For the purpose of the Transparency Directive the Home Member state of the issuer is the United Kingdom.

ADES International Holding PLC results for the year ended 31 December 2020

(London & Dubai, 30 March 2021) ADES International Holding PLC ("ADES" or "the Group"), a leading oil & gas drilling and production services provider in the Middle East and North Africa (MENA), announces its full-year audited results for the year ended 31 December 2020.

Summary of Financials

(US$ '000)	2020	2019	*% change*
Revenue	**452,109**	**477,758**	***-5.4%***
Adjusted EBITDA[1]	185,137	190,591	*-2.9%*
Adjusted EBITDA Margin	40.9%	39.9%	*-1.1 pts*
Normalised EBITDA[2]	**193,645**	**199,078**	***-2.7%***
Normalised EBITDA Margin	42.8%	41.7%	*1.1 pts*
Net Profit	22,022	31,534	*-30.2%*
Net Profit Margin	4.9%	6.6%	*-1.7 pts*
Normalised Net Profit[3]	**40,038**	**72,714**	**-44.9%**
Normalised Net Profit Margin	8.9%	15.2%	*-6.3 pts*
Weighted Average No. of Shares	42,274	43,778	
Reported Earnings per Share (US$)	0.5	0.7	*-28%*
Net Debt	**651,672**	**606,188**	

Key 2020 Financial & Operational Highlights

- **Revenue** of US$ 452.1 million in 2020 compared to US$ 477.8 million in 2019, down 5% year-on-year and showcasing ADES' resilience in the face of unprecedented challenges throughout 2020.
- **Adjusted EBITDA[1]** decreased by 3% to US$ 185.1 million in 2020 from US$ 190.6 million last year, with an associated margin of 40.9% for the year compared to 39.9% in 2019.
- **Normalised EBITDA[2],** which accounts for non-recurring charges related to COVID-19 and the Group's integration programme, was US$ 193.6 million, down 3% versus last year. The normalised EBITDA margin expanded to 42.8% in 2020 from 41.7% in the prior year.
- **Backlog** at year-end 2020 of US$ 929.1 million, compared to US$ 1.3 billion as at 31 December 2019. ADES' backlog weighted average tenor of circa 4 years matches its debt re-payment profile.
- **Net profit** of US$ 22.0 million in 2020 compared to US$ 31.5 million in 2019.
- **Normalised net profit[3]** was US$ 40.0 million in 2020 compared to US$ 72.7 million in 2019, reflecting lower revenue; higher depreciation expense resulting from the Group's increased asset base; and higher impairment of accounts receivables and non-current assets.
- **Operating cashflow** was US$ 181 million in 2020, up from US$ 178 million in 2019. The Group's free cash flow to firm FCFF (pre-debt service) stood at an inflow of US$ 48 million compared to an outflow of

[1] Adjusted EBITDA is calculated as operating profit for the year before depreciation and amortisation, employee benefit provision, other provisions, impairment of assets and assets under construction and provision for impairment of trade receivables and contract assets.
[2] Normalised EBITDA is calculated as adjusted EBITDA excluding non-recurring charges related to a) non-recurring staff cost related to crew overstay due to COVID-19; and b) non-recurring integration program costs.
[3] Normalised Net Profit is calculated as net profit before non-controlling interest after excluding non-recurring charges from: a) non-recurring staff cost related to crew overstay due to COVID 19; b) non-recurring integration program costs; c) one off finance charges related to loan fees and written off prepaid transaction costs; d) accounting adjustments related to IFRS 3 (Business Combinations) and a one-off bargain purchase gain; e) non-cash, equity-settled share-based payment compensation from the parent company; f) non-cash fair-value adjustments under financial instruments; and g) non-recurring transactions.

US$ 84 million last year. The significant improvement results from a lower CAPEX and acquisition spend and the improvement of ADES' working capital dynamics during the year.

- **Cash on hand** of c. US$ 62.5 million and available undrawn banking facilities of approximately US$ 92 million as at 31 December 2020, providing strong liquidity and headroom for the business. **Net Debt** stood at US$ 651.7 million as at 31 December 2020, largely unchanged from the net debt as at 30 September 2020 and in line with management's latest guidance from December 2020.
- **Net debt to EBITDA,** one of ADES' primary bank covenants, stood at 3.4x in 2020, well below ADES' current covenant level of 4.25x.
- **B+ credit rating** reaffirmed by S&P and Fitch Ratings during 2020.
- **Utilisation rates** declined to 89% in 2020 from 97% in 2019 where a slight year-on-year improvement recorded in the first quarter of the year was offset by lower utilisation rates as the year progressed. Lower utilisation rates are mainly attributable to the temporary suspensions of operations for a select number of onshore rigs which took place earlier in the year in KSA and Algeria. However, a number of these rigs have resumed operation, including one onshore rig in Algeria at the end of 4Q 2020 and two onshore rigs in KSA in early 2021.
- **Contract renewals and extensions for US$ 140 million in KSA**, including a five-year contract renewal for ADMARINE 262, a one-year extension for ADMARINE 261, and two consecutive contract extensions for ADES 40, the first one for an additional six months followed by another three-month extension.
- The Group secured a **new two-year early production facility contract in Egypt,** highlighting the Group's agility in providing innovative solutions to its clients in the current challenging market conditions.
- **ADES launched a second share repurchase programme** in June 2020, and purchased 2.2 million treasury shares worth approximately US$ 21.5 million as of 31 December 2020.
- ADES achieved approximately 11.5 million-man hours in 2020 with a **Recordable Injury Frequency Rate ("RIFR")** of 0.31[4], below the IADC worldwide standard rate of 0.41.
- Throughout 2020, **ADES demonstrated impressive resilience** in the face of the COVID-19 pandemic and market volatility caused by the fluctuating oil prices. This was a direct result of the Group's **prompt and effective response to the outbreak of COVID-19**, as well as the **solid foundations** built by ADES over the years through a carefully executed expansion and business development strategy.

Current Trading and Outlook

- Heading into 2021, **ADES is positioned to drive long-term sustainable growth across its operations** particularly as the global economy recovers with rising vaccination rates and supported by the strength of its business model, the resilience of the markets it operates in, and the relative stability of oil prices which have remained above the US$ 60/bbl mark in recent months.
- While the direct impact of the COVID-19 pandemic on ADES' operations has thus far been relatively limited, **ADES' Crisis Management Board (CMB)** continues to closely monitor the evolving situation. The robust **health and safety protocols and business continuity plans** which were put in place at the very start of the crisis, have been further enhanced to reflect the experience accumulated in the last twelve months, and they continue to be adhered to across all the Group's operations. These protocols have proven successful in allowing the Group's operations to continue without notable interruptions across all four of its countries of operation.
- **Despite the difficult operating environment, ADES pressed on with its Integration Project in 2020, and benefits are already being realised.** As at year-end 2020, EBITDA margins for the majority of newly acquired rigs have risen from their levels at time of acquisition and are now in line with the Group's average. This partially supported a modest improvement in adjusted and normalised margins for the year, with the majority of the cost saving initiatives taking effect towards the end of 4Q 2020. The full extent of cost savings is expected to be more evident on a full-year basis in 2021.
- On 8 March 2020, ADES announced an offer from **Innovative Energy Holding** for the entire issued ordinary share capital of ADES International at a price per share of US$ 12.50 payable in cash. The Offer

[4] Per 200,000 working hours

Price to be paid by Innovative Energy represents a premium of approximately 40% to the Closing Price of US$ 8.95 per ADES Share on 5 March 2021. The Offer Price values the existing issued share capital (excluding Treasury Shares) of ADES International at approximately US$516 million. Innovative Energy is a newly established company that will be jointly owned by the Public Investment Fund of Saudi Arabia, Zamil Investments, and ADES Investments Holding with the latter to hold a majority ownership.

Commenting on the results, Dr. Mohamed Farouk, Chief Executive Officer of ADES International said:
“I am pleased to report that ADES closed 2020 having successfully weathered the storm and demonstrating resilience across all our operations during a year filled with unprecedented challenges. This is a direct result of our efforts over the past few years to build a sustainable, diversified and growth-oriented business fully capable of adapting to short-term challenges while continuing to drive long-term value creation for all stakeholders. Our results for 2020 also reflect the success of our COVID-19 response strategy which allowed us to continue operating throughout the crisis without compromising the wellbeing of our people and communities.

Overall, we emerged from 2020 with our top-line largely intact, our EBITDA margin slightly improved due to our successful cost efficiencies and integration efforts, and we maintained a strong financial position with an optimised capital structure. More importantly, we proved ourselves a reliable partner for our clients and continued to deliver our high quality and flexible service offering during the most testing times.

We enter 2021 cautiously optimistic about the Group’s prospects for the upcoming year. While the health and economic challenges posed by COVID-19 are not over yet, we are witnessing early-stage signs of a recovery supported by the ramp up of the global vaccination campaign and a general ability of countries around to world to adapt to the new business environment brought about by the pandemic. Moreover, oil prices have been steadily recovering and in recent months have stabilised above the US$ 60/bbl mark. This further reinforces our confidence that ADES is positioned for recovery from the lows experienced during the third and fourth quarters of the year. Our focus for the coming year remains on actively growing our backlog by pursuing contract renewals and tendering activity while driving further efficiency enhancements through a continued focus on operational efficiency, synergy extraction and digitalisation.”

Enquiries

The Group's **Results Presentation** is available at investors.adihgroup.com. **For further information or enquiries, please contact:**

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About ADES International Holding (ADES)

ADES International Holding extends oil and gas drilling and production services through its subsidiaries and is a leading service provider in the Middle East and North Africa, offering onshore and offshore contract drilling as well as workover and production services. Its c.3,500 employees serve clients including major national oil companies ("NOCs") such as Saudi Aramco and Kuwait Oil Company as well as joint ventures of NOCs with global majors including BP and Eni. While maintaining a superior health, safety and environmental record, the Group currently has a fleet of thirty-six onshore drilling rigs, thirteen jack-up offshore drilling rigs, a jack-up barge, and a mobile offshore production unit ("MOPU"), which includes a floating storage and offloading unit. For more information, visit investors.adihgroup.com.

Shareholder Information

LSE: ADES INT.HDG
Bloomberg: ADES:LN
Listed: May 2017
Shares Outstanding: 43.8 million (including treasury stock)

Forward-Looking Statements

This communication contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts and events, and can be identified by the use of such words and phrases as "according to estimates", "aims", "anticipates", "assumes", "believes", "could", "estimates", "expects", "forecasts", "intends", "is of the opinion", "may", "plans", "potential", "predicts", "projects", "should", "to the knowledge of", "will", "would" or, in each case their negatives or other similar expressions, which are intended to identify a statement as forward-looking. This applies, in particular, to statements containing information on future financial results, plans, or expectations regarding business and management, future growth or profitability and general economic and regulatory conditions and other matters affecting the Group.

Forward-looking statements reflect the current views of the Group's management ("Management") on future events, which are based on the assumptions of the Management and involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The occurrence or non-occurrence of an assumption could cause the Group's actual financial condition and results of operations to differ materially from, or fail to meet expectations expressed or implied by, such forward-looking statements.

The Group's business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to differ materially from those expressed or implied by the forward-looking statements contained in this prospectus. The information, opinions and forward-looking statements contained in this communication speak only as at its date and are subject to change without notice. The Group does not undertake any obligation to review, update, confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise in relation to the content of this communication.

Chief Executive Officer's Report

2020 was a year full of operational challenges which impacted businesses all over the world, with the oil & gas industry particularly affected by the economic uncertainty created by the COVID-19 pandemic. As such, the year provided an incredibly tough stress test for businesses in the industry, and I am proud to report that ADES has successfully weathered the storm. Adding to our pride is the fact that the resilience demonstrated across all our operations over the course of 2020 comes as a direct result of our efforts to build a sustainable, diversified and growth-oriented business fully capable of adapting to short-term challenges while continuing to drive long-term value creation for all stakeholders. Our ability to overcome the transitory challenges posed by COVID-19 was also due to the effectiveness of our immediate response to the pandemic's outbreak which saw us roll out extensive health and safety and business continuity protocols aimed at protecting our people and communities while safeguarding our operations.

As a business which has made health and safety the backbone of its operation, ADES' number one focus at the start of the pandemic was protecting our employees, partners and the communities where we operate. Key efforts included the establishment of a Crisis Management Board (CMB) to manage and oversee all efforts related to COVID-19, extending crew shifts from 14 to 28 days to minimize travel, maintaining supplies and material inventory to cover three months of operations, and systematically monitor triggers, assess risk and refine response actions to reflect the evolving on-the-ground situation. I am proud to report that our holistic response to COVID-19 proved incredibly effective, enabling us to continue operating throughout the entire crisis without compromising the wellbeing of our people and communities.

Resilient by Design

ADES' low-cost, cycle-proof business model is predicated on a series of strategic pillars which provide solid foundations to stand on when business conditions are tough, and a platform to drive long term sustainable growth. These pillars include a diversified asset base and geographic footprint; a lean cost structure centred on extracting synergies and maximum value from all our assets; high-quality client relationships, robust contracts and predictable cash flows underpinned by a strong and diversified backlog; prudent financial policies and conservative capital structure, providing us with ample liquidity, headroom and financial flexibility; and most importantly, robust HSE policies with an exemplary safety track record. Combined with a dedicated and experienced management team, and the resilience of the MENA oil & gas industry, these pillars have provided and will continue to provide the engine to drive long term sustainable growth irrespective of the prevailing market conditions.

ADES closed the year reporting revenue of US$ 452.1 million, down 5% from last year and demonstrating our ability to protect our top line from the unprecedented challenges. Lower revenue for the year came as a result of a decline in utilisation rates to 89% for 2020 from 97% in 2019, following temporary suspensions for a select number of onshore rigs in KSA and Algeria. However, I am pleased to note that three of the rigs have already resumed operations between late 2020 and early 2021. Overall, we continued to maintain a diversified revenue split between KSA (54% of revenue), Kuwait (24% of revenue), and Egypt (19% of revenue) – all witnessing rising contribution to the top line for the year. Meanwhile, our cost optimisation and reduction efforts allowed us to offset the impacts posed by the pandemic and the current market dynamics to drive modest improvements in our normalised margin for the year. The slight margin enhancements were also further supported by our cost saving initiatives in light of the wider integration programme on which we continued to make good progress despite the year's obstacles. On the integration front, I am delighted to report that the majority of our newer assets are now delivering EBITDA margins in line with our more established rigs. While our efforts have already started to deliver the desired results, we expect to capture the full extent of the cost savings in 2021.

In parallel, we successfully leveraged our long-lasting relationship with our client base and our ability to adapt our service offering to best match their business needs, to renew and extend multiple existing contracts while securing a new agreement for a new, innovative service in Egypt. In January we first secured a five-year contract renewal for ADMARINE 262 in KSA, and soon followed it with a one-year contract extension for ADMARINE 261 also located in the Kingdom. Later in the year, we signed two consecutive contract extensions for ADES 40, the first one for an additional six months followed by another three-month extension.

I am also particularly pleased with ADES' ability to secure new two-year early production facility contract in Egypt in November 2020. Under the agreement, ADES will establish an early production deck floor and top side facilities in addition to a jack-up barge charter, leveraging on the Group's existing assets. The new contract highlights our agility in providing innovative solutions to our clients in the current challenging market conditions, by facilitating early production in a shorter timeframe than it would be possible with a fully-fledged production facility. Our ability to offer sustainable growth avenues to our clients even during a low oil price environment further strengthens our position as a market leader in Egypt and coupled with the extensions and renewals in KSA, offers greater backlog visibility heading into the new year. Finally, ADES' ability to maintain a credit rating of B+ from S&P and Fitch earlier during the year is testament to the underlying solidity of our business and the Group's strong market position.

Across our asset base, we remained committed to complying with the highest occupational HSE standards. We ended 2020 recording a Recordable Injury Frequency Rate ("RIFR") of 0.31, below the 2020 worldwide standard rate of 0.41 by the International Association of Drilling Contractors ("IADC") and further improving on our rate of 0.41 in 2019. This represents a notable accomplishment in light of the considerable health and safety challenges posed by the COVID-19 pandemic, and is proof positive that our efforts to transmit our culture of safety and adopt HSE policies across our newer assets is paying off. In 2021, we look forward to continuing working closely with our leading ESG consultant to review and further develop the Group's safety procedures as our operations and footprint grows.

Outlook

We enter 2021 cautiously optimistic about the Group's prospects for the upcoming year. While the health and economic challenges posed by COVID-19 are not over yet, we are witnessing early-stage signs of a recovery supported by the ramp up of the global vaccination campaign and a general ability of countries around to world to adapt to the new business environment brought about by the pandemic. Moreover, oil prices have been steadily recovering and in recent months have stabilised above the US$ 60/bbl mark. This further reinforces our confidence that ADES is positioned for recovery from the lows experienced during the third and fourth quarters of the year

In 2021, we are looking to further build up our backlog through contract renewals and tendering activity. I am confident that ADES' track record of exceptional service delivery combined with the general normalisation of business activity across the region, will see us successfully renew and extend contracts expiring in 2021. We are also eager to leverage our existing asset base to capture new growth opportunities that might arise on the back of recovering oil prices. Additionally, we are actively assessing new services to complement our current offering and capitalise on the growth opportunities offered by subsegments of the drilling industry currently underpenetrated in the MENA region. As always, we will work to further enhance efficiency and drive improvements in profitability through a continued focus on operational efficiency, synergy extraction and digitalisation.

I wish to thank our staff and management team whose dedication and hard work allowed us to deliver yet another successful year despite the unprecedented challenges. My appreciation also goes out to our Board members whose guidance proved invaluable in helping us navigate the uncertain times following the outbreak of COVID-19. We look forward to continue delivering a strong and sustainable performance as we embark on this new and exciting chapter of ADES' growth story.

Dr. Mohamed Farouk
Chief Executive Officer

Operational & Financial Review

Revenue

Revenue decreased by 5% year-on-year in 2020 displaying ADES' resilience in the face of unprecedented market and operational difficulties. The decline is largely attributable to lower utilisation rates for the year, which declined to 89% in 2020 from 97% in the prior year.

During 2020, ADES continued renewing and extending existing contracts, while securing new awards thanks to its ability to adapt its service offering to best match the needs of its clients during difficult times. In January, ADES successfully secured a contract renewal and a contract extension for two rigs in KSA. ADMARINE 262 saw its contract renewed for an additional five years at a higher daily rate, while for ADMARINE 261 the contract was extended for an additional year at the same daily rate. Additionally, the Group also secured two consecutive contract extensions for ADES 40 in KSA. The first extension was for an additional six months, with a second three-month extension secured later in the year. In November, the Group secured a new two-year early production facility contract in Egypt. Under the agreement, ADES will establish an early production deck floor and top side facilities in addition to a jack-up barge charter, leveraging on the Group's existing assets. The new contract highlights the Group's agility in providing innovative solutions to its clients in the current challenging market conditions, by facilitating early production in a shorter timeframe than it would be possible with a fully-fledged production facility. Finally, in early 2021, ADES secured a new contract for Admarine V in the Gulf of Suez. The contract, secured with a top-tier client, covers a firm six-month period with the option to extend for an additional six months.

Revenue by Country

(US$ '000)	2020	2019	% change
KSA	245,103	243,902	0.5%
Kuwait	109,386	106,316	2.9%
Egypt	84,431	87,125	-3.1%
Algeria	13,189	40,415	-67.4%
Total	**452,109**	**477,758**	**-5.4%**

Revenue Contribution by Country

	2020	2019	% change
KSA	54%	51%	3 pts
Kuwait	24%	22%	2 pts
Egypt	19%	18%	-1 pts
Algeria	3%	9%	-6 pts

Backlog by Country

	2020	2019	% change
KSA	54%	45%	10 pts
Kuwait	38%	43%	-5 pts
Egypt	7%	9%	-2 pts
Algeria	1%	3%	-2 pts

In KSA, the Group recorded revenue of US$ 245.1 million, in line with last year's US$ 243.9 million. ADES' ability to protect its top-line despite the fluctuations in oil prices and the ongoing COVID-19 crisis, was in part due to the longer-term planning horizons and lower susceptibility to short term oil price fluctuations of ADES' main partner in KSA, Saudi Aramco. Specifically, ADES' KSA revenue was supported by a successful ramp up of operations for ADES 13 and ADES 14, and better offshore utilisation rates in 2020 versus 2019. During the previous period, three rigs had undergone upgrade projects for a total of 150 days versus being almost fully operational in 2020. This helped offset the lower onshore utilisation rates resulting from the temporary suspension of operations for a select number of onshore rigs towards the end of 1H 2020. It is important to note that two of the rigs have commenced operations again at the start of 2021. Saudi Arabia's contribution to revenue reached 54% in 2020, up three percentage points from last year.

In Kuwait, revenue expanded 3% year-on-year to US$ 109.4 million. Growth in Kuwait is largely attributable to demobilization revenue collected following the contract expiry of four rigs in the first part of 2020. As such, the country's contribution to revenue increased from 22% in 2019 to 24% in 2020.

Revenue generated in Egypt stood at US$ 84.4 million in 2020, down 3% year-on-year from US$ 87.1 million in 2019, as utilisation rates in the country were impacted by oil price volatility and generally adverse market conditions. The country's contribution to total revenue stood at 19% in 2020, largely in line with 2019.

Finally, in Algeria revenue of US$ 13.2 million in 2020 was down 67% year-on-year as challenging market dynamics and some temporary suspensions of operations in the second half of the year weighed significantly on operations and utilisation levels in the country. However, one suspended rig has already recommenced operations toward the end of 4Q 2020. In light of the small share of revenue made up by the Group's Algerian operations, the impact on ADES' total was minor. Algeria's contribution to revenue stood at 3% in 2020 versus 9% in 2019.

Assets by Country & Type as at 31 December 2020

	Onshore Rig	Offshore Rig	Jack-up Barge	MOPU
KSA	15	6	-	-
Kuwait	12	-	-	-
Egypt	1	7	1	1
Algeria	8	-	-	-
Other	-	-	-	-
Total Assets	**36**	**13**	**1**	**1**

Revenue by Segment

(US$ '000)	2020	2019	% change
Onshore Drilling & Workover	212,776	252,493	-15.7%
Offshore Drilling & Workover	177,430	170,257	4.2%
MOPU	25,920	25,830	0.3%
Jack Up Barge & Projects	12,844	8,415	52.6%
Other	23,138	20,762	11.4%
Total	**452,109**	**477,758**	**-5.4%**

Onshore Drilling & Workover (47% of revenue in 2020)

ADES' onshore fleet has been significantly expanded in recent years with the acquisition of 31 onshore rigs during 2018 and 2019. The Group's current fleet includes 36 rigs located in KSA, Kuwait, Egypt, and Algeria. Revenue generated by ADES' Onshore Drilling & Workover operations declined by 16% year-on-year to US$ 212.8 million in 2020. The decline is largely attributable to temporary suspension of operations for a select number of the Group's onshore rigs in Algeria and KSA. As previously mentioned, one suspended rig in Algeria has recommenced operations in 4Q 2020, while two rigs in KSA resumed operations in early 2021. The segment's contribution to revenue declined to 47% in 2020 compared to 53% in 2019.

Offshore Drilling & Workover (39% of revenue in 2020)

The Group offers offshore drilling and workover services with a focus on shallow/ultra-shallow water and non-harsh environments. ADES' offshore fleet encompasses 13 jack-up rigs, of which seven are located in Egypt and six in KSA.

Offshore Drilling & Workover revenue grew 4% year-on-year to US$ 177.4 million in 2020, up from US$ 170.3 million last year. Revenue growth was driven by a marginal improvement in offshore utilisation rates in KSA, with three rigs having undergone upgrade works for an aggregate total of 150 days during 2019 compared to operating at near-full capacity in 2020. The segment's contribution to revenue increased three percentage points to 39% in 2020.

MOPU & Jack Up Barge (9% of revenue in 2020)

ADES' MOPU services were first introduced in February 2016 with Admarine I, a converted and modified jack-up rig equipped with production and process facilities and a Floating Storage and Offloading (FSO) unit. Admarine I, located in Egypt, is currently under contract with Petrozenima to process, store and offload crude oil.

MOPU services generated revenue of US$ 25.9 million in 2020, in line with 2019.

The Group's jack-up barge and projects generated US$ 12.8 million in revenue compared to US$ 8.4 million in 2019. The increase reflects the contribution from the first phase of the new early production facility contract signed in Egypt during 2H 2020.

Other (5% of revenue in 2020)

Other revenue mainly includes catering revenue, mobilization revenue, the rental of essential operating equipment that the client has not supplied, and site preparation revenue. Other revenue increased by 11% year-on-year to US$ 23.1 million from US$ 20.8 million in 2019. The increase is largely attributable to demobilization revenue realised following the expiry of four contracts in Kuwait earlier in the year.

Operating Profit

Operating profit declined 16% year-on-year to US$ 104 million from the US$ 124 million last year. The operating profit margin also declined three percentage points to 23% for the year from 26% in 2019. The decline reflects lower revenue; higher depreciation expense on the back of the Group's increased asset base; and impairment of accounts receivables and non-current assets.

Normalised EBITDA

Normalised EBITDA, which excludes non-recurring staff costs related to crew overstays due to COVID-19 (US$ 5.3 million) and non-recurring integration programme costs (US$ 3.3 million), declined by 2.7% year-on-year to US$ 193.6 million in 2020, with an associated margin of 42.8% versus 41.7% in 2019. The higher margin for the year reflects the success of the Group's cost control efforts which helped to partially mitigate the lower revenue, as well as the ongoing successful integration of ADES' acquired rigs.

Net Finance Charges
Reported finance charges stood at US$ 65.2 million in 2020, down 26% year-on-year from the US$ 88.7 million in 2019. The decline reflects mainly the one-offs in 2019 related to the successful issuance of the Group's five-year bond, loan fees and written-off prepaid transaction costs.

Normalised net finance charges, which exclude one-off costs increased by 6.7% year-on-year to US$ 65.2 million in 2020 versus US$ 61.1 million in 2019. Higher finance charges reflect higher gross borrowings as facilities were secured to provide an optimal capital structure with the required financial flexibility and liquidity. The Group recognised finance income of US$ 0.8 million in 2020 compared to US$ 0.5 million in 2019.

Statutory and Normalised Net Profit

ADES reported a net profit of US$ 22.0 million in 2020, down 30% compared to the US$ 31.5 million in 2019. It is worth noting that both the current and comparable periods' figures include non-recurring charges as follows:

- non-recurring integration program costs totalling US$ 3.3 in 2020 and US$ 8.5 million in 2019;
- one-off charges related crew overstays due to COVID-19 of US$ 5.2 million in 2020;
- non-recuring consultancy and advisory fees of US$ 4.5 million in 2020;
- one off finance charges related to loan fees and written off prepaid transaction costs amounting to US$ 27.6 million in 2019;
- accounting adjustments stemming from IFRS 3 (Business Combinations) and a bargain purchase gain of US$ 11.9 million in 2019;
- non-recurring transaction costs of US$ 6.4 million in 2019;
- non-cash, equity-settled share-based payment compensation from the Parent Company of US$ 3.8 million in 2020 and US$ 11.3 million in 2019;
- non-cash fair-value adjustment loss under financial instruments of US$ 1.2 million in 2020 and a gain of US$ 0.8 million in 2019.

Normalised net profit, which excludes all non-recurring charges from 2020 and 2019 as outlined above, of US$ 40.0 million in 2020 compared to US$ 72.7 million for 2019. The decline during the year reflects lower revenue; higher depreciation expense which increased to US$ 62.8 million in 2020 versus US$ 51.0 million in 2019, reflecting the growth in the Group asset base; an impairment charge in Egypt related to trade receivables and non-current assets totalling US$ 7.7 million in 2020 compared to a reversal of US$ 2.8 million in 2019. This is in addition to the previously mentioned increase in finance charges of US$ 4.1 million.

Balance Sheet

Assets
Total assets stood at US$ 1.38 billion as of 31 December 2020 down from US$ 1.43 billion in the prior year. Net fixed assets were US$ 1.012 billion at the close of the year compared to US$ 987 million as of 31 December 2019, driven mainly by normal refurbishment and maintenance spend during the period.

Net accounts receivable stood at US$ 127.3 million as of 31 December 2020, down from US$ 130.7 million in 2019 reflecting the improved working capital dynamics, specifically in KSA.

Cash and cash equivalents were US$ 62.5 million as of 31 December 2020 compared to US$ 119.6 million at year-end 2019.

Liabilities

ADES' total liabilities as at 31 December 2020 were US$ 929.9 million compared to US$ 978.8 million at the prior year end. The Group's total interest-bearing loans and borrowings were US$ 714.2 million as at 31 December 2020, down from US$ 747million as at 30 June 2020 and US$ 725.8 million at the end of 2019.

Net debt stood at US$ 651.7 million as of 31 December 2020, largely unchanged from the net debt as at 30 September 2020, as reported, but higher than the US$ 606.2 million as of 31 December 2019. The higher net debt reflects investment in the Group's operating asset base.

Cash Flow

Cash Flow by Activity

(US$ '000)	2020	2019	% change
Net Cash Flow from Operating Activities	165,452	171,971	-4%
Net Cash Flow Used in Investing Activities	(116,739)	(256,228)	-54%
Net Cash Flow Used for Financing Activities	(105,825)	72,983	n/a

Cash Flow from Operating Activities

Cash flow from operating activities declined 4% year-on-year to US$ 165.5 million in 2020 reflecting the increase in taxes paid and higher employee end-of-service payments, which increased from US$ 6.5 million in 2019 to US$15.6 million in 2020.

Net Cash Flow Used in Investing Activities

Net cash flow used in investing activities declined 54% year-on-year to US$ 116.7 million in 2020 compared to the US$ 256.2 million last year. Capital expenditure in 2020 included unpaid project payments for four rigs in Kuwait that started in 2019, ADES 13 and 14 in KSA, as well as regular maintenance activity on the existing asset base.

Net Cash Flow from Financing Activities

Net cash outflow from financing activities stood at US$ 105.8 million in 2020 compared to an inflow of US$ 72.9 million last year. The change reflects repayments of US$ 85.3 million related to the Group's medium-term loans and other revolving / working capital facilities; US$ 58.3 million in interest payments; and US$ 21.5 million for the purchase of treasury stock. Meanwhile the Group drew down on the remainder of its Alinma facility totalling US$ 64 million during 2Q 2020.

Principal Risks and Uncertainties

As in any company, ADES is exposed to risks and uncertainties that may adversely affect its performance. The Board and senior management agree that the principal risks and uncertainties facing the Group include political and economic situation in Egypt, Algeria, Kuwait and KSA and the rest of the Middle East and North Africa region, foreign currency supply and associated risks, changes in regulation and regulatory actions, environmental and occupational hazards, failure to maintain the Group's high quality standards and accreditations, failure to retain or renew contracts with clients, failure to recruit and retain skilled personnel and senior management, pricing pressures and decreased business activity in the oil and gas industry, among others.

Additionally, the spread of the global COVID-19 pandemic has led to wide economic disruptions, while global developments in oil supply has caused further uncertainty in commodity markets. The Group is also exposed to specific risks posed by the COVID-19 pandemic, including, but not limited to, risk of infection among its employees, operational disruption in the case of infection on the Group’s rigs, supply-chain related risks and the ability to acquire necessary materials and failure to mobilise crew due to travel restrictions and lockdowns.

Going Concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed financial statements. The Group’s Financial Statements for the year ended 31 December 2020 are available on the Group’s website at investors.adihgroup.com

Statement of Directors' Responsibilities

Each of the Directors confirms that, to the best of their knowledge:

- The preliminary financial information, which has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- The preliminary announcement includes a fair summary of the development and performance of the business and the position of the Group.

After making enquiries, the Directors considered it appropriate to adopt the going concern basis in preparing the consolidated financial statements.

A list of current directors of the Company is maintained on the Group’s website at investors.adihgroup.com.

On behalf of the Board

Dr. Mohamed Farouk
Chief Executive Officer

Terms and Definitions

Adjusted EBITDA – Operating profit for the year before depreciation and amortisation, employee benefit provision, other provisions, impairment of assets and assets under construction and provision for impairment of trade receivables and contract assets.

Normalised EBITDA – Adjusted EBITDA excluding non-recurring charges related to a) non-recurring staff cost related to crew overstay due to COVID-19; and b) non-recurring integration program costs.

Normalised Net profit – Net profit before non-controlling interest after excluding non-recurring charges from: a) non-recurring staff cost related to crew overstay due to COVID 19; b) non-recurring integration program costs; c) one off finance charges related to loan fees and written off prepaid transaction costs; d) accounting adjustments related to IFRS 3 (Business Combinations) and a one-off bargain purchase gain; e) non-cash, equity-settled share-based payment compensation from the parent company; f) non-cash fair-value adjustments under financial instruments; and g) non-recurring transactions.

FCFF – Free Cash Flow to Firm calculated as cash flow from operations (after working capital changes) less taxes paid, less CAPEX.

Backlog – means the total amount payable to the Group during the remaining term of an existing contract plus any optional client extension provided for in such contract, assuming the contracted rig will operate (and thus receive an operating day rate) for all calendar days both in the remaining term and in the optional extension period.

GCC – Gulf Cooperation Council.

MENA – The Middle East and North Africa.

MOPU – Mobile Operating Production Unit.

Recordable Injury Frequency Rate (RIFR) – The number of fatalities, lost time injuries, cases or substitute work and other injuries requiring medical treatment by a medical professional per 200,000 working hours.

KSA –The Kingdom of Saudi Arabia.

Utilisation Rate – refers to our measure of the extent to which our assets under contract and available in the operational area are generating revenue under client contracts. We calculate our utilisation rate for each rig by dividing Utilisation Days by Potential Utilisation days under a contract. Utilisation rates are principally dependent on our ability to maintain the relevant equipment in working order and our ability to obtain replacement and other spare parts. Because our measure of utilisation does not include rigs that are stacked or being refurbished or mobilised, our reported utilisation rate does not reflect the overall utilisation of our fleet, only of our operational, contracted rigs.

Gross Debt – Total interest-bearing loans and borrowings.

Net Debt – Total gross debt minus cash and cash equivalents.

ADES International Holding PLC and its Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
31 December 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

USD	Notes	2020	2019
Revenue from contract with customers	6	**452,108,570**	477,757,547
Cost of revenue	7	**(282,344,173)**	(285,728,112)
GROSS PROFIT		**169,764,397**	192,029,435
General and administrative expenses	8	**(47,395,777)**	(52,463,669)
End of service employment benefits	22	**(5,348,358)**	(4,899,967)
Provision for impairment of non-current assets	16	**(5,100,062)**	-
(Provision) / release for impairment of trade receivables	14	**(2,558,649)**	2,776,252
Provision for impairment of inventory	13	**(686,478)**	(253,329)
Share-based payments expense	24	**(3,845,870)**	(11,341,219)
Other provisions	22	**(410,669)**	(1,443,181)
OPERATING PROFIT		**104,418,534**	124,404,322
Finance costs	9	**(65,218,703)**	(88,702,079)
Finance income	12	**801,944**	512,013
Bargain purchase gain	5	-	11,877,674
Provision for impairment of investment	11	**(535,000)**	-
Business acquisition transaction costs		-	(6,432,718)
Other income		-	1,786,501
Other taxes		**(512,159)**	(438,716)
Other expenses		**(6,808,333)**	(2,907,204)
Fair value (loss)/ gain on derivative financial instrument held for trade	31	**(1,178,052)**	771,134
PROFIT FOR THE YEAR BEFORE INCOME TAX		**30,968,231**	40,870,927
Income tax expense	10	**(8,946,717)**	(9,337,365)
PROFIT FOR THE YEAR		**22,021,514**	31,533,562
Attributable to:			
Equity holders of the Parent		**19,621,487**	28,630,013
Non-controlling interests		**2,400,027**	2,903,549
		22,021,514	31,533,562
Earnings per share - basic and diluted attributable to equity holders of the Parent (USD per share)	26	**0.46**	0.65
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of any tax)			
Net loss on cash flow hedge	25	**(838,435)**	(6,147,575)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NEXT OF TAX		**(838,435)**	(6,147,575)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**21,183,079**	25,385,987
Attributable to:			
Equity holders of the Parent		**18,783,052**	22,482,438
Non-controlling interests		**2,400,027**	2,903,549
		21,183,079	25,385,987

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

USD	Notes	2020	2019
ASSETS			
Non-current assets			
Property and equipment	16	**1,011,900,526**	987,216,314
Right of use assets	17	**19,558,620**	23,422,290
Intangible assets	18	**334,671**	347,304
Investment in an associate and a joint venture	11	**3,159,392**	4,140,576
Trade receivables	14	**57,404,688**	38,947,290
Other non-current assets		**1,515,406**	2,858,310
Total non-current assets		**1,093,873,303**	1,056,932,084
Current assets			
Inventories	13	**47,609,141**	44,820,164
Trade receivables	14	**69,903,029**	91,780,792
Contract assets	14	**32,992,130**	41,541,310
Due from related parties	27	**3,602,587**	4,740,918
Prepayments and other receivables	15	**73,415,085**	72,150,555
Bank balances and cash	12	**62,488,548**	119,601,159
Total current assets		**290,010,520**	374,634,898
TOTAL ASSETS		**1,383,883,823**	1,431,566,982
EQUITY AND LIABILITIES			
Equity			
Share capital	23	**43,793,882**	43,793,882
Share premium	23	**178,746,337**	178,746,337
Merger reserve	25	**-6,520,807**	-6,520,807
Legal reserve	25	**6,400,000**	6,400,000
Share-based payments reserve	24	**15,187,089**	11,341,219
Treasury shares	23	**-24,989,266**	-3,501,200
Cash flow hedge reserve	25	**-6,986,010**	-6,147,575
Retained earnings		**238,846,906**	219,225,419
Equity attributable to equity holders of the Parent		**444,478,131**	443,337,275
Non–controlling interests		**9,419,257**	9,387,205
Total equity		**453,897,388**	452,724,480
Liabilities			
Non-current liabilities			
Loans and borrowings	20	**305,304,696**	322,354,493
Bonds payable	21	**315,479,756**	313,158,968
Lease liabilities	17	**13,960,306**	13,316,152
Provisions	22	**16,590,477**	16,375,652
Derivative financial instrument	31	**6,215,471**	6,584,893
Deferred mobilisation revenue		**17,411,177**	11,751,262
Other non-current payables		-	10,988,839
Total non-current liabilities		**674,961,883**	694,530,259
Current liabilities			
Trade and other payables	19	**163,164,786**	196,329,456
Loans and borrowings	20	**85,696,878**	83,692,835
Provisions	22	**588,059**	1,100,000
Due to related parties	27	**57,192**	58,224
Derivative financial instrument	31	**5,517,637**	3,131,728
Total current liabilities		**255,024,552**	284,312,243
Total liabilities		**929,986,435**	978,842,502
TOTAL EQUITY AND LIABILITIES		**1,383,883,823**	1,431,566,982

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OFCHANGES IN EQUITY

For the year ended 31 December 2020

USD	Share capital	Share premium	Merger reserve	Legal reserve	Share based payment reserve	Cash flow hedge reserve	Treasury shares	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2020	43,793,882	178,746,337	(6,520,807)	6,400,000	11,341,219	(6,147,575)	(3,501,200)	219,225,419	443,337,275	9,387,205	452,724,480
Dividends (Note 32)	-	-	-	-	-	-	-	-	-	(2,367,975)	(2,367,975)
Profit for the year	-	-	-	-	-	-	-	19,621,487	19,621,487	2,400,027	22,021,514
Other comprehensive income for the year	-	-	-	-	-	(838,435)	-	-	(838,435)	-	(838,435)
Total comprehensive income for the year	-	-	-	-	-	(838,435)	-	19,621,487	18,783,052	2,400,027	21,183,079
Treasury shares (Note 23)	-	-	-	-	-	-	(21,488,066)	-	(21,488,066)	-	(21,488,066)
Investment in a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Share-based payments (Note 24)	-	-	-	-	3,845,870	-	-	-	3,845,870	-	3,845,870
Balance at 31 December 2020	**43,793,882**	**178,746,337**	**(6,520,807)**	**6,400,000**	**15,187,089**	**(6,986,010)**	**(24,989,266)**	**238,846,906**	**444,478,131**	**9,419,257**	**453,897,388**
Balance at 1 January 2019	43,793,882	178,746,337	(6,520,807)	6,400,000	-	-	-	190,595,406	413,014,818	8,413,319	421,428,137
Dividends (Note 32)	-	-	-	-	-	-	-	-	-	(1,934,284)	(1,934,284)
Profit for the year	-	-	-	-	-	-	-	28,630,013	28,630,013	2,903,549	31,533,562
Other comprehensive income for the year	-	-	-	-	-	(6,147,575)	-	-	(6,147,575)	-	(6,147,575)
Total comprehensive income for the year	-	-	-	-	-	(6,147,575)	-	28,630,013	22,482,438	2,903,549	25,385,987
Treasury shares (Note 23)	-	-	-	-	-	-	(3,501,200)	-	(3,501,200)	-	(3,501,200)
Investment in a subsidiary	-	-	-	-	-	-	-	-	-	4,621	4,621
Share-based payments (Note 24)	-	-	-	-	11,341,219	-	-	-	11,341,219	-	11,341,219
Balance at 31 December 2019	43,793,882	178,746,337	(6,520,807)	6,400,000	11,341,219	(6,147,575)	(3,501,200)	219,225,419	443,337,275	9,387,205	452,724,480

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

USD	Notes	2020	2019
OPERATING ACTIVITIES			
Profit for the year before income tax		**30,968,231**	40,870,927
Adjustments for:			
Depreciation of property and equipment	16	**57,577,667**	45,555,024
Amortisation of intangible assets	18	**141,582**	121,861
Amortisation of right of use assets	17	**5,048,698**	5,348,361
Impairment of non-current assets	16	**5,100,062**	-
Loss on sale of asset		**361,898**	-
Provision / (release) for impairment of trade receivables and contract assets	14	**2,558,649**	(2,776,252)
Provision for impairment of inventory	13	**686,478**	253,329
Provision for impairment of investment	11	**535,000**	-
End of service employment benefits	22	**5,348,358**	4,899,967
Share-based payments expense	24	**3,845,870**	11,341,219
Other provisions	22	**410,669**	1,443,181
Interest on loans and borrowings	9	**65,218,703**	88,702,079
Finance income	12	**(801,944)**	(512,013)
Other income		-	(527,344)
Bargain purchase gain	5	-	(11,877,674)
Share of results of investment in a joint venture and associate	11	**446,184**	(774,898)
Fair value loss on derivative financial instrument	31	**1,178,052**	(771,134)
Cash from operations before working capital changes		**178,624,157**	181,296,633
Inventories		**(4,241,600)**	(4,692,539)
Trade receivables		**(1,134,623)**	(33,371,207)
Contract assets		**8,549,180**	(5,171,661)
Due from related parties		**1,138,331**	(4,363,573)
Prepayments and other receivables		**310,688**	(24,493,097)
Trade and other payables		**(2,076,001)**	69,304,116
Due to related parties		**(1,032)**	2,118
Cash flows from operations		**181,169,100**	178,510,790
Income tax paid	10	**(9,660,529)**	(2,837,570)
Provisions paid	22	**(6,056,143)**	(3,701,740)
Net cash flows from operating activities		**165,452,428**	171,971,480
INVESTING ACTIVITIES			
Purchase of intangible assets	18	**(23,250)**	-
Purchase of property and equipment		**(117,629,564)**	(179,326,324)
Proceeds from sale of property and equipment		**111,378**	-
Acquisitions of subsidiaries and new rigs		-	(76,237,278)
Interest received	12	**801,944**	512,013
Investment in joint venture		-	(1,181,295)
Proceeds from non-controlling interest share of capital at establishment date		-	4,621
Net cash flows used in investing activities		**(116,739,492)**	(256,228,263)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings	20	**67,377,226**	179,493,220
Repayment of loans and borrowings	20	**(85,336,755)**	(351,018,420)
Proceeds from bond issuance		-	325,000,000
Payments of loan/bonds transaction costs		-	(11,841,033)
Purchase of treasury shares	23	**(21,488,066)**	(3,501,200)
Interest paid		**(58,329,222)**	(56,269,830)
Payment of lease liabilities	17	**(5,680,755)**	(6,945,750)
Dividend payments	32	**(2,367,975)**	(1,934,284)
Net cash flows (used in) from financing activities		**(105,825,547)**	72,982,703
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(57,112,611)**	(11,274,080)
Cash and cash equivalents at the beginning of the year	12	**119,601,159**	130,875,239
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	**62,488,548**	119,601,159

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The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

1 BACKGROUND

1.1 Corporate information

ADES International Holding PLC (the “Company” or the “Parent Company”) was incorporated and registered in the Dubai International Financial Centre (DIFC) on 22 May 2016 with registered number 2175 under the Companies Law – DIFC Law No. 2 of 2009 (and any regulations thereunder) as a private company limited by shares. The Company’s shares are listed on the Main Market of the London Stock Exchange. The Company’s name has changed from ADES International Holding Ltd to ADES International Holding PLC during 2019. The Company’s registered office is at level 5, Index tower, Dubai International Financial Centre, PO Box 507118, Dubai, United Arab Emirates. The principal business activity of the Company is to act as a holding company and managing office. The Company and its subsidiaries (see below) constitute the Group (the “Group”). The Company is owned by ADES Investments Holding Ltd., a company incorporated on 22 May 2016 under the Companies Law, DIFC Law no. 2 of 2009, which is the majority shareholder and ultimate controlling party.

The consolidated financial statements were authorised for issue on 28 March 2021 by the Board of Directors.

The Group is a leading oil and gas drilling and production services provider in the Middle East and Africa. The Group services primarily include offshore and onshore contract drilling and production services. The Group currently operates in Egypt, Algeria, Kuwait and the Kingdom of Saudi Arabia. The Group’s offshore services include drilling and workover services and Mobile Offshore Production Unit (MOPU) production services, as well as accommodation, catering and other barge-based support services. The Group’s onshore services primarily encompass drilling and work over services. The Group also provides projects services (outsourcing various operating projects for clients, such as maintenance and repair services).

The consolidated financial statements of the Group include activities of the following main subsidiaries:

Name	Principal activities	Country of incorporation	% equity interest 2020	% equity interest 2019
Advanced Energy Systems (ADES) (S.A.E)*	Oil and gas drilling and production services	Egypt	100%	100%
ADES Saudi Limited Company*	Oil and gas drilling and production services	KSA	100%	N/A
Precision Drilling Company**	Holding company	Cyprus	100%	100%
Kuwait Advanced Drilling Services	Leasing of rigs	Cayman	100%	100%
Prime innovations for Trade S.A.E	Trading	Egypt	100%	100%
ADES International for Drilling	Leasing of rigs	Cayman	100%	100%
ADES-GESCO Training Academy	Training	Egypt	70%	70%
Advanced Transport Services	Leasing of transportation equipment	Cayman	100%	100%
Advanced Drilling Services	Trading	Cayman	100%	100%
ADES Holding for Drilling Services Ltd***	Investment in Oil & Gas Projects	UAE	100%	N/A

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* Advanced Energy Systems (ADES) (S.A.E) has branches in Algeria, UAE and Iraq. In 2020 ADES S.A.E converted its branch in KSA to a limited liability company - ADES Saudi Limited Company.

** Precision Drilling Company holds a 47.5% interest in United Precision Drilling Company W.L.L, a Kuwait entity which handles the operations of the rigs in Kuwait.

*** ADES Holding for Drilling Services Ltd has set up a branch in Tunisia in 2020.

The Company holds investment in Egyptian Chinese Drilling Company (ECDC) (joint venture) and ADVantage for Drilling Services Company (associate) which are accounted for using the equity method of accounting in these consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for derivative financial instrument carried at fair value which includes interest rate swap contracts classified as held-for-trading and those designated as hedging instrument. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of the Companies Law pursuant to DIFC Law No. 5 of 2018.

The consolidated financial statements are presented in United States Dollars ("USD"), which is the functional currency of the Parent Company and the presentation currency for the Group.

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

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and 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:

(a) The contractual arrangement with the other vote holders of the investee
(b) Rights arising from other contractual arrangements
(c) 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 financial statements 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 holders of the Parent Company 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 consolidated financial statements of a member in the Group to bring its 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. Subsidiaries are fully consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The Consolidated financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting policies.

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 interests
- 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 profit or loss
- 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

Business combinations and acquisition of non-controlling interests
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in the 'administrative expenses' line-item.

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

Contingent consideration, resulting from business combinations, is measured at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss as a 'bargain purchase gain'.

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

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

Business combination involving entities under common control
Transactions involving entities under common control where the transaction does not have any substance, the Group adopts the pooling of interest method. Under the pooling of interest method, the carrying value of assets and liabilities are used to account for these transactions. No goodwill is recognised as a result of the combination. The only goodwill recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid and the carrying value of net assets acquired is reflected as "Reserve" within equity.

A number of factors are considered in evaluating whether the transaction has substance, including the following:

- the purpose of transaction;
- the involvement of outside parties in the transaction, such as non-controlling interests or other third parties;
- whether or not the transactions are conducted at fair values;
- the existing activities of the entities involved in the transaction; and
- whether or not it is bringing entities together into a "reporting entity" that did not exist before.

Periods prior to business combination involving entities under common control are not restated.

Interest in joint ventures and associates
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 joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in the joint venture and associate are both accounted for using the equity method. Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the investee since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated profit or loss reflects the Group's share of the results of operations of the joint venture and associate. Any change in the other comprehensive income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture or associate, the Group recognises its share of any changes, when applicable, directly in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate unrelated to the Group.

The aggregate of the Group's share of profit or loss of a joint venture and associate is included in profit or loss on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture or associate.

The financial statements of the joint venture and associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture or associate and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss.

Upon loss of joint control over a joint venture or significant influence over an associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence, and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.2 CHANGES IN THE ACCOUNTING POLICIES AND DISCLOSURES

(a) New and amended standards and interpretations became effective during the year

- The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The application of these new standards, interpretation and amendment did not have a material impact on the annual consolidated financial statements of the Group. These new standards, interpretations and amendments are listed below:

- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8 Definition of Material
- Conceptual Framework for Financial Reporting
- Amendments to IFRS 16 Covid-19 Related Rent Concession

b) Standards, amendments and interpretations in issue but not effective

The relevant standards, interpretations and amendments that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The management intends to adopt these standards, if applicable, when they become effective.

Standards, interpretation and amendments	*Effective for annual periods beginning on or after*
Insurance Contracts - IFRS 17	1 January 2023
Amendments to IFRS 3 Business Combinations	1 January 2022
Amendments to IAS 1 - Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 16 Property, Plant and Equipment	1 January 2022
Amendments to IAS 37 - Costs of Fulfilling a Contract	1 January 2022
Annual improvements to IFRS 1, IFRS 9 and IAS 41	1 January 2022

Management anticipates that the adoption of standards issued but not yet effective will have no material impact on the consolidated financial statements of the Group.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 current when it is:

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

All other assets are classified as non-current.

A liability is 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.

Revenue recognition
The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15.

Step 1. Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
Step 2. Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
Step 5. Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

a) The Group's performance does not create an asset with an alternate use to the Group and the Group has as an enforceable right to payment for performance completed to date.
b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Based on the assessment of the customer contracts, the Group has identified one performance obligation for each of its contracts and therefore revenue is recognised over time. Some of the customer contracts may include mobilization and demobilisation activities for which revenue, along with the related cost are amortised over the period of contract life from the date of the completion of mobilization activities.

Dividends
Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Interest income
Interest income is recognised as the interest accrues using the effective interest rate method, under which the rate used exactly discounts, estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Contract balances
Contract assets
A contract asset is the right to consideration in exchange of goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for earned consideration that is conditional.

Trade receivables
A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before the payment of the consideration is due). Refer to the accounting policies of financial assets in section financial instruments – initial recognition and subsequent measurement.

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

Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

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

periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Group is not subject to income tax in accordance with the Egyptian tax law (Egypt) and DIFC law (UAE). The Group's branches and subsidiaries are subject to income tax and withholding tax in accordance to Kingdom of Saudi Arabia Law, Algeria Law, and Kuwait Law.

Deferred tax

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

Foreign currencies

The Group's consolidated financial statements are presented in USD, which is also the Company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities 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 translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates 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 translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

Inventories
Inventories are initially measured at cost and subsequently at lower of cost using weighted average method or net realisable value.

Property and equipment
Assets under construction, property and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the profit or loss as incurred.

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

	Years
Rigs	27
Mobile Offshore Production Unit (MOPU)	5
Furniture and fixtures	10
Drilling pipes	5
Tools	10
Office premises	20
Computers and equipment	5
Motor vehicles	5
Leasehold improvements	5

Rigs include overhaul, environment and safety costs that are capitalised and depreciated over 5 years. No depreciation is charged on assets under construction. The useful lives and depreciation method are reviewed annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets. Any change in estimated useful life is applied prospectively effective from the beginning of year. Expenditure incurred to replace a component of an item of property 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 future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated statement of profit or loss as the expense is incurred.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of property and equipment may not be recoverable.

Whenever the carrying amount of property and equipment exceeds their recoverable amount, an impairment loss is recognised in the consolidated statement of profit or loss. The recoverable amount is the higher of fair value less costs to sell of property and equipment and the value in use. The 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. While value in use is the present value of estimated future cash flows expected to arise from the continuing use of property and equipment and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in the prior years are recorded when there is an indication that the impairment losses recognised for the property and equipment no longer exist or have reduced.

An item of property and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on de recognition is included in the consolidated statement of profit or loss.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is reflected in the consolidated profit and loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Intangible assets are amortised using the straight-line method over their estimated useful lives (5 years).

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.

Financial assets

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

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 and contract assets 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 and contract assets 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.

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.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Group's financial assets at amortised cost include trade and other receivables, due from related parties and cash and bank balances. The Group does not have financial assets at fair value through OCI or through profit or loss.

Financial assets at amortised cost (debt instruments)
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 (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets
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
- 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.

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.

Impairment of financial assets
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. 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.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

The Group's financial liabilities include trade and other payables, due to related party balances, loans and borrowings including bank overdrafts and other financial liabilities.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

(i) Trade and other payables
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

(ii) Loans and borrowings
This is the category most relevant to the Group. After initial recognition, loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR 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 EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss. This category generally applies to loans and borrowings.

(iii) Other financial liabilities at amortised cost
Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
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 consolidated statement of profit or loss.

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

Derivative financial instrument
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 uses derivative financial instruments, such as interest rate swap, to hedge its interest rate risks. These interest rate swaps are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Hedge accounting
For the purpose of hedge accounting, the Group has designated one of its two derivative financial instruments (interest rate swaps) as a cash flow hedge. At the inception of a hedge relationship, the Group formally designates and

documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of comprehensive income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Derivative instrument held for trading
The Group classifies one of its two interest rate swaps as derivative held for trading and did not apply hedge accounting, which is fair valued at initial recognition and subsequently. Any change in fair value is recorded in the statement of comprehensive income as fair value gain (loss) on derivative financial instrument.

Impairment of non-financial assets
Further disclosures relating to impairment of non-financial assets are also provided in note 3 (significant accounting estimates, judgements and assumptions) and note 16 (property and equipment).

The Group assesses at each reporting date whether there is an indication that a non-financial 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 units (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. Where 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset’s or cash-generating unit’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 consolidated statement of profit or loss.

Leases
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

	Years
Yards and warehouse	4
Office premises	5
Motor vehicles	3
Other equipment	5
Furniture and fixture	10
Building	20

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also 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. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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 of machinery and equipment (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 of office equipment that are considered of low value (i.e., below USD 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.

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 the amount can be reliably estimated. When the Group expects some or all of a provision to be reimbursed, 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 consolidated statement of profit or loss net of any reimbursement. Provisions

are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Contingencies
Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Legal reserve
According to one of the subsidiaries' articles of association, 5% of the net profit for the prior year of the Subsidiary is transferred to a legal reserve until this reserve reaches 20% of the issued capital. The reserve is used upon a decision from the general assembly meeting based on the proposal of the Board of Directors of the Subsidiary.

Treasury shares
Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in the share premium.

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. For assets traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. For unquoted assets, fair value is determined by reference to the market value of a similar asset or is based on the expected discounted cash flows. 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:

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

Cash dividend and non-cash distribution to equity holders of the Parent
The Group recognises a liability to make cash or non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity. Non-cash distributions are measured at the fair value of the assets to be distributed with fair value remeasurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of profit or loss.

3 SIGNIFICANT ACCOUNTING ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

Judgements
The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. 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.

In the process of applying the Group's accounting policies, management has made certain judgements, estimates and assumptions in relation to the accounting for the business acquired, accounts receivable, customer credit periods and doubtful debts provisions, creditors' payment period, useful lives and impairment of property and equipment, income taxes and various other policy matters. These Judgements have the most significant effects on the amounts recognised in the consolidated financial statements.

Consolidation of an entity in which the Group holds less than a majority of voting right
The Group considers that it controls United Precision Drilling Company W.L.L ("UPDC") even though it owns less than 50% of the voting rights. This is mainly because (a) the Group has a substantive right to direct conclusion of revenue contracts, capital expenditures and operational management; (b) the Group has a significantly higher exposure to variability of returns than its voting rights; (c) the Group is the owner of all drilling rigs and equipment and charters the drilling rigs to UPDC on exclusive basis. Management also considered that non-controlling interest in UPDC is not material as compared to the consolidated financial position.

The lease term of contracts with renewal options
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 the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. 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 (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of property and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on operation if a replacement is not readily available.

Judgement in determining whether assets acquired, and liabilities assumed qualify as a business combination
During 2019 and 2018, the Group acquired 31 rigs and other assets from Weatherford Drilling International ("the Seller" or "WDI"). The acquisition of the rigs and other assets from WDI is a global deal covering 3 jurisdictions. The rigs are located in various countries as follows: 11 rigs in KSA, 12 rigs in Kuwait, 2 rigs in Iraq and 6 rigs in Algeria.

The closing of the KSA and Kuwait Assets transactions took place on 30 November 2018 and 31 October 2018, respectively, whereas closure of the Alegria and Iraq Assets transactions took place in 2019:

Algeria Assets: 6 rigs and related equipment, drilling contracts and other contracts, vendor contracts, all other equipment and inventories (including work in progress) related to rigs to the extent used or intended to be used in the drilling business, business intellectual property and records related to the drilling business in Algeria, and certain employees. The closing of the Algeria Assets transaction took place on 28 February 2019 (4 rigs) and 18 March 2019 (2 rigs).

Iraq Assets: 2 rigs with related equipment and inventories (purchase of Iraq rigs was explicitly excluded from the scope of Kuwait assets upon the closing of Kuwait transaction through a separate side agreement dated 31 October 2018) and transfer of the Iraq rigs was made through separate transfer agreements. The closing of the Iraq Assets took place on 11 February 2019 (1 rig) and 25 March 2019 (1 rig).

During the year ended 31 December 2019, we performed an extensive analysis of the terms of the agreements entered into to give effect to the above transactions and applied the 'inputs, processes and outputs' approach required by IFRS 3 on each individual transaction. We also consulted our legal advisor about the enforceability of the rights and obligations under each of these agreements. Our evaluation resulted in the Algeria and Iraq transactions each qualifying as a business combination.

Key sources of estimation uncertainty

Fair value measurements and valuation processes in relation to the acquired assets and liabilities as part of business combination
During the year ended 31 December 2019, the Group completed the acquisition accounting for the new businesses acquired during 2019 and 2018 (refer to note 5). For the purposes of fair valuation of the rigs and inventories acquired the Group engaged and independent valuation specialists who utilised income approach (discounted cash flow analysis), cost approach and market approach as per the requirements of IFRS 13- Fair Value Measurement.

In accordance with IFRS 13 Fair Value Measurement, in some cases a single valuation will be appropriate, while in other cases, multiple valuation techniques will be appropriate. If multiple valuation techniques are used to measure fair value, the results (i.e. respective indications of fair value) are evaluated considering the reasonableness of the range of values indicated by those results. For example, the following valuation approaches have been applied by management, as appropriate, to measure the acquisition-date fair value of assets acquired by the Group in business combinations:

Fair value measurements and valuation processes in relation to the acquired assets and liabilities as part of business combination (continued)
(1) Market approach—based on market transactions involving identical or similar assets or liabilities, (2) Income approach—based on future amounts of cash flows or income and expenses that are discounted to a single present amount and (3) Cost approach—based on the amount required to replace the service capacity of an asset (usually referred to as current replacement cost).

IFRS 13 does not prioritise the use of one valuation technique over another or require the use of only one technique except in situations where identical financial instruments exist that trade in active markets in which case the entity's financial instruments shall be measured at the market price of the identical instruments multiplied by quantity (P x Q). In measuring the fair value of an asset or liability, management use valuation techniques that are appropriate in the circumstances and for which sufficient data is available. Therefore, multiple valuation techniques were used, and judgment is exercised by management in applying them.

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities, such as a business. Although the market approach is described by IFRS 13 as a widely used valuation technique, its use becomes less favorable and/or relevant in situations for which observable inputs in active markets are limited, and where no exit prices exist for those assets on a stand-alone basis because market information indicates that they are being exchanged together with other elements as part of an entire business. The Group is acquiring a business and not an asset.

Accordingly, management believe that using multiple techniques is more appropriate and should be considered when evaluating the reasonable range of values to indicate the fair value of the assets acquired rather than a single approach such as the market approach. The Group does not rely solely on the market approach because of the low volume and level of activity for exchanges in similar rig-assets in the relevant markets and because this approach does not reflect any revenue generated from these units and only reflects price for identical or comparable (similar) assets. The Market Approach depends mainly on Level 1 inputs which are observable inputs and minimises the use of unobservable inputs.

Thus, the nature of the characteristics of the rigs being measured and the limited observable market prices for similar assets contributed to the suggested use of several valuation techniques under the 3 above approaches. Since the Group is acquiring businesses rather than stand-alone assets, it was appropriate to estimate the fair value of each business by giving consideration to multiple valuation approaches, such as income approach that derives value from the present value of the expected future cash flows specific to the business and a market approach that derives value from the market data (such as EBITDA or revenue multiples). IFRS 13 also permits the use of the cost approach, where appropriate.

Application of the market, income and cost valuation techniques each produced a range of possible values (e.g. lower-end and higher-end values). In accordance with the requirements of IFRS 13, management evaluated the reasonableness of the range in order to select the point within the range that is most representative of fair value. A professional expert had been assigned to review the valuation and considered the merits of each valuation technique applied, and the underlying assumptions embedded in each of the techniques. IFRS 13 requires an entity, in case such approaches produce results that are disparate, to perform further analysis. Management, with assistance from the professional expert, sought to understand why the resulting differences exist among the above techniques and what assumptions might have contributed to the variance. The objective was to find the point in the range that most reflects an exit price.

From management's view, the market technique uses assumptions that are somehow inconsistent with how market participants would look at the transaction. Management believe that the acquired rig-assets would provide maximum value to market participants through its use in combination with its complementary assets, contracts and associated liabilities that is, a whole business. Management believe that the sellers' use of the rig-assets, prior to the Group's acquisition, is the highest and best use in the context of the drilling business.

Fair value measurements and valuation processes in relation to the acquired assets and liabilities as part of business combination (continued)
Thus, the income approach was applied using a present value technique. The cash flows used in that technique reflect the income stream expected to result from the contracted rig-assets over its economic life. In other words, the income stream comprises the contractual cash flows expected to result from the associated backlogs for the remaining term of the associated drilling contracts in addition to the residual/termination value reflecting cash flows for the asset's remaining economic life. Also, the cost approach was applied, on the relevant group of assets, by estimating the amount that currently would be required to substitute rig-assets with comparable utility with appropriate adjustments for assets condition (used) and location (installed and configured for use or stacked).

Based on the above, management concluded that the results of the market approach could not be used in isolation as a representative of fair value. Additionally, the used other two techniques (income and cost) together with the market technique produced indications of fair value that are disparate. Therefore, management considered the possible range of fair value measures and what is most representative of fair value taking into consideration that:

- The income valuation technique may be more representative of fair value for contracted rig-asset than other techniques;
- Inputs used in the cost/or market valuation technique may be more readily observable in the marketplace for standard and/or uncontracted assets, stacked rigs or require fewer adjustments.

Impairment of trade receivables and contract assets
The Group recognises an allowance for expected credit losses (ECLs). The Group applies a simplified approach in calculating ECLs with respect to trade receivables and contract 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. At the consolidated statement of financial position date, gross trade receivables and contract assets were USD 165,026,617 (2019: USD 174,437,513) and the provision for impairment in trade receivables and contract assets was USD 4,726,770 (2019: USD 2,168,121). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

Taxes
The Group is exposed to income taxes in certain jurisdictions. Significant judgement is required to determine the total tax liability. Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The tax liability is established, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which the Group-entities operate.

The amount of such liability is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences in interpretation may arise for a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies. At the reporting date, the current income tax payable was USD 9,494,440 (2019: USD 9,975,938).

Identification of Cash generating units and impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets for each CGU at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Management identified four CGUs namely Egypt, Algeria, Kingdom of Saudi Arabia and Kuwait based on the following:
- All the rigs and related assets are contracted to a single customer in Kingdom of Saudi Arabia and Kuwait
- All the rigs and related assets are contracted to the customers that are regulated by one single party in Egypt and Algeria that approve all the contracts and regulates the market and relationship between the Group and customers
- Cash inflows are not largely independent within each country
- Management monitors and makes decisions about its assets and operations at the country level

Identification of Cash generating units and impairment of non-financial assets (continued)
Management uses the value in use calculation for impairment testing at each CGU level which is based on a discounted cash flow (DCF) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities. The recoverable amount is sensitive to the discount rate used for the DCF, the expected future cash-inflows, estimated remaining useful life and discount rates. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in note 16.

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 value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Write-down of inventories to net realisable value (NVR)
Inventories are carried at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. At the reporting date, gross inventories were USD 48,548,948 (2019: USD 45,073,493). At the reporting date, the cumulative provision for slow moving items stands at USD 939,807 (2019: USD 253,329). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in profit or loss in the consolidated statement of comprehensive income.

Impairment of dividends receivable and investment in associates and joint ventures
The Group has a dividend receivable from the Egyptian Chinese Drilling Company (ECDC), an investment that is classified by the Group as a joint venture. As at 31 December 2020, the outstanding allowance for impairment in the amount of this dividend receivable is USD 245,000 (2019: USD 245,000). As described in note 11, the Group currently holds 48.75% equity interest in ECDC amounting to USD 1,282,299 (2019: USD 2,207,916). On 5 July 2018, ECDC’s shareholders entered into a Shareholders Agreement whereby the Group obtained a joint control over ECDC and, consequently, the Group’s interest in ECDC became an investment in joint venture effectively from that date.

The Shareholders’ Agreement dated 5 July 2018 sets out a joint control framework between ADES and the other major shareholder who holds 51.25%. This resulted in the change of status of this investment from financial asset to investment in a joint venture during 2018 with no purchase price consideration transferred by the Group. In accordance with the IFRS guidance, the Group’s investment in ECDC is measured fair value at the date on which the change in the status had occurred.

Based on a third-party valuation report and further analysis performed by the management, management recorded USD 535,000 (2019: Nil) and believes that the remaining carrying value of investment and dividend receivable balances are recoverable. The recoverable amount is sensitive to the expected future cash-inflows and the growth rate used for projection of the future results of ECDC.

4 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions. As operationally, the Group is only in the oil and gas production and drilling services, the CEO considers the business from a geographic perspective and has identified four geographical segments (2019: four geographical segments****). Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment USD	*Egypt*	*Algeria*	*Kingdom of Saudi Arabia*	*Kuwait*	*Total Segment****	*United Arab Emirates (Corporate)*	*Adjustments & eliminations****	*Total*
For the year ended 31 December 2020								
Revenue								
External customers	84,430,543	13,188,511	245,103,198	109,386,318	452,108,570	-	-	452,108,570
Inter-segment	77,104,860	-	-	-	77,104,860	-	(77,104,860)	-
Total Revenue	161,535,403	13,188,511	245,103,198	109,386,318	529,213,430	-	(77,104,860)	452,108,570
Income/(expenses)								
Cost of revenue*	(39,452,928)	(8,175,236)	(122,655,783)	(50,770,571)	(221,054,518)	-	-	(221,054,518)
General and administrative expenses	(6,858,510)	(1,776,460)	(23,119,636)	(9,522,325)	(41,276,931)	(6,118,846)	-	(47,395,777)
Finance costs (net)	(9,197,479)	(1,158,740)	(30,023,665)	(16,549,158)	(56,929,042)	(7,487,717)	-	(64,416,759)
Depreciation and amortisation	(22,305,544)	(2,452,949)	(23,678,677)	(12,852,485)	(61,289,655)	-	-	(61,289,655)
Other expenses (net) **	(5,309,771)	(751,763)	(10,066,566)	(5,100,687)	(21,228,787)	(9,601,498)	-	(30,830,285)
Provision for impairment of non-current assets	(5,100,062)	-	-	-	(5,100,062)	-	-	(5,100,062)
Profit / (Los)s- excluding inter-segment revenue	(3,793,751)	(1,126,637)	35,558,871	14,591,092	45,229,575	(23,208,061)	-	22,021,514
Total Assets as at 31 December 2020 (i)	**839,404,655**	**86,437,686**	**99,778,593**	**340,691,574**	**1,366,312,508**	**17,571,315**	**-**	**1,383,883,823**
Total Liabilities as at 31 December 2020	**379,841,776**	**7,897,195**	**58,162,910**	**67,035,038**	**512,936,919**	**417,049,516**	**-**	**929,986,435**
Other Segment information								
Capital expenditure (i)	32,001,640	515,291	24,762,700	30,661,285	87,940,916	-	-	87,940,916
Intangible assets expenditure	23,250	-	-	-	23,250	-	-	23,250
Total	**32,024,890**	**515,291**	**24,762,700**	**30,661,285**	**87,964,166**	-	-	**87,964,166**

4 SEGMENT INFORMATION (continued)

Segment USD	*Egypt*	*Algeria*	*Kingdom of Saudi Arabia*	*Kuwait*	*Total Segment***	*United Arab Emirates (Corporate)*	*Adjustments & eliminations****	*Total*
For the year ended 31 December 2019								
Revenue								
External customers	87,125,252	40,414,802	243,901,977	106,315,516	477,757,547	-	-	477,757,547
Inter-segment	87,190,863	-	-	-	87,190,863	-	(87,190,863)	-
Total Revenue	174,316,115	40,414,802	243,901,977	106,315,516	564,948,410	-	(87,190,863)	477,757,547
Income/(expenses)								
Cost of revenue*	(36,507,892)	(23,579,787)	(120,675,177)	(55,504,546)	(236,267,402)	-	-	(236,267,402)
General and administrative expenses	(11,782,712)	(3,147,114)	(22,129,888)	(9,504,889)	(46,564,603)	(5,899,066)	-	(52,463,669)
Finance costs (net)	(11,055,159)	(5,128,158)	(30,948,262)	(13,490,175)	(60,621,754)	(27,568,312)	-	(88,190,066)
Depreciation and amortisation	(23,529,605)	(2,180,135)	(14,356,287)	(9,248,182)	(49,314,209)	(146,501)	-	(49,460,710)
Other expenses (net)**	(1,187,327)	(507,019)	(10,568,079)	(4,449,325)	(16,711,750)	(3,130,388)	-	(19,842,138)
Profit / Loss- excluding inter-segment revenue	3,062,557	5,872,589	45,224,284	14,118,399	68,277,829	(36,744,267)	-	31,533,562
Total Assets as at 31 December 2019 (i)	863,562,100	98,630,862	108,650,199	346,575,615	1,417,418,776	14,148,206	-	1,431,566,982
Total Liabilities as at 31 December 2019	374,171,422	16,943,110	58,622,288	94,608,532	544,345,352	434,497,150	-	978,842,502
Other Segment information								
Capital expenditure (i)	45,215,366	57,085,518	104,558,940	105,207,372	312,067,196	-	-	312,067,196
Intangible assets expenditure	12,976	-	-	-	12,976	-	-	12,976
Total	45,228,342	57,085,518	104,558,940	105,207,372	312,080,172	-	-	312,080,172

* excluding depreciation and amortisation.
** Other expenses includes end of service employment benefits, provision for impairment of inventory and non current assets, provision for impairment of trade receivables, share-based payments expense, business acquisition transaction costs, provision for impairment of investment, other taxes, income tax expense and other expenses which are stated net off any release of provision for impairment of trade receivables, bargain purchase gain, fair value gain/(loss) on derivative financial instrument and other income.
*** Inter-segment revenues and other adjustments are eliminated upon consolidation and reflected in the 'adjustments and eliminations' column.
**** Comparative information has been restated to conform with the current year presentation.

(i) Management presents the assets in the segment which holds such assets, while the capital expenditure are presented in the segment where such assets are utilised.

5 BUSINESS COMBINATIONS

As part of the Group's strategy to expand its fleet and operations, the Group has acquired the assets and entities which are accounted for as business combinations during 2019. There were no such acquisition during the year ended 31 December 2020. These business combinations resulted in bargain purchase transactions because the fair value of assets acquired and liabilities assumed exceeded the total fair value of the consideration paid and the fair value of non-controlling interests.

Acquisitions of the rigs from Weatherford Drilling International – recorded in 2019
On 27 February 2019 and 25 March 2019, the Group acquired certain assets from Weatherford Drilling International in Algeria and Iraq, respectively. The acquisitions have been accounted for using the acquisition method.

The Group acquired 6 onshore rigs in Algeria and related equipment, drilling contracts, other vendor contracts, certain employees, spare parts to be used in the drilling business, the business intellectual property and records related to the drilling business. While in Iraq, the Group acquired 2 onshore rigs and related equipment, certain employees, spare parts to be used in the drilling business, the business intellectual property and records related to the drilling business.

Identifiable net assets acquired
The fair value of the identifiable assets and liabilities as at the acquisition were:

	Fair values recognised on acquisition (Algeria) USD	***Fair values recognised on acquisition (Iraq) USD***
Property, plant and equipment	55,983,324	17,200,000
Inventory	8,553,595	-
Total identifiable net assets at fair value	**64,536,919**	**17,200,000**
Bargain purchase gain arising on acquisitions	(6,677,674)	(5,200,000)
Purchase considerations	**57,859,245**	**12,000,000**
Analysis of cash flow on acquisition (included in cash flows from investing activities)		
Cash paid	(60,000,000)	(12,000,000)
Cash collected*	2,140,755	-
Net cash out flows on acquisition	**(57,859,245)**	**(12,000,000)**

*The Group claimed and collected USD 2,140,755 from the Seller which represents a backlog deduction at the closing date for Algeria as per the terms of the Sales and Purchase Agreement signed between WDI and the Group.

From the date of acquisition to 31 December 2019, the acquired assets and entities contributed USD 27,093,236 of revenue from continuing operations of the Group. It is impracticable to disclose the revenue and profit or loss of the rigs acquired for the year ended 31 December 2019 as if the combination had taken place at the beginning of the year, as the acquired assets and entities did not represent a reporting entity and the historical information is not available. The Group acquired the business comprised of the rigs and the related items, rather than the entire entity from WDI. The amount of profit contributed by these assets from the date of acquisition is also not disclosed, as these rigs do not represent a separate reporting entity and it impracticable to prepare the profit and loss for the rigs.

6 REVENUE FROM CONTRACT WITH CUSTOMERS

USD	2020	2019
Units operations	**426,126,534**	456,563,354
Catering services	**7,036,430**	8,979,507
Projects income*	**11,779,200**	3,983,560
Others	**7,166,406**	8,231,126
	452,108,570	477,757,547

- *Projects income represents services relating to outsourcing various operating projects for clients such as manpower, early production facilities, maintenance and repair services.

The disaggregation of revenue in accordance with IFRS 15 is in line with the segments disclosed in Note 4 above as the management monitors the revenue geographically and the primary operational revenue stream is drilling services (units operations) and the revenue is recognised over the time of service.

7 COST OF REVENUE

USD	2020	2019
Project direct costs	**8,706,421**	2,158,618
Maintenance costs	**34,878,392**	45,020,299
Staff costs*	**100,763,112**	102,244,315
Rental equipment	**7,841,317**	8,201,081
Insurance	**5,506,484**	6,994,574
Depreciation (Note 16)	**61,289,655**	49,460,710
Catering costs	**16,409,054**	20,262,059
Move costs	**13,745,536**	18,738,061
Crew change costs	**5,011,551**	7,448,904
Other costs	**28,192,651**	25,199,491
	282,344,173	285,728,112

***** It includes staff cost of USD 5,238,200 in relation to the overstay of the crew due to COVID 19 (31 Dec 2019: NIL).

8 GENERAL AND ADMINISTRATIVE EXPENSE

USD	2020	2019
Staff costs*	**31,232,912**	31,131,732
Depreciation and amortisation (Note 16)	**1,478,292**	1,563,856
Professional fees	**3,143,867**	4,095,097
Business travel expenses	**2,491,611**	3,385,222
Free zone expenses	**2,003,769**	3,897,863
Rental expenses	**692,458**	1,011,096
Other expenses	**6,352,868**	7,378,803
	47,395,777	52,463,669

* It includes staff cost of USD 3,254,682 in relation to the integration project (31 Dec 2019: 8,487,320) which isestimated based on the number of hours spent on the project.

9 FINANCE COSTS

USD	2020	2019
Loan interest and profit expense	**21,068,279**	30,956,580
Loan fees and written off prepaid transaction cost	**4,850,918**	27,568,312
Bond interest and bond fees amortisation	**30,507,763**	20,589,926
Guarantee related finance charges	**3,350,341**	3,146,155
Interest on lease liabilities	**854,055**	1,376,722
IRS related finance charges	**4,379,858**	1,062,725
Interest on overdraft facilities	**1,098,176**	1,094,760
Initial recognition (gain)/loss from discounting of a long-term trade receivable	**(796,306)**	1,195,201
Other finance (income)/charges, net	**(94,381)**	1,711,698
	65,218,703	88,702,079

10 INCOME TAX

USD	2020	2019
Consolidated statement of profit or loss:		
Current income tax expense*	**9,179,031**	9,772,755
Deferred tax credit	**(232,314)**	(435,390)
Charge for the year ended	**8,946,717**	9,337,365
Consolidated statement of financial position:		
Current liabilities:		
Balance at 1 January	**9,975,938**	3,040,753
Charge for the year	**9,179,031**	9,777,802
Release during the year	-	(5,047)
Paid during the year	**(9,660,529)**	(2,837,570)
Balance at 31 December (note 19)	**9,494,440**	9,975,938

USD	2020	2019
Profit before income tax	**30,968,231**	40,870,927
Tax calculated at domestic tax rates applicable to profits profit in the primary jurisdiction of 0% (2019:0%)	-	-
Effect of different tax rates in countries in which the Group operates	**9,496,204**	15,142,720
Non-deductible expenses	**2,060,760**	1,611,116
Prior year adjustments	**133,680**	-
Non-taxable income	**(6,338,361)**	(13,853,048)
Withholding taxes	**3,594,434**	6,436,577
Other taxes	-	-
Income tax expense recognised in the consolidated statement of comprehensive income	**8,946,717**	9,337,365

*Current income tax expense includes withholding taxes on intercompany rentals in the Kingdom of Saudi Arabia amounting to USD 1,341,899 (2019: USD 4,435,809).

The effective tax rate is 29 % (2019: 23%, excluding the credit in respect of prior year adjustments).

The Group operates in jurisdictions which are subject to tax at higher rates than the statutory corporate tax rate of 0%, which is applicable to profits in Algeria, Kingdom of Saudi Arabia and Kuwait where applicable tax rate is 26%, 20% and 15% respectively.

Egyptian corporations are normally subject to corporate income tax at a statutory rate of 22.5% however the Company has been registered in a Free Zone in Alexandria under the Investment Law No 8 of 1997 which allows exemption from corporate income tax.

11 INVESTMENT IN A JOINT VENTURE AND AN ASSOCIATE

Investment in Egyptian Chinese Drilling Company:
The Group holds a 48.75% equity interest in Egyptian Chinese Drilling Company (ECDC) amounting to USD 1,282,299 as at 31 December 2020 (2019: USD 2,207,916). During the year, the Group recorded impairment charge of 535,000 (2019: Nil) based on the third-party valuation report and further analysis performed by management. The Group acquired the investment on 30 March 2015 from AMAK Drilling and Petroleum Services Co. (a related party) at par value. ECDC is a Joint Stock Company operating in storing and renting machinery and all needed equipment to the petroleum industry.

As at 31 December 2017, the Group has treated this investment as available for sale since it has no representation on the Board. On 5 July 2018, the Shareholders entered into a Shareholders Agreement whereby the Group obtained a joint control over ECDC. As per the Shareholders Agreement the investment became an investment in a joint venture effective 5 July 2018. The investment in joint venture is accounted for using the equity method of accounting effective from the date of change.

The Group recognised dividends of USD 1,225,000 from Egyptian Chinese Drilling Company during the year ended 31 December 2015 which is outstanding as at 31 December 2020 and 2019. The Group has recorded impairment provision of USD 245,000 as at 31 December 2020 (2019: USD 245,000) (Note 15).

Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Summarised statement of financial position as at 31 December:

USD	2020	2019
Non-current assets	**10,629,507**	9,811,448
Current assets	**11,847,030**	12,955,545
Current liabilities	**(18,748,744)**	(18,237,935)
Net assets	**3,727,793**	4,529,058
The Group's share in net assets at adjusted fair value equity - 48.75%*	**1,817,299**	2,207,916
Impairment of ECDC investment	**(535,000)**	-
Net Assets	**1,282,299**	2,207,916

Summarised statement of comprehensive income for the year ended 31 December:

USD	2020	2019
Revenues	**8,705,525**	12,997,816
Cost of revenues	**(7,824,902)**	(10,547,288)
Other income	**37,376**	39,317
General and administrative expenses	**(1,674,443)**	(2,295,955)
Provision, net	**(91,186)**	32,595
Operating profit	**(847,630)**	226,485
Finance costs	**(114,138)**	(178,211)
Other operating income	**160,502**	-
(Loss) profit for the year	**(801,266)**	48,274
Group's share of (loss) / profit for the year - 48.75%	**(390,617)**	23,533

The joint venture had no other contingent liabilities or commitments as at 31 December 2020 (2019: USD nil). The joint venture cannot distribute its profits without the consent from the two venture partners.

Investment in ADVantage Drilling Services S.A.E:
The Group holds a 49% equity interest in ADVantage Drilling Services S.A.E amounting to USD 1,877,093 as at 31 December 2020 (2019: USD 1,932,660). ADVantage Drilling Services S.A.E is a Joint Stock Company operating drilling deep marine wells, oil-producing wells or natural gas at depths exceeding 350 meters and exploration activities, maintenance of petroleum and gas wells and all the related services, owning, operation, management, renting and leasing of onshore and offshore equipment.

ADVantage Drilling Services S.A.E has been established as a Free Zone company in accordance with the provisions of the Investment Law No. 72 of 2017 at 15 January 2019.

Summarised financial information of the joint venture and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

Summarised statement of financial position as at 31 December:

USD	2020	2019
Non-current assets	**84,163**	54,661
Current assets	**6,871,903**	18,145,907
Current liabilities	**(3,125,264)**	(14,256,364)
Net assets	**3,830,802**	3,944,204
The Group's share in net assets - 49%	**1,877,093**	1,932,660

Summarised statement of comprehensive income for the year ended 31 December:

USD	2020	2020
Revenues	**7,747,578**	23,285,002
Cost of revenues	**(6,962,678)**	(19,563,731)
General and administrative expenses	**(829,101)**	(2,214,631)
Operating profit	**(44,201)**	1,506,640
Finance costs	**(35,411)**	(5,486)
Net foreign exchange gain	**100,345**	32,244
Profit for the year	**20,733**	1,533,398
Other adjustments to prior year results	**(134,135)**	-
Profit for the period 31 December 2020	**(113,402)**	1,533,398
Group's share of profit for the period - 49%	**(55,567)**	751,365

Adjust prior year

The associate had no other contingent liabilities or commitments as at 31 December 2020 (2019: USD nil). The associate cannot distribute its profits without the consent from the two venture partners.

12 BANK BALANCES AND CASH

USD	2020	2019
Cash on hand	**20,054**	21,245
Bank balances	**39,079,608**	56,373,290
Time deposits*	**23,388,886**	63,206,624
Cash and cash equivalents for the purpose of statement of cash flows	**62,488,548**	119,601,159

Bank balances and cash comprise of balances in the following currencies:

USD	2020	2019
United States Dollar (USD)	**26,145,847**	33,943,487
Saudi Riyal (SAR)	**179,233**	4,367,958
Egyptian Pound (EGP)	**6,428,079**	3,879,327
United Arab Emirates Dirham (AED)	-	38
Great British Pound (GBP)	**120**	160
Euro (EUR)	**756**	883
Algerian Dinar (DZD)	**256,607**	1,377,837
Kuwaiti Dinar (KWD)	**6,089,020**	12,824,846
Time deposits (USD)*	**17,015,400**	63,206,623
Time deposits (EGP)*	**6,373,486**	-
	62,488,548	119,601,159

*Time deposits represent short-term investment with a local bank in the United Arab Emirates and Egypt. Time deposits have original maturities of less than 90 days and earns average interest of 2.6% per annum (2019: 2.8%). The finance income reported in the consolidated statement of comprehensive income for the year 2020 amounted to USD 801,944 (2019: USD 512,013).

13 INVENTORIES

USD	2020	2019
Offshore rigs	**20,611,679**	19,818,133
Onshore rigs	**10,411,524**	8,295,669
Warehouse and yards	**16,585,938**	16,706,362
	47,609,141	44,820,164

As at 31 December 2020, the inventories are stated net of provision for impairment of inventory of USD 939,807 (2019: USD 253,329)

USD	2020	2019
As at 1 January	**253,329**	-
Charge for the year	**686,478**	253,329
As at 31 December	**939,807**	253,329

14 TRADE RECEIVABLES AND CONTRACT ASSETS

Trade receivables

USD	2020	2019
Trade receivables	**132,034,487**	132,896,203
Provision for impairment in trade receivables	**(4,726,770)**	(2,168,121)
	127,307,717	130,728,082
Maturing within 12 months	**69,903,029**	91,780,792
Maturing after 12 months	**57,404,688**	38,947,290
Balance as at 31 December	**127,307,717**	130,728,082

Trade receivables are non-interest bearing and are generally on 30 to 90 days terms, except for one customer which is recorded as non-current, after which trade receivables are considered to be past due. Unimpaired trade receivables are expected to be fully recoverable on the past experience. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

Contract assets

As at 31 December 2020, the Group has contract assets of USD 32,992,130 (2019: 41,541,310). As at 31 December 2020, there was no impairment of contract assets and hence no ECL has been recorded.

The movement in the provision for impairment of trade receivables is as follows:

USD	2020	2019
As at 1 January	**2,168,121**	4,944,373
Charge for the year	**2,558,649**	-
Release for the year	-	(2,776,252)
As at 31 December	**4,726,770**	2,168,121

As at 31 December, the aging analysis of un-impaired trade receivables is as follows:

USD	*Neither past due nor impaired*	*Past due but not impaired*				
		<30 days	*30 - 60 days*	*61 - 90 days*	*>90 days*	*Total*
2020	**107,010,194**	**4,400,782**	**1,497,498**	**2,070,777**	**12,328,466**	**127,307,717**
2019	99,540,594	10,527,810	2,668,836	1,808,191	16,182,651	130,728,082

As at 31 December 2020, the largest portion of trade receivable balance is from one customer of the Group, which is a partially government owned entity. In 2020 the Group signed a revised settlement agreement with the customer to settle all due balances and the management believes that the customer will be able to fulfil its obligations. The trade receivable balance from this customer is classified between current and non-current as per the terms of the settlement agreement. The non-current portion of trade receivables is recorded at present value. The application of forward looking information has no material impact on the ECL provision.

15 PREPAYMENTS AND OTHER RECEIVABLES

USD	*2020*	*2019*
Invoice retention*	**51,031,109**	44,361,741
Margin LG	**4,165,655**	2,379,048
Advances to contractors and suppliers	**4,619,217**	12,018,430
Insurance with customers	**5,833,657**	3,979,741
Dividends receivable	**1,225,000**	1,225,000
Provision for impairment in dividends receivables	**(245,000)**	(245,000)
Other receivables	**6,785,447**	8,431,595
	73,415,085	72,150,555

*This represents the amounts retained by the customers on the sales invoices as per the terms of the customer contracts.

16 PROPERTY AND EQUIPMENT

USD	Rigs	Furniture and fixtures	Drilling pipes	Tools	Assets under construction	IT - Equipment	Motor vehicles	Leasehold improvements	Total
31-Dec-20									
Cost:									
As at 1 January 2020	986,786,882	1,513,178	15,696,517	42,724,619	79,914,429	956,580	249,765	687,471	1,128,529,441
Additions	18,633,130	277,172	2,557,105	8,263,999	57,564,762	438,020	206,728	-	87,940,916
Retirement & Disposal	-	(517,053)	(154,530)	-	-	-	-	(162,414)	(833,997)
Reclassification	(9,230,748)	-	-	9,230,748	-	-	-	-	-
Transfers	52,425,570	187,741	-	1,840,602	(54,604,447)	44,835	-	-	(105,699)
As at 31 December 2020	**1,048,614,834**	**1,461,038**	**18,099,092**	**62,059,968**	**82,874,744**	**1,439,435**	**456,493**	**525,057**	**1,215,530,661**
Accumulated depreciation and impairment:									
As of 1 January 2020	(122,573,384)	(595,198)	(5,030,612)	(11,358,115)	(765,291)	(573,029)	(220,905)	(196,593)	(141,313,127)
Retirement & Disposal	-	252,423	15,453	-	-	-	-	92,845	360,721
Impairment	(5,100,062)	-	-	-	-	-	-	-	(5,100,062)
Depreciation for the year	(48,441,888)	(138,643)	(3,344,618)	(5,320,119)	-	(178,378)	(46,779)	(107,242)	(57,577,667)
As of 31 December 2020	**(176,115,334)**	**(481,418)**	**(8,359,777)**	**(16,678,234)**	**(765,291)**	**(751,407)**	**(267,684)**	**(210,990)**	**(203,630,135)**
Net book value:									
At 31 December 2020	**872,499,500**	**979,620**	**9,739,315**	**45,381,734**	**82,109,453**	**688,028**	**188,809**	**314,067**	**1,011,900,526**

USD	Rigs	Furniture and fixtures	Drilling pipes	Tools	Assets under construction	IT - Equipment	Motor vehicles	Leasehold improvements	Total
31-Dec-19									
Cost:									
As at 1 January 2019	645,604,819	1,188,005	13,137,229	30,586,817	124,673,795	777,987	249,765	256,804	816,475,221
Additions	13,231,608	219,577	461,069	6,420,413	218,467,321	47,137	-	36,747	238,883,872
Acquisitions through business combinations (Note 5)	42,378,439	-	-	-	30,804,885	-	-	-	73,183,324
Transfers	285,572,016	105,596	2,098,219	5,717,389	(294,018,596)	131,456	-	393,920	-
Transfer to intangible assets	-	-	-	-	(12,976)	-	-	-	(12,976)
As at 31 December 2019	986,786,882	1,513,178	15,696,517	42,724,619	79,914,429	956,580	249,765	687,471	1,128,529,441
Accumulated depreciation and impairment:									
As of 1 January 2019	(82,370,839)	(476,251)	(3,268,635)	(8,130,782)	(765,291)	(443,545)	(184,137)	(118,623)	(95,758,103)
Depreciation for the year	(40,202,545)	(118,947)	(1,761,977)	(3,227,333)	-	(129,484)	(36,768)	(77,970)	(45,555,024)
As of 31 December 2019	(122,573,384)	(595,198)	(5,030,612)	(11,358,115)	(765,291)	(573,029)	(220,905)	(196,593)	(141,313,127)
Net book value:									
At 31 December 2019	864,213,498	917,980	10,665,905	31,366,504	79,149,138	383,551	28,860	490,878	987,216,314

16 PROPERTY AND EQUIPMENT (continued)

Impairment assessment and key assumptions used in value in use calculations and sensitivity to changes in assumptions

Refer to note 3 for the basis of identification of CGUs. Considering the impact of COVID19 and the volatility of oil prices during the year, management performed an impairment test for each CGU using value in use calculations based on a DCF model and recorded an impairment charge of USD 5,100,062 in relation to the net carrying value of Egypt assets. Management concluded that recoverable values are higher than the net carrying values of all CGUs after considering the impairment charge recorded. The calculation of value in use is most sensitive to the following assumptions:

- Day rates, EBITDA margins and utilisation days of rigs
- Discount rates
- Remaining useful lives of rigs and estimated future capital expenditures

Day rates, gross margins and utilisation days – Day rates, gross margins and utilisation days of rigs are estimated based on historical results. These are increased over the budget period due to efficiency improvements.

A decrease in the day rates up to 5% would result in further impairment charge of USD4.5 million for Egypt and USD5.7 million for Algeria. A decrease in the EBITDA margin up to 3% would result in further impairment charge of USD 9.5 million for Egypt. A decrease in utilisation days of rigs to up 5% would result in further impairment charge of USD3.8 million for Egypt and USD5.7 million for Algeria.

Discount rates − Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a post-tax discount rate.

For Egypt assets, management applied discount factor of 13.5%. An increase of discount rate to 15% would result in further impairment charge of USD 8 million for Egypt assets. For Kuwait assets, management applied discount factor of 9.5%. An increase of discount rate to 12.5% would result in impairment charge of USD11.9 million for Kuwait assets.

Remaining useful lives of rigs and estimated future capital expenditures− management estimated remaining useful life to be 15 years for the rigs and related assets for all CGUs for the purposes of estimating cash flows and estimated the capital expenditures which are required to maintain and operate the assets for the same period.

A reduction in remaining useful life up to 10% would not result in impairment charge.

Allocation of depreciation charge:

Depreciation charge is allocated as follows:

USD	2020	2019
Cost of revenue (Note 7)	**61,289,655**	49,460,710
General and administrative expenses (Note 8)	**1,478,292**	1,563,856
Total depreciation and amortization charge*	**62,767,947**	51,024,566

*Total depreciation and amortisation charge for the year includes depreciation of property and equipment of USD 57,577,667 (2019: 45,555,024), amortization of intangible assets and right of use assets of USD 141,582 (2019: USD 121,861) and USD 5,048,698 (2019: USD 5,348,361), respectively.

Assets under construction and transfers:

Assets under construction represent the amounts that are incurred for the purpose of upgrading and refurbishing property and equipment until it is ready to be used in the operation. Assets under construction will mainly be transferred to 'Rigs' or 'Tools' of the property and equipment after completion. During the year ended 31 December 2020, the Group completed the capital projects for the amount of USD54.6 million (2019: USD 294 million) and transferred to the relevant asset categories.

Reclassification:
During 2020, cost of tools amounting to USD 9,230,748 was transferred from Rigs to Tools category. Related accumulated depreciation balance and depreciation charges are presented under Tools category for both year 2020 and 2019.

*Some of the rigs are pledged to the lenders (banks) against loans and borrowings (Note 20).

17 LEASES

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

USD	*Yards and Warehouse*	*Office Premises*	*Motor Vehicles*	*Other Equipment*	*Furniture and Fixture*	*Building*	*Total*
Cost:							
As at 1 January 2020	4,829,127	1,105,574	1,915,524	12,332,234	1,357,312	7,230,880	28,770,651
Additions	58,497	152,203	2,096,784	763,812	1,179,707	320,649	4,571,652
Terminated contracts	(1,156,831)	-	(1,415,148)	(4,035,173)	-	-	(6,607,152)
As at 31 December 2020	**3,730,793**	**1,257,777**	**2,597,160**	**9,060,873**	**2,537,019**	**7,551,529**	**26,735,151**
Accumulated depreciation:							
As at 1 January 2020	(1,224,674)	(256,292)	(678,173)	(3,189,222)	-	-	(5,348,361)
Depreciation	(1,000,589)	(270,460)	(896,483)	(2,597,033)	(63,425)	(220,708)	(5,048,698)
Termination	460,029	-	906,890	1,993,360	-	-	3,360,279
Other adjustments	(120,162)	(20,518)	929	-	-	-	(139,751)
As at 31 December 2020	**(1,885,396)**	**(547,270)**	**(666,837)**	**(3,792,895)**	**(63,425)**	**(220,708)**	**(7,176,531)**
Net book value:							
As at 31 December 2020	**1,845,397**	**710,507**	**1,930,323**	**5,267,978**	**2,473,594**	**7,330,821**	**19,558,620**

USD	*Yards and Warehouse*	*Office Premises*	*Motor Vehicles*	*Other Equipment*	*Furniture and Fixture*	*Building*	*Total*
Cost:							
As at 1 January 2019	3,251,013	1,105,574	1,915,524	12,332,234	-	6,622,148	25,226,493
Additions	1,578,114	-	-	-	1,357,312	608,732	3,544,158
As at 31 December 2019	4,829,127	1,105,574	1,915,524	12,332,234	1,357,312	7,230,880	28,770,651
Accumulated depreciation:							
Depreciation Exp.	(1,224,677)	(256,292)	(678,170)	(3,189,222)	-	-	(5,348,361)
As at 31 December 2019	(1,224,677)	(256,292)	(678,170)	(3,189,222)	-	-	(5,348,361)
Net book value:							
As at 31 December 2019	3,604,450	849,282	1,237,354	9,143,012	1,357,312	7,230,880	23,422,290

Set out below are the carrying amounts of lease liabilities and the movements during the year:

USD	***2020***	*2019*
As at 1 January 2020	**22,110,062**	24,769,237
Additions	**5,302,527**	2,909,853
Lease modification	**(4,380,856)**	**-**
Accretion of interest	**854,055**	1,376,722
Payments	**(5,680,755)**	(6,945,750)
As at 31 December 2020	**18,205,033**	22,110,062
Current	**4,244,727**	8,793,910
Non-Current	**13,960,306**	13,316,152

The Group had total cash outflows for leases of USD 5,680,755 in 2020 (2019: USD 6,945,750). The Group also had non-cash additions to right-of-use assets and lease liabilities of USD 4,571,652 in 2020 (2019: USD 3,544,158).

The following are the amounts recognised in the statement of comprehensive income:

USD	2020	2019
Depreciation expense of right-of-use assets	**5,048,698**	5,348,361
Interest expense on lease liabilities	**854,055**	1,376,722
Expense relating to short-term leases (included in Cost of revenue) *	**7,841,317**	8,201,081
Expense relating to short-term lease (included in General and administrative expenses)	**692,458**	1,011,096
Total amount recognised in the statement of comprehensive income	**14,436,528**	15,937,260

* Comparative information has been restated to conform with the current year presentation.

18 INTANGIBLE ASSETS

USD	2020	2019
Cost:		
As at 1 January	**789,629**	776,653
Additions	**23,250**	-
Transfer from property & equipment (Note 16)	**105,699**	12,976
As at 31 December	**918,578**	789,629
Accumulated amortisation:		
As at 1 January	**442,325**	320,464
Amortisation charge for the year	**141,582**	121,861
As at 31 December	**583,907**	442,325
Net carrying amount:		
As at 31 December	**334,671**	347,304

Intangible assets represent computer software and the related licenses.

19 TRADE AND OTHER PAYABLES

USD	2020	2019
Local trade payables	**68,260,303**	89,670,226
Foreign trade payables	**16,706,153**	24,930,548
Notes payable	**4,741,730**	2,371,597
Accrued expenses	**40,125,825**	41,035,747
Accrued interests	**9,505,668**	9,560,653
Income tax payable (Note 10)	**9,494,440**	9,975,938
Finance lease liability (Note 17)	**4,244,727**	8,793,910
Other payables	**10,085,940**	9,990,837
	163,164,786	196,329,456

20 LOANS AND BORROWINGS

USD	2020	2019
Balance as at 1 January	**406,047,327**	555,268,918
Borrowings drawn during the year	**67,377,226**	179,493,220
Borrowings repaid during the year	**(85,336,755)**	(351,018,420)
Amortised arrangement fees	**2,913,776**	22,303,610
Balance as at 31 December	**391,001,574**	406,047,328
Maturing within 12 months	**85,696,878**	83,692,835
Maturing after 12 months	**305,304,696**	322,354,493
Balance as at 31 December	**391,001,574**	406,047,328

USD	*Latest maturity*	*2020*	*2019*
Type			
Current loans and borrowings			
Loan 1 Syndication			
Tranche A	2023	**13,357,778**	15,050,000
Ijara Loan			
Tranche A	2025	**12,289,737**	15,554,000
Tranche B	2025	**12,289,738**	15,554,000
Tranche C	2025	**14,545,455**	8,888,000
Tranch D	2025	**12,800,000**	-
NCB Loan			
NCB Loan	2026	**12,250,570**	6,153,846
Credit facility 1	Renewable	**(150)**	(177)
Credit facility 2	Renewable	**4,788,056**	3,996,693
Credit facility 3	Renewable	**-**	3,551,531
Credit facility 4	Renewable	**102**	111,609
Credit facility 5	Renewable	**789,757**	5,333,333
Credit facility 6	Renewable	**2,519,418**	-
Credit facility 7	Renewable	**66,417**	-
RCF	2022	-	9,500,000
Total current loans and borrowings		**85,696,878**	83,692,835

USD	*Latest maturity*	*2020*	*2019*
Type			
Non-current loans and borrowings			
Loan 1 Syndication			
Tranche A	2023	**30,614,949**	42,178,475
Tranche B	2023	**30,000,000**	30,000,000
NCB Loan			
NCB Loan	2026	**61,411,004**	73,594,207
Ijara loan			
Tranche A	2025	**43,784,826**	51,023,811
Tranche B	2025	**43,784,826**	54,446,000
Tranche C	2025	**50,909,091**	71,112,000
Tranche D	2025	**44,800,000**	-
Total non-current loans and borrowings		**305,304,696**	322,354,493
Total loans and borrowings		**391,001,574**	406,047,328

The Group has secured loans and borrowings as follows:

Bank credit facilities
The group is granted by Egyptian Gulf Bank (EGB) with an overdraft facility limit amounting to EGP 45 million (2019: EGP 45 million) which is secured by promissory note & is renewable.

Credit facility 2 is granted by Industrial Development Bank of Egypt (IDBE) with an overdraft facility limit amounting to USD 5 million (2019: USD 4 million).

Credit facility 3 is granted by Al Ahli Bank of Kuwait (ABK) with an overdraft facility limit amounting to USD 7 million (2019: USD 7 million).

Credit Facility 4 is granted by Export development Bank of Egypt (EBE) with a non-secured facility limit amounting to USD 12 million (2019: USD 12 million) available for overdraft &/or Letters of Guarantees.

Credit Facility 5 is granted by National Commercial Bank in KSA (NCB) with a total amount of SAR 30 million (2019: SAR 30 million) granted as a part from the NCB loan agreement to cover working capital requirements and for overdraft &/or Letters of Guarantees.

Credit Facility 6 is granted by Emirates National Bank of Dubai S.A.E with a total amount of USD 25 million (2019: Nil).

Credit Facility 7 is granted by Abu Dhabi Commercial Bank – Egypt with a total amount of EGP 80 million (2019: Nil).

RCF is USD 50 million Revolving Credit Facility Agreement dated April 2019 granted to ADES International Holding PLC by syndicate of banks which include Goldman Sachs Bank USA, The Mauritius Commercial Bank Ltd, AL AHLI BANK OF KUWAIT and BMCE BANK INTERNATIONAL PLC. in the total principal amount of USD 50 million, which includes extensions, renewals or increases.

Loan 1 – Syndication
In April 2019 , the Group has signed a syndication loan agreement with total amount of USD 100 million divided over four banks which include European Bank for Reconstruction and Development , Arab Petroleum Investments Corporation (APICORP) , Mashreqbank PSC and The Mauritius Commercial Bank Ltd. The loan is divided into two tranches, the purpose and the use of each facility is described as follows

a) Tranche A

- For refinancing existing financial indebtedness in full (excluding the payment of the fees, costs and expenses incurred under or in connection with the transaction documents). Tranche A was utilised during 2019 to partially settle existing loan at the time of utilization.

b) Tranche B

- Tranche B was utilised during 2019 to partially settle existing loans at the time of utilization.
-

Tranche A Facility is a medium-term loans over 3.5 years to be paid semi-annually in un-equal instalments starting from September 2019 and the last instalment will be on 22 March 2023. Tranche B will be settled with bullet repayment on 22 March 2023**.**

Ijara Loan
On May 2018, the Group has signed “Musharakah” agreement and “Ijara” agreement with Alinma Bank to finance the acquisition of the new rigs and related capital expenditure with the amount of the equivalent to USD $140 million in equivalent to SAR.

On April 2019 , the Group has signed “Musharakah” agreement and “Ijara” agreement with Alinma Bank to increase the facility to the equivalent to USD 284 million .

All loans are medium-term loans over 7 years which includes 2 year grace period and is paid semi-annually in equal instalments starting from 10 June 2020 and the last instalment will be on 10 June 2025.

Ijara loan is secured by the rigs purchased from Nabors Drilling International II Limited (Jackup rig Admarine 656, Jackup rig Admarine 656 and Jackup rig Admarine 657) and rigs purchased from Weatherford Drilling International (ADES 40, ADES 158, ADES 174, ADES 799 and ADES 889, Rig 144, Rig 798, Rig 157, Rig 173).

NCB Loan
On May 2019, the group signed a Long Term Loan Facility agreement with National Commercial Bank ("NCB") for a total limit of SAR 300 million (USD 80 million). As of 31 December 2020, the Group has fully utilized the facility.

On December 2019, the group has amended the facility with National Commercial Bank ("NCB") to be Sharia compliant (Islamic Facility) without any change in the original agreed terms.

21 BONDS PAYABLE

On 16 April 2019, the Group issued USD 325,000,000 senior secured notes at 8.625% interest due on 24 April 2024. Interest is payable semi-annually on 24 April and 24 October each year. The Group paid gross USD 11,841,032 as transaction costs for the issuance of the bonds. The Group recognised interest expense of USD 30,507,763 for the twelve months period ended 31 December 2020 (2019: USD 20,589,926). The bonds payable is recognised at amortised cost using the effective interest method.

22 PROVISIONS

USD	*As at 1-Jan*	**Accrued / acquired during the year*	*Paid during the year*	*As at 31-Dec*
2020				
Provision for end of service employment benefits	**16,375,652**	**5,348,358**	**(5,133,533)**	**16,590,477**
Other provisions *	**1,100,000**	**410,669**	**(922,610)**	**588,059**
	17,475,652	**5,759,027**	**(6,056,143)**	**17,178,536**
2019				
Provision for end of service employment benefits	12,959,590	4,899,967	(1,483,905)	16,375,652
Other provisions *	1,874,654	1,443,181	(2,217,835)	1,100,000
	14,834,244	6,343,148	(3,701,740)	17,475,652

* Other provisions mainly represent provision made for employee’s taxes and withholding taxes which are borne by the Group. The total balance is presented as current in the statement of financial position.

23 SHARE CAPITAL

Share capital of the Group comprise:

USD	***2020***	*2019*
Authorised shares*	**1,500,000,000**	1,500,000,000
Issued shares	**43,793,882**	43,793,882
Shares par value	**1**	1
Issued and paid up capital	**43,793,882**	43,793,882
Share premium**	**178,746,337**	178,746,337

*As at 31 December 2020 and 2019, the authorised share capital of the Company was USD 1,500,000,000 comprising of 1,500,000,000 shares.
** Share premium represents the excess of fair value received over the par value of shares issued.

Movement in treasury shares as at 31 December is as follows:

		Shares issued	***Treasury shares****	***Shares outstanding***
1 January 2020	Balance at beginning of year	**43,793,882**	**300,000**	**43,493,882**
	Purchase of treasury shares for cash	**-**	**2,241,482**	**2,241,482**
31 December 2020	Balance at year end	**43,793,882**	**2,541,482**	**41,252,400**
		Shares issued	*Treasury shares**	*Shares outstanding*
1 January 2019	Balance at beginning of year	43,793,882	-	43,793,882
	Purchase of treasury shares for cash	-	300,000	300,000
31 December 2019	Balance at year end	43,793,882	300,000	43,493,882

* On 29 November 2019 the Group announced that pursuant to Shareholders’ authority granted at the Company's EGM on 30 October 2019 and on 23 June 2020 the Group announced that pursuant to Shareholders’ authority granted at the Company's AGM on 22 June 2020, it intends to commence purchases of ordinary shares in the capital of the Company. As at 31 December 2020 the total number of purchased ordinary shares that held as treasury shares is 2,541,482 (2019: 300,000) amounted to USD 24,989,266 (2019: USD 3,501,200) at the purchase price.

The shareholding structure as at 31 December 2020 is:

Shareholders	*Shareholding %*	*No. of shares*	*Value USD*
ADES Investment Holding Ltd	**61**	**26,896,250**	**26,896,250**
Individual shareholders	**39**	**16,897,632**	**16,897,632**
	100	**43,793,882**	**43,793,882**

The shareholding structure as at 31 December 2019 was:

Shareholders	*Shareholding %*	*No. of shares*	*Value USD*
ADES Investment Holding Ltd	62	27,179,084	27,179,084
Individual shareholders	38	16,614,798	16,614,798
	100	43,793,882	43,793,882

24 EQUITY SETTLED SHARE-BASED PAYMENTS

Pursuant to the rules of the Long Term Incentive Plan ("LTIP") adopted by ADES Investments Holding Ltd., the awards over a total number of 1,136,451 ordinary shares of US$1.00 each in the capital of the Company have been granted to certain employees of the Company by ADES Investments Holding Ltd (the majority shareholder). The LTIP is equity settled and effective from 1 January 2019. According to the LTIP rules, the shares will be vested over a period of three years and not subject to performance conditions. These shares are currently held by ADES Investments Holding Ltd and the awards will not be satisfied by the new issue of any shares in the Company. Awards will normally lapse and cease to vest on termination of employment. During the year, total number of awards has been adjusted to 1,130,578 ordinary shares due to resignation of certain employees.

The fair value at grant date was determined based on the market price of the shares of the Company at grant date which is USD 13.45 per share.

For the year ended 31 December 2020, the Group has recognised USD 3,845,870 (2019: USD 11,341,219) of share-based payment expense, which represent 285,938 shares (2019: 843,211 shares) vested during the year, in the consolidated statement of profit or loss with a corresponding increase in equity (share-based payment reserve). As at 31 December 2020, the outstanding number of shares are 1,429 (2019: 293,240 shares). There were no forfeited nor expired shares during the year.

25 RESERVES

Legal reserve
As required by Egyptian Companies' Law and one of the Subsidiary's Articles of Association, 5% of the net profit for the year is transferred to legal reserve. Advanced Energy System (ADES) (S.A.E.) has resolved to discontinue further transfers as the reserve totals 20% of issued share capital. As of 31 December 2020, the balance of legal reserve amounted to USD 6,400,000 (2019: USD 6,400,000).

Merger reserve
As disclosed in Note 1, pursuant to a reorganisation plan, the shareholders reorganised the Group by establishing the Company as a new holding company. Merger reserve represents the difference between the consideration paid to the shareholders under the reorganisation plan and the nominal value of the shares of Advanced Energy System (ADES) (S.A.E.). Prior to the reorganisation, the merger reserve comprise of the share capital and share application money of Advanced Energy System (ADES) (S.A.E.).

Cash flow hedge reserve

	Interest rate risk		Total	
USD	2020	2019	2020	2019
Balance at 1 January	**6,147,575**	**-**	**6,147,575**	-
Gain (losses) arising on changes in fair value of hedging instruments during the period	**-**	-6,748,538	**-**	-6,748,538
loss reclassified to profit or loss – when hedged item has affected profit or loss	**838,435**	600,963	**838,435**	600,963
Balance at 31 December	**6,986,010**	6,147,575	**6,986,010**	6,147,575

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedge relationships. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included directly in the initial cost or other carrying amount of the hedged non-financial items (as basis adjustment, where applicable).

26 EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the profit for the year attributable to the ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year after adjusting the number of ordinary shares by the treasury shares.

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. As at 31 December 2020, there were no potential dilutive shares and hence the basic and diluted EPS is same.

The information necessary to calculate basic and diluted earnings per share is as follows:

USD	2020	2019
Profit attributable to the ordinary equity holders of the Parent for basic and diluted EPS	**19,621,487**	28,630,013
Weighted average number of ordinary shares – basic and diluted	**42,274,169**	43,778,181
Earnings per share – basic and diluted (USD per share)	**0.46**	0.65

27 RELATED PARTIES TRANSACTIONS AND BALANCES

Related party transactions
During the year, the following were the significant related party transactions recorded in the consolidated statement of comprehensive income or consolidated statement of financial position:

During the year, the Group received funds from related party, AMAK for Drilling & Petroleum Services Co. (other related party), amounting to USD 1,258,284 for settlement of due from balance of 31 December 2019.

Related party balances
Significant related party balances included in the consolidated statement of financial position are as follows:

	2020		*2019*	
USD	***Due from***	***Due to***	*Due from*	*Due to*
Ultimate Shareholders				
Sky Investment Holding Ltd.	**60,000**	-	60,000	-
Intro Investment Holding Ltd.	**90,503**	-	90,503	-
Shareholder				
ADES Investment Holding Ltd	**291,064**	-	48,864	-
Joint venture				
Egyptian Chinese Drilling Co. (S.A.E.)	-	**57,192**	-	57,192
Other related parties				
TBS Holding	**18,836**	-	35,387	-
Misr El-Mahrousa	**12,716**	-	14,624	-
Advantage Drilling Services	**16,933**	-	425,271	-
Advansys Project	-	-	1,308	-
Advansys Holding	**5,299**	**-**	5,299	-
AMAK for Drilling & Petroleum Services Co.	**2,761,640**	-	4,019,924	-
ADVANSYS FOR ENG.SERV. & CONS	-	-	-	1,032
Intro for Trading & Contracting Co.	**289,674**	-	39,738	-
Dough and more Food Industries	**55,922**	-	-	-
	3,602,587	**57,192**	4,740,918	58,224

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

USD	***2020***	*2019*
Total benefits*	**4,765,140**	12,475,433

* Total benefits include annual salary, other allowances and share based payments vested during the year. Comparative information has been restated to conform with the current year presentation

Terms and conditions of transactions with related parties
Outstanding balances at the year-end are unsecured, interest free and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2020, the Group has not recorded any provision for expected credit losses relating to receivables and amounts owed by related parties (2019: USD Nil). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview
The Group's principal financial liabilities comprise trade and other payables, due to related parties, loans and borrowings. The main purpose of these financial liabilities is to finance the Group's operations and to provide support to its operations. The Group's principal financial assets include cash in hand and at banks, including highly liquid investments with maturity less than 90 days, trade receivables and contract assets, due from related parties and other receivables that arrive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Board of Directors of the Company oversees the management of these risks. The Board of Directors of the Company are supported by senior management that advises on financial risks and the appropriate financial risk governance framework for the Group. The Group's senior management provides assurance to the Board of Directors of the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

The Group has exposure to the following risks from its use of financial instruments:

a) Credit risk,
b) Market risk:
   i. Interest rate risk
   ii. Foreign currency risk
c) Liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management policies in other areas.

Credit risk
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables, contract assets and due from related parties) and from its financing activities, including letter of guarantees with banks foreign exchange transactions and other financial instruments. As at 31 December 2020, the top three debtors of the Group represent 82% (2019: 72%) of trade receivable.

Trade receivables and contract assets
Customer credit risk is managed by the Group's established policy, procedures and controls relating to customer credit risk management. Credit quality of the customer is assessed based on a credit rating policy and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored.

The requirement for impairment is analysed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables and contract assets as low, as its wide number of customers operates in highly independent markets. In addition, instalment dues are monitored on an ongoing basis.

Other financial assets and bank balances
Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's senior management. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's exposure to credit risk for the components of the consolidated statement of financial position is the carrying amounts of these assets. The Group limits its exposure to credit risk by only placing balances with international banks and reputable local banks. Management does not expect any counterparty in failing to meet its obligations.

Due from related parties
Due from related parties relates to transactions arising in the normal course of business with minimal credit risk, with a maximum exposure equal to the carrying amount of these balances.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as interest rate risk and currency risk. Financial instruments affected by market risk include: loans and borrowings. The Group neither designate hedge accounting or issue derivative financial instruments. Refer to note 31 for the interest rate swap classified as a trading derivative.

Interest rate risk
Interest 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 rates. The Group's exposure to the risk of changes in market interest rates relates primarily

to the Group's long-term debt obligations with floating interest rates.

Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Group's profit is affected through the impact on floating rate borrowings (net of impact of time deposits), as follows:

	Increase / decrease in basis points	*Effect on profit before income tax*
31-Dec-20		
USD	**100**	**(1,310,116)**
USD	**(100)**	**1,310,116**
31-Dec-19		
USD	100	(1,369,287)
USD	(100)	1,369,287

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The following tables demonstrate the sensitivity to a reasonably possible change in USD exchange rates, with all other variables held constant. The impact on the Group's profit is due to changes in the value of monetary assets and liabilities. The Group's exposure to EGP currency is considered as significant currency risk and foreign currency changes for all other currencies is not material.

	Change in USD rate	*Effect on profit before income tax USD*
31-Dec 2020		
EGP	**+10%**	**587,692**
EGP	**-10%**	**(587,692)**
31-Dec 2019		
EGP	+10%	678,829
EGP	-10%	(678,829)

Liquidity risk
The cash flows, funding requirements and liquidity of the Group are monitored by Group management. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banks overdraft and bank loans. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available.

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)
The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Financial liabilities

USD	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
As at 31 December 2020					
Loans and borrowings	**30,408,812**	**101,515,349**	**712,635,032**	**12,425,000**	**856,984,193**
Trade and other payables*	**57,721,496**	**96,506,076**	**-**	**-**	**154,227,572**
Due to related parties	**-**	**57,192**	**-**	**-**	**57,192**
Lease liability	**2,484,186**	**3,367,784**	**15,599,605**	**-**	**21,451,575**
Derivative financial instruments**	**2,872,040**	**2,645,597**	**6,215,471**	**-**	**11,733,108**
Total undiscounted financial liabilities	**93,486,534**	**204,091,998**	**734,450,108**	**12,425,000**	**1,044,453,640**

USD	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As at 31 December 2019					
Loans and borrowings	20,680,991	100,671,911	770,139,912	12,465,041	903,957,855
Trade and other payables *	74,541,408	111,812,110	10,988,839	-	197,342,357
Due to related parties	-	57,224	-	-	57,224
Lease liability	1,350,159	4,050,478	20,805,070	-	26,205,707
Derivative financial instruments**	1,478,748	1,652,980	6,584,893	-	9,716,621
Total undiscounted financial liabilities	98,051,306	218,244,703	808,518,714	12,465,041	1,137,279,764

*excluding finance lease liability and deferred mobilization revenue.

** comparative information has been restated to conform with the current year presentation.

Capital management
Capital includes share capital, share premium, reserves, treasury shares and retained earnings.

The primary objective of the Group's capital management is to ensure that it will be able to continue as a going concern while maintaining a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group's strategy remains unchanged since inception. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or return capital to shareholders. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio between 30% and 80%.

USD	***2020***	*2019*
Loans and borrowings (Note 20)	**391,001,574**	406,047,328
Bonds payable (Note 21)	**315,479,756**	313,158,968
Bank balances and cash (Note 12)	**(62,488,548)**	(119,601,159)
Net debt	**643,992,782**	599,605,137
Total equity	**453,897,389**	452,724,480
Total capital	**1,097,890,171**	1,052,329,617
Gearing ratio	**59%**	57%

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a industry.

The Group's 2 customers (2019: 2 customers) drive more than 10% revenue from contract with customers and contribute to 78% (2019: 73%) revenue from contract with customer.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group include bank balances and cash, trade receivables and contract assets, due from related parties and other receivables. Financial liabilities of the Group include trade payables, due to related parties, loans and borrowings, other payables and derivative financial instrument. The fair values of the financial assets and liabilities are not materially different from their carrying value unless stated otherwise.

30 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

USD	*2020*	*2019*
Letter of guarantees*	**103,872,724**	119,933,552

* comparative information has been restated to conform with the current year presentation

Contingent liabilities represent letters of guarantee issued in favour of Saudi Customs, Egyptian General Petroleum Corporation, Suze Abu Zenima Petroleum Company (Petro Zenima), Kuwait Oil Company, The Gulf of Suez Petroleum Company and others. The cover margin on such guarantees amounted to USD 5,681,061 (31 December 2019: USD 5,527,168).

Following are the facilities of the Group:

- The Group signed a Syndicated Credit facility agreement arranged by Mashreq Bank PSC Dubai on 6 May 2019 and its subsequent amendments for the facility amounting to USD 90,000,000 for the issuance of Letters of Credit and Letters of Guarantees. The financial institutions participating in the facility are Mashreq Bank PSC Dubai, The Mauritius Commercial Bank Ltd and Warba Bank K.S.C.P. As of 31 December 2020, the Group utilized letter of guarantees a total amount of USD 62,244,633 (2019: USD 78,269,350).

- The Group entered into a bilateral Unfunded Trade Finance Facility Agreement with Arab Petroleum Investments Corporation (APICORP) in July 2019 for total facility amounting to USD 30,000,000 for the issuance of Letters of Credit and Letters of Guarantees. As of 31 December 2020, the Group utilized letter of guarantees for a total amount of USD 2,874,244 (2019: USD 2,872,836).

- The Group entered into a bilateral agreement with Al Ahli bank of Kuwait Egypt "ABK" dated on 29 May 2019 amounting to USD 3,000,000, by means of a Letter of Guarantee agreement. As of 31 December 2020, and 31 December 2019, the Group has not utilized any amounts under the facility.
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- The Group entered into specific indemnities with Bank of America on 10 June 2019 for an amount up to USD 4,000,000 for the issuance of certain Letters of Guarantees for some of its affiliates or subsidiaries. As of 31 December 2019, the Group has settled used LG's in 2020 and didn't renew the facility (2019: USD 2,866,644).

- The Group entered into a bilateral agreement with Suez Canal Bank "SCB" dated on 21 October 2018 amounting to USD 12,000,000.00 available to cover working capital needs including issuance of letters of guarantees. As of 31 December 2020, the Group utilized letter of guarantees for a total amount of USD 11,176,749 (2019: USD 9,314,139).

- The Group entered into bilateral agreement with EG Bank "EGB" bank dated February 2020 amounting to USD 11,427,500, for issuance of letters of guarantees. As of 31 December 2020, the Group utilized letter of guarantees for a total amount of USD 5,082,325 (2019: USD 5,160,825).

- The Group entered into a bilateral agreement with Alinma Bank dated April 2019 in SAR equivalent to USD 10,000,000 available to cover working capital needs including issuance of letters of guarantees. As of 31 December 2020, the Group utilized letter of guarantees for a total amount of USD 9,945,695 (2019: USD 9,945,695).

- The Group entered into a bilateral agreement with National Commercial Bank in KSA (NCB) dated May 2019 in SAR equivalent to USD 2,933,333 available to issuance of letters of guarantees. As of 31 December 2020, the Group utilized letter of guarantees for a total amount of USD NIL (2019: USD 2,504,183).
- The Group entered into bilateral agreement with Export development bank of Egypt “EBE” bank dated 18 July 2018 amounting to USD 12,000,000.00, available to cover working capital needs including issuance of letters of guarantees As of 31 December 2020 the Group utilized letter of guarantees for a total amount of USD 11,994,880 (2019: USD 8,999,880).
- The Group entered into a bilateral agreement with Emirates National Bank of Dubai S.A.E dated July 2020 in USD 25,000,000 available to cover working capital needs including a limit of USD 5,000,000 issuance of letters of guarantees and letters of credits. As of 31 December 2020, the Group utilized letter of credit for a total amount of USD 554,198.

31 DERIVATIVE FINANCIAL INSTRUMENTS

USD	2020	2019
Derivative held for trading		
Interest rate swap	**4,747,098**	3,569,046
Balance as at 31 December	**4,747,098**	3,569,046
Total current	**2,232,381**	1,150,326
Total non-current	**2,514,717**	2,418,720

The change in fair value of derivative held for trading amounting to USD 1,178,052 is recorded as expense in the consolidated statement of comprehensive income (2019: gain of USD771,134). The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

USD	*Total*	*Level 1*	*Level 2*	*Level 3*
31-Dec-20				
Derivative financial instrument:				
Interest rate swap	**(4,747,098)**	**-**	**(4,747,098)**	**-**

USD	*Total*	*Level 1*	*Level 2*	*Level 3*
31-Dec-19				
Derivative financial instrument:				
Interest rate swap	(3,569,046)	-	(3,569,046)	-

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 at fair value measurements. (31 December 2019: USD nil).

Interest rate swap derivatives relate to contracts taken out by the Group with other counterparties (mainly financial institutions) in which the Group either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

Derivative financial instruments - classified as held for trading financial liabilities - are carried in the consolidated statement of financial position at fair value at the total of USD 4,747,098 as of 31 December 2020 (2019: USD 3,569,046). The carrying amount of these derivatives represents the negative mark to market value of the remaining USD 100,000,000 notional amount of the swap contract that was originally entered into by the Group with Goldman Sachs (GS) in 2018, novated in 2019 and is still outstanding at 31 December 2020. The remaining tenor of the GS interest rate swap contract extends from 21 November 2019 until it terminates on 22 March 2023. The total notional amount of the GS interest rate swap before novation was USD 241,500,000 which represented at that time the loans withdrawn as Tranche A and B Loan under Loan 3 Syndication (note 20).

USD	2020	2019
Derivative financial liabilities that are designated and effective as hedging instruments		
Interest rate swap contracts	**6,986,010**	6,147,575
Balance as at 31 December	**6,986,010**	6,147,575
Total current	**3,285,256**	1,981,402
Total non-current	**3,700,754**	4,166,173

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Derivative financial liabilities – that are designated and effective as hedging instruments (in a cash flow hedge relationship) - are carried in the consolidated statement of financial position at fair value at the total of USD 6,986,010 as of 31 December 2020 (31 December 2019: USD 6,147,575). This carrying amount represents the negative mark to market value for SAR 434,147,727 notional amount equivalent to USD 115,772,727 (31 December 2019: USD 141,500,000 at date of novation) of the new swap contract that was entered into by the Group with National Commercial Bank (NCB) in 2019 (part of which was novated from the original swap contract with GS above). The tenor of the new NCB interest rate swap contract extends from 1 August 2019 until it terminates on 10 June 2025. The objective of the cash flow hedge is to protect against cash outflows variability related to floating-rate interest payments on the hedged portion of the Alinma credit facility using the 6-month SAIBOR rate (as shown in the following table). Such cash outflows variability results from changes which may occur on the 6-month SAIBOR market rate (i.e. the designated benchmark interest rate).

Borrowing (hedged item)	Type	Notional amount	Hedged interest rate	Effective date	Maturity date
Alinma Credit Facility	Bank loan	SAR 434,147,727	Floating (6m-SAIBOR)	1 Aug 2019	10 Jun 2025

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:
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USD	***Total***	***Level 1***	***Level 2***	***Level 3***
31-Dec-20				
Derivative financial instrument:				
Interest rate swap	**(6,986,010)**	**-**	**(6,986,010)**	**-**

USD	*Total*	*Level 1*	*Level 2*	*Level 3*
31-Dec-19				
Derivative financial instrument:				
Interest rate swap	(6,147,575)	-	(6,147,575)	-

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

32 DIVIDEND DISTRIBUTIONS

In the current period, dividends of USD 2,367,975 (2019: USD 1,934,284) have been paid by UPDC, one of the Group's subsidiaries, to its non-controlling shareholders in respect of 2019 profits. The Board of Directors of ADES International Holding Plc does not propose a dividend to the shareholders at the Annual General Meeting.

33 SUBSEQUENT EVENTS

Offer by Innovative Energy Holding

On 8 March 2021, the Independent Directors of the group ("ADES International") and Innovative Energy Holding Limited (a newly formed company to be jointly owned by ADES Investments Holding Ltd, The Public Investment Fund of the Kingdom of Saudi Arabia and Zamil Group Investment Co) announced that they had reached agreement on the terms of a recommended cash offer to be made by Innovative Energy for the entire issued and to be issued ordinary share capital of ADES International not already owned or treated as owned by Innovative Energy and its associates for the purposes of the DIFC Companies Law (the "Offer").

The Independent Directors and Innovative Energy are announced that the offer document, containing the full terms and conditions of the Offer and the procedures for its acceptance subject to certain restrictions relating to persons in Restricted Jurisdictions, the Offer Document is available on ADES International's website and the Closing Date of the Offer is 1.00 p.m. (London time) on 20 April 2021.

Shares buy back

On 27 January 2021, ADES International Holding PLC has purchased 2,900 from its own shares with an average price of USD 10.00 per share, in accordance with the Shareholders' authority granted at the Company's AGM on 22 June 2020 and as part of the buyback program announced on November 29, 2019.