

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

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

31 DECEMBER 2019

CHAIRMAN'S REPORT

For the year ended 31 December 2019

On behalf of the Board of Directors, it is with great pleasure that I present the 2019 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 implementation of long-term strategy is a challenge, which comes under the greatest strain. Despite this, nogaholding portfolio companies once again delivered a strong performance in 2019, steadfastly adhering to their strategy in the face of global economic downturn experienced for the past few years.

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.

The performance of the nogaholding group of companies was robust 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:

- ❖ As part of the Bapco Modernization Project ("BMP") and its related financing arrangements, the Bahrain Petroleum Company B.S.C (c) ("BAPCO") underwent significant changes to the way it operated. BAPCO ceased its cash call mechanism with the Government and commenced operating as a financially independent company with effect from March 2019.

BMP Financial Close was achieved on 9 May 2019. Overall, the financing was 64% oversubscribed with responses totalling US\$6.9 billion over the target debt amount of US\$4.2 billion. The strong response allowed bank pricing to be improved by 20 to 25 bps over the responses initially received. A total of 5 Export Credit Agencies and 21 banks participated in the BMP financing.

Further, nogaholding, as parent of BAPCO, injected equity in the form of cash, and payments made on behalf of BAPCO to EPC contractors; which were made from proceeds received through its Global Medium Term Note ("GMTN") Program. Those payments were converted to contribution from the shareholder along with additional cash injections, totalling to US\$ 1,136 million.

- ❖ During the year, 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. This facility replaced the old Murabaha facility of 2016. The refinancing is in line with the Company's liability management objectives, by extending the debt maturity profile, improving the margins and completing Company's funding requirements in support of ongoing commitments of the group.
- ❖ On 24 October 2019, the Government of Bahrain transferred its interest in Arab Ship building and Repair Yard Co. B.S.C.(c) ("ASRY"), which was held by it through Bahrain Mumtalakat Holding B.S.C.(c) ("Mumtalakat"), to nogaholding. As a result, nogaholding received a majority economic interest in ASRY, and on the same date transferred a portion of its ownership in ASRY to third party shareholders.

Further, as part of debt restructuring, ASRY signed a restructured facility agreement with the lenders on 3 February 2020 (with effect from 31 December 2019) resulting in a reduction of US\$ 45 million from its debt portfolio.

CHAIRMAN'S REPORT (continued)
For the year ended 31 December 2019

- ❖ The strategic Bahrain LNG Import Terminal project was commissioned during 2019. This is another major milestone that will ultimately give the country the security of supply, which it needs to meet the growth in demand for natural gas for large industrial projects, power and water generation, and enhanced oil recovery.
- ❖ The year 2019 was a special year for Bahrain National Gas Expansion Company S.P.C. ("Tawseah"). It was the first full operation year for the new Central Gas Processing ("CGP") Train – III and the additional pipeline and storage facilities, which was commissioned towards the end of 2018. Summer Performance test completed in July & August 2019 and all the design and operational parameters were met. With those successfully on stream, the processing capacity as well as the recoverable products volumes almost doubled, as planned. Tawseah started to receive increased revenues in 2019 that enabled the company to meet its first instalment obligations and to make a dividend.

At this stage, I would also like to address the challenge faced by nogaholding and its portfolio companies with regards to COVID – 19. nogaholding has established and is leading a group-wide crisis management committee to oversee the measures adopted by all operating companies to minimize the impact of COVID-19. The Committee holds regular discussions to develop group-wide policies and provide information to operating companies regarding COVID-19 awareness, prevention, management, and hygiene practices.

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. The portfolio companies were operated with high reliability and an exceptional level of safety performance was delivered. This was demonstrated by a number of awards for safety, health and environmental performance that were presented to the companies during the year.

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 2019 and I wish the company another successful year in 2020.

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 consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of The Oil and Gas Holding Company B.S.C. (c) (the "Company" or "Nogaholding") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated statements of profit or loss and other comprehensive income, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the consolidated financial statements*' section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
THE OIL AND GAS HOLDING COMPANY B.S.C. (c) (continued)**

Report on the consolidated financial statements (continued)

Key audit matter (continued)

Estimation of oil and gas reserves and its impact on impairment testing and depreciation and amortisation charges

Description of key audit matter	How the key audit matter was addressed in the audit
The estimation of oil and gas reserves is a significant area of judgement due to the technical uncertainty in assessing quantities of proven reserves. Reserves are also a fundamental indicator of the future potential of the Group's performance as the depreciation is calculated based on units of production method, therefore, any changes in estimates of reserve impact the depreciation charges. Further, significant reduction in proven reserves are also considered as an indicator of impairment.	We performed the following audit procedures on estimation of oil and gas reserves: - We tested the Group's controls over internal certification process for technical and commercial experts who are responsible for reserves estimation. - We assessed the competence and objectivity of the experts, to satisfy ourselves they were appropriately qualified to carry out the reserves estimation. - We checked that impact of changes in reserves is accounted for in the appropriate period. - We obtained and reviewed the external third party report on valuation of reserves and validated that the updated reserves estimates were included appropriately in the Group's consideration of impairment assessment and in calculations of depreciation. - Refer to the significant accounting judgements, estimates and assumptions applied in calculation of depreciation in note 3 to the consolidated financial statements.

Other information

Other information consists of the Chairman's report, set out on page 1 to 2 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF THE OIL AND GAS HOLDING COMPANY B.S.C. (c) (continued)

Report on the consolidated financial statements (continued)

Other information (continued)

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

Responsibilities of the 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 IFRSs, 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.

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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF THE OIL AND GAS HOLDING COMPANY B.S.C. (c) (continued)

Report on the consolidated financial statements (continued)

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

- 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.
- 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 the Board of Directors 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 the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, 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.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF
THE OIL AND GAS HOLDING COMPANY B.S.C. (c) (continued)**

Report on other legal and regulatory requirements

We report that:

- i) as required by the Bahrain Commercial Companies Law;
 - a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
 - b) the financial information contained in the Chairman's report is consistent with the consolidated financial statements; and
 - c) we are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association during the year ended 31 December 2019 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.
 - d) satisfactory explanations and information have been provided to us by management in response to all our requests; and
- ii) As required by the Ministry of Industry, Commerce and Tourism in their 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:
 - a) has appointed a Corporate Governance Officer; and
 - b) written guidance and procedures for corporate governance have not been presented to the Board of Directors for approval by the management as of the date of approval of these consolidated financial statements.

The partner in charge of the audit resulting in this independent auditor's report is Ashwani Siotia.



Auditor's Registration No. 117
14 May 2020
Manama, Kingdom of Bahrain

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019

	Note	2019 BD '000	2018 BD '000
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,064,602	986,265
Capital work-in-progress	6	907,846	454,018
Right-of-use assets	7	124,224	-
Investments in associates and joint venture	8	97,529	69,753
Long-term assets	9	24,418	24,993
Derivative financial instruments	23	-	3,036
Restricted cash and bank balances	10	127,348	13,412
Trade and other receivables	12	16,736	-
		2,362,703	1,551,477
Current assets			
Inventories	11	235,054	204,193
Trade and other receivables	12	384,212	480,131
Due from a related party	13	254,091	815,564
Derivative financial instruments	23	641	2,720
Cash and bank balances	14	482,709	809,516
		1,356,707	2,312,124
TOTAL ASSETS		3,719,410	3,863,601
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	438,271
Sinking fund reserve	16	160,125	160,125
Statutory reserve	17	334,219	334,219
Cash flow hedge reserve		(43,232)	3,951
(Accumulated deficit)/ retained earnings		(307,653)	381,473
Equity attributable to the shareholder of the Parent		1,345,163	2,080,830
Non-controlling interests	18	6,387	9,555
Total equity		1,351,550	2,090,385


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


H.E. Shaikh Salman bin Khalifa Al Khalifa
Chairman of the Audit Committee and
member of the Board of Directors


James Eastlack
Acting Chief Executive

The attached notes 1 to 39 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 2019

	Note	2019 BD '000	2018 BD '000
Liabilities			
Non-current liabilities			
Borrowings	19	1,499,728	1,120,635
Employees' end of service benefits	20	21,310	18,864
Trade and other payables	22	21,929	-
Derivative financial instruments	23	41,347	-
Lease liabilities	24	81,219	-
		<u>1,665,533</u>	<u>1,139,499</u>
Current liabilities			
Borrowings	19	28,730	32,461
Trade and other payables	22	544,268	533,375
Lease liabilities	24	42,697	-
Dividend payable	32	56,400	56,400
Short term borrowings	25	26,388	-
Income taxes payable	26	1,419	2,524
Retention payable		1,856	8,957
Derivative financial instruments	23	569	-
		<u>702,327</u>	<u>633,717</u>
Total liabilities		<u>2,367,860</u>	<u>1,773,216</u>
TOTAL EQUITY AND LIABILITIES		<u>3,719,410</u>	<u>3,863,601</u>


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


H.E. Shaikh Salman bin Khalifa Al Khalifa
Chairman of the Audit Committee and
member of the Board of Directors


James Eastlack
Acting Chief Executive

The attached notes 1 to 39 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

For the year ended 31 December 2019

	Note	2019 BD '000	2018 BD '000
Sales	27	2,670,198	2,857,389
Cost of materials	28	(2,102,879)	(2,275,386)
		567,319	582,003
Other income	29	123,903	66,516
Staff costs	30	(103,894)	(90,402)
Maintenance and other expenses		(112,415)	(97,211)
Other expenses	30	(121,655)	(171,098)
Depreciation	5	(150,557)	(156,421)
Operating profit		202,701	133,387
Finance income		13,586	9,467
Finance costs	31	(57,095)	(45,907)
Share of profit from associates and joint venture - net	8	8,633	11,578
Profit before income tax		167,825	108,525
Income tax expense	26	(1,919)	(4,024)
Net profit for the year		165,906	104,501
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
(Loss) / gain on cash flow hedges	23	(40,844)	1,339
Share of (loss) gain on cash flow hedge from an associate	8	(3,303)	72
Reclassified from cash flow hedge reserve to profit or loss		(3,036)	-
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial (loss) / gain arising on defined benefit retirement scheme	20	(379)	438
Share of actuarial (loss) gain from associates	8	(206)	204
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		118,138	106,554


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

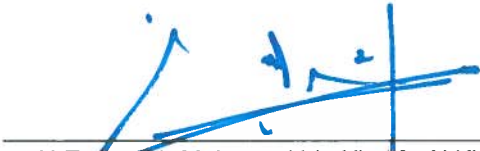

H.E. Shaikh Salman bin Khalifa Al Khalifa
Chairman of the Audit Committee and member
of the Board of Directors


James Eastlack
Acting Chief Executive

The attached notes 1 to 39 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 2019

	Note	2019 BD '000	2018 BD '000
Net profit for the year attributable to:			
Shareholder of the parent		165,324	103,037
Non-controlling interests	18	582	1,464
		<u>165,906</u>	<u>104,501</u>
Total comprehensive income attributable to:			
Shareholder of the parent		117,556	105,090
Non-controlling interests	18	582	1,464
		<u>118,138</u>	<u>106,554</u>


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


H.E. Shaikh Salman bin Khalifa Al Khalifa
Chairman of the Audit Committee and member
of the Board of Directors


James Eastlack
Acting Chief Executive

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

		2019	2018
	<i>Note</i>	<i>BD '000</i>	<i>BD '000</i>
OPERATING ACTIVITIES			
Net profit before tax for the year		167,825	108,525
Adjustments for:			
Depreciation	5		
Property, plant and equipment		128,432	156,421
Right-of-use assets		22,125	-
Bahrain crude oil purchases	13	861	4,319
Fees from gas field operations	13	-	(112)
Finance income		(13,586)	(9,467)
Finance costs	31	57,095	45,907
Share of profit from associates and joint venture - net	8	(8,633)	(11,578)
Loss on acquisition of a joint venture and a subsidiary	30	-	551
Property, plant and equipment and capital work-in-progress written-off	30	1,661	3,730
Provision for slow-moving inventories	11	3,438	513
Provision for doubtful trade and other receivables	12	6,447	16,033
Provision for employees' end of service benefits	20	3,411	2,830
Fair valuation (gain) loss on derivatives, net		2,381	(644)
Working capital changes:			
Inventories		(34,299)	(385)
Trade and other receivables		(16,115)	(131,088)
Trade and other payables		27,663	195,040
Retention payable		(7,101)	2,109
Net cash flows from operations		341,605	382,704
Employees' end of service benefits paid	20	(1,344)	(706)
Income tax paid	26	(3,024)	(2,427)
Net cash flows from operating activities		337,237	379,571
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(44,934)	(81,105)
Additions to capital work-in-progress		(568,510)	(316,391)
Additions in associate		(29,824)	-
Consideration received on disposal of an associate	8	-	-
Dividends received from associates	8	7,540	3,774
Movement in long-term assets		575	(1,201)
Movement in restricted cash		(113,936)	(2,814)
Finance income received		13,586	9,467
Net cash flows used in investing activities		(735,503)	(388,270)
FINANCING ACTIVITIES			
Net movements in amounts due from a related party		(167,633)	(134,988)
Proceeds from borrowings		839,450	538,516
Repayment of borrowings		(257,688)	(5,655)
Finance and transaction costs paid		(247,732)	(38,283)
Movement in shareholders current accounts of Bafco	18	-	(24)
Dividends paid	32	(56,550)	-
Repayment of lease		(38,377)	-
Net cash from financing activities		71,470	359,566
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(326,796)	350,867
Cash and cash equivalents at 1 January		809,516	458,649
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	14	482,720	809,516

Non cash items:

1) Refer note 13 for non-cash items excluded from the movement in amounts due from a related party

The attached notes 1 to 39 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 2019

	Equity attributable to 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	Accumulated deficit / retained earnings* BD '000	Non- controlling interests BD '000	Total BD '000
At 1 January 2019	1,184,400	(421,609)	438,271	160,125	334,219	3,951	381,473	9,555	2,090,385
Net profit for the year	-	-	-	-	-	-	165,324	582	165,906
Other comprehensive income	-	-	-	-	-	(47,183)	(585)	-	(47,768)
Total comprehensive income	-	-	-	-	-	(47,183)	164,739	582	118,138
Transfer to statutory reserve (note 17)	-	-	-	-	-	-	-	-	-
Dividends proposed and paid (note 32)	-	-	-	-	-	-	(56,550)	(3,750)	(60,300)
Amount due from related party	-	-	-	-	-	-	(797,315)	-	(797,315)
set-off against retained earnings (note 13)	-	-	-	-	-	-	-	-	642
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)	6,387	1,351,550

* Accumulated deficit / retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to BD 144,420 thousand (2018: BD 144,300 thousand).

The Oil and Gas Holding Company B.S.C. (c)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2019

	Equity attributable to equity shareholder of the parent									
	Share capital BD '000	Capital adjustment account BD '000	Contribution from shareholder BD '000	Sinking fund reserve BD '000	Statutory reserve BD '000	Cash flow hedge reserve BD '000	Retained earnings* BD '000	Total BD '000	Non- controlling interests BD '000	Total BD '000
At 1 January 2018	1,184,400	(421,609)	346,762	160,125	323,915	2,540	288,098	1,884,231	8,115	1,892,346
Net profit for the year	-	-	-	-	-	-	103,037	103,037	1,464	104,501
Other comprehensive income	-	-	-	-	-	1,411	642	2,053	-	2,053
Total comprehensive income	-	-	-	-	-	1,411	103,679	105,090	1,464	106,554
Movement in non-controlling interest: shareholders current accounts of Bafco (note 18)	-	-	-	-	-	-	-	-	(24)	(24)
Transfer to statutory reserve (note 17)	-	-	-	-	10,304	-	(10,304)	-	-	-
Contribution in kind (note 4)	-	-	91,509	-	-	-	-	91,509	-	91,509
At 31 December 2018	1,184,400	(421,609)	438,271	160,125	334,219	3,951	381,473	2,080,830	9,555	2,090,385

* Accumulated deficit / retained earnings include non-distributable reserves arising from consolidation of subsidiaries amounting to BD 144,420 thousand (2018: BD 144,300 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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").

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 operations and joint operations:

Name of the entity	Country of incorporation	Ownership interest		Year end	Principal activity
		2019	2018		
<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)

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1 ACTIVITIES (continued)

Name of the entity	Country of incorporation	Ownership interest		Year end	Principal activity
		2019	2018		
<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%	-	31 December	Domestic sales of refined petroleum products in the Kingdom of Bahrain
<u>Associates / joint venture</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%	-	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.
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 the year, 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 purpose.

The consolidated financial statements were approved by the Board of Directors on 9 April 2020 and authorised for issuance on 14 May 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 signed debt financing facilities agreements (hereinafter referred to as "project debt finance arrangement") amounting to US\$ 4.1 billion (BD 1.5 billion) which comprises of 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. Subsequently to the approval by the Board of Directors and a notification was sent to the Ministry of finance for the same.

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") as issued by the International Accounting Standards Board ("IASB") and in conformity with the Bahrain Commercial Companies Law.

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 2019

The Company accounting policies are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2019.

IFRS 16 Leases (IFRS 16)

IFRS 16 supersedes IAS 17 Leases (IAS 17), IFRIC 4 Determining whether an Arrangement contains a Lease (IFRIC 4), SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations effective as of 1 January 2019 (continued)

IFRS 16 Leases (IFRS 16) (continued)

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using a modified retrospective method of adoption with the date of initial application of 1 January 2019, and accordingly, the comparative information is not restated. Under this method, IFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Group has lease contracts for buildings, machinery and other assets. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. Refer below for the accounting policy of leases prior to 1 January 2019.

Refer below for the accounting policy of leases beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use asset and lease liability for those leases previously classified as operating leases, except for short term leases and leases of low-value assets. The right-of-use assets for leases and lease liabilities were recognised based on the present value of remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effect of adoption of IFRS 16 as at 1 January 2019 is as follows:

	2019 BD '000
Assets	
Right-of-use assets (note 7)	90,609
Liabilities	
Lease liabilities	90,609
Less: prepaid expenses as of 1 January 2019	(5,065)
Net lease liabilities (note 24)	85,544

The Oil and Gas Holding Company B.S.C. (c)
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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations effective as of 1 January 2019 (continued)

IFRS 16 Leases (IFRS 16) (continued)

Leases previously accounted for as operating leases (continued)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	2019 BD '000
Operating lease commitments as at 31 December 2018	103,169
Weighted average incremental borrowing rate as at 1 January 2019	5.26%
Discounted operating lease commitments as at 1 January 2019	90,738
Less: short term leases	(129)
Lease liabilities as at 1 January 2019	90,609

Several other new standards and amendments apply for the first time in 2019. However, they do not have significant impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group reasonably expects these standards issued to be applicable at a future date. The Group intends to adopt these standards, if applicable, when they become effective:

Amendments to IFRS 3: Definition of a business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2020, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. These amendments are effective for reporting periods beginning on or after 1 January 2020, with early application permitted. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements made on the basis of those financial statements, which provide financial information about a specific reporting entity.'

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (continued)

As a result of interest rate benchmark reform, there may be uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

These amendments are effective for reporting periods beginning on or after 1 January 2020, with early application permitted. The Company is currently assessing the impact of this standard and will apply from the effective date.

Other amendments resulting from new standards and interpretations and amendments to standards and interpretation will not have any impact on the accounting policies, consolidated financial position or consolidated financial performance of the Group, therefore, have not been disclosed in the consolidated financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. 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.

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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity shareholder of the Parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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 the Parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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 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.

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 by the Group.

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

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

All assets and liabilities for which fair value is measured or disclosed in the 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 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 cost, less accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognised in the 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 lives of the assets as follows:

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 and capital work-in-progress are 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 written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the profit or loss as the expense is incurred.

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 the 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 put to commercial use.

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.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. 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.

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates or joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in associates or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as being difference between the fair value of the associates and the acquisition cost and recognises the amount in the profit or loss.

Joint operations

A joint operation is a type of 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. In relation to its interests in joint operations, 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 Company, 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 profit or loss.

Inventories

Inventories are stated at the lower of cost or net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, and are determined as follows:

Inventory categories

Valuation basis

Refined finished products	Cost of production consisting of cost of purchased crude oil and an appropriate allocation of over heads and refining expenses.
Work-in-process	Valued at the cost of production based on the percentage of completion 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 after an allowance of obsolescence.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (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. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed 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 project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the profit or loss in expense categories consistent with the function of the impaired asset.

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 the 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 financial assets 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 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, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

a) Initial recognition (continued)

In order for a financial asset 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.

b) Subsequent measurement

For purposes of subsequent measurement, all of the financial assets of the Group, except for derivative financial instruments, are classified in amortised cost category. This category is the most relevant to the Group. 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 receivables and due from a related party.

c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

The Oil and Gas Holding Company B.S.C. (c)
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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

i) Financial assets (continued)

c) Derecognition (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

d) Impairment of financial assets

The Group applies a simplified approach in calculating ECLs for trade receivables and other assets. 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 receivables are provided in note 12.

ii) Financial liabilities

a) Initial recognition

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

All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and employees' end of service benefits.

b) Subsequent measurement

The Group recognised all of its financial liabilities at amortised cost. This is the category most relevant to the Group. After initial recognition, financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the profit or loss, if any.

c) 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 in the respective carrying amounts is recognised in the profit or loss.

Offsetting of financial instruments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Amortised cost of financial instruments

Amortised cost is computed using the EIR / EPR method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the EIR / EPR.

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 the profit or loss net of any reimbursement.

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.

The Group enters into derivative transactions with various counterparties. These include interest rate swaps. 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 highly probable future cash flows attributable to a recognised asset or liability (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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the 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 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. Actuarial gains and losses are recognised as income or expense where material.

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.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Leases

Leases (applicable prior to 1 January 2019)

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date; whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the lease term.

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Leases (applicable from to 1 January 2019)

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 comprising fees and borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use, are included in the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not owned by the Group and are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity.

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.

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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 this section 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 when control of the product is transferred to the customer, which is generally when the product is physically transferred into a vessel or tanker or at a specified location and the customer accepts the product. 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 transaction price is fixed at the time of delivery and 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 when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods at rates 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 sales.

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 yield method.

e) Other income

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

Principal vs agent considerations

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

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 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 commission on providing such services, which is recognised as other income.

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Principal vs agent considerations (continued)

ii) Service income

The Group has a services 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 and producing 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. 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.

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.

Transactions and balances

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

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 the consolidated statement of profit or loss and other comprehensive income.

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).

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

31 December 2019

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 their consolidated statements of profit or loss 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 other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

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:

Going concern

The Group's management 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 management 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. Also refer note 38.

Operating lease - the Group as lessee (prior to 1 January 2019)

The Group has entered into a commercial lease in respect of the Group's premises. The Group has determined, based on an evaluation of the terms and conditions of the arrangement, that the lessor retains all the significant risks and rewards of ownership of the premises and so accounts for the contract as an operating lease.

Determining the lease term of contracts with renewal and termination options – the Group as lessee (from 1 January 2019)

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.

31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

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.

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.

Principal vs agent considerations

a) Gas distribution and petroleum related services

The Group has entered into different contracts with the Government relating to gas distribution and petroleum related services. Under these contracts, the Group provides among others exploration, appraisal, development and delivery of petroleum from the Bahrain field and operating and maintenance of the gas distribution network. The Group determined that it does not control the goods before they are transferred to end users, and it does not have the ability to direct the use of the assets or obtain benefits from the assets used in such activities. The following factors indicate that the Group does not control the goods before they are being transferred to customers. Therefore, the Group determined that it is an agent in these contracts.

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

In addition, the Group concluded that it transfers control over its services over time as the services are provided.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

Principal vs agent considerations (continued)

b) Non-associated gas revenue stream

As part of above agreements, the Group is also required to provide services relating to production of non-associated gas. The management has assessed that the Group is responsible for the production up to the delivery point of non-associated gas and has control over non-associated gas up to the delivery point. Accordingly, the management has concluded that it is acting as principal with respect to production of non-associated gas and related revenue stream. 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.

Consolidation

The determination of whether an investment is 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 board or management of the 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:

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 2019 and 31 December 2018.

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.

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.

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

31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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 amortization 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, together with the amounts recognised in the profit or loss and depreciation is contained in Note 5.

Useful lives of property, plant and equipment

The Group's management 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.

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 2019, gross inventories were BD 249,291 thousand (2018: BD 216,619 thousand) against which provisions for old and obsolete inventories made amounted to BD 14,237 thousand (2018: BD 12,426 thousand).

Provision for ECL of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. 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 in the consumer sector, 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 2019, gross trade receivables were BD 360,790 thousand (2018: BD 355,030 thousand) against which provisions for ECL made amounted to BD 27,364 thousand (2018: BD 23,400 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived 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.

Employees' defined benefit retirement scheme

The cost of the employees' defined benefit retirement scheme are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Leases - Estimating the incremental borrowing rate

The Company 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 Company 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 Company '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. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

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 asset 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

5 PROPERTY, PLANT AND EQUIPMENT

31 December 2019

	Freehold land BD '000	Buildings BD '000	Oil and gas producing assets BD '000	Pipeline assets BD '000	Plant and machinery BD '000	Furniture and equipment BD '000	Motor vehicles BD '000	Hardware and software BD '000	Site work and aviation assets BD '000	Other assets* BD '000	Total 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 2019

5 PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2018

	Freehold land BD '000	Buildings BD '000	Oil and gas producing assets BD '000	Pipeline assets BD '000	Plant and machinery BD '000	Furniture and equipment BD '000	Motor vehicles BD '000	Hardware and software BD '000	Site work & aviation assets BD '000	Other assets* BD '000	Total BD '000
Cost:											
At 1 January 2018	121	144,071	588,062	-	1,259,802	12,451	10,626	9,313	6,787	190	2,031,423
Additions during the year	-	-	80,211	-	851	1	24	18	-	-	81,105
Transfers from capital	-	-	-	-	-	-	-	-	-	-	-
work-in-progress (note 6)	-	265	-	-	205,661	458	280	1,717	-	-	208,381
Reclassifications	-	-	164,382	-	(164,382)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(198)	-	-	-	(198)
Assets written-off	-	(113)	-	-	(4,557)	(321)	(51)	(975)	-	-	(6,017)
Movement in abandonment and restoration costs	-	-	(124,117)	-	-	-	-	-	-	-	(124,117)
(note 21)	-	-	-	-	-	-	-	-	-	-	-
At 31 December 2018	121	144,223	708,538	-	1,297,375	12,589	10,681	10,073	6,787	190	2,190,577
Depreciation:											
At 1 January 2018	-	77,826	180,079	-	794,509	11,868	9,429	7,755	5,759	-	1,087,225
Charge for the year	-	2,778	106,748	-	45,287	309	314	724	261	-	156,421
Reclassifications	-	-	164,382	-	(164,382)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(198)	-	-	-	(198)
Assets written-off	-	(113)	-	-	(4,543)	(320)	(51)	(975)	-	-	(6,002)
Movement in abandonment and restoration costs	-	-	(33,017)	-	-	-	-	-	-	-	(33,017)
(note 21)	-	-	-	-	-	-	-	-	-	-	-
Transfers to the Government of the Kingdom of Bahrain	-	-	-	-	(117)	-	-	-	-	-	(117)
At 31 December 2018	-	80,491	418,192	-	670,754	11,857	9,494	7,504	6,020	-	1,204,312
Net carrying value:											
At 31 December 2018	121	63,732	290,346	-	626,621	732	1,187	2,569	767	190	986,265

* 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 2019

5 PROPERTY, PLANT AND EQUIPMENT (continued)

The amount of borrowing costs capitalised during the year ended 31 December 2019 amounted to BD 2,460 thousand (2018: BD nil).

5.1 Depreciation charged to profit or loss

	2019 BD '000	2018 BD '000
Depreciation relating to:		
- Property, plant and equipment	128,432	156,421
- Right-of-use assets (note 7)	22,125	-
	150,557	156,421

6 CAPITAL WORK-IN-PROGRESS

	Note	2019 BD '000	2018 BD '000
At 1 January		454,018	430,607
Reclassifications		-	(10,800)
Additions during the year	6.1	600,071	316,391
Transfer to property, plant and equipment	5	(144,906)	(208,381)
Capital work-in-progress written-off		(1,337)	(3,715)
Transfer to the Government of the Kingdom of Bahrain		-	(70,084)
As at 31 December		907,846	454,018

6.1 This includes staff costs amounting to BD 8,137 thousand (2018: BD 5,173 thousand) and finance cost amounting to BD 36,908 thousand (2018: BD 3,888 thousand) capitalised during the year.

7 RIGHT-OF-USE ASSETS

	2019 BD '000	2018 BD '000
As at 1 January on adoption of IFRS 16 (note 2)	90,609	-
Additions during the year	71,079	-
Depreciation during the year	(37,464)	-
As at 31 December	124,224	-
Allocation of depreciation during the year:		
Other expenses	22,125	-
Property, plant and equipment	15,201	-
Capital work-in-progress	138	-
	37,464	-

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

31 December 2019

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 it 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 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 in its board of directors, a significant 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

	2019 BD '000	2018 BD '000
Investment in associates and joint venture	97,529	69,753
Trade and other payables	(42)	(316)
	97,487	69,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

Ownership interest

Share of associates equity at 31 December was as follows:

* 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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:

	30%		37%		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.	
	2019	2018	2019	2018	2019	2018	2019	2018
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Ownership interest								
Revenue	7,008	3,200	9,445	-	115,941	128,706	-	50
Cost of sales	(4,587)	(2,150)	(6,262)	-	(82,297)	(76,239)	-	(416)
Other income	-	6,232	17,623	-	296	153	1,273	476
Expenses	(11,488)	(2,537)	(2,843)	-	(20,620)	(22,155)	(713)	(174)
Loss/ profit for the year	(9,067)	4,745	17,963	-	13,320	30,465	560	(64)
Other comprehensive (loss) income for the year	(11,010)	241	-	-	(618)	613	-	(602)
Total comprehensive income for the year	(20,077)	4,986	17,963	-	12,702	31,078	560	(666)
Group's share of total comprehensive (loss) income for the year	(6,023)	1,496	6,639	-	4,234	10,359	274	(326)
Capital and other commitments	12,350	6,588	867	-	21,283	16,305	-	-
							34,500	22,893

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

9 LONG-TERM ASSETS

	Note	2019 BD '000	2018 BD '000
Home ownership loans – non-current portion	9.1	19,676	19,411
Long-term staff loans	9.1	4,542	4,663
Investment at FVOCI	9.2	200	200
Other long-term assets		-	719
		24,418	24,993

- 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% (2018: 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

	2019 BD '000	2018 BD '000
Bank balances		
- BAPCO expatriate employees' end of service benefits (note a)	14,263	13,412
- BMP Project (note b)	113,085	-
Restricted Bank balances	127,348	13,412

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 is fully funded by Bapco and cannot be utilised for operations of Bapco. Current account balances with the banks are non-interest bearing. Bank deposits earn interest / profit rates ranging between 3.25% to 5.12% (2018: 3.75% to 5%) per annum.

Note 'b'

This represents an account held with a bank outside of the Kingdom of Bahrain for BMP project and is restricted by the project debt finance arrangement and cannot be utilised for routine operations of Bapco except for specific items as mentioned in the project debt finance arrangement. This account earns an interest at daily USD LIBOR minus 0.25% per annum with a floor of 0%. 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

31 December 2019

11 INVENTORIES

	2019 BD '000	2018 BD '000
<i>Petroleum inventories:</i>		
Crude oil	14,841	12,815
Work-in-process	51,653	61,148
Refined finished products	97,406	65,994
Gasoline inventories	3,981	4,880
	167,881	144,837
<i>Gas inventories:</i>		
Processed gas	3,045	7,474
<i>Lube inventories</i>		
Lube based oil	3,925	1,988
<i>Materials and supplies inventories:</i>		
Refinery / production	25,014	23,106
Retail service stations	12	233
Spares and materials	49,414	38,689
Spares and materials-in-transit	-	292
	74,440	62,320
Less: provision for slow moving inventories for		
- refinery / production	(7,184)	(5,445)
- spares and materials	(7,053)	(6,981)
	(14,237)	(12,426)
	60,203	49,894
	235,054	204,193

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

	2019 BD '000	2018 BD '000
At 1 January	12,426	10,359
Charge for the year	3,438	2,738
Write-offs during the year	(1,627)	(671)
At 31 December	14,237	12,426

The amount of write-down of inventories to their net realisable values amounting to BD 9,472 thousand (2018: BD 5,224 thousand) is recognised in cost of materials in the profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

12 TRADE AND OTHER RECEIVABLES

	2019 BD '000	2018 BD '000
<i>Trade receivables</i>		
Related parties	114,472	63,372
Others	218,387	222,999
	332,859	286,371
<i>Others</i>		
Other receivables	27,931	68,659
Due from the Government of the Kingdom of Bahrain *	-	58,248
Due from Noga	25,656	27,994
Advances to contractors	26,993	38,091
Prepayments	12,809	21,950
Home ownership loans – current portion	1,661	1,661
Staff loans – current portion	403	557
	95,453	217,160
Less: Provision for ECL / impairment of trade and other receivables	(27,364)	(23,400)
	400,948	480,131
<i>Trade and other receivables</i>		
- Non-current portion	16,736	-
- Current portion	384,212	480,131
	400,948	480,131

Trade receivables are generally on 30 days credit terms.

* This represents cash paid during 2016 to the outgoing shareholders of Tatweer on behalf of the Government of the Kingdom of Bahrain. This amount has been reclassified to due from a related party in the current year.

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

	2019 BD '000	2018 BD '000
At 1 January	23,400	73,602
Charge for the year (note 30)	6,447	16,033
Other movements	-	739
Provision written-off	(2,483)	(66,974)
At 31 December	27,364	23,400

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

	Total BD '000	Neither past due nor impaired BD '000	Past due but not impaired				Over 365 days BD '000
			Less than 60 days BD '000	61 to 90 days BD '000	91 to 180 days BD '000	181 to 365 days BD '000	
2019	333,426	294,243	19,176	2,634	4,640	390	12,343
2018	331,630	164,103	92,918	3,569	9,752	33,662	27,626

12 TRADE AND OTHER RECEIVABLES (continued)

A substantial portion of the Group'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 the receivables ranges from 0.08% to 100% (2018 : 0.14% 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 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>	<i>Year ended 31 December 2018 BD '000</i>
Balance at the beginning	815,564	590,351
Cash movements, net (refer 13.1.1)	(28,210)	134,988
Non-cash movements, net (refer 13.1.2)	(787,354)	90,225
Balance at the end	-	815,564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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

	Period from 1 January 2019 to 28 February 2019 BD '000	Year ended 31 December 2018 BD '000
Amounts due from the Government		
Cash received by the Government against export of refined products	368,598	2,755,644
Cash paid to the Government including cash in transit	40,134	252,142
Gas field operating expenses	-	325
Cash calls made for Nogaholding	-	39,902
Marketing fees - Abu Saafa	724	4,245
Miscellaneous	-	14,717
	409,456	3,066,975
Amounts due to the Government		
Arabian crude oil purchases from Saudi Arabian Oil Company ('Saudi Aramco')	314,332	2,153,092
Cash paid by the Government for investing, operating activities and employees' end of service benefits	86,699	450,078
Payments made for purchase of refined products	35,901	323,821
Miscellaneous	734	4,996
	437,666	2,931,987
Net cash movements	(28,210)	134,988

* This includes interest paid to Saudi Aramco amounting to BD 147 thousand (2018: BD 1,346 thousand) during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

13 DUE FROM A RELATED PARTY (continued)

13.1 Prior to March 2019 (continued)

13.1.2 NON-CASH MOVEMENTS

	Period from 1 January 2019 to 28 February 2019 BD '000	Year ended 31 December 2018 BD '000
Amounts due from the Government		
Transfers to the Government of the Kingdom of Bahrain:		
- exploration costs	-	63,721
- oil and gas producing assets	-	1,453
- oil and gas producing assets in progress handed over to Tatweer	-	4,910
Miscellaneous	10,822	24,720
Fee from gas field operations	-	112
Oil and gas producing relating inventories utilised by the Bapco	-	(255)
Accumulated depreciation recharged for assets utilised in the gas field operations	-	(117)
	10,822	94,544
Amounts due to the Government		
Amounts set off against retained earnings	797,315	-
Bahrain crude oil purchases	861	4,319
	798,176	4,319
Net non-cash movements	(787,354)	90,225

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 and producing 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 above and certain additional items. Consequently, the Group has following outstanding balances with the Government:

	2019 BD '000	2018 BD '000
Receivable from the Government (refer 13.2.1)*	255,433	-
Payable to the Government (refer 13.2.2)	(1,342)	-
Due from a related party	254,091	-

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 bbl 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.

* This includes receivable balance of BD 65,855 thousand from the Government which was disclosed under trade and other receivables in prior years and has been disclosed under 'due from a related party' in current year.

13.2.2 Payable balance arise due to following transaction:

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

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

14 CASH AND BANK BALANCES

	Note	2019 BD '000	2018 BD '000
Current and call accounts			
- BMP project related		156,884	-
- Others	14.1	242,359	628,966
Deposits with banks	14.2	75,663	180,328
Cash in transit		7,553	-
Cash in hand		261	222
Cash and cash equivalents		482,720	809,516
Less: allowance for expected credit losses		(11)	-
Cash and bank balances		482,709	809,516

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 2019, short term deposits held with banks in the Kingdom of Bahrain earn interest at rates ranging between 1 % and 3.25 % per annum and have original maturities of three months or less (2018: 0.7% and 3.75% per annum).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

15 SHARE CAPITAL AND CAPITAL ADJUSTMENT ACCOUNT

	2019 BD '000	2018 BD '000
Share capital		
<i>Authorised:</i>		
1,619,400,000 shares of BD1 each		
(2018: 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		
(2018: 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 (2018: 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 (2018: 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 (2018: BD 421,609 thousand). The debit balance may be eliminated against issued capital on obtaining the requisite regulatory and shareholder approvals.

16 SINKING FUND RESERVE

	2019 BD '000	2018 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 has been 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 on the basis that it has accumulated deficit balance as of 31 December 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

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:

<i>Name</i>	<i>Country of incorporation</i>	<i>Ownership interest</i>	
		<i>2019</i>	<i>2018</i>
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%

	<i>Accumulated balances of non-controlling interests</i>		<i>Profit allocated to non-controlling interests</i>	
	<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
	<i>BD' 000</i>	<i>BD' 000</i>	<i>BD' 000</i>	<i>BD' 000</i>
Banagas	5,987	9,268	469	1,290
Bafco	58	58	-	-
BGB	342	229	113	174
Total	6,387	9,555	582	1,464

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

	<i>2019</i>	<i>2018</i>
	<i>BD '000</i>	<i>BD '000</i>
At 1 January	9,555	8,115
Net profit and total comprehensive income attributable to non-controlling interest	582	1,464
Dividend paid to non-controlling shareholders	(3,750)	-
Movement in shareholders current accounts of Bafco	-	(24)
	6,387	9,555

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19 BORROWINGS

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

	Note	2019 BD '000	2018 BD '000
Term loan A	19.1	-	5,655
Term loan B	19.2	-	22,620
Murabaha facility	19.3	359,711	214,890
Listed term bonds	19.4		
- first tranche		377,000	377,000
- second tranche		377,000	377,000
Commercial and Islamic facilities	19.5	179,117	156,346
BMP project borrowings	19.6	416,057	-
		1,708,885	1,153,511
less - unamortized transaction cost		(180,427)	(415)
At 31 December		1,528,458	1,153,096
Total borrowings		1,528,458	1,153,096
Less: Current portion		(28,730)	(32,461)
Non-current portion		1,499,728	1,120,635

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 carries interest ranging from 3.75% to 4.3% (2018: 3.2% 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. This loan was fully repaid during the year.

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 carries interest rate of 1.75% plus 6 months LIBOR. The loan is 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 the year.

19.3 During the year, 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 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 BORROWINGS (continued)

- 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.

- 19.5 On 9 March 2017, Banagas Expansion obtained 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 to finance the construction and commissioning of the processing of hydrocarbon liquids and regasification facilities and related infrastructure of the Banagas Expansion, which was completed in 2018. These loans are repayable in 11 semi-annual 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 carries interest rate at 6 months US\$ LIBOR plus a margin of 3.15% per annum. The Banagas Expansion has utilised full limit of the facility during the year.

- 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. These facilities include floating rate facilities 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.

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 2019, the Group's undrawn committed amount under these facilities is BD 1,299,035 thousand (2018: BD 35,344 thousand).

20 EMPLOYEES' END OF SERVICE BENEFITS

	2019 BD '000	2018 BD '000
Expatriate employees' leaving indemnity (note 'a')	17,565	15,762
Bahraini pension plan	95	128
Pound sterling annuity plan	46	56
Defined benefit retirement scheme (note 'b')	3,604	2,918
	21,310	18,864

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20 EMPLOYEES' END OF SERVICE BENEFITS (continued)

a) Expatriate employees' leaving indemnity

	2019 BD '000	2018 BD '000
At 1 January	15,762	13,925
Charge for the year	3,038	2,432
Paid during the year	(1,235)	(595)
At 31 December	17,565	15,762

The number of expatriate employees as at 31 December 2019 was 698 (2018: 679).

b) Defined Benefit Retirement Scheme

	2019 BD '000	2018 BD '000
At 1 January	2,918	3,069
Current service cost	161	203
Interest costs - net	212	195
Payments made during the year	(66)	(111)
Actuarial loss / (gain)	379	(438)
At 31 December	3,604	2,918

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 379 thousand (2018: gain of BD 438 thousand) has been recognised in retained earnings through OCI for the years ended 31 December 2019 and 31 December 2018.

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.

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.

21 ABANDONMENT AND RESTORATION OBLIGATIONS (continued)

The movements in the abandonment and restoration obligations during the year are as follows:

	2019 BD '000	2018 BD '000
At 1 January	-	182,609
Movement during the year	-	-
Transfer to shareholder, Noga	-	(182,609)
At 31 December	-	-

22 TRADE AND OTHER PAYABLES

	2019 BD '000	2018 BD '000
	<i>Note</i>	
Trade payables	198,981	171,866
Accruals and other payables	167,186	163,575
Payable to contractors	139,339	136,587
Due to the Government	22.1 42,650	44,737
Interest payable on borrowings	14,820	14,276
Advance to customers	3,221	2,334
	566,197	533,375
<i>Trade and other payables</i>		
- Non-current portion	21,929	-
- Current portion	544,268	533,375
	566,197	533,375

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

22.1 The Group had deferred product gas payments with respect to the operations of Banagas with effect from 1 July 2016, in accordance with a resolution of the board 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 decided 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 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. This rescheduled repayment installments have been approved and agreed with Noga with effect from January 2020.

22 TRADE AND OTHER PAYABLES (continued)

With respect to product gas charges of Banagas Expansion amounting to BD 20,379 thousand, in accordance with the terms and conditions of bank borrowings obtained in 2017, product gas for Central Gas Plant – II (CGP-II) and fuel gas for Central Gas Plant – III (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 Banagas Expansion 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. Any unpaid amounts for the year are waived off after application to and approval by Noga. There were no waivers made by Noga for charges relating to years 2017 and 2018.

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. However, 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.

Any derivative that does not meet the conditions of hedge accounting is classified as fair value through profit or loss.

The table below shows the positive and negative fair values of derivative financial instruments together with the notional amounts outstanding as at 31 December 2019 and 31 December 2018. 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.

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23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	At 31 December 2019		At 31 December 2018	
	Notional amount BD '000	Positive fair value BD '000	Notional amount BD '000	Positive fair value BD '000
Current				
Derivatives under FVTPL				
Commodity derivatives	-	641	-	2,720
Non-Current				
Derivatives held as cash flow hedge				
Interest rate swaps	-	-	180,960	3,036
	At 31 December 2019		At 31 December 2018	
	Notional amount BD '000	Negative fair value BD '000	Notional amount BD '000	Negative fair value BD '000
Current				
Derivatives under FVTPL				
Commodity derivatives	-	465	-	-
Interest rate swaps	180,960	104	-	-
As at 31 December 2019	180,960	569	-	-
Non-Current				
Derivatives held as cash flow hedge				
Interest rate swaps	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.

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 in the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2019 and 31 December 2018 are as follows:

	2019 BD '000	2018 BD '000
<i>Recognised in the profit or loss</i>		
- Ineffective portion of cash flow hedges	(503)	-
- Realised and unrealised (loss) gain on derivative transactions (net)	(5,521)	644
<i>Recognised in other comprehensive income</i>		
- (Loss) / gain on cash flow hedges	(40,844)	1,339
- Share of (loss) gain on cash flow hedge from an associate	(3,303)	72
- Reclassified from cash flow hedge reserve to profit or loss	(3,036)	-

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24 LEASE LIABILITIES

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

	2019 BD '000	2018 BD '000
As at 1 January 2019 on adoption of IFRS 16 (note 2)	85,544	-
Additions during the year	71,079	-
Finance cost for the year	5,669	-
Payments during the year	(38,377)	-
As at 31 December	123,915	-
Current	42,697	-
Non-current	81,219	-
As at 31 December	123,916	-
Finance cost for the year as been allocated as follows:		
Finance cost	3,208	-
Property, plant and equipment	2,438	-
Capital work-in-progress	22	-
	5,668	-

25 SHORT TERM BORROWINGS

	2019 BD '000	2018 BD '000
Short term loans	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 2.25% per annum. As of 31 December 2019, the Group's undrawn committed amount under these facilities is BD 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:

	2019 BD '000	2018 BD '000
At 1 January	2,524	927
Charge for the year	1,919	4,024
Payments made during the year	(3,024)	(2,427)
At 31 December	1,419	2,524

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26 INCOME TAXES PAYABLE (continued)

During the year BD 1,919 thousand (2018: BD 4,024 thousand) income tax has been provided as Banagas has earned profit. Income tax at a rate of 46% (2018: 46%) of the profit was provided during the year.

There is no difference between the taxable profit and accounting profit for the years ended 31 December 2019 and 31 December 2018, 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 profit base and accounting profit base.

27 SALES

	2019 BD '000	2018 BD '000
Oil revenues		
- International sales	2,249,515	2,457,206
- Domestic sales	255,744	260,359
	<u>2,505,259</u>	<u>2,717,565</u>
	2019 BD '000	2018 BD '000
Gas revenues		
- Naphtha	64,843	43,758
- Propane	28,894	16,392
- Butane	26,779	16,118
	<u>120,516</u>	<u>76,268</u>
Lube based oil revenues	<u>44,423</u>	<u>63,556</u>
	<u>2,670,198</u>	<u>2,857,389</u>

28 COST OF MATERIALS

	2019 BD '000	2018 BD '000
Cost of crude oil consumed		
- Saudi Arabia	2,013,928	2,189,391
- Bahrain (note 28.1)	5,340	4,319
Cost of feed gas consumed	34,513	24,004
Production overheads	19,402	13,513
Movement in petroleum inventories	(22,873)	(4,205)
Purchase of gasoline	50,188	48,364
Realised and unrealised loss on commodity derivative transactions (net)	2,381	-
	<u>2,102,879</u>	<u>2,275,386</u>

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28 COST OF MATERIALS (continued)

28.1 Crude oil purchased from Bahrain

The Group had entered into an agreement with the Government for supply of Bahrain crude oil effective 1 January 2005. Under this agreement, the Government will 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 minimum quantity of 900,000 barrels up to 21 October 2018 under the Old Arrangement and from 22 October 2018 the Group started receiving a minimum quantity of 38,700 barrels per day at a rate of US\$ 1 per barrel ("Baseline Crude Quantity"). Bapco 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 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 at the market prices, however, market value of additional quantity is not paid to the Government, instead it is received by Nogaholding from Bapco and used against its own oil production costs.

29 OTHER INCOME

	Note	2019 BD '000	2018 BD '000
Income relating to non-associated gas *		56,725	39,376
Service income from Noga		19,651	542
Supply and services		5,291	5,353
Marketing fees - Abu Saafa	13	4,223	4,245
Berthing and unberthing charges		3,296	3,268
Medical services		2,646	2,862
Awali facilities		2,456	2,442
Fair valuation gain on derivatives, net		-	644
Fee income from gas field operations	13	-	112
Miscellaneous income	29.1	29,615	7,672
		123,903	66,516

* 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 income. Previously, this amount was paid by Bapco through its cash call mechanism.

29.1 This includes BD 18,855 thousand received by the Group 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 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. The Group is pursuing this case through further legal appeals. The management expects to make payments only when all the legal possibilities are exhausted.

The Oil and Gas Holding Company B.S.C. (c)
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30 STAFF COSTS AND OTHER EXPENSES (continued)

30.2 Other expenses

	Note	2019 BD '000	2018 BD '000
Materials and services		60,588	48,094
Tatweer operating expenditure		45,233	87,808
Provision for doubtful trade and other receivables	12	6,447	16,033
Property, plant and equipment and capital work-in-progress written-off	5 & 6	1,661	3,730
Loss on acquisition of a joint venture and a subsidiary		-	551
Miscellaneous expenses		4,083	14,882
Unrealised loss on derivatives at FVTPL		3,140	-
Ineffectiveness on derivative instruments designated as cash flow hedges		503	-
		121,655	171,098

31 FINANCE COSTS

	2019 BD '000	2018 BD '000
Interest on borrowings and short term borrowings	55,713	45,907
Interest on lease liabilities (note 24)	3,208	-
Transfer from cash flow hedge reserve on dedesignation of cash flow hedge	(3,036)	-
Others	1,210	-
	57,095	45,907

32 DIVIDEND PAYABLE

During 2019, a final dividend of BD 0.035 (2018: BD nil) per share aggregating to BD 56,550 thousand (2018: BD nil) was declared and paid.

Dividend payable represents unpaid dividend of BD 56,400 thousand declared in 2016 relating to the year 2015. The Group has agreed with Noga to defer the payment of this dividend. The date of payment of this dividend will be agreed with Noga.

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:

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

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33 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

a) Balances with related parties

	Note	2019 BD '000	2018 BD '000
<i>Due from a related party</i>			
<i>Parent</i>			
Government of the Kingdom of Bahrain		254,091	815,564
<i>Trade receivables</i>			
National Oil and Gas Authority		86,736	12,646
Government of the Kingdom of Bahrain		-	7,607
<i>Affiliates</i>			
Others		27,736	43,119
<i>Other receivables</i>			
<i>Parent</i>			
Government of the Kingdom of Bahrain	13	-	58,248
National Oil and Gas Authority	12	25,656	27,994
<i>Affiliates</i>			
Bahrain Lube Base Oil Company B.S.C. (c)		3,123	5,275
The Bahrain Aviation Fueling Company B.S.C. (c)		-	76
Gulf Petrochemical Industries Co. B.S.C. (c)		184	86
Others		6,179	4,467
<i>Amounts due to related parties</i>			
<i>Parent</i>			
Government of the Kingdom of Bahrain	22	42,650	44,737
<i>Affiliates</i>			
The Bahrain Aviation Fueling Company B.S.C. (c)		-	1,228
Bahrain Lube Base Oil Company B.S.C. (c)		1,164	86
Others		-	250

b) Significant related party transactions

		2019 BD '000	2018 BD '000
<i>Parent</i>			
Amounts due to the Government	13		
- Cash movements		437,666	2,931,987
- Non-cash movements		798,176	4,319
Amounts due from the Government	13		
- Cash movements		409,456	3,066,975
- Non-cash movements		10,822	94,544
Fee income received from the Government			
- Marketing fees - Abu Saafa	33 (c) & 29	4,223	4,245
- Fee from gas field operations	33 (c) & 29	-	112
- Service income	33 (c) & 29	19,651	542
- Income relating to non-associated gas	29	56,725	39,376
<i>Affiliates</i>			
Gulf Petrochemical Industries Co. B.S.C. (c)			
- Domestic sales		57	49
- Other income		108	102
Others			
- International sales		45,345	46,815

33 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

c) Services as an agent

The Group has entered into various agreements with the Government to carry out 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 and producing 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.

d) Compensation of key management personnel

	2019 BD '000	2018 BD '000
Directors' remuneration	223	224
Compensation of other key management personnel	5,065	3,830
	<u>5,288</u>	<u>4,054</u>

34 COMMITMENTS

Capital and investment commitments

	2019 BD '000	2018 BD '000
Bapco	1,118,771	1,533,938
Banagas	1,485	3,204
Banagas Expansion	193	5,554
Tatweer	1,508	43,054
BAC Jet	-	5,955
Saudi Bahrain Pipeline Company S.P.C.	2,601	11,490
Bapco Retail	11,199	-
	<u>1,135,757</u>	<u>1,603,195</u>

Lease commitments

Future aggregate minimum payments towards short term operating leases:

	2019 BD '000	2018 BD '000
Not later than one year	1,508	278
Later than one year but not later than five years	-	370
	<u>1,508</u>	<u>648</u>

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 1,783 thousand with a maturity date of 14 February 2020.

As part of certain agreements, a contingent liability of BD 48,544 (2018: BD 31,733) 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 payables, 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.

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 have been determined based on the exposure to interest / profit rates excluding the effect of any hedges. 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.

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Interest / profit rate risk (continued)

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.

	<i>Changes in basis points</i>	<i>Effect on profit for the year BD '000</i>
31 December 2019	100	9,813
	-100	(9,813)
31 December 2018	100	3,939
	-100	(3,939)

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.

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 amounts due from a related party.

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 2019, the Group has 5 customers that accounted for approximately 40% (2018: 45%) of all trade receivables excluding those receivables from related parties.

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

The maximum credit risk exposure at 31 December 2019 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.

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

	<i>Less than 3 months BD '000</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
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	12,186	-	-	14,821
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	163,289	1,519,227	942,645	3,259,537
	<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 2018					
Trade payables	171,866	-	-	-	171,866
Retention payable	8,957	-	-	-	8,957
Payables to contractors	91,856	-	-	-	91,856
Other payables	163,576	-	-	-	163,576
Due to a related party	89,468	-	-	-	89,468
Interest payable on borrowings	-	14,276	-	-	14,276
Borrowings	8,031	117,522	1,674,879	-	1,800,432
Dividend payable	56,400	-	-	-	56,400
Total	590,154	131,798	1,674,879	-	2,396,831

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Changes in liability arising from financing activities

2019	As at 1 January 2019 BD '000	Cash flows payments BD '000	Cash flows receipts BD '000	Others / additions BD '000	As at 31 December 2019 BD '000
Lease liabilities	85,544	(38,377)	-	76,748	123,915
Short term borrowings	-	-	26,388	-	26,388
Borrowings	1,153,511	(257,688)	813,062	-	1,708,885
	<u>1,239,055</u>	<u>(296,065)</u>	<u>839,450</u>	<u>76,748</u>	<u>1,859,188</u>
2018	As at 1 January 2018 BD '000	Cash flows payments BD '000	Cash flows receipts BD '000	Others / additions BD '000	As at 31 December 2018 BD '000
Borrowings	614,995	(13,195)	551,296		1,153,096
	<u>614,995</u>	<u>(13,195)</u>	<u>551,296</u>	<u>-</u>	<u>1,153,096</u>

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 2019 and 31 December 2018. Equity attributable to the shareholder of the parent comprises share capital, capital adjustment account, contribution from shareholder, sinking fund reserve, statutory reserve, cash flow hedge reserve and accumulated deficit/ retained earnings and is measured at BD 1,345,163 thousand (2018: BD 2,080,830 thousand).

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.

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

31 December 2019

36 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2019, the Group's derivative financial instruments, consisting of interest rate swaps, 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 2019 and 31 December 2018 as shown below:

	Date of valuation BD '000	Quoted prices in active markets (Level 1) BD '000	Significant observable inputs (Level 2) BD '000	Significant unobservable inputs (Level 3) BD '000	Total BD '000
Asset					
Derivative financial instruments	31 December 2019	641	-	-	641
	31 December 2018	2,720	-	-	2,720
Liability					
Derivative financial instruments	31 December 2019	569	41,347	-	41,916
	31 December 2018	-	3,036	-	3,036

Transfers between level 1, level 2 and level 3

During the reporting year ended 31 December 2019 and 31 December 2018, 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 examine the Group's performance based on the performance of its subsidiaries 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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31 December 2019

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 interim condensed consolidated financial statements.

	<i>Oil based assets and revenues</i>	<i>Gas based assets and revenues</i>	<i>Others</i>	<i>Eliminations</i>	<i>Total</i>
<u>31 December 2019</u>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sales	2,549,048	120,516	634	-	2,670,198
Cost of materials	(2,048,964)	(53,915)	-	-	(2,102,879)
	500,084	66,601	634	-	567,319
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)
Other expenses	(123,673)	-	(73)	2,091	(121,655)
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	139,646	25,755	505	-	165,906
Segment assets	3,436,673	332,802	18,473	(68,538)	3,719,410
Segment liabilities	2,131,335	234,831	12,613	(10,919)	2,367,860
<u>As at 31 December 2019</u>					
Other disclosures					
Investment in associates and joint venture	97,529	-	-	-	97,529
Provision for doubtful trade and other receivables	(27,364)	-	-	-	(27,364)

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

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31 December 2019

37 OPERATING SEGMENT (continued)

	<i>Oil based assets and revenues</i>	<i>Gas based assets and revenues</i>	<i>Others</i>	<i>Eliminations</i>	<i>Total</i>
<u>31 December 2018</u>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Sales	2,780,654	76,268	467	-	2,857,389
Cost of sales	(2,237,864)	(40,673)	-	3,151	(2,275,386)
Gross profit	542,790	35,595	467	3,151	582,003
Other income	65,615	3,910	142	(3,151)	66,516
Staff costs	(82,024)	(8,212)	(166)	-	(90,402)
Maintenance and other expenses	(92,356)	(4,855)	-	-	(97,211)
Other expenses	(167,568)	-	(3,530)	-	(171,098)
Depreciation	(150,060)	(6,354)	(7)	-	(156,421)
Finance income	8,640	815	12	-	9,467
Finance costs	(44,379)	(1,528)	-	-	(45,907)
Share of profit from associates	11,578	-	-	-	11,578
Profit before income tax	92,236	19,371	(3,082)	-	108,525
Income tax expense	-	(4,024)	-	-	(4,024)
Net profit for the period	92,236	15,347	(3,082)	-	104,501
Segment assets	3,548,918	339,132	12,750	(39,118)	3,861,682
Segment liabilities	1,516,083	256,611	15,782	(17,179)	1,771,297
<u>As at 31 December 2018</u>					
Other disclosures					
Investment in associates and joint venture	69,753	-	-	-	69,753
Provision for doubtful trade and other receivables	23,400	-	-	-	23,400

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. All non-current assets of the Group are located in the Kingdom of Bahrain.

38 EVENTS AFTER BALANCE SHEET DATE

The outbreak of Novel Coronavirus (COVID-19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. In January 2020, oil prices fell as a result of the outbreak of Covid-19 and its impact on demand for petroleum products. More recently, oil prices suffered a steep fall following the failure of OPEC and OPEC+ to reach an agreement in respect of production cuts.

Further, during April 2020, due to COVID-19, the force majeure clause has been invoked on BMP project and this may impact the supply chain, workforce mobility and work restrictions. The management believes that there is no significant immediate impact on the project.

The extent and duration of all such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent, effectiveness of containment actions taken and future predictions of oil prices. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these financial statements. These developments could impact our future financial results, cash flows and financial condition.

39 COMPARATIVE FIGURES

Certain of the prior year's figures have been re-classified to conform to the presentation adopted in the current year. Such reclassifications do not affect previously reported net profit and total comprehensive income for the year or shareholder's equity.