards from the exploration activities, which the Group has determined lie with the Government. The Group has concluded that it transfers control over its services over time as the services are provided and therefore considers itself as acting as an agent for this function.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

(iv) Consolidation

The determination of whether an investment in a company is accounted for as a subsidiary or investment in associate/joint venture requires significant judgement. The management considers various factors including its economic ownership, representation in the respective board of directors or management of the investee Company, the Group's exposure, or rights to, variable returns from its involvement in an investee company, its ability to use the power over the investee to affect its returns.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(v) Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell 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 Group of assets. Where the carrying amount of an asset 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 discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. The Directors do not believe that there is any impairment of property, plant and equipment as at 31 December 2020 and 31 December 2019.

For oil and natural gas producing assets, expected future cash flows are estimated using management's best estimate of future oil and gas prices and production and reserves volumes. The estimated future level of production in all impairment tests is based on assumptions about future commodity prices, production and development costs, field decline rates, and other factors. Reserves assumptions for value-in-use tests are restricted to proved reserves which can be extracted at minimum level of future capital expenditure. The Group acquires services of both internal and external technical expert / consultants for the purposes of assessing proven reserves who carry out their assessment based on internationally accepted guidelines and best industry practices.

There are no reasonably possible changes in any of the key assumptions that would have resulted in an impairment write-down.

(vi) Estimation of oil and gas reserves

Significant technical and commercial judgements are required to determine the Group's estimated oil and gas proved reserves. Reserves estimates are reviewed and updated on annual basis. Factors such as the availability of geological and engineering data, reservoir performance data, drilling of new wells, and oil prices all impact on the determination of the Group's estimates of its oil and gas proved reserves. The Group bases its proved reserves estimates on the requirement of reasonable certainty with rigorous technical and commercial assessments based on conventional industry practice and internationally accepted guidelines.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

(vi) Estimation of oil and gas reserves (continued)

Estimates of oil and gas proved reserves determined by applying internationally accepted guidelines and best industry practices are used to calculate depreciation and amortisation charges for the Group's oil and gas producing assets. The impact of changes in estimated proved reserves is dealt with prospectively by depreciating / amortising the remaining carrying value of the asset over the expected future production. Oil and gas reserves estimates also have a direct impact on the assessment of the recoverability of asset carrying values reported in the consolidated financial statements. If proved reserves estimates determined by applying management's assumptions are revised downwards, earnings could be affected by changes in depreciation and amortisation expense or an immediate write-down of the oil and gas producing asset's carrying value.

Information on the carrying amounts of the Group's oil and gas producing assets is contained in Note 5.

(vii) Useful lives of property, plant and equipment

The Directors determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual values and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

(viii) 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 collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At 31 December 2020, gross inventories were BD 201,871 thousand (2019: BD 249,291 thousand) against which provisions for old and obsolete inventories made amounted to BD 16,220 thousand (2019: BD 14,237 thousand) (note 11).

(ix) Provision for impairment of financial assets

The Group uses a provision matrix to calculate ECLs for financial assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e. by customer types).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e. inflation rate) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical default rates are updated and changes to the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers actual default in future.

At 31 December 2020, gross trade receivables were BD 239,816 thousand (2019: BD 332,859 thousand) against which provisions for ECL made amounted to BD 29,212 thousand (2019: BD 27,364 thousand) (note 12).

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

(x) *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 from active markets, their fair value is determined using valuation techniques including the discounted cash flows model. 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 considerations 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.

(xi) *Leases - Estimating the incremental borrowing rate and extension period*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

As at 31 December 2020, the Group used an IBR ranging between 5.5% - 6% on its leases. An increase or decrease of 1% in IBR would result in a increase or decrease in finance costs on lease liabilities for the year of BD 1,158 thousand (2019: BD 737 thousand).

(xii) *Interest rate benchmark reform*

Following the financial crisis, the reform and replacement of benchmark interest rates such as US\$ LIBOR and other interbank offered rates ('IBORs') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes. To transition existing contracts and agreements that reference US\$ LIBOR to SOFR (secured overnight financing rate), adjustments for term differences and credit differences might need to be applied to SOFR, to enable the two benchmark rates to be economically equivalent on transition. The Group's treasury is managing the Group's US\$ LIBOR transition plan. The greatest change will be amendments to the contractual terms of the US\$ LIBOR-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. The changed reference rate is not expected to affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

The Group has applied the following reliefs that were introduced by the amendments made to IFRS 9 Financial Instruments in September 2019:

- When considering the 'highly probable' requirement, the Group has assumed that the US\$ LIBOR interest rate on which the Group's hedged debt is based does not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the US\$ LIBOR interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based is not altered by LIBOR reform.
- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

(xii) Interest rate benchmark reform

In calculating the change in fair value attributable to the hedged risk of floating-rate debt, the Group has made the following assumptions that reflect its current expectations:

- The floating-rate debt will move to SOFR during 2022 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument.
- No other changes to the terms of the floating-rate debt are anticipated.
- The Group has incorporated the uncertainty over when the floating-rate debt will move to SOFR, the resulting adjustment to the spread, and the other aspects of the reform that have not yet been finalised by adding an additional spread to the discount rate used in the calculation.

4 CONTRIBUTION FROM THE SHAREHOLDER

During 2016, Noga acquired 49% equity shares (representing 80% interest in assets) of Tatweer, a limited liability company incorporated in the Kingdom of Bahrain, specialising in production of oil and gas from onshore fields in the Kingdom of Bahrain. The Company made a payment amounting to BD 58,248 thousand to the outgoing shareholders of Tatweer on behalf of the Government in accordance with the cabinet resolution number 2324-05 dated 17 August 2015 and incentivisation agreement dated 25 August 2015. The shares of Tatweer were transferred to the Company on behalf of the Government and the regulatory formalities in connection with the changes in shareholding were completed on 18 July 2016.

Subsequent to the acquisition of Tatweer by the Government, on 1 July 2016 Noga assigned on behalf of the Government of the Kingdom of Bahrain its 80% interest in the oil and gas producing assets and related abandonment and restoration obligations of Tatweer to the Company. Accordingly, on 1 July 2016, the Company recorded the oil and gas producing assets and related abandonment and restoration obligations of Tatweer. Consequently, Tatweer became a wholly owned subsidiary of the Company.

The Company has recorded the transfer of above assets over time after verification and appropriate approvals from Noga as a contribution from the shareholder.

During 2018, the Company transferred abandonment and restoration obligations along with the related asset in property, plant and equipment to Noga resulting in a net increase in contribution from shareholder by BD 91,509 thousand (Refer note 21 for details).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5 PROPERTY, PLANT AND EQUIPMENT

31 December 2020	Freehold land	Buildings	Oil and gas producing assets	Pipeline assets	Plant and machinery	Furniture and equipment	Motor vehicles	Hardware and software	Site work & aviation assets	Other assets*	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cost:											
At 1 January 2020	121	164,915	769,378	117,082	1,302,427	12,738	10,562	10,092	5,482	134	2,392,931
Additions during the year	-	73	152,226	-	1,730	-	-	14	27	-	154,070
Transfers from capital work-in-progress (note 6)	-	9,566	-	-	25,011	482	168	1,119	-	-	36,346
Reclassifications	-	(3,228)	32,647	-	(4,887)	2,485	(73)	1	47	-	26,992
Assets written-off	-	-	-	-	(684)	(225)	(154)	(20)	-	-	(1,083)
At 31 December 2020	121	171,326	954,251	117,082	1,323,597	15,480	10,503	11,206	5,556	134	2,609,256
Depreciation:											
At 1 January 2020	-	83,545	486,925	2,195	720,953	12,122	9,911	8,206	4,472	-	1,328,329
Charge for the year	-	5,094	91,827	2,927	47,837	398	401	890	194	-	149,568
Reclassifications	-	(3,039)	(114,496)	-	144,838	111	(422)	(6)	6	-	26,992
Assets written-off	-	-	-	-	(163)	(225)	(153)	(15)	-	-	(556)
At 31 December 2020	-	85,600	464,256	5,122	913,465	12,406	9,737	9,075	4,672	-	1,504,333
Net carrying value:											
At 31 December 2020	121	85,726	489,995	111,960	410,132	3,074	766	2,131	884	134	1,104,923

* Other assets represent Bahrain Oil Museum items which are not depreciated due to its unique nature.

The Oil and Gas Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

5 PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2019

	Freehold land	Buildings	Oil and gas producing assets	Pipeline assets	Plant and machinery	Furniture and equipment	Motor vehicles	Hardware and software	Site work and aviation assets	Other assets*	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cost:											
At 1 January 2019	121	144,223	708,538	-	1,297,375	12,589	10,681	10,073	6,787	190	2,190,577
Additions during the year	-	2	60,840	-	954	3	-	19	755	-	62,573
Transfers from capital work-in-progress (note 6)	-	8,476	-	117,082	18,904	177	267	-	-	-	144,906
Reclassifications	-	13,305	-	-	(13,305)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(386)	-	-	-	(386)
Assets written-off	-	(1,091)	-	-	(1,501)	(31)	-	-	(2,060)	(56)	(4,739)
At 31 December 2019	121	164,915	769,378	117,082	1,302,427	12,738	10,562	10,092	5,482	134	2,392,931
Depreciation:											
At 1 January 2019	-	80,491	418,192	-	670,754	11,857	9,494	7,504	6,020	-	1,204,312
Charge for the year	-	4,127	68,733	2,195	51,687	296	417	702	275	-	128,432
Assets written-off	-	(1,073)	-	-	(1,488)	(31)	-	-	(1,823)	-	(4,415)
At 31 December 2019	-	83,545	486,925	2,195	720,953	12,122	9,911	8,206	4,472	-	1,328,329
Net carrying value:											
At 31 December 2019	121	81,370	282,453	114,887	581,474	616	651	1,886	1,010	134	1,064,602

* Other assets represent Bahrain Oil Museum items which are not depreciated due to its unique nature.

The Oil and Gas Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

6 CAPITAL WORK-IN-PROGRESS

	<i>Note</i>	2020 BD '000	2019 BD '000
At 1 January		907,846	454,018
Additions during the year	6.1	481,631	600,071
Transfer to property, plant and equipment	5	(36,346)	(144,906)
Capital work-in-progress written-off		(612)	(1,337)
As at 31 December		1,352,519	907,846

6.1 This includes staff costs amounting to BD 12,752 thousand (2019: BD 8,137 thousand) and borrowing costs amounting to BD 81,932 thousand (2019: BD 36,908 thousand) capitalised during the year. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 7.5% (2019 – 7.5%).

6.2 The amount of finance costs on lease liabilities capitalised during the year ended 31 December 2020 amounted to BD 39 thousand (2019: BD 2,460 thousand).

7 RIGHT-OF-USE ASSETS

	2020 BD '000	2019 BD '000
As at 1 January	124,224	90,609
Additions during the year	41,845	71,079
Remeasurement	61,921	-
Depreciation during the year*	(44,651)	(37,464)
As at 31 December	183,339	124,224

* Depreciation during the year includes BD 138 thousand (2019: BD 138 thousand) that has been capitalised in capital work-in-progress and BD nil (2019: BD 15,201 thousand capitalised to property, plant and equipment).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7 RIGHT-OF-USE ASSETS

The consolidated statement of financial position shows the following amounts relating to leases (net of depreciation):

	2020	2019
	BD '000	BD '000
Compressors	110,674	56,000
Drilling rigs	32,515	58,409
Workover rigs	37,861	8,480
Others	2,289	1,335
As at 31 December	183,339	124,224
	2020	2019
	BD '000	BD '000
Depreciation charge of right of use assets		
Compressors	15,677	15,524
Drilling rigs	17,541	10,780
Workover rigs	9,683	10,122
Others	1,750	1,038
As at 31 December	44,651	37,464

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

8.1 Investment in Arab Shipbuilding and Repair Yard Co. B.S.C. (c)

On 24 October 2019, the Government transferred its interest in Arab Shipbuilding and Repair Yard Co. B.S.C. (c) ("Asry"), which was held by the Government through Bahrain Mumtalakat Holding B.S.C. (c) ("Mumtalakat"), to the Company. As a result, the Company received a majority economic interest in Asry and on the same date the Company transferred a portion of its ownership in Asry to other existing third-party shareholders. This transfer was executed through a resolution at Asry level between the Company and other shareholders. As of the reporting date, the economic ownership of the Company in Asry is 36.96%. The process of transferring the legal ownership to other shareholders is in progress as of the approval date of the consolidated financial statements.

The transfer of the Company's current economic ownership in Asry, as indicated above, has been considered as a contribution from the ultimate shareholder of the Company, the Government, and accordingly, has been credited to equity.

As the Company owns a 36.96% in Asry and has representation on its board of directors, a judgement is required on classification of this investment. As the Company's exposure, or rights, to variable returns from its involvement with Asry is limited to its current economic ownership, the management of the Company has concluded that the Company only exercises significant influence over Asry, accordingly, has accounted it as an investment in an associate.

As part of debt restructuring of Asry, the Company has a constructive obligation to provide an interest free shareholder loan up to an amount of BD 11.3 million (US\$ 30 million). The management of the Company expects this shareholder loan to be shared between all shareholders of Asry. The management is of the view that this shareholder loan will take priority over equity of Asry without any exposure to variable returns.

8.2 Classification of carrying value of associates and joint venture in the consolidated statement of financial position

	2020	2019
	BD '000	BD '000
Investment in associates and joint venture	90,885	97,529
Trade and other payables	-	(42)
	90,885	97,487

The investment includes convertible loan of BD 31,578 thousand (2019: BD 29,824 thousand) for which settlement is neither planned nor likely in the foreseeable future.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

8.3 Movements in the carrying amount of the investments in associates and joint ventures during the year is as follows:

Ownership interest	30%	36.96%	33.33%	49%
	Bahrain LNG W.L.L.	Arab Shipbuilding and Repair Yard Co. B.S.C. (c) ("Asry")	Gulf Petrochemical Industries Co. B.S.C. (c)	Schmidt Logistics Bahrain W.L.L.
	2019	2019	2019	2019
	BD '000	BD '000	BD '000	BD '000
Balance at 1 January	24,147	346	7,281	69,437
Addition during the year**	1,754	29,824	-	1,754
Transfer from the shareholder	-	-	642	-
Share of profit/(loss) for the year	25	(2,720)	6,639	274
Share of other comprehensive loss for the year	(7,131)	(3,303)	-	(7,168)
Share of total comprehensive (loss)/income for the year	(7,106)	(6,023)	560	274
Dividends received from associates	-	-	(1,131)	-
Balance at 31 December	18,795	24,147	65,530	90,885
Share of associates equity at 31 December was as follows:				
	2020	2019	2020	2019
	BD '000	BD '000	BD '000	BD '000
Non-current assets	376,770	381,539	163,212	602,379
Current assets	41,883	30,476	44,105	122,052
Non-current liabilities	(319,522)	(313,000)	(320)	(367,156)
Current liabilities	(36,481)	(18,524)	(10,408)	(63,155)
Equity	62,650	80,491	196,589	276,856
Share of associates equity at 31 December	18,795	24,147	65,530	90,885

* These amounts related to deficiency of assets due to share of losses exceeding the investment in associate which has been recorded in the books and has been shown under trade and other payables.

** Additions during the year includes an amount of BD 1,754 thousand (2019: Nil) of capitalised interest due on a convertible loan given to Bahrain LNG W.L.L.

The Oil and Gas Holding Company B.S.C. (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

8.4 Share of associates' and joint ventures summarised statement of profit or loss and other comprehensive income during the year is as follows:

Ownership interest	30%		36.96%		33.33%		49%	
	Bahrain LNG W.L.L.		Arab Shipbuilding and Repair Yard Co. B.S.C.		Gulf Petrochemical Industries Co. B.S.C. (c)		Schmidt Logistics Bahrain W.L.L.	
	2020	2019	2020	2019	2020	2019	2020	2019
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Revenue	41,588	7,008	48,410	9,445	101,684	115,941	-	191,682
Cost of sales	(8,358)	(4,587)	(36,674)	(6,262)	(82,887)	(82,297)	(443)	(128,362)
Other income	-	-	4,961	17,623	345	296	1,259	6,565
Expenses	(33,146)	(11,488)	(19,187)	(2,843)	(17,350)	(20,620)	(325)	(70,008)
(Loss)/profit for the year	84	(9,067)	(2,490)	17,963	1,792	13,320	491	(123)
Other comprehensive loss for the year	(23,769)	(11,010)	-	-	(112)	(618)	-	(23,881)
Total comprehensive (loss)/income for the year	(23,685)	(20,077)	(2,490)	17,963	1,680	12,702	491	(24,004)
Group's share of total comprehensive (loss)/income for the year	(7,106)	(6,023)	(920)	6,639	560	4,234	241	(7,225)
Capital and other commitments	12,917	12,350	2,224	867	25,408	21,263	-	40,549
								34,500

The Oil and Gas Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2020

9 LONG-TERM ASSETS

	Note	2020 BD '000	2019 BD '000
Home ownership loans – non-current portion	9.1	21,495	19,676
Long-term staff loans	9.1	4,181	4,542
Investment at FVOCI	9.2	200	200
Other long-term assets		47	-
		25,923	24,418

9.1 Home ownership loans and long-term staff loans represent amounts advanced to employees under different schemes of the Group. The loans are sanctioned in accordance with the Group's policies and are repayable in monthly installments over the period of the loans.

9.2 The Group holds non-controlling interest 2.86% (2019: 2.86%) in the Bahrain International Golf Course Company. This investment was irrevocably designated at FVOCI at the time of adoption of IFRS 9, as the Group considers the investment to be strategic in nature.

10 RESTRICTED CASH AND BANK BALANCES

	2020 BD '000	2019 BD '000
Bank balances		
- BAPCO expatriate employees' end of service benefits (note a)	13,539	14,263
- BMP Project (note b)	113,085	113,085
Restricted Bank balances	126,624	127,348

Note 'a'

These are held with Islamic and conventional banks in the Kingdom of Bahrain and include current accounts and fixed deposits. These bank balances are held in the name of "BAPCO Expatriate Employees' End of Service Benefits" in various currencies and are fully funded by the Company and cannot be utilised in the Company's operations. Current account balances with the banks are non-interest bearing. Bank deposits earn interest / profit rates ranging between 3.2% to 4% (2019: between 4.1% to 5.125%) per annum.

Note 'b'

This represents an account held with a bank outside the Kingdom of Bahrain for BMP project and is restricted by the project debt finance arrangement and cannot be utilised for routine operations of the Company except for specific items as mentioned in the project debt finance arrangement. This account earns interest at daily USD LIBOR minus 0.25% (2019: daily USD LIBOR minus 0.25%) per annum. This deposit is required to be held till completion of the BMP project.

The Oil and Gas Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 INVENTORIES

	2020 BD '000	2019 BD '000
<i>Petroleum inventories:</i>		
Crude oil	16,877	14,841
Work-in-process	46,614	51,653
Refined finished products	49,128	97,406
Gasoline inventories	2,117	3,981
	114,736	167,881
<i>Gas inventories:</i>		
Processed gas	2,872	3,045
<i>Lube inventories</i>		
Lube based oil	1,562	3,925
<i>Materials and supplies inventories:</i>		
Refinery / production	24,565	25,014
Retail service stations	-	12
Spares and materials	58,136	49,414
	82,701	74,440
Less: provision for slow moving inventories for		
- refinery / production	(7,951)	(7,184)
- spares and materials	(8,269)	(7,053)
	(16,220)	(14,237)
	66,481	60,203
	185,651	235,054

The movements in provision for slow-moving inventories are as follows:

	2020 BD '000	2019 BD '000
At 1 January	14,237	12,426
Charge for the year	1,983	3,438
Write-offs during the year	-	(1,627)
At 31 December	16,220	14,237

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12 TRADE, OTHER RECEIVABLES AND OTHER ASSETS

	2020	2019
	BD '000	BD '000
<i>Trade receivables</i>		
Related parties	60,157	114,472
Others (note 33a)	179,659	218,387
	239,816	332,859
<i>Others</i>		
Other receivables	27,399	27,931
Due from Noga (note 33a)	22,765	25,656
Advances to contractors	16,168	26,993
Prepayments	15,315	12,809
Home ownership loans – current portion	1,572	1,661
Staff loans – current portion	386	403
	83,605	95,453
Less: Provision for ECL / impairment of trade and other receivables	(29,212)	(27,364)
	294,209	400,948
<i>Trade and other receivables</i>		
- Non-current portion	12,228	16,736
- Current portion	281,981	384,212
	294,209	400,948

Trade receivables are generally on 30 days credit terms.

The movements in the provision for ECL / impairment of trade and other receivables during the year were as follows:

	2020	2019
	BD '000	BD '000
At 1 January	27,364	23,400
Charge for the year	1,848	6,447
Provision written-off	-	(2,483)
At 31 December	29,212	27,364

As at 31 December, the ageing of not impaired trade and other receivables (net of ECL) is as follows:

	<i>Total</i>	<i>Current</i>	<i>Less than</i>	<i>61 to 90</i>	<i>91 to 180</i>	<i>181 to 365</i>	<i>Over</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>60 days</i>	<i>days</i>	<i>days</i>	<i>days</i>	<i>365 days</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
2020	238,003	190,576	13,445	2,706	8,616	7,406	15,254
2019	333,426	294,243	19,176	2,634	4,640	390	12,343

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12 TRADE AND OTHER RECEIVABLES (continued)

A substantial portion of the Company's sales are to international customers and the majority of these receivables are secured by letters of credit issued by reputable financial institutions. The loss rate for all receivables ranges from 0.08% to 100% (2019: 0.08% to 100%) depending upon the ageing and type of counterparty of receivables.

The carrying amounts of the Group's trade receivables are denominated in both Bahraini Dinars and United States Dollars.

Amounts due from a related party are unsecured, bear no interest and have no fixed repayment terms.

13 DUE FROM A RELATED PARTY

13.1 Prior to March 2019

This represents amounts due from the Government of the Kingdom of Bahrain, the ultimate owner of the Company.

Until 1 March 2019, Bapco did not maintain its own bank accounts for the purpose of collections from sales, instead, it was operating on cash call basis from the Government. The Government received funds from the sales of Bapco and paid for the operating and investing activities as per cash call requests made by Bapco. However, during the year, as part of the BMP project and its related financing arrangements, Bapco underwent significant changes to the way it operated. As part of the financing arrangements, Bapco was required to cease its cash call mechanism with the Government and operate as a financially independent company. Accordingly, Bapco ceased its cash call mechanism with the Government on 28 February 2019 (cut-off date) and effective from that day onwards, Bapco started its own treasury and cash management functions including maintaining own bank accounts and became independent from the Government for funding of its operations, investing and financing activities. The offset was approved by the Board of Directors of Bapco and by the Company, (as shareholder of Bapco) on 13 March 2019. A notification was sent to the Ministry of Finance on 26 March 2019.

As of the cut-off date, Bapco's balance of due from the Government amounted to BD 797,315 thousand. Consequent to the above mentioned financial independence of Bapco, this balance was offset against retained earnings on the cut-off date on the basis that this amount was deemed as monies paid to the shareholder of the Company.

	<i>Period from 1 January 2019 to 28 February 2019 BD '000</i>
Balance at the beginning	815,564
Cash movements, net (refer 13.1.1)	(28,210)
Non-cash movements, net (refer 13.1.2)	(787,354)
Balance at the end	-

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13 DUE FROM A RELATED PARTY (continued)

13.1 Prior to March 2019 (continued)

Cash and non-cash movements in amounts due from the Government account during this period are as follows:

13.1.1 CASH MOVEMENTS

	<i>Period from 1 January 2019 to 28 February 2019 BD '000</i>
Amounts due from the Government	
Cash received by the Government	
against export of refined products	368,598
Cash paid to the Government including	
cash in transit	40,134
Marketing fees - Abu Saafa	724
	<u>409,456</u>
Amounts due to the Government	
Arabian crude oil purchases from Saudi	
Arabian Oil Company ('Saudi Aramco')	314,332
Cash paid by the Government for investing,	
operating activities and employees'	
end of service benefits	86,699
Payments made for purchase of refined products	35,901
Miscellaneous	734
	<u>437,666</u>
Net cash movements	<u>(28,210)</u>

- * This includes interest paid to Saudi Aramco amounting to BD Nil (2019: BD 147 thousand) during the year.

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13 DUE FROM A RELATED PARTY (continued)

13.1 Prior to March 2019 (continued)

13.1.2 NON-CASH MOVEMENTS

	<i>Period from 1 January 2019 to 28 February 2019 BD '000</i>
Amounts due from the Government	
Transfers to the Government of the Kingdom of Bahrain:	
Miscellaneous	10,822
	<u>10,822</u>
Amounts due to the Government	
Amounts set off against retained earnings	797,315
Bahrain crude oil purchases	861
	<u>798,176</u>
Net non-cash movements	<u><u>(787,354)</u></u>

13.2 Subsequent to March 2019

During 2018, the Group entered into various agreements with the Government including COSA, COSPA, services agreement, gas sale and purchase agreement (GASPA), etc. These mainly relate to the following:

- purchase of crude oil from the Government;
- distribution of gas to the end users and managing of the gas distribution network; and
- carrying out oil and gas exploration activities, on behalf of the Government, etc.

During 2019, the Company has agreed a framework with the Government for cash receipts and payments mechanism with respect to the above and certain additional items. Consequently, the Group has the following outstanding balances with the Government:

	2020 BD '000	2019 BD '000
Receivable from the Government (refer 13.2.1)	421,535	255,433
Payable to the Government (refer 13.2.2)	(452)	(1,342)
Due from a related party	<u>421,083</u>	<u>254,091</u>

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13 DUE FROM A RELATED PARTY (continued)

13.2 Subsequent to March 2019 (continued)

13.2.1 Receivable balances arise due to following transactions:

- a) Service income as explained in note 33 (c);
- b) Amounts paid by the Company on behalf of the Government;
- c) Exploration costs paid by Nogaholding on behalf of the Government;
- d) Payments with respect to management of gas distribution network on behalf of the Government;
- e) Amounts paid to the Government for:
 - i) sum of (A) production cost contribution relating to Baseline Crude Quantity and (B) fair market value relating to excess quantity (over Baseline Crude Quantity) (less) actual production costs incurred by Tatweer. In case of a shortfall, it is recovered from the Government and disclosed under payables.
 - ii) the fair market value (of the Baseline Crude Quantity and excess quantity (over Baseline Crude Quantity)) less payments made to the Government under COSA (at US\$ 1 per barrel of oil for Baseline Crude Quantity), production cost contribution relating to Baseline Crude Quantity, fair market value relating to excess quantity (over Baseline Crude Quantity), point 'b' above and any subsidies provided by Bapco for local sales.

13.2.2 Payable balance arise due to following transaction:

- a) Purchase of crude oil at US\$ 1 per per barrel of oil for Baseline Crude Quantity under COSA.

The Group has assessed that these amounts are current in nature and fully recoverable from the Government.

The management has classified the amounts paid to the Government as a financing activity instead of investing activity in the consolidated statement of cash flows due to the fact that this amount is directly provided to the shareholder of the parent. Had this amount been classified within investing activities, the net cash flow used in investing activities would have been BD 798,933 thousand (2019: BD 888,617 thousand) and net cash flow from financing activities would have been BD 329,462 thousand (2019: BD 415,451 thousand).

14 CASH AND BANK BALANCES

	Note	2020 BD '000	2019 BD '000
Current and call accounts			
- BMP project related		19,025	156,884
- Others	14.1	180,354	242,359
Deposits with banks	14.2	70,180	75,663
Cash in transit		65	7,553
Cash on hand		364	261
Cash and cash equivalents		269,988	482,720
Less: allowance for expected credit losses		(11)	(11)
Cash and bank balances		269,977	482,709

14.1 Current and call accounts are held with reputable banks in the Kingdom of Bahrain and United Kingdom. These balances are denominated in Bahraini Dinars and US Dollars.

14.2 As of 31 December 2020, short term deposits held with banks in the Kingdom of Bahrain earn interest at rates ranging between 0.1 % and 2.55 % per annum and have original maturities of three months or less (2019: 1% and 3.25% per annum).

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14 CASH AND BANK BALANCES (continued)

14.3 The Group also holds a bank account on behalf of the Government amounting to USD 95,215 thousand as at 31 December 2020 which does not form part of cash and bank balances within the consolidated statement of financial position.

Non-cash transactions entered by the Group during the year ended 31 December 2019 and 31 December 2020 are as follows:

Non-cash items

	2020	2019
	BD '000	BD '000
Transfer from capital-work-in-progress to property plant and equipment (notes 5 & 6)		
Property, plant and equipment	36,346	144,906
Capital work-in-progress	(36,346)	(144,906)
Finance cost capitalised (note 6)		
Capital work-in-progress	57,991	39,368
Borrowings	(57,952)	(36,908)
Lease liabilities	(39)	(2,460)
Depreciation capitalised (note 7)		
Capital work-in-progress	138	138
Right-of-use assets	(138)	(138)
Additions to right-of-use assets (notes 7 & 24)		
Right-of-use assets	41,845	71,079
Lease liabilities	(41,845)	(71,079)
Remeasurement of right-of-use assets (notes 7 & 24)		
Right-of-use assets	61,921	-
Lease liabilities	(61,921)	-
Offsetting related party balances (note 13)		
Amounts due from the Government	-	10,822
Amounts due to the Government	-	(10,822)

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15 SHARE CAPITAL AND CAPITAL ADJUSTMENT ACCOUNT

	2020 BD '000	2019 BD '000
Share capital		
<i>Authorised:</i>		
1,619,400,000 shares of BD1 each (2019: 1,619,400,000 shares of BD1 each)	<u>1,619,400</u>	<u>1,619,400</u>
<i>Issued and fully paid:</i>		
1,184,400,000 shares of BD1 each (2019: 1,184,400,000 shares of BD1 each)	<u>1,184,400</u>	<u>1,184,400</u>

The entire capital is held by the Government of the Kingdom of Bahrain.

Capital adjustment account

On formation of the Company, the capital was issued as a consideration based on the value of the subsidiaries transferred. It was noted that the legal capital issued was based on the gross assets of the subsidiaries, rather than the net assets transferred resulting in recognition of additional intangible assets of BD 421,609 thousand (2019: BD 421,609 thousand) in the form of accounting goodwill (as a balancing figure). This resulted in an overstatement of equity and gross assets by BD 421,609 thousand (2019: BD 421,609 thousand).

On 13 December 2011, the Board of Directors passed a resolution to restate the consolidated financial statements to reflect the true position of equity and total assets. Accordingly, this resulted in creating a debit balance in equity in the favour of a capital adjustment account of BD 421,609 thousand (2019: BD 421,609 thousand) with a corresponding credit to goodwill. The debit balance may be eliminated against issued capital on obtaining the requisite regulatory and shareholder approvals.

16 SINKING FUND RESERVE

	2020 BD '000	2019 BD '000
At 1 January and 31 December	<u>160,125</u>	<u>160,125</u>

As required by the Amiri Decree number 42 of 1999, a sinking fund reserve has been created by Bapco through transfers from prior years gross profits. The reserve is not available for distribution in the form of dividend and is to be utilised to:

- (a) purchase materials, machineries and facilities or for their repairs;
- (b) cover any decrease in the value of Bapco's property, plant and equipment; and
- (c) meet Bapco's obligations under the labour and social insurance laws.

17 STATUTORY RESERVE

In accordance with the Bahrain Commercial Companies Law and the Company's Memorandum and Articles of Association, 10% of the net profit for the year is to be transferred to a statutory reserve. Such annual transfer ceases when the reserve balance has reached 50% of the paid-up share capital. The statutory reserve cannot be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law. The Company has not made any transfers to statutory reserve in the current year due to the loss incurred for the year (on the basis that it has accumulated deficit balance as of 31 December 2019).

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18 NON-CONTROLLING INTERESTS

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

Proportion of equity interest held by non-controlling interests:

Name	Country incorporation	Ownership interest	
		2020	2019
Bahrain National Gas Company B.S.C. (c) ("Banagas")	Kingdom of Bahrain	25%	25%
The Bahrain Aviation Fueling Company B.S.C. (c) ("Bafco")	Kingdom of Bahrain	40%	40%
Bahrain Gasoline Blending W.L.L. ("BGB")	Kingdom of Bahrain	15%	15%

	Accumulated balances of non-controlling interests		Profit allocated to non- controlling interests	
	2020	2019	2020	2019
	BD' 000	BD' 000	BD' 000	BD' 000
Banagas	4,957	5,987	467	469
Bafco	58	58	-	-
BGB	375	342	11	113
Total	5,390	6,387	478	582

The movements in the non-controlling interest during the year are as follows:

	2020	2019
	BD '000	BD '000
At 1 January	6,387	9,555
Net profit and total comprehensive income attributable to non-controlling interest	478	582
Dividend paid by a subsidiary to non-controlling shareholders	(1,475)	(3,750)
	5,390	6,387

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19 BORROWINGS

The details of the borrowings together with interest / profit and repayment terms are as follows:

	Note	2020 BD '000	2019 BD '000
Term loan A	19.1	-	-
Term loan B	19.2	-	-
Murabaha facility	19.3	527,800	359,711
Listed term bonds	19.4		
- first tranche		377,000	377,000
- second tranche		377,000	377,000
Commercial and Islamic facilities	19.5	193,640	179,117
BMP project borrowings	19.6	685,788	416,057
		2,161,228	1,708,885
less - unamortised transaction cost		(179,782)	(180,427)
At 31 December		1,981,446	1,528,458
Total borrowings		1,981,446	1,528,458
Less: Current maturities of long-term borrowings		(11,232)	(28,730)
Non-current portion		1,970,214	1,499,728

- 19.1 On 12 October 2009, Nogaholding obtained long term unsecured borrowings with a facility limit of US\$ 120 million from a consortium of local and international banks through Ahli United Bank (B.S.C), (acting as an agent) to finance the joint operation of BLBOC.

The term loan carried interest ranging from 3.75% to 4.3% per annum. The term loan was repayable in 32 equal instalment of BD 1.41 million each with the last instalment payable on 31 December 2019 and was fully repaid during 2019.

- 19.2 On 8 February 2018, Nogaholding obtained long term unsecured borrowing with a facility limit of US\$ 80 million from Ahli United Bank (B.S.C) through Citibank Europe. The loan carried interest rate of 1.75% plus 6 months LIBOR (2019: 1.75% plus 6 months LIBOR). The loan was repayable in 4 equal semi annual instalments of BD 7.54 million with the last instalment payable on 8 February 2020, this loan was fully repaid during 2019.

- 19.3 In 2019, the Company entered into a new murabaha facility arrangement with a consortium of banks through Gulf International Bank (B.S.C.), acting as an agent, with a facility limit of US\$ 1,400 million (BD 528 million) at profit rates ranging from 2.25% to 2.65% plus 1, 3 or 6 months LIBOR (2019: 2.25% to 2.65% plus 1, 3 or 6 months LIBOR) depending upon respective murabaha transaction period. This facility was used to early settle the old murabaha facility of 2018 which had profit rate of 2.25% plus 6 months LIBOR. The new facility is unsecured and full principal amount is payable as bullet payment on 25 October 2024.

- 19.4 During 2017, Nogaholding established Global Medium Term Note programme (the "Programme") for an amount of US\$ 3 billion on Irish Stock Exchange. On 18 October 2017, Nogaholding issued first tranche under the Programme, a 10 year bond carrying interest rate of 7.5% per annum and amounting to US\$ 1 billion under the Programme. The principal amount is repayable as bullet payment on 18 October 2027.

On 7 November 2018, Nogaholding issued second tranche under the Programme, a 10 year bond carrying interest rate of 8.375% per annum and amounting to US\$ 500 million and a 6 year bond carrying interest rate of 7.625% per annum and amounting to US\$ 500 million. The principal amount is repayable as bullet payment on 7 November 2028 and 7 November 2024 respectively.

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19 BORROWINGS (continued)

- 19.5 As of 31 December 2019, the Group had an outstanding balance of US\$ 476,375,000 (BD 179,117,000) against a long term borrowing (commercial and Islamic facilities) with a facility limit of BD 193.6 million (US\$ 515 million) denominated in US\$, from a consortium of international and local banks with Gulf International Bank B.S.C., acting as a facility agent. These loans were repayable in 11 semiannual installments with a sculpted profile with the first installment paid on 31 December 2019. The facility is not secured and non-recourse and last installment is repayable on 31 December 2024. The loan carried interest rate at 6 months US\$ LIBOR plus a margin of 3.15% per annum.

The Group made one scheduled payment on 30 June 2020 amounting to US\$ 38,625,000 (BD 14,523,000) and total outstanding balance of the facility then was US\$ 437,750,000 (BD 16,459,400). On 26 October 2020, the Group concluded a refinancing arrangement with the consortium of banks including 5 out of 7 existing facility participants and 2 new participants a long term borrowing (commercial and Islamic facility) with facility Limit of BD 193.6 million (US\$ 515 million) dominated in US\$. Gulf International Bank BSC acting as facility agent. The Loan is repayable in 19 installments first repayment starting from 30 June 2021 and final bullet repayment of BD 48,410 thousand or (US\$ 128,750 thousand) on 30 June 2030. The facility is not secured and non-recourse. Loan carries interest rate of 6 months Libor + 2.9% per annum.

- 19.6 Bapco embarked on the BMP project during 2018 which is a major expansion and upgrade project of the Bahrain Refinery. In order to finance the BMP project Bapco signed debt financing facilities agreements ("project debt finance arrangement") on 20 December 2018 with an available financing facilities of US\$ 4.1 billion. The financing facilities comprise of covered export credit facilities and uncovered commercial and Islamic financing facilities with a consortium of banks to support and fund the implementation of BMP project. These facilities can only be utilised for BMP project related payments and include floating and fixed rate facility which carry interest of 6 month LIBOR + spread ranging between 0.90% to 2.90% per annum and 4.04% per annum respectively (2019: 6 month LIBOR + spread ranging between 0.90% to 2.90% per annum and 4.04% per annum respectively).

Transactions costs comprise of insurance premium, commitment fees, upfront fees and other fees that are paid by the Group and are not recoverable. During 2020, the Company paid BD 11,549 thousand (US\$ 30,638 thousand) [2019: BD 157,625 thousand (US\$ 418,159 thousand)] to the Facility Lenders and capitalised it on amortisation.

These loans are repayable in 25 semi-annual instalments with the first instalment payable at earlier of six months after the actual project completion date or scheduled completion date of 31 October 2022.

These borrowings contain certain requirements to meet certain financial and non-financial covenants and there is no instance of non compliance at the reporting dates. At 31 December 2020, the Group's undrawn committed amount under these facilities is BD 861,215 thousand (2019: BD 1,299,035 thousand).

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20 EMPLOYEES' END OF SERVICE BENEFITS

	2020	2019
	BD '000	BD '000
Expatriate employees' leaving indemnity (note 'a')	16,689	17,565
Bahraini pension plan	148	95
Pound sterling annuity plan	41	46
Defined benefit retirement scheme (note 'b')	3,525	3,604
	20,403	21,310
a) Expatriate employees' leaving indemnity		
	2020	2019
	BD '000	BD '000
At 1 January	17,565	15,762
Charge for the year	2,225	3,038
Paid during the year	(3,101)	(1,235)
At 31 December	16,689	17,565

The number of expatriate employees as at 31 December 2020 was 829 (2019: 698).

b) Defined benefit retirement scheme

	2020	2019
	BD '000	BD '000
At 1 January	3,604	2,918
Current service cost	175	161
Past service cost	61	-
Interest costs - net	210	212
Payments made during the year	(567)	(66)
Actuarial loss	42	379
At 31 December	3,525	3,604

Banagas operates a defined benefit retirement scheme for its Bahraini employees. The retirement scheme is valued by an independent actuary every year using the projected unit cost method. As per actuarial valuation, an actuarial loss of BD 42 thousand (2019: loss of BD 379 thousand) has been recognised in (accumulated deficit)/retained earnings through OCI for the years ended 31 December 2020 and 31 December 2019.

c) Contribution to social insurance organisation (SIO)

Pension rights and other social benefits for Bahraini employees are covered by the SIO scheme to which the employer and employees contribute monthly at a fixed-percentage of salaries.

21 ABANDONMENT AND RESTORATION OBLIGATIONS

Prior to 1 January 2018, in accordance with the Development and Production Sharing Agreement ("DPSA"), the Group recognised the fair value of a liability for an abandonment and restoration obligations in the period in which the liability is incurred and becomes reasonably estimable to dismantle the asset and reclaim or remediate the property at the end of its useful life. As per terms of DPSA, the Group was required to make payments to the abandonment fund of Noga in future. On 21 February 2019, Noga terminated DPSA with effect from 1 January 2018 and thereby no payments are required to be made to Noga to fund the Group's obligation to abandonment fund. Subsequent to termination of DPSA, the Group is no longer liable for abandonment or restoration obligations and these liabilities have been taken over by Noga, being the shareholder of the Company.

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21 ABANDONMENT AND RESTORATION OBLIGATIONS (continued)

Subsequent to termination of DPSA and Noga taking over the related restoration obligations, the Group has transferred the abandonment and restoration obligations along with the corresponding asset in the property, plant and equipment to its shareholder, Noga, resulting in a net increase in contribution from shareholder by BD 91,509 thousand during the year ended 31 December 2018.

22 TRADE AND OTHER PAYABLES

	Note	2020 BD '000	2019 BD '000
Trade payables		154,109	198,981
Accruals and other payables		143,082	167,186
Payable to contractors		66,304	139,339
Due to the Government	22.1 & 33a	22,749	42,650
Interest payable on borrowings		16,823	14,820
Advance from customers		3,237	3,221
		406,304	566,197
<i>Trade and other payables</i>			
- Non-current portion		21,348	21,929
- Current portion		384,956	544,268
		406,304	566,197

Trade payables are normally settled within 30 days of the suppliers' invoice date.

22.1 The Group had deferred product gas payments relating to the operations of Banagas' operations with effect from 1 July 2016, in accordance with a resolution of the Board Of Directors "BOD" of Banagas. These product gas charges were deferred till 31 October 2018 (hereinafter referred to as "deferred product gas charges") and amounted to BD 20,901 thousand as of that date. On 22 October 2018, the Group received a letter no 225/2018 from Noga to pay the product gas charges on revised formula with effect from 1 November 2018. Accordingly, the Group started making payments for product gas charges from November 2018 onwards on revised formula.

Since, the revised formula was effective prospectively from 1 November 2018, the Group decided to make 24 monthly payments of BD 726 thousand each starting from May 2019 against a total payment of BD 17,434 thousand, out of its total liability against deferred product gas charges till 31 October 2018 of BD 20,901 thousand, calculated based on revised formula. It further resolved that the mechanism for payment of remaining amount of BD 3,468 thousand will be agreed with Gas Pricing Committee once these monthly installments have been paid in full. This payment arrangement has been discussed and agreed by the Group with the Gas Pricing Committee.

Accordingly, the Group has paid an amount of BD 5,811 thousand in 8 monthly installments as of December 2019 against deferred product gas charges. In December 2019, the Group approached NOGA, through the Product Gas Pricing Committee to reschedule the monthly installments to 40 monthly installments of BD 290 thousand each for deferred product gas charges aggregating to BD 11,622 thousand. The Group approved this rescheduled repayment installments with effect from January 2020. Such rescheduling arrangement has also been agreed by NOGA. During the year, the Group has made 2 monthly installments of BD 290 thousand for the deferred product gas charges and stopped making monthly installments.

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22 TRADE AND OTHER PAYABLES (continued)

22.1 In accordance with the terms & conditions of bank borrowings obtained in 2017, Product Gas for CGP-II & Fuel Gas for CGP-III from 1 January 2017 were subordinated. Furthermore, as a precondition of the bank borrowing, NOGA also waived off product gas charges for CGP-III for the duration of the loan. Under the financing conditions, subordinated amounts can only be paid after ensuring that the Company has surplus cash available after taking into account the repayments of the next 6 months, 2 months working capital, and will be able to meet all the loan covenants after making such payments of subordinated gas charges.

NOGA has continued to implement the subordination of product gas charges for CGP II and fuel gas charges for CGP III following the restructuring of the bank borrowings.

23 DERIVATIVE FINANCIAL INSTRUMENTS

The Group does not engage in proprietary trading activities in derivatives. However, the Group enters into certain derivative transactions to hedge economic risks under its risk management guidelines. Where derivatives do not meet the hedging criteria, they are classified fair value through profit or loss (FVTPL) for accounting purposes. Consequently, gains or losses resulting from the remeasurement to fair value of these derivatives are taken directly to the profit or loss.

The Group has adopted a comprehensive system for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in interest rates (interest rate risk) through entering into interest rate swaps (IRS). It is the Group's policy to reduce its exposure to interest rate risks to acceptable levels as determined by the Board of Directors. The Board of Directors has established levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. Interest rate gaps are reviewed on an ongoing basis and hedging strategies used to reduce the interest rate gaps to within the limits established by the Board of Directors.

The Group is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments is interest rate risk. The Company has entered into interest rate swaps (IRS) to hedge its risk associated with interest rate fluctuations. These IRSs are designated as hedging instruments in cash flow hedges for designated hedged items (i.e. designated portion of its bank borrowings). There is an economic relationship between the designated hedged items and the hedging instruments as the terms of the IRS match with the terms of the bank borrowings (i.e., notional amount and expected payment dates). The Company aims to set the hedging ratio at 100% by matching the notional of the designated hedged items to the notional amount of the corresponding IRS used as the hedging instruments. To test the hedge effectiveness, the Company uses a combination of qualitative and quantitative methods. The Company uses critical terms matching method as qualitative test, and regression analysis / dollar offset methods as quantitative test under which it compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts outstanding as at 31 December 2020 and 31 December 2019. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end but are neither indicative of the market risk nor credit risk.

	At 31 December 2020		At 31 December 2019	
	Notional amount BD '000	Positive fair value BD '000	Notional amount BD '000	Positive fair value BD '000
Current				
Derivatives under FVTPL				
Commodity derivatives	-	631	-	641

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23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	<i>At 31 December 2020</i>		<i>At 31 December 2019</i>	
	<i>Notional amount BD '000</i>	<i>Negative fair value BD '000</i>	<i>Notional amount BD '000</i>	<i>Negative fair value BD '000</i>
Current				
Derivatives under FVTPL				
Commodity derivatives	-	368	-	465
Interest rate swaps	180,960	723	180,960	104
	180,960	1,091	180,960	569
Non-current				
Derivatives held as cash flow hedge				
Interest rate swaps	836,828	117,702	184,818	41,347

The above commodity derivatives have been entered into by the Group for the purpose of hedging its oil price risk, however, these have been classified as held for trading.

Commodity derivatives are in the form of futures and options traded on a recognised exchange such as the International Petroleum Exchange or the New York Mercantile Exchange. The fair value of these derivatives changes with movements in the underlying commodity price. The Group is generally obliged to make margin calls to the exchange where the fair value of the instrument is in favour of the exchange. The Group generally closes out any futures contracts prior to crystallisation.

At 31 December 2020, if the closing price for each of the Group's exchange-traded commodity derivatives had been 1 US Dollar per metric barrel lower with all other variables held constant, profit for the year would have been lower by BD 7 thousand.

The above interest rate swaps have been entered into by the Group in order to hedge the interest payments on its floating rate borrowings. These have been classified as cash flow hedges by the Group. The interest rate swaps which did not meet qualifying criteria for hedge accounting have been classified as held for trading.

The fair value of derivative financial instruments resulted in the following fair value gains and losses in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2020 and 31 December 2019 are as follows:

	2020 BD '000	2019 BD '000
<i>Recognised in the profit or loss</i>		
- Ineffective portion of cash flow hedges (note 30.2)	127	(503)
- Realised and unrealised gain/(loss) on derivative transactions (net) (note 30.2)	3,722	(5,521)
<i>Recognised in other comprehensive income</i>		
- Loss on cash flow hedges	(77,238)	(40,844)
- Share of loss gain on cash flow hedge from an associate	(7,131)	(3,303)
- Reclassified from cash flow hedge reserve to profit or loss	-	(3,036)

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

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24 LEASE LIABILITIES

The movement in the lease liabilities during the year is as follows:

	2020	2019
	BD '000	BD '000
As at 1 January 2019	123,916	85,544
Additions during the year	41,845	71,079
Remeasurement	61,921	-
Finance cost for the year*	8,894	5,670
Payments during the year	(49,702)	(38,377)
As at 31 December	186,874	123,916
Current	31,221	42,697
Non-current	155,653	81,219
As at 31 December	186,874	123,916

* Finance cost for the year includes an amount of BD 39 thousand capitalised in capital work-in-progress.

25 SHORT TERM BORROWINGS

	2020	2019
	BD '000	BD '000
Short term loans	67,764	26,388

Bapco has obtained short term loans to meet its working capital requirements. These loans are repayable within one year of the draw down. These carry interest rate of 1 month LIBOR/ BIBOR plus margin ranging from 0.75% to 2.50% per annum (2019: 1 month LIBOR/ BIBOR plus margin ranging from 0.75% to 1.50% per annum). As of 31 December 2020, the Group's undrawn committed amount under these facilities is BD 111,360 thousand (2019: 169,586 thousand).

26 INCOME TAXES PAYABLE

Banagas pays income taxes on its net profit in accordance with the Article 2 of the Bahrain Income Tax Law.

Movements in income tax payable during the year are as follows:

	2020	2019
	BD '000	BD '000
At 1 January	1,419	2,524
Charge for the year	1,629	1,919
Payments made during the year	(1,919)	(3,024)
At 31 December	1,129	1,419

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26 INCOME TAXES PAYABLE (continued)

During the year, an amount of BD 1,629 thousand (2019: BD 1,919 thousand) income tax has been provided as Banagas has earned profit. Income tax at a rate of 46% (2019: 46%) of the profit was provided during the year. Other entities within the Group are not subject to the same taxes which are applicable on entities with foreign shareholders.

There is no difference between the taxable profit and accounting profit for the years ended 31 December 2020 and 31 December 2019, hence no reconciliation is required between taxable profit and accounting profit.

No deferred tax has been recognised as there is no difference between the tax base and accounting base.

27 SALES

	2020 BD '000	2019 BD '000
Oil revenues		
- International sales	1,291,703	2,249,515
- Domestic sales	224,793	255,744
	1,516,496	2,505,259
	2020 BD '000	2019 BD '000
Gas revenues		
- Naphtha	43,977	64,843
- Propane	20,576	28,894
- Butane	20,929	26,779
	85,482	120,516
Lube based oil revenues	41,435	44,423
	1,643,413	2,670,198

Revenue from contracts with customers is measured at a transaction price agreed under the contract and the payment is due within 30 days from the invoice date depending on specific terms of the contract.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

28 COST OF MATERIALS

	2020 BD '000	2019 BD '000
Cost of crude oil consumed		
- Saudi Arabia	1,046,586	2,013,928
- Bahrain	5,039	5,340
Cost of feed gas consumed	22,272	34,513
Production overheads	15,402	19,402
Movement in petroleum inventories	57,014	(22,873)
Purchase of gasoline	93,127	50,188
	1,239,440	2,100,498

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29 OTHER INCOME

	Note	2020 BD '000	2019 BD '000
Income relating to non-associated gas *	33	83,126	62,397
Service income from Noga	33	5,573	1,059
Supply and services		5,623	5,291
Marketing fees - Abu Saafa	13 & 33	4,104	4,223
Berthing and unberthing charges		2,915	3,296
Medical services		2,801	2,646
Awali facilities		1,535	2,456
Miscellaneous income	29.1	31,114	42,535
		136,791	123,903

* Based on the new arrangement with the Government in 2019, the Group has concluded that it is acting as principal with respect to production of non-associated gas and has recognised the amounts received from the Government as other income.

29.1 During the year ended 31 December 2020, the amount included BD 12,136 thousand relating to government grants (2019: Nil). During the year ended 31 December 2019, the amount included BD 18,885 thousand as a result of settlement of legal claims.

30 STAFF COSTS AND OTHER EXPENSES

30.1 Staff costs

The employees union of Bapco had filed a legal case with respect to payments of overtime claiming that the overtime has to be calculated based on total wages instead of Bapco's practice of paying overtime based on basic salary. During the year, the court decided the case in favour of the employees. Based on the legal opinion, the management has revised the estimated maximum liability to be BD 18,534 thousand relating to years from 2012 to 2019 and this amount has been included in staff costs. During the year ended 31 December 2020, the management provided additional provisions amounting to BD 2,111 thousand. The Group is pursuing this case through further legal appeals and the management expects to make payments only when all the legal possibilities are exhausted.

30.2 Other expenses

	Note	2020 BD '000	2019 BD '000
Materials and services*		45,075	60,588
Other operating expenses		73,498	45,233
Property, plant and equipment and capital work-in-progress written-off	5 & 6	1,139	1,661
Miscellaneous expenses		3,881	4,083
Unrealised loss on derivatives at FVTPL		-	3,140
Realised and unrealised (gain)/loss on commodity derivative transactions (net)		(3,722)	2,381
Ineffectiveness on derivative instruments designated as cash flow hedges	23	(127)	503
		119,744	117,589

*Materials and services consists of primarily spare parts and services costs.

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31 FINANCE INCOME AND COSTS

31.1 Finance Income	2020 BD '000	2019 BD '000
Interest income on loan to associate	1,754	-
Interest income on deposits	2,465	13,586
	4,219	13,586
31.2 Finance Costs	2020 BD '000	2019 BD '000
Finance costs on borrowings and short term borrowings	135,051	92,621
Finance costs on lease liabilities	8,894	5,668
Transfer from cash flow hedge reserve on redesignation of cash flow hedge	-	(3,036)
Others	651	1,210
less: capitalised finance costs (note 6)	(81,971)	(39,368)
	62,625	57,095
	2020 BD '000	2019 BD '000
Interest on borrowings and short term borrowings	53,119	55,713
Interest on lease liabilities (note 24)	8,855	3,208
Transfer from cash flow hedge reserve on redesignation of cash flow hedge	-	(3,036)
Others	651	1,210
	62,625	57,095

32 DIVIDEND PAYABLE

During 2020, no dividend was declared and paid (during 2019 a final dividend of BD 0.035 per share aggregating to BD 56,550 thousand was declared and paid).

Dividend payable represents unpaid dividend of BD 56,400 thousand declared in 2016 relating to the year 2015.

33 RELATED PARTY BALANCES AND TRANSACTIONS

A related party is a party which directly, or indirectly through one or more intermediaries:

- controls the Group or has an interest in the Group that gives it significant influence over the Group;
- is a joint venture in which the Group is a venture;
- is a member of the key management personnel of the Group;
- is director of the Group or any close member of the family of any director; and
- is an entity that is controlled or significantly influenced by, or significant voting power in such entity resides with, directly or indirectly, the Group.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the directors of the Group.

A summary of the related party balances and transactions is as follows:

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33 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

a) Balances with related parties

	<i>Note</i>	2020 BD '000	2019 BD '000
<i>Due from a related party</i>			
<i>Parent</i>			
Government of the Kingdom of Bahrain		421,083	254,091
<i>Trade receivables</i>			
National Oil and Gas Authority		20,025	86,736
<i>Affiliates</i>			
Others	12	40,132	27,736
		60,157	114,472
<i>Others</i>			
<i>Parent</i>			
National Oil and Gas Authority	12	22,765	25,656
<i>Associates / joint venture</i>			
Gulf Petrochemical Industries Co. B.S.C. (c)		116	184
Others		7,942	6,179
<i>Joint operation</i>			
Bahrain Lube Base Oil Company B.S.C. (c)		4,613	3,123
<i>Amounts due to related parties</i>			
<i>Ultimate parent</i>			
Government of the Kingdom of Bahrain	22	22,749	42,650
<i>Joint Operations</i>			
Bahrain Lube Base Oil Company B.S.C. (c)		567	1,164
Others		-	-

b) Significant related party transactions

		2020 BD '000	2019 BD '000
<i>Amount due from a related party:</i>			
Balance as at 1 January		254,091	58,248
- Net movement in amounts paid to the Government		161,966	153,114
- Net movement in exploration costs paid on behalf of the Government		28,777	56,478
- Net movement in payments with respect to gas distribution network		(265)	(164)
- Net movement in amounts paid to the government from oil activities		(23,486)	(13,585)
Balance as at 31 December		421,083	254,091
<i>Parent</i>			
Amounts due to the Government	13		
- Cash movements		-	437,666
- Non-cash movements		-	798,176
Amounts due from the Government	13		
- Cash movements		-	409,456
- Non-cash movements		-	10,822
Fee income received from the Government			
- Marketing fees - Abu Saafa	33 (c) & 29	4,104	4,223
- Service income	33 (c) & 29	5,573	1,059

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33 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

b) Significant related party transactions (continued)

	<i>Note</i>	2020 BD '000	2019 BD '000
- Miscellaneous income		16,246	12,920
- Income relating to non-associated gas	29	83,126	62,397
<i>Associates / Joint Venture</i>			
Gulf Petrochemical Industries Co. B.S.C. (c)			
- Domestic sales		39	57
- Other income		112	108
<i>Others</i>			
- International sales		10,499	45,345

c) Services as an agent

The Group has entered into various agreements with the Government to carry out the following activities on behalf of the Government for which the Group charges an agreed fee / mark-up;

- Sale of crude oil from Abu Saafa field.
- Distribute gas to the end users and manage the gas distribution network.
- Carry out oil and gas exploration activities, on the Government's behalf, in the Bahrain field as approved by the Government in advance.

The Group also manages the collection accounts on behalf of the Government with respect to above gas distribution network.

Expenses on behalf of NOGA (Agent expenses)

	2020 BD '000	2019 BD '000
Operating expenses	2,673	2,096
Capital projects and development costs	8,442	66,101
	11,115	68,197

The Group invoiced the corporate customers on behalf of NOGA for GDS sales at an amount of BD 711,644 thousand (2019: BD 675,365).

d) Compensation of key management personnel

	2020 BD '000	2019 BD '000
Directors' remuneration	243	223
Compensation of other key management personnel	3,595	5,065
	3,838	5,288

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34 COMMITMENTS AND CONTINGENCIES

Capital commitments

	2020	2019
	BD '000	BD '000
Nogaholding	23,858	18,368
Bapco	702,170	1,054,760
Banagas	2,330	1,485
Banagas expansion	888	193
Tatweer	1,828	1,508
Saudi Bahrain Pipeline Company S.P.C.	-	2,601
Bapco Retail	-	11,199
	731,074	1,090,114

Others

The Group has provided a financial guarantee in the form of letter of credit through a financial institution for an associate amounting to BD 1,658 thousand with a maturity date of 28 February 2021. For all capital commitments pertaining to the Group's investment in associates and joint ventures, refer to note 8.4

As part of certain agreements, a contingent liability of BD 41,895 (2019: BD 48,544) is to be paid to the supplier if the agreement is cancelled by the Group before the end of the agreed term.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise borrowings, lease liabilities, dividend payable, short term borrowings, retention payable and a certain portion of trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has a certain portion of trade and other receivables, long-term assets, due from a related party and cash and bank balances which are derived directly from its operations. The Group also enters into derivative transactions. The Group's accounting policies in relation to derivatives are set out in note 2.

The Group is exposed to market risk (including interest / profit rate risk, currency risk and commodity price risk), credit risk and liquidity risk.

The Group's management oversees the management of these risks. The management advises on the financial risks and an appropriate financial risk governance framework for the Group. The management also ensures that financial risks are identified, measured and managed in accordance with the Group's policies and risk appetite. It is the Group's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Interest / profit rate risk

Interest / profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest / profit rates. The Group's exposure to the risk of changes in market interest / profit rates relates primarily to the Group's borrowings with floating interest / profit rates and interest/profit bearing assets.

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest / profit rate risk (continued)

The Group reviews the market analysis and expectations for interest / profit rate movements as the basis on which the Group decides to utilise floating or fixed rates for its interest / profit bearing liabilities.

The Group enters into interest rate swaps to hedge its risk of interest rate fluctuations for floating rate borrowings. As part of the risk management structure, the hedge relationships are recommended by management and approved by the Board of Directors. The effectiveness of hedges is monitored monthly by the Group. In situations of ineffectiveness, management recommends appropriate action to the Board of Directors for mitigation of risks.

The sensitivity of the profit or loss is the effect of the assumed changes in interest / profit rates on the Group's results for one year, based on the floating rate liabilities held at 31 December.

The sensitivity analysis below has been determined based on the exposure to interest / profit rates. For floating rate assets / liabilities, the analysis is prepared assuming the amount of assets / liabilities outstanding at 31 December were outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest / profit rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest / profit rates.

The following table demonstrate the sensitivity of the profit or loss to possible changes in the interest / profit rates on borrowings, with all other variables held consistent.

A reasonably possible change of 100 basis points in interest rates on bank borrowings and derivative financial instruments at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Bahraini Dinars	
	2020	2019
	BD '000	BD '000
Variable-rate instruments	(6,858)	(4,161)
Interest rate swaps	5,692	2,705
Cash flow sensitivity (net)	<u>(1,166)</u>	<u>(1,456)</u>

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest / profit rate risk (continued)

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) statement of changes in equity by BD 103,951 thousand (2019: BD 75,926 thousand).

Swaps currently in place cover approximately 83% (2019: 65%) of the variable loan principal outstanding. The fixed interest rates of the swaps range between 1% and 2.5% (2019: 2.5%), and the variable rates of the loans are between 0.3% and 1.9%. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

Effects of hedge accounting on the financial position and performance

The effects of the interest rate swaps on the Group's consolidated financial position and performance are as follows:

	Bahraini Dinars	
	2020	2019
	BD '000	BD '000
Carrying amount (non-current liabilities)	117,702	41,347
Notional amount	836,828	184,818
Maturity date	2,035	2,035
Hedge ratio	1:0.83	1:0.65
Change in fair value of outstanding hedging instruments since 1 January	76,355	41,347
Change in value of hedged item used to determine hedge effectiveness	(76,482)	(40,844)
Weighted average hedged rate for the year	2.10%	2.50%

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's financial instruments are mainly denominated in US Dollars and Bahraini Dinars. As the Bahraini Dinar is pegged to the US Dollar, balances in Bahraini Dinars are not considered to represent significant currency risk.

Commodity price risk

Commodity price risk is the risk that future profitability is affected by changes in crude and refined product prices at various commodity exchanges. The Group is exposed to commodity price risk as its selling prices are based on market prices. However the Group does not hedge against fluctuations in market prices for future sales commitments.

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Commodity price risk (continued)

Managing interest rate benchmark reform and associated risk

(i) Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

(ii) Derivatives

The Group holds interest rate swaps for risk management purposes which are designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to dollar LIBOR. The Group's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements.

(iii) Hedge accounting

The Group has evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform. The Group's hedged items and hedging instruments continue to be indexed to dollar LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

However, the Group's cash flow hedging relationships extend beyond the anticipated cessation date for dollar LIBOR. The Group expects that dollar LIBOR will be discontinued after the end of 2021. The preferred alternative reference rate will likely be the SOFR. However, there is uncertainty about when and how replacement may occur with respect to the relevant hedged items and hedging instruments. Such uncertainty may impact the hedging relationship.

The Group has measured its hedging instruments indexed to dollar LIBOR using available quoted market rates for LIBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in the present value of hedged cash flows attributable to changes in dollar LIBOR on a similar basis.

The Group's exposure to dollar LIBOR designated in hedging relationships is BD 836,828 thousand (2019: BD 184,818 thousand) nominal amount at 31 December 2020, representing both the nominal amount of the hedging interest rate swap and the principal amount of the hedged dollar-denominated secured bank loan liability maturing in April 2035.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customers contract, leading to a financial loss.

The Group is exposed to credit risk on its bank balances, long-term assets, trade and other receivables and amount due from a related party.

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Bank balances are placed with reputable banks having good credit ratings. The Group manages credit risk with respect to receivables from customers by obtaining advances, letters of credit, by granting credit terms and by monitoring the exposure to customers on an ongoing basis. At 31 December 2020, the Group has 5 customers that accounted for approximately 33% (2019: 49%) of all trade receivables excluding those receivables from a related party.

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL.

The maximum credit risk exposure at 31 December 2020 is equal to the carrying value of the financial assets shown in the consolidated statement of financial position, which are net of provisions for impairment and write-offs.

Amounts due from a related party represents amounts due from the Government of Kingdom of Bahrain and it relates to transactions arising in the normal course of business. The credit risk on amounts due from a related party and other receivables are perceived to be minimal by the Group. Derivative contracts are entered into with counter parties with good credit ratings and are not subject to significant credit risk.

Bank deposits and term deposits are limited to high-credit-quality financial institutions ranging between A1 and B2 based on Moody's ratings.

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at or close to its fair value.

The Group limited its liquidity risk by ensuring that adequate funds are made available by monthly cash call requests through the Government of Kingdom of Bahrain till 28 February 2019. Subsequently, the Group manages its liquidity by maintaining a balance between continuity of funds and flexibility through the use of borrowings. The Group's terms of sales normally require the amounts to be paid within 30 days of the date of sales. Trade payables are normally settled within 30 days from the date of receipt of the supplier's invoice.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest / profit rates. For balances due within 12 months, the undiscounting values approximate their carrying amounts as the impact of discounting is not significant.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
31 December 2020	BD '000	BD '000	BD '000	BD '000	BD '000
Trade payables	147,263	6,846	-	-	154,109
Payables to contractors	66,304	-	-	-	66,304
Accrual and other payables	143,082	-	-	-	143,082
Due to Government					-
of the Kingdom of Bahrain	452	-	11,604	10,693	22,749
Interest payable on borrowings	-	16,823	-	-	16,823
Short term borrowings	67,764	-	-	-	67,764
Borrowings	-	159,309	2,694,803	128,211	2,982,323
Dividend payable	56,400	-	-	-	56,400
Lease liabilities	11,722	74,581	81,052	52,823	220,178
Derivative financial instruments	-	17,151	72,894	29,930	119,975
Total	492,987	274,710	2,860,353	221,657	3,849,707

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	<i>Less than 3 months</i>	<i>3 to 12 months BD '000</i>	<i>1 to 5 years BD '000</i>	<i>More than 5 years BD '000</i>	<i>Total BD '000</i>
31 December 2019					
Trade payables	198,981	-	-	-	198,981
Retention payable	1,856	-	-	-	1,856
Payables to contractors	139,339	-	-	-	139,339
Accrual and other payables	167,186	-	-	-	167,186
Due to Government					
of the Kingdom of Bahrain	18,106	2,615	11,604	10,325	42,650
Interest payable on borrowings	2,635	12,185	-	-	14,820
Short term borrowings	29,582	-	-	-	29,582
Borrowings	7,061	112,644	1,419,730	890,973	2,430,408
Dividend payable	56,400	-	-	-	56,400
Lease liabilities	12,661	35,844	87,893	-	136,398
Derivative financial instruments	569	-	-	41,347	41,916
Total	634,376	163,288	1,519,227	942,645	3,259,536

<i>Changes in liabilities arising from financing activities</i>	<i>As at 1 January 2020 BD '000</i>	<i>Cash flows payments BD '000</i>	<i>Cash flows receipts BD '000</i>	<i>Others* BD '000</i>	<i>As at 31 December 2020 BD '000</i>
2020					
Lease liabilities	123,916	(49,702)	-	112,660	186,874
Short term borrowings	26,388	(732,138)	773,514	-	67,764
Borrowings	1,708,885	(179,117)	631,460	-	2,161,228
Derivatives	41,916	-	-	78,059	119,975
	1,901,105	(960,957)	1,404,974	190,719	2,535,841

<i>Changes in liabilities arising from financing activities</i>	<i>As at 1 January 2019 BD '000</i>	<i>Cash flows payments BD '000</i>	<i>Cash flows receipts BD '000</i>	<i>Others* BD '000</i>	<i>As at 31 December 2019 BD '000</i>
2019					
Lease liabilities	85,545	(38,377)	-	76,748	123,916
Short term borrowings	-	-	26,388	-	26,388
Borrowings	1,153,511	(257,688)	813,062	-	1,708,885
Derivatives	-	-	-	41,916	41,916
	1,239,056	(296,065)	839,450	118,664	1,901,105

* Other changes include accrued interest expenses and fair value changes which will be presented as operating cash flows in the consolidated statement of cash flows when paid.

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to the shareholder. No changes were made in the objectives, policies or processes during the years ended 31 December 2020 and 31 December 2019.

Equity attributable to the shareholder of the parent comprises share capital, capital adjustment account, contribution from the shareholder, sinking fund reserve, statutory reserve, cash flow hedge reserve and accumulated deficit and is measured at BD 1,211,261 thousand (2019: BD 1,345,163 thousand).

The Board of Directors is responsible to set out risk management policies and guidelines.

Summary of net debt:

This section sets out an analysis of net debt:

	Bahraini Dinars	
	2020	2019
	BD '000	BD '000
Cash and bank balances	269,977	482,709
Borrowings	1,981,446	1,528,458
Short-term borrowings	67,764	26,388
Lease liabilities	186,874	123,916
Derivative liabilities	118,793	41,916
Net debt	2,624,854	2,203,387
Cash and liquid investments	269,977	482,709
Gross debt – fixed interest rates	1,981,446	1,528,458
Gross debt – variable interest rates	254,638	150,304
Derivative financial instruments – variable to fixed interest rates	118,793	41,916
Net debt	2,624,854	2,203,387

36 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and derivative financial instruments.

Financial assets consist of cash and bank balances, long-term assets, trade and other receivables, amounts due from a related party and derivatives. Financial liabilities consist of trade and other payables, borrowings, short term borrowings, dividend payable, lease liabilities and derivatives.

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36 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2020, the Group's derivative financial instruments, consisting of interest rate swaps and commodity derivatives are measured at fair value. These are level 1 and 2 as per the hierarchy mentioned in note 2 for the years ended 31 December 2020 and 31 December 2019 as shown below:

	<i>Date of valuation BD '000</i>	<i>Quoted prices in active markets (Level 1) BD '000</i>	<i>Significant observable inputs (Level 2) BD '000</i>	<i>Significant unobservable inputs (Level 3) BD '000</i>	<i>Total BD '000</i>
Asset					
<i>Derivative financial instruments</i>	31 December 2020	631	-	-	631
	31 December 2019	641	-	-	641
Liability					
<i>Derivative financial instruments</i>	31 December 2020	1,091	117,702	-	118,793
	31 December 2019	569	41,347	-	41,916

Transfers between level 1, level 2 and level 3

During the reporting year ended 31 December 2020 and 31 December 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Fair value of financial instruments not carried at fair value

The fair value of financial instruments which are not carried at fair value are not materially different from their carrying value.

37 OPERATING SEGMENT

The Group's senior executive management comprising of the Chief Executive and senior management (heads of departments) examine the Group's performance based on the performance of its subsidiaries and affiliates and their activities. The Group has identified following three operating segments of its business:

- Oil based assets and revenues: this represents Tatweer, Bapco and Bapco Retail which are operating the Bahrain Oil Field and Bahrain Refinery and marketing of refined petroleum products.
- Gas based assets and revenues: this comprises of Banagas and Banagas Expansion which are involved in processing and marketing of hydrocarbon liquids from associated and refinery off gas.
- Others: this comprises of remaining part of the Group.

All of the Group's assets and operations are located in the Kingdom of Bahrain.

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37 OPERATING SEGMENT (continued)

The Group's senior executive management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net profit or loss and is measured consistently with net profit or loss in the consolidated financial statements.

31 December 2020	Oil based assets and revenues BD '000	Gas based assets and revenues BD '000	Others BD '000	Eliminations BD '000	Total BD '000
Sales	1,557,599	85,482	332	-	1,643,413
Cost of materials	(1,201,766)	(37,674)	-	-	(1,239,440)
Other income	136,781	1,791	-	(1,781)	136,791
Staff costs	(104,380)	(7,165)	-	-	(111,544)
Maintenance and other expenses	(99,741)	(4,403)	(68)	1,781	(102,431)
Impairment for doubtful trade and other receivables	(1,848)	-	-	-	(1,848)
Other expenses	(119,639)	(105)	-	-	(119,744)
Depreciation	(175,408)	(18,635)	(38)	-	(194,081)
Finance income	3,871	322	26	-	4,219
Finance costs	(53,430)	(9,192)	(3)	-	(62,625)
Share of profit from associates	(57)	-	-	-	(57)
(Loss)/profit before income tax	(58,018)	10,421	249	-	(47,347)
Income tax expense	-	(1,629)	-	-	(1,629)
Net (loss)/profit for the year	(58,018)	8,792	249	-	(48,976)
Segment assets	3,736,517	339,176	14,776	(34,705)	4,055,764
Segment liabilities	2,571,933	266,300	13,139	(12,259)	2,839,113
As at 31 December 2020					
Other disclosures					
Investment in associates and joint venture	90,885	-	-	-	90,885
Provision for doubtful trade and other receivables	(29,212)	-	-	-	(29,212)

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37 OPERATING SEGMENT (continued)

	<i>Oil based assets and revenues BD '000</i>	<i>Gas based assets and revenues BD '000</i>	<i>Others BD '000</i>	<i>Eliminations BD '000</i>	<i>Total BD '000</i>
<u>31 December 2019</u>					
Sales	2,549,048	120,516	634	-	2,670,198
Cost of materials	(2,048,964)	(53,915)	-	-	(2,102,879)
Other income	123,785	2,209	-	(2,091)	123,903
Staff costs	(95,489)	(8,405)	-	-	(103,894)
Maintenance and other expenses	(106,987)	(5,428)	-	-	(112,415)
Impairment for doubtful trade and other receivables	(6,447)	-	-	-	(6,447)
Other expenses	(117,226)	-	(73)	2,091	(115,208)
Depreciation	(132,634)	(17,848)	(75)	-	(150,557)
Finance income	12,386	1,173	27	-	13,586
Finance costs	(46,459)	(10,628)	(8)	-	(57,095)
Share of profit from associates	8,633	-	-	-	8,633
Profit before income tax	139,646	27,674	505	-	167,825
Income tax expense	-	(1,919)	-	-	(1,919)
Net profit for the period	<u>139,646</u>	<u>25,755</u>	<u>505</u>	<u>-</u>	<u>165,906</u>
Segment assets	<u>3,436,673</u>	<u>332,802</u>	<u>18,473</u>	<u>(68,538)</u>	<u>3,719,410</u>
Segment liabilities	<u>2,131,335</u>	<u>234,831</u>	<u>12,613</u>	<u>(10,919)</u>	<u>2,367,860</u>
<u>As at 31 December 2019</u>					
Other disclosures					
Investment in associates and joint venture	<u>97,529</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,529</u>
Impairment for doubtful trade and other receivables	<u>(27,364)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,364)</u>

Geographic information

The operations and all of the assets of the Group are located in only one geographic location, Kingdom of Bahrain. The revenue of the Group comprise of both local and international sales which are global and not concentrated to a specific country. None of the revenue from single customer exceeded 10% of the Group's consolidated revenue.

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38 COVID-19 IMPACT

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. The Group has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for people (such as social distancing and working from home) and securing the supply of materials that are essential to our production process. At this stage, the impact on the Group's business and results has not been significant.

Given that the situation of the COVID-19 pandemic is uncertain and is still evolving, the management will continue to follow the various government policies and advice and, in parallel, the management will do its utmost to continue operations in the best and safest way possible without jeopardising the health of the Group's employees.

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilise economic conditions. The Government of the Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group has received certain benefits from these packages mainly in the form of partial waiver of Electricity and Water Authority utility bills, reimbursement of salaries of national employees from the Unemployment Fund and exemption of government-owned industrial rental fees for three months from April 2020 to June 2020. The financial impact of these Packages have been included as "Other income".

The management and the Board of Directors ("BOD") have been closely monitoring the potential impact of the Covid-19 developments on the Group's operations and financial position; including impact on asset valuations, review of onerous contracts and debt covenants etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements. Furthermore, during 2020 crude oil prices have also shown a positive turnaround as compared to early in the year. Based on their overall assessment, the BOD is of the view that the Group will continue as a going concern entity for the next 12 months from the date of these consolidated financial statements.