

**Bahrain Mumtalakat Holding Company B.S.C. (c)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2016**

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## BOARD OF DIRECTORS' REPORT

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The Board of Bahrain Mumtalakat Holding Company B.S.C. (c) (hereinafter referred to as the "Group") is pleased to present its report together with the audited consolidated financial statements for the year ended 31 December 2016.

### Financial highlights

The Group registered a net profit of BD 68.9 million compared to BD 28.7 million in the prior year. The increase in net profit is attributed primarily to lower impairment losses taken in 2016 as compared to the previous year. The increase in net profits came about despite a reduction in operating income during the year, mainly from lower LME aluminium prices. The operating income for the year amounted to BD 84.1 million in the year ended 31 December 2016 as compared to BD 124.4 million in 2015.

The Group's total assets and equity attributable to the shareholder of the parent company as at 31 December 2016 were BD 4.0 billion and BD 2.4 billion respectively (2015: BD 4.0 billion and BD 2.4 billion respectively).

The movement in equity attributable to shareholder of Bahrain Mumtalakat Holding Company is as follows:

	<i>BD '000</i>
Balance as at December 31, 2015	2,364,139
Net profit	53,912
Other comprehensive loss	(50,034)
Contribution by the shareholder	6,532
Balance as at December 31, 2016	<u>2,374,549</u>

Group revenue decreased by 12.4% from BD 1.168 billion in 2015 to BD 1.023 billion in 2016. The decrease was primarily due to lower sales revenue registered at Alba (BD 669.7 million in 2016 compared to BD 766.7 million in the prior year); mainly as a result of lower LME prices for aluminium. The average cash LME price of aluminium was US\$ 1,604 per mt in 2016 compared to US\$ 1,663 per mt in 2015.

Alba reported a 12.7% decrease in revenue primarily due to lower LME prices for aluminum. The average cash LME price of aluminium was US\$ 1,604 per mt in 2016 compared to US\$ 1,663 per mt in 2015. Coupled with improved operating efficiency, Alba registered a net profit for the year of BD 48.4 million compared to a net profit of BD 60.0 million in the prior year.

Coupled with improved operating efficiency, Alba registered a net profit for the year of BD 48.4 million compared to a net profit of BD 60.0 million in the prior year.

Gulf Air registered a net profit for the year of BD 4.0 million compared to BD 66.4 million in the prior year. Gulf Air's loss from operations for the year amounted to BD 75.4 million in 2016 compared to BD 31.1 million in 2015.

## Bahrain Mumtalakat Holding Company B.S.C. (c)

### BOARD OF DIRECTORS' REPORT (continued)

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#### Financial highlights (continued)

The share of profit from associates decreased from BD 84.9 million in 2015 to BD 39.4 million in 2016. The share of profit from associates of 2015 included fair value gain on certain investment properties distributed by an associate of the Group to its shareholders. The Group's share of profits from Bahrain Telecommunications Company B.S.C. and National Bank of Bahrain B.S.C. for 2016 were BD 8.7 million and BD 25.1 million respectively (2015: BD 17.7 million and BD 23.8 million respectively), reflecting the strong contributions from the Group's principal associate companies.

#### Directors

The following is the list of directors who were in office as of the date of this report:

- H.E. Shaikh Khalid bin Abdulla Al Khalifa
- H.E. Shaikh Mohammed bin Essa Al-Khalifa
- H.E. Mr. Kamal bin Ahmed Mohammed
- H.E. Mr. Zayed Rashid Alzayani
- Mr. Khaled Amer Alrumaihi
- Mr. Mahmood Hashim Al Kooheji
- Dr. Samer Al Jishi
- Mr. Khalid Humaidan
- Mrs. Elham Hasan

By order of the Board of Directors



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Khalid bin Abdullah Al Khalifa  
Chairman



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Mahmood H. Al-Kooheji  
Director and Chief Executive Officer

3 May 2017



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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c)**

### **Report on the Audit of the Consolidated Financial Statements**

#### *Opinion*

We have audited the consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of income, other comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other matter*

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 17 May 2016.

#### *Other information included in the Group's 2016 annual report*

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditors' report thereon. The Board of Directors is responsible for the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF  
BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c) (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Other information included in the Group's 2016 annual report (continued)*

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

*Responsibilities of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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



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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c) (continued)**

### **Report on the Audit of the Consolidated Financial Statements (continued)**

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

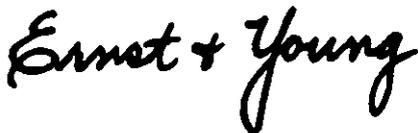
We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF  
BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c) (continued)**

**Report on Other Legal and Regulatory Requirements**

As required by the Bahrain Commercial Companies Law, we report that:

- a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements;
- c) we are not aware of any violations of the Bahrain Commercial Companies Law, or the terms of the Company's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Company or on its consolidated financial position; and
- d) satisfactory explanations and information have been provided to us by the management in response to all our requests.



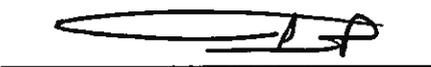
*Ernst & Young*

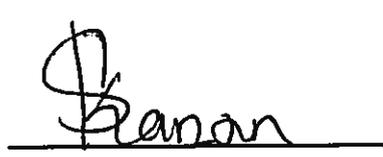
Partner's Registration No. 117  
3 May 2017  
Manama, Kingdom of Bahrain

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
31 December 2016

	Note	2016 BD '000	2015 BD '000
<b>ASSETS</b>			
Cash and bank balances	3	164,279	360,948
Trade accounts receivable, prepayments and other receivables	4	182,810	174,113
Inventories	5	180,932	165,324
Investments carried at fair value through statement of income	6	245,365	219,019
Non-trading investments	7	261,401	219,871
Investment in associates	8	874,801	915,502
Investment in joint venture		5,151	5,000
Investment properties	9	359,470	343,376
Property, plant and equipment	10	1,278,805	1,172,366
Other assets	11	32,712	34,857
Goodwill	12	346,264	346,264
<b>TOTAL ASSETS</b>		<b>3,931,990</b>	<b>3,956,640</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Borrowings	13	734,843	776,474
Derivative financial instruments	14	18,161	17,866
Trade accounts payable, accruals and other liabilities	15	459,874	435,460
Employees' end of service benefits	16	12,268	11,969
Obligations relating to acquired entities	17	21,562	52,203
<b>Total liabilities</b>		<b>1,246,708</b>	<b>1,293,972</b>
<b>Equity attributable to shareholder of the parent</b>			
Share capital	18	2,000,000	2,000,000
Capital contribution	18	352,869	346,337
Statutory reserve	19	39,698	34,307
Other reserves	20	(75,775)	(25,741)
Retained earnings		57,757	9,236
		<b>2,374,549</b>	<b>2,364,139</b>
<b>Non-controlling interests</b>		<b>310,733</b>	<b>298,529</b>
<b>Total equity</b>		<b>2,685,282</b>	<b>2,662,668</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,931,990</b>	<b>3,956,640</b>

  
Khalid bin Abdullah Al Khalifa  
Chairman

  
Mahmood H. Al-Kooheji  
Director and Chief Executive Officer

  
Suha S. Karzoon  
Chief Financial Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Bahrain Mumtalakat Holding Company B.S.C. (c)

**CONSOLIDATED STATEMENT OF INCOME**

Year ended 31 December 2016

	Note	2016 BD '000	2015 BD '000
Revenue	22	1,023,398	1,167,928
Direct costs	23	(901,927)	(984,753)
<b>Gross profit</b>		<b>121,471</b>	<b>183,175</b>
Dividend income		11,695	12,137
Gain on investments carried at fair value through statement of income		38,021	4,323
Other operating income	24	7,805	11,223
Government assistance	25	63,401	75,685
Selling and distribution expenses		(73,272)	(72,453)
Administrative expenses		(80,718)	(88,894)
Other operating expenses	26	(4,283)	(755)
<b>Operating income</b>		<b>84,120</b>	<b>124,441</b>
Share of profit of associates	8	39,423	84,890
Interest income		3,430	4,055
Interest expense		(24,558)	(30,099)
Fair value gain on revaluation/settlement of derivatives (net)	14	-	264
Impairment losses	27	(33,510)	(245,823)
Write back of provisions and accounts payable	28	-	90,982
<b>NET PROFIT FOR THE YEAR</b>		<b>68,905</b>	<b>28,710</b>
<b>Attributable to:</b>			
Shareholder of the parent		53,912	10,303
Non-controlling interests		14,993	18,407
		<b>68,905</b>	<b>28,710</b>



Khalid bin Abdullah Al Khalifa  
Chairman



Mahmood H. Al-Kooheji  
Director and Chief Executive Officer



Suha S. Karzoon  
Chief Financial Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

**Bahrain Mumtalakat Holding Company B.S.C. (c)****CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year ended 31 December 2016

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
<b>NET PROFIT FOR THE YEAR</b>	<b>68,905</b>	<b>28,710</b>
<b>Other comprehensive income</b>		
<i>Items that will be reclassified to consolidated statement of income in subsequent periods</i>		
Movement in cumulative changes in fair values	(3,832)	(32,655)
Share of changes in equity of associates	995	(23,472)
Foreign currency translation	(46,962)	(11,743)
<i>Items that will not be reclassified to consolidated statement of income in subsequent periods</i>		
Remeasurement losses on defined benefit plan	(344)	(1,002)
<b>Total other comprehensive loss for the year</b>	<b>(50,143)</b>	<b>(68,872)</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<b>18,762</b>	<b>(40,162)</b>
<b>Attributable to:</b>		
Shareholder of the parent	3,878	(58,462)
Non-controlling interests	14,884	18,300
	<b>18,762</b>	<b>(40,162)</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 BD '000	2015 BD '000
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		68,905	28,710
Adjustments for:			
Depreciation		113,550	116,001
Fair value gain on derivatives	14	-	(264)
Gain on investments carried at fair value through statement of income		(38,021)	(4,323)
Gain on non-trading investments		(188)	(180)
Share of profits of associates		(39,423)	(84,890)
Impairment losses	27	33,510	245,823
Provision for impairment on trade accounts and other receivables	4	523	934
Provision for impairment of inventories	5	206	259
Loss on disposal and write-off of property, plant and equipment	26	422	564
Gain on disposal of investment properties		-	(723)
Interest income		(3,430)	(4,055)
Interest expense		24,558	30,099
Government assistance		(12,900)	(65,000)
Write back of provision for other receivable	28	-	(68,924)
Write back of related party payable	28	-	(22,058)
Employees' end of service benefits	16	2,867	3,553
Operating profit before changes in operating assets and liabilities		<b>150,579</b>	<b>175,526</b>
Changes in operating assets and liabilities:			
Inventories		(15,674)	4,299
Trade accounts receivable, prepayments and other receivables		2,653	(14,265)
Trade accounts payable, accruals and other liabilities		24,414	61,510
Cash from operating activities		<b>161,972</b>	<b>227,070</b>
Interest paid		(22,995)	(29,869)
Derivative financial instruments		(39)	(4,319)
Employees' end of service benefits paid	16	(2,568)	(2,897)
Net cash from operating activities		<b>136,370</b>	<b>189,985</b>
<b>INVESTING ACTIVITIES</b>			
Investment in associates and joint venture		(27,914)	(5,000)
Purchase of non-trading and other investments		(24,755)	(60,957)
Proceeds from sale of non-trading investments and other investments		540	38,258
Purchase of property, plant and equipment	10	(220,811)	(90,150)
Proceeds from disposal of property, plant and equipment		860	3,297
Investment in properties		(9,770)	(31,515)
Other assets		2,278	2,767
Short term deposits		24,184	85,807
Interest received		2,025	3,399
Dividends from associates		31,091	29,659
Net cash used in investing activities		<b>(222,272)</b>	<b>(24,435)</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**  
Year ended 31 December 2016

	<i>Note</i>	<b>2016</b> <b>BD '000</b>	<b>2015</b> <b>BD '000</b>
<b>FINANCING ACTIVITIES</b>			
Capital contribution	18	-	36,260
Proceeds from borrowings		<b>133,910</b>	436,894
Repayment of borrowings		<b>(175,111)</b>	(500,129)
Dividend paid to non-controlling interests		<b>(2,508)</b>	(8,936)
Movement in non-controlling interests (net)	21	<b>(172)</b>	(1,245)
Obligations relating to acquired entities		<b>(30,641)</b>	(29,907)
Net cash used in financing activities		<b>(74,522)</b>	(67,063)
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(160,424)</b>	98,487
Cash and cash equivalents at beginning of the year		<b>305,262</b>	206,775
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>3</b>	<b>144,838</b>	<b>305,262</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2016

	Attributable to shareholder of the parent					Non-controlling interests	Total equity
	Share capital	Capital contribution	Statutory reserve	Other reserves	Accumulated losses/Retained earnings		
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January 2015	1,845,635	1,173,203	33,277	43,024	(769,695)	290,410	2,615,854
Net profit for the year	-	-	-	-	10,303	18,407	28,710
Other comprehensive loss	-	-	-	(68,765)	-	(107)	(68,872)
<b>Total comprehensive (loss) income</b>	-	-	-	(68,765)	10,303	18,300	(40,162)
Contribution by the shareholder (note 18)	-	97,194	-	-	-	-	97,194
Capital contribution netted off against accumulated losses (note 18)	-	(769,695)	-	-	769,695	-	-
Shares issued during the year (note 18)	154,365	(154,365)	-	-	-	-	-
Transfer to statutory reserve	-	-	1,030	-	(1,030)	-	-
Share of other change in equity of associate	-	-	-	-	(37)	-	(37)
Dividend paid to non-controlling interests	-	-	-	-	-	(8,936)	(8,936)
Other movement in non-controlling interests (note 21)	-	-	-	-	-	(1,245)	(1,245)
<b>Balance at 31 December 2015</b>	<b>2,000,000</b>	<b>346,337</b>	<b>34,307</b>	<b>(25,741)</b>	<b>9,236</b>	<b>298,529</b>	<b>2,662,668</b>
Net profit for the year	-	-	-	-	53,912	14,993	68,905
Other comprehensive loss	-	-	-	(50,034)	-	(109)	(50,143)
<b>Total comprehensive (loss) income</b>	-	-	-	(50,034)	53,912	14,884	18,762
Contribution by the shareholder (note 18)	-	6,532	-	-	-	-	6,532
Transfer to statutory reserve (note 19)	-	-	5,391	-	(5,391)	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	(2,508)	(2,508)
Other movement in non-controlling interests (note 21)	-	-	-	-	-	(172)	(172)
<b>Balance at 31 December 2016</b>	<b>2,000,000</b>	<b>352,869</b>	<b>39,698</b>	<b>(75,775)</b>	<b>57,757</b>	<b>310,733</b>	<b>2,685,282</b>

The attached notes 1 to 36 form part of these consolidated financial statements.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**1 INCORPORATION AND PRINCIPAL ACTIVITIES**

Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company"), a closed Bahraini Joint Stock Company, was incorporated in the Kingdom of Bahrain by Royal Decree number 64 of 2006 and registered with the Ministry of Industry, Tourism and Commerce under Commercial Registration (CR) number 61579, on 29 June 2006. The Company operates as an investment company. The postal address of the Company's registered office is P.O. Box 820, Manama, Kingdom of Bahrain.

The Company is fully owned by the Government of the Kingdom of Bahrain ("the shareholder") through the Ministry of Finance. The Company acts as the investment arm of the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 3 May 2017.

**2 BASIS OF PREPARATION**

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets at fair value through the statement of income and available for sale investments, which are carried at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are presented in Bahraini Dinars, being the functional and presentational currency of the Company and are rounded to the nearest thousand (BD '000).

**2.1 Statement of compliance**

The consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries (together "the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS), and in conformity with the Bahrain Commercial Companies Law.

**2.2 Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the reporting date. The Company has the following subsidiaries:

<i>Name</i>	<i>% Ownership at 31 December 2016 and 2015</i>	<i>Effective date of control</i>	<i>Principal activity</i>
Aluminium Bahrain B.S.C. (Alba)	69.38%	29 June 2006	Owns and operates a primary aluminium smelter and the related infrastructure.
Atbahrain B.S.C. (c)	100%	25 November 2008	Organising conferences and events.
Bahrain Flour Mills Company B.S.C.	65.70%	29 June 2006	Production and sale of flour and related products.

**Bahrain Mumtalakat Holding Company B.S.C. (c)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 BASIS OF PREPARATION (continued)****2.2 Basis of consolidation (continued)**

<i>Name</i>	<i>% Ownership at 31 December 2015 and 2016</i>	<i>Effective date of control</i>	<i>Activity</i>
Bahrain International Circuit Company S.P.C.	100%	29 June 2006	Managing, operating and renting the car racing track in Bahrain.
Bahrain Real Estate Investment Company B.S.C. (c)	100%	29 June 2006	Developing, leasing and managing investment properties.
General Poultry Company B.S.C. (c)	100%	29 June 2006	Poultry farming and sale of eggs.
Gulf Air Holding B.S.C. (c)	100%	2 February 2010	Investment holding company
Gulf Technics Company B.S.C. (c)	100%	20 January 2010	Maintenance of aviation, equipment and fleet technical management.
Southern Area Development Company B.S.C. (c)	55.90%	7 October 2013	Development of a hotel and associated facilities and other tourism related activities
Southern Tourism Company B.S.C. (c)	100.00%	25 April 2013	Providing sea transportation and tourism services.
Gulf Air Holding B.S.C. (c) has the following subsidiaries:			
Bahrain Airport Company B.S.C. (c)	100%	17 January 2008	Managing airport facilities, airplanes ground services and airport surrounding area development.
Gulf Air B.S.C. (c)	100%	5 May 2007	Transportation of passengers and freight on a scheduled and charter basis.
Gulf Aviation Academy B.S.C. (c)	100%	22 July 2009	Providing training for airline pilots, cabin crew and related services.

All of the subsidiaries above are incorporated and principally operate in the Kingdom of Bahrain.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.2 Basis of consolidation (continued)**

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

All material intra-group balances and transactions, including material unrealised gains and losses on transactions and dividends, between Group companies have been eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity. Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any interest retained
- Recognises any surplus or deficit in statement of income
- Reclassifies the parent's share of components, previously recognised in other comprehensive income, to profit or loss or retained earnings, as appropriate

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Changes in accounting policies**

The accounting policies adopted by the Group are consistent with those of the previous financial year, except for the adoption of the following amendments to IFRS effective as at 1 January 2016:

- IFRS 14 Regulatory Deferral Accounts: Guidance on presentation and disclosures;*  
*IFRS 11 Joint Arrangements (Amendments): Accounting for Acquisition of Interests - Guidance on acquisition of an interest in a joint operation;*  
*IAS 16 and IAS 38 Property, Plant and Equipment and Intangible Assets (Amendments): Clarification of acceptable methods of depreciation and amortisation;*  
*IAS 16 and IAS 41 Property, Plant and Equipment and Agriculture (Amendments): Guidance on the accounting requirements of plant-based bearer biological assets;*  
*IAS 27 Separate Financial Statements (Amendments): Guidance on equity method for investments in subsidiaries, joint ventures and associates;*  
*IAS 1 Disclosure Initiative: Presentation of Financial Statements (Amendments): Clarification on materiality requirements and presentation and disclosures; and*  
*IFRS 10, IFRS 12 Associates and Joint Ventures (Amendments): The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.*

**Annual Improvements 2012-2014 Cycle**

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Guidance on changing the disposal methods;*  
*IFRS 7 Financial Instruments: Disclosures (Amendment): Guidance on servicing contracts and applicability of the offsetting disclosures to interim condensed financial statements;*  
*IAS 19 Employee Benefits (Amendment): Clarification on the market depth of high quality corporate bonds; and*  
*IAS 34 Interim Financial Reporting (Amendment): Guidance on interim disclosures and other information.*

The adoption of these standards and interpretations did not have any effect on the Group's financial position, financial performance or disclosures.

**Standards issued but not yet effective**

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

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Standards issued but not yet effective (continued)**

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 that was issued in May 2014 and subsequent amendments, establish a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

*IFRS 16 Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. (IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied). The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

*IFRS 10 and IAS 28 Consolidated Financial Statements and Investment in Associates and Joint Ventures (Amendments):*

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date is not decided).

*IAS 7 Statement of Cash Flows (Amendments):*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted.

*IAS 12 Income Taxes (Amendments):*

The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted.

Other standards and interpretations that have been issued but not yet effective are not likely to have any significant impact on the consolidated financial statements of the Group in the period of their initial application.

**Cash and cash equivalents**

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of cash in hand, bank balances, deposits held at call with banks and other short-term deposits with an original maturity of three months or less, net of outstanding overdrafts.

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Derivative financial instruments and hedging**

The Group uses derivative financial instruments such as forward and future aluminium metal contracts and aluminium metal options to hedge its risk associated with aluminium price fluctuations, and option contracts to hedge against fuel costs. The Group also uses forward foreign exchange contracts and interest rate collars and swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments 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 assets when the fair value is positive and as liabilities when the fair value is negative.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either:

- i) the changes in fair value of a recognised asset or liability (fair value hedge); or
- ii) the future cash flows attributable to a recognised asset or liability or an unrecognised firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- at the inception of the hedge there is formal documentation of the hedging relationship and the enterprise's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the enterprise will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged transaction's cash flows that is attributable to the hedged risk;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported profit or loss;
- the effectiveness of the hedge can be reliably measured, that is, the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured; and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

Changes in fair values of derivative financial instruments that are designated, and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in 'other reserves' at that time remains in shareholders equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in 'other reserves' is immediately transferred to the consolidated statement of income.

31 December 2016

## 2 BASIS OF PREPARATION (continued)

### 2.3 Significant accounting policies (continued)

#### Derivative financial instruments and hedging (continued)

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and are classified as held for trading, are immediately recognised in the consolidated statement of income.

#### Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through the statement of income, receivables, held to maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through statement of income, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### *Financial assets carried at fair value through statement of income*

Financial assets carried at fair value through statement of income represent financial assets designated upon initial recognition at fair value through statement of income. These assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at fair value through statement of income are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in gain or loss on investments carried at fair value through the consolidated statement of income.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Non-trading investments*

These are classified as follows:

- Held to maturity
- Available-for-sale

#### *Held to maturity investments*

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost using the effective interest method, less impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Investments and other financial assets (continued)**

*Available-for-sale financial assets*

Available-for-sale investments financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the available-for-sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the consolidated statement of income. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity. Dividends earned on investments are recognised in the consolidated statement of income as 'dividend income' when the right to receive the payment has been established.

*Fair values*

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 an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

- Fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the reporting date.
- For equity investments that are not quoted in an active market, fair valuation is based primarily on market multiples of comparable companies which are quoted.
- Investments in managed funds are based on net asset values.
- Derivatives which are not traded in an active market such as commodity options, interest rate collars and swaps etc. are determined by valuation techniques carried out by counterparties.
- Forward foreign exchange contracts are determined using forward exchange market rates at the reporting date with the same maturity.

**Impairment and uncollectability of financial assets**

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

*Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the investment is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income.

31 December 2016

## 2 BASIS OF PREPARATION (continued)

### 2.3 Significant accounting policies (continued)

#### Impairment and uncollectability of financial assets (continued)

##### *Assets carried at amortised cost (continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the financial asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in consolidated statement of income.

##### *Trade accounts receivable*

A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired receivables are written off when they are assessed as uncollectable. If any write-off is later recovered, the recovery is recognised as other income in the consolidated statement of income.

##### *Available-for-sale-investments*

For available-for-sale investments, the Group assess at each reporting date whether there is objective evidence that an investment is impaired. In case of equity investments, classified as available for sale, objective evidence include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale-investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income (to the extent of previously recognised impairment losses), if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

#### **Inventories**

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

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

Where necessary, an impairment provision is made for obsolete, slow moving and defective items.

#### **Investment in associates and joint venture**

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 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 Group's investment in its associates and joint venture are accounted for using the equity method of accounting.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Investment in associates and joint venture (continued)**

Under the equity method, the investment in the associate or a joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate or joint venture. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the share of the results of operations of the associate or joint venture. Where there has been a change recognised directly in the other comprehensive income of the associate or joint venture, the Group recognises its share of any changes and discloses this, when applicable, in other comprehensive income. Profits and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

Gains or losses on partial disposal of interest that does not result in a loss of significant influence on associates or joint venture is recognised in the consolidated statement of income and a proportionate amount of gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of income.

Upon loss of significant influence over the associate or joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

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

**Investment properties**

Property that is held to earn long term rentals or for capital appreciation or both, and that is not occupied by any member of the Group is classified as investment property. Investment properties comprise land and buildings. Investment properties are initially measured at cost, including transaction costs.

Contribution from the Shareholder in the form of ready-to-use land and/ or building is recognised upon transfer of rights and obligations of the property to the Group evidenced by registration of the title deed of the property in the Group's favour. Contributions other than those in form of ready-to-use assets (e.g. unreclaimed land plots) are recognised when the intended future use is confirmed, evidenced by conceptualization and approval of master plan, awarding of contracts and commencement of reclamation to bring the asset to the intended shape, form and use.

After initial recognition, the investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the estimated useful lives of 30 years. No depreciation is provided on freehold land.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other expenses are included in the consolidated statement of income when incurred.

Investment property under construction is treated as investment property based on IAS 40 (revised).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Land and assets in the process of completion are not depreciated. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Depreciation is calculated on a straight line basis over the estimated useful lives of property, plant and equipment as follows:

	<i>Useful lives (years)</i>
Buildings and leasehold improvements	Lease term or 35 years, whichever is shorter
Aircraft and operating ground equipments	5 - 18
Plant, machinery and equipment	3 - 25
Motor vehicles	4
Furniture and office equipment	5

Leased aircraft and components are recorded by the Group as per the terms of the underlying lease agreements as operating leases.

Assets in the process of completion are transferred to property, plant and equipment when the asset is ready to be put into commercial use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property, plant and equipment. All other maintenance expenditure is recognised in the consolidated statement of income as the expense is incurred.

**Business combinations and goodwill**

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

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

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

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, fair value of previously held interest, if any and the amount recognised for non-controlling interest, over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of income.

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Business combinations and goodwill (continued)**

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 forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs 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 exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

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

*Property, plant and equipment*

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable at the reporting date. For the aircraft, the Group assesses impairment on the basis of independent external valuations.

*Goodwill*

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually as at 31 December, and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**  
**Impairment of non-financial assets (continued)**

*Associates*

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate and recognises the amount in the consolidated statement of income.

*Investment properties*

The investment properties are fair valued for impairment assessments at the year end. The valuation methods followed are summarised below:

- Vacant land: these are measured based on residual method where there is potential economic development or recent comparable transaction prices.
- Ground lease land: these are measured by taking into account the potential future income, as per lease agreements in place and the value of the asset to the Group on expiry of the lease. The income is discounted to present value.
- The value of the property to the Group on expiry of the lease term is assessed either assuming that the property will be in a good condition to generate rental income in which case a capital future income method is used or the property would be considered as a redevelopment site.

If the fair value of the investment properties falls below the carrying amount, the difference is recognised as impairment losses in the consolidated statement of income.

**Financial liabilities**

*Obligations relating to acquired entities*

Obligations relating to acquired entities are assessed at each period end and adjusted accordingly.

*Borrowings*

Borrowings are recognised initially at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective yield.

Interest is charged as an expense based on effective yield, with unpaid amounts included in "accrued expenses".

*Trade accounts payable and accruals*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Derecognition of financial assets and financial liabilities**

*Financial assets*

A financial asset (in whole or in part) is derecognised where:

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to cash flows from an asset and either (a) has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Derecognition of financial assets and financial liabilities (continued)**

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

**Employee benefits**

*End of service benefits*

The expatriate employees of the Group are paid an end of service indemnity, which represents a defined benefit plan in accordance with the provisions of the labour law in their respective countries of employment. This liability, which is not funded, is provided for on the basis of the notional amount payable based on accrued service as at the statement of financial position date.

*Other benefits*

Employees' other benefits such as housing, annual leave, air passage and other short-term benefits are recognised as they accrue to the employees.

*Bahraini nationals*

For Bahraini nationals, the Group makes contributions to the Social Insurance Organisation (SIO) Scheme. This is a funded defined contribution scheme and the Group's contributions are charged to the consolidated statement of income in the year to which they relate. The Group's obligations are limited to the amounts contributed to the Scheme. In addition, the Group also provides for end of service benefits to certain Bahraini nationals whose salaries exceed a certain limit as stipulated in the Labour Law.

**Provisions**

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

*Restructuring provisions*

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

**Leases**

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

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
31 December 2016

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**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Leases (continued)**

***Finance leases***

***Group as a lessee:***

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated statement of income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

***Operating leases***

***Group as a lessee:***

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the lease term.

***Group as a lessor:***

Assets leased out under operating leases are included in investment properties in the consolidated statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

**Foreign currency translation**

Transactions in foreign currencies are initially recorded in Bahraini Dinars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the exchange rate ruling at the reporting date. All exchange gains and losses are taken to the consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date 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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Translation gains or losses on non-monetary available-for-sale items carried at fair value are included in other comprehensive income as part of the fair value adjustment on available-for-sale investments, unless part of an effective hedging strategy.

The assets and liabilities of foreign operations are translated into Bahraini Dinars at the rate of exchange ruling at the reporting date and their statement of income items are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

31 December 2016

**2 BASIS OF PREPARATION (continued)**

**2.3 Significant accounting policies (continued)**

**Revenue recognition (continued)**

*Passenger tickets and cargo bills*

Sale of passenger tickets and cargo airway bills are recognised as revenue, net of revenue attributable to the award of frequent flyer benefits, when the transportation service is provided.

Sale of passenger tickets and cargo airway bills are initially recorded as unearned revenue. The value of passenger and cargo tickets sold but which have remained unused for more than 18 months or are utilized or expired as per the terms of the ticket sold is accounted for as income.

*Sale of metal and other products*

Revenue from the sale of finished metal and other goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

*Direct costs*

Direct costs are recognised at the same time as the revenue to which they relate.

*Dividend income*

Revenue is recognised when the Group's right to receive the payment is established.

*Interest income*

Interest income is recognised based on effective interest rates.

**Government assistance**

Government assistance is recognised where there is reasonable assurance that the assistance will be received and all attached conditions are complied with. When the assistance relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the assistance relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Government assistance that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the consolidated statement of income in the period in which they become receivable.

**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 respective assets. All other borrowing costs are expensed in the period they occur.

**Taxes**

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided for in accordance with the taxation laws of the countries where the Group operates.

Bahrain Mumtalakat Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

3 CASH AND BANK BALANCES

	2016 BD '000	2015 BD '000
Cash and current accounts with banks	75,553	114,614
Call deposits	24,486	68,165
Term deposits	64,240	178,169
Cash and bank balances	<u>164,279</u>	<u>360,948</u>
Bank balances under lien and term deposits with an original maturity of more than three months	(31,456)	(55,639)
Held to maturity investments (note 7)	12,033	-
Bank overdrafts (note 13)	(18)	(47)
Cash and cash equivalents as per the consolidated statement of cash flows	<u>144,838</u>	<u>305,262</u>

The majority of the cash and bank balances, and call and term deposits are denominated in Bahraini Dinars and US Dollars. As at 31 December 2016, the effective interest rate on call deposits was 0.34% (2015: 0.21%) per annum and term deposits was 1.96% (2015: 1.39%) per annum.

4 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER RECEIVABLES

	2016 BD '000	2015 BD '000
Trade accounts receivable (net of provision for impairment)	119,507	122,650
Other receivables	31,110	23,428
Prepayments	32,193	28,035
	<u>182,810</u>	<u>174,113</u>

The movements in the provision for impairment of trade accounts receivables were as follows:

	2016 BD '000	2015 BD '000
Balance at beginning of the year	15,226	15,254
Provided during the year, net	523	934
Amount written off during the year	(190)	(962)
Balance at end of the year	<u>15,559</u>	<u>15,226</u>

The ageing analysis of unimpaired trade accounts receivable is as follows:

	Total BD '000	Neither past due nor impaired BD '000	Past due but not impaired				>120 days BD '000
			< 30 days BD '000	31 – 60 days BD '000	61 – 90 days BD '000	91 – 120 days BD '000	
2016	119,507	94,748	13,494	2,280	651	3,129	5,205
2015	122,650	100,907	11,088	2,882	649	1,277	5,847

Unimpaired trade accounts and other receivable are expected, on the basis of previous experience, to be fully recoverable.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**5 INVENTORIES**

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Raw materials	32,945	27,523
Work in progress	36,971	48,648
Finished goods	34,446	20,637
Store, spare parts and consumables	37,669	39,111
Goods in transit	41,457	31,762
	<u>183,488</u>	<u>167,681</u>
Provision for impairment of inventories	(2,556)	(2,357)
	<u>180,932</u>	<u>165,324</u>

The movements in provision for impairment of inventories were as follows:

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Balance at beginning of the year	2,357	2,134
Provided during the year	206	259
Inventories written off during the year	(7)	(36)
	<u>2,556</u>	<u>2,357</u>

**6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME**

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Equities- quoted	2,273	2,271
Equities- unquoted	141,590	108,468
Debt securities- unquoted	1,030	-
Managed funds	100,472	108,280
	<u>245,365</u>	<u>219,019</u>

The fair value of unquoted equities are primarily based on market multiples of comparable companies using Level 3 inputs. Quoted equities are fair valued based on market bid prices at the close of business on the reporting date. These are classified under level 1 fair value hierarchy. Managed funds are fair valued based on net asset values. Managed funds with underlying quoted securities are included in level 2 fair value hierarchy and private equity and debt funds are included in level 3 fair value hierarchy. Ref to note 32 for disclosure of fair value hierarchies.

**7 NON-TRADING INVESTMENTS**

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
(i) Available-for-sale quoted investments		
Equities	11,243	10,436
Managed funds	441	417
	<u>11,684</u>	<u>10,853</u>
(ii) Available-for-sale unquoted investments	237,684	209,018
(iii) Held to maturity quoted investments	12,033	-
	<u>261,401</u>	<u>219,871</u>

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**7 NON-TRADING INVESTMENTS (continued)**

An amount of BD 2,885 thousand has been recognised as impairment loss on available-for-sale investments during the current year (2015: nil) (note 27).

Quoted equities are fair valued based on market bid prices at the close of business on the reporting date. Quoted managed funds are fair valued based on net asset values.

The fair value of unquoted equity investments are primarily based on market multiples of comparable companies using Level 3 inputs. Discount for lack of marketability ranging from 0% - 30% applied in the valuation is considered as a significant unobservable input. Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing these investments. An increase in the discount for lack of marketability would decrease the fair value of the investment and vice versa. Ref to note 32 for disclosure of fair value hierarchy.

Held to maturity investments represent short term Government bonds held by the Group, carried at amortised cost. The effective interest rate is 2.02% (2015: nil).

**8 INVESTMENT IN ASSOCIATES**

(i) The Group has the following material associates at 31 December 2016:

<i>Associate</i>	<i>Country of incorporation and operation</i>	<i>Principal activities</i>	<i>% Ownership</i>
Bahrain Telecommunications Company B.S.C. (Batelco)	Kingdom of Bahrain	Providing telecom services	36.67%
National Bank of Bahrain B.S.C. (NBB)	Kingdom of Bahrain	Banking	44.18%

(ii) **Summarised financial information of material associates**

Summarised financial information in respect of the material associates is set out below. The summarised financial information below represents amounts reported in the associates' audited financial statements prepared in accordance with IFRS.

	<i>Batelco</i>		<i>NBB</i>	
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Total assets	950,935	1,004,982	2,977,100	2,999,710
Total liabilities	(413,967)	(431,929)	(2,562,404)	(2,634,950)
Net assets	536,968	573,053	414,696	364,760
Revenue	367,132	372,428	96,872	94,400
Net profit for the year	32,331	55,611	56,733	53,840
Other comprehensive (loss) income for the year	(17,250)	(10,875)	17,644	(44,980)
Total comprehensive income for the year	15,081	44,736	74,377	8,860
Dividend received during the year	15,238	15,246	11,644	10,585

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**8 INVESTMENT IN ASSOCIATES (continued)**

**(iii) Share of net assets and carrying value of investments:**

	<i>Batelco</i>		<i>NBB</i>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
Group's share of the net assets	<b>196,906</b>	<b>210,139</b>	<b>183,213</b>	<b>161,151</b>
Carrying value of investment	<b>241,100</b>	<b>279,547</b>	<b>309,095</b>	<b>287,879</b>

**(iv) Market values**

NBB and Batelco are listed on the Bahrain Bourse. The market values based on quoted prices at 31 December 2016 were BD 368,869 thousand (2015: BD 326,020 thousand) and BD 173,195 thousand (2015: BD 195,149 thousand) respectively.

**(v) Aggregate information of associates that are not individually material**

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Group's share of profit for the year (net)	<b>5,614</b>	<b>43,400</b>
Group's share of other comprehensive loss for the year (net)	<b>(822)</b>	<b>(595)</b>
Group's share of total comprehensive income for the year (net)	<b>4,792</b>	<b>42,805</b>
Aggregate carrying value of Group's investment in these associates	<b>324,606</b>	<b>348,076</b>

**(vi) Impairment losses**

The Group determines at each reporting date whether there is any indication of impairment as defined in IAS 36 'Impairment of Assets'. Accordingly, the Group performed impairment tests on certain investments in associates as at 31 December 2016. In order to reasonably assess the recoverable amount of the associate, the Group used a number of valuation techniques including value in use, market valuations and trading comparables which indicated a range to the enterprise value of these associates.

Value in use calculations are based on cash flow projections covering an initial period of one year. Cash flows for years 2 to 4 have been determined on the basis of management expectation of the business taking into account the prevailing global and GCC economic conditions in general and the specific industry of the associate in particular. Based on the impairment tests, the carrying value of certain associates exceeded the recoverable amount and accordingly impairment losses of BD 30,625 thousand have been recognised in the consolidated statement of income (2015: nil) (note 27).

**(vii) Contingencies**

The Company has 33.33% ownership interest in Hawar Holding Company (Hawar) which owns 20% of the issued share capital of Batelco. The 20% shares of Batelco owned by Hawar is pledged to a financial institution as a security against loans originally obtained by Hawar for the purpose of financing the acquisition of the said shares. The loan outstanding as of 31 December 2016 was BD 96,135 thousand (2015: BD 96,135 thousand). The terms of the loan agreement require that in the event of default in payment by Hawar, the shareholders of Hawar will be liable to repay the loan amount. The loan is fully repayable in January 2022.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**9 INVESTMENT PROPERTIES**

	<i>Freehold land</i> <i>BD '000</i>	<i>Buildings</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>Cost</b>			
Balance at 1 January 2016	339,070	4,655	343,725
Additions	15,717	1,861	17,578
Disposals	(621)	(994)	(1,615)
<b>At 31 December 2016</b>	<b>354,166</b>	<b>5,522</b>	<b>359,688</b>
<b>Accumulated depreciation:</b>			
Balance at 1 January 2016	-	349	349
Charge for the year		208	208
Disposals		(339)	(339)
<b>At 31 December 2016</b>	<b>-</b>	<b>218</b>	<b>218</b>
<b>Net carrying amount:</b>			
<b>At 31 December 2016</b>	<b>354,166</b>	<b>5,304</b>	<b>359,470</b>
	<i>Freehold land</i> <i>BD '000</i>	<i>Buildings</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>Cost</b>			
Balance at 1 January 2015	220,103	1,886	221,989
Additions	145,567	2,769	148,336
Disposals	(2,119)	-	(2,119)
Impairment losses	(24,481)	-	(24,481)
<b>At 31 December 2015</b>	<b>339,070</b>	<b>4,655</b>	<b>343,725</b>
<b>Accumulated depreciation:</b>			
Balance at 1 January 2015	-	243	243
Charge for the year	-	106	106
<b>At 31 December 2015</b>	<b>-</b>	<b>349</b>	<b>349</b>
<b>Net carrying amount:</b>			
<b>At 31 December 2015</b>	<b>339,070</b>	<b>4,306</b>	<b>343,376</b>

Disposals in 2016 represents properties withdrawn by the shareholder with a net book value of BD 1,276 thousand (note 18).

Additions in 2016 include properties acquired by the Group amounting to BD 9,770 thousand and properties received from the shareholder amounting to BD 7,808 thousand as capital contribution (note 18).

Additions in 2015 include properties acquired by the Group amounting to BD 34,357 thousand and properties received from an associate of the Group amounting to BD 113,979 thousand as distribution of assets to the shareholders.

The Group evaluates the recoverable amount of the properties as at the reporting date based on the following methods:

- Vacant land- residual method and comparable prices;
- Ground lease land- assessed taking into account the potential future income, as per lease agreements in place and the value of the asset to the Group on expiry of the lease. The income is discounted to present value.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

---

31 December 2016

**9 INVESTMENT PROPERTIES (continued)**

The asset value to the Group on expiry of the lease has been assessed either assuming that the property would be in a good condition to generate rental income in which case a capital future income method is used or the property would be considered as a redevelopment site;

The valuation methods also factor the existing and/or prospective use and zoning/urban planning requirements, and restrictions such as current limited market demand, restrictions of the property itself (e.g. no access to the site), existing ground leases, existing tenancies; etc.

Investment properties are unencumbered at the reporting date. The fair value of the investment properties at 31 December 2016 was BD 382,436 thousand (2015: BD 366,983 thousand). This comprises of properties with fair value of BD 112,564 thousand (2015: BD 176,346 thousand) determined by independent appraisers and properties with fair value of BD 269,872 thousand (2015: BD 190,637 thousand) determined internally, based on level 3 inputs using valuation methodologies discussed above. There has been no change in the valuation methodologies during the year.

Based on the impairment assessment at the year end, no impairment losses have been recognised for the year ended 31 December 2016 (2015: BD 24,481 thousand) (note 27).

The investment properties comprise of a diversified portfolio of properties. Since the valuations are based on various assumptions such as marketability, lease term, rentals, discount rate etc., computation of the sensitivity of the valuation to reasonably possible changes in the assumptions used is neither practicable nor relevant.

Investment properties of BD 56,361 thousand (2015: BD 58,462 thousand), are leased out under operating leases. Rental income from such investment properties included in revenue amounting to BD 2,610 thousand (2015: BD 2,749 thousand) and the related expenses amounting to BD 280 thousand (2015: BD 315 thousand).

Bahrain Mumtalakat Holding Company B.S.C. (c)  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

10 PROPERTY, PLANT AND EQUIPMENT

	Freehold land BD '000	Buildings and leasehold land improvements BD '000	Aircraft BD '000	Plant, machinery and equipment BD '000	Motor vehicles BD '000	Furniture and office equipment BD '000	Assets in the process of completion BD '000	Total BD '000
<b>Cost:</b>								
At 1 January 2016	4,004	238,316	343,455	1,143,649	11,438	90,474	161,701	1,993,037
Additions	59	1,135	1,218	2,286	1,012	922	214,179	220,811
Transfers	-	6,490	905	47,604	1,177	4,293	(60,469)	-
Disposals	-	(466)	(696)	(6,478)	(594)	(1,665)	-	(9,899)
Write off	-	(132)	(1,907)	(226)	-	(55)	-	(2,320)
<b>At 31 December 2016</b>	<b>4,063</b>	<b>245,343</b>	<b>342,975</b>	<b>1,186,835</b>	<b>13,033</b>	<b>93,969</b>	<b>315,411</b>	<b>2,201,629</b>
<b>Accumulated depreciation:</b>								
At 1 January 2016	-	75,891	117,150	534,185	7,122	86,323	-	820,671
Charge for the year	-	9,379	32,113	64,380	2,845	4,373	-	113,090
Relating to disposals	-	(411)	(241)	(6,046)	(485)	(1,567)	-	(8,770)
Relating to write off	-	(132)	(1,907)	(108)	-	(20)	-	(2,167)
<b>At 31 December 2016</b>	<b>-</b>	<b>84,727</b>	<b>147,115</b>	<b>592,411</b>	<b>9,482</b>	<b>89,089</b>	<b>-</b>	<b>922,824</b>
<b>Net carrying amount:</b>								
<b>At 31 December 2016</b>	<b>4,063</b>	<b>160,616</b>	<b>195,860</b>	<b>594,424</b>	<b>3,551</b>	<b>4,880</b>	<b>315,411</b>	<b>1,278,805</b>

Bahrain Mumtalakat Holding Company B.S.C. (c)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2015

**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

	Freehold land BD '000	Buildings and leasehold improvements BD '000	Aircraft BD '000	Plant, machinery and equipment BD '000	Motor vehicles BD '000	Furniture and office equipment BD '000	Assets in the process of completion BD '000	Total BD '000
<b>Cost:</b>								
At 1 January 2015	4,004	239,500	359,948	1,097,789	7,811	85,773	137,424	1,932,249
Additions	-	700	3,944	4,332	1,532	1,781	77,861	90,150
Transfers	-	-	(104)	45,786	2,102	4,563	(53,468)	(1,121)
Disposals	-	(1,884)	(20,333)	(4,232)	(7)	(406)	(116)	(26,978)
Write off	-	-	-	(26)	-	(1,237)	-	(1,263)
At 31 December 2015	4,004	238,316	343,455	1,143,649	11,438	90,474	161,701	1,993,037

**Accumulated depreciation:**

At 1 January 2015	-	68,193	102,472	471,760	4,110	82,966	-	729,501
Charge for the year	-	9,475	32,415	65,641	3,019	5,000	-	115,550
Relating to disposals	-	(1,777)	(17,737)	(3,190)	(7)	(406)	-	(23,117)
Relating to write off	-	-	-	(26)	-	(1,237)	-	(1,263)
At 31 December 2015	-	75,891	117,150	534,185	7,122	86,323	-	820,671
<b>Net carrying amount:</b>								
At 31 December 2015	4,004	162,425	226,305	609,464	4,316	4,151	161,701	1,172,366

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**10 PROPERTY, PLANT AND EQUIPMENT (continued)**

*(i) Assets on lease*

Gulf Air B.S.C. (c) ("Gulf Air")'s headquarters are situated on land belonging to the Government of the Kingdom of Bahrain (the "Government") that had been made available on a rent free basis until 31 December 2010. During 2011, the Government began negotiating with Gulf Air to charge rent on the land. The final outcome of the negotiations has not yet been formalised in a rent agreement. However, a provision of BD 1,730 thousand (2015: BD 1,442 thousand) has been made in the consolidated financial statements. In addition, Aluminium Bahrain B.S.C. ("Alba") uses land leased from the Government and from The Bahrain Petroleum Company B.S.C. (c). These leases are rent free. Bahrain Airport Company B.S.C. (c) ("BAC") had a long term license agreement with the Government through the Ministry of Finance for the use of Bahrain airport land for 100 years, commencing 1 April 2008, at a rent of BD 1 per annum. This license was surrendered on 20 June 2012 and on the same day entered into an agreement with the Ministry of Finance to lease the airport land, installations, structures, terminal building and runway for 100 years at a rent of BD 1 per annum, commencing on 3 March 2009. On 4 June 2013, BAC signed a supplemental lease agreement with the Ministry of Finance which extended BAC's right to use, but not own, the airport plant and equipment. In addition, Bahrain International Circuit Company S.P.C. uses the circuit and other facilities leased from the Government at a rent of BD 1 per annum.

*(ii) Secured assets*

Assets acquired under finance leases included aircraft with a net carrying amount of BD114,818 thousand (2015: BD 122,597 thousand) and plant and machinery and other equipment of BD 8,842 thousand (2015: BD 13,656 thousand) which are secured by charges on these assets. The items include both direct purchases through finance leases which are secured thereto, and aircraft and engines purchased under conditional sale agreements whereby the Group has possession of all the risks and rewards of ownership but where title remains with the seller until payment is made in full of the purchase price.

*(iii) Assets in the process of completion*

Assets in the process of completion include pre-delivery payments of BD 180,427 thousand (2015: BD 79,419 thousand) in respect of aircraft scheduled for delivery between 2018 and 2025 and other capital projects of BD 133,816 thousand (2015: BD 82,282 thousand).

**11 OTHER ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Deposits	8,145	7,506
Receivable from associates (note 30)	11,938	17,283
Miscellaneous assets	12,629	10,068
	<b>32,712</b>	<b>34,857</b>

Deposits represent amounts placed with lessors for the lease of aircraft and engines and other security deposits. These deposits carry no interest and are repayable at various dates until 2020 (refer note 29, commitments, (ii)).

Receivable from associates include an amount receivable from McLaren Automotive Limited of BD 3,452 thousand (2015: BD 4,158 thousand) and McLaren Group Limited BD 8,486 thousand (2015: BD 9,687 thousand).

The amount receivable from McLaren Automotive Limited represents loans provided by the Group to finance the company's expansion project. The loan balance does not carry interest. The effective interest rate on the loan provided to McLaren Group Limited as of 31 December 2016 was 5.3% (2015: 5.3%) per annum.

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 12 GOODWILL

	2016 BD '000	2015 BD '000
Balance at beginning of the year	346,264	567,606
Impairment loss recognised during the year (note 27)	-	(221,342)
Balance at end of the year	<u>346,264</u>	<u>346,264</u>

#### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, for impairment testing as follows:

	2016 BD '000	2015 BD '000
• Aluminium Bahrain B.S.C. [Alba]	345,299	345,299
• General Poultry Company B.S.C. (c) [General Poultry]	965	965
	<u>346,264</u>	<u>346,264</u>

In accordance with the requirements of IFRS, the Group has performed an impairment test as at 31 December 2016 in respect of the goodwill relating to Alba, using the services of an accredited independent valuer.

The recoverable amount of the Alba cash generating unit was determined based on value in use calculation. The forecasts use cash flow projections based on financial budgets approved by management covering an initial period of one year. Cash flows for years 2 to 4 have been determined on the basis of management's expectation of the business taking into account the prevailing global and Gulf Cooperation Council economic conditions in general and the aluminium industry in particular. Revenue forecasts are based on weighted forward estimates of aluminium prices published by CRU (an independent market authority on metal prices), LME Rolling Forward Prices and management's price estimates. In addition, perpetual value of business is determined through a market multiple approach by applying an EV / EBITDA multiple (2015: A growth rate of 2.5% had been applied from year 5 into perpetuity which is in line with the long term average growth rates of the business in which the cash generating unit operates).

The free cash flows to equity are discounted using cost of equity, which is estimated in the range of 13.1%-14.9%. In 2015, free cash flows to firm were discounted using Weighted Average Cost of Capital.

Based on the independent valuation, there was no impairment at 31 December 2016. Impairment loss of BD 220,212 thousand was recognised against goodwill relating to Alba cash generating unit and BD 1,130 thousand was recognised against goodwill relating to Bahrain Airport Company in 2015.

#### Sensitivity to changes in assumptions

With regard to the assessment of value in use, management believes that reasonably possible changes in the growth rate and EBITDA margins would not cause a material change to the recoverable amount. However, an increase in the rate used to discount the projected cash flows by 1% (with all other variables remain unchanged) would result in a reduction in the recoverable amount of the cash generating unit by BD 39,494 thousand (2015: BD 32,850 thousand). A change in LME price by USD 100/mt (with all other variables remain unchanged) throughout the forecast period would result in a change in the recoverable amount of the cash generating by BD 257,790 thousand (2015: BD 220,000 thousand).

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 13 BORROWINGS

	<i>Effective interest rates</i>		<i>Total</i>	<i>Total</i>
	<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
			<i>BD '000</i>	<i>BD '000</i>
Bank overdrafts (note 3)			18	47
Short term loans	2.5% - 3.15%	2.5% - 3.15%	1,679	2,483
Working capital revolving credit	1.85 % to 2.26 %	1.43 % - 1.67 %	18,800	26,320
Working capital term loan	1.37 % to 1.81 %	1.23 % - 1.33 %	6,860	13,713
Aluminium Bahrain B.S.C. project loans	0.94% - 1.51%	0.73% - 1.73%	16,519	30,831
Aluminium Bahrain B.S.C. refinancing loan	1.61 % to 2.86 %	2.58 % - 2.73 %	9,545	18,533
Mumtalakat sukuks (i)	4.00%	4.00%	223,626	223,101
Malaysian sukuks (ii)	4.25% - 5.00%	4.25% - 5.00%	37,742	39,274
Other term loans (iii)	1.81% - 6.00%	1.36% - 6.00%	339,949	328,931
Finance lease obligations (iv)	3.35%	2.63%	80,105	93,241
			<b>734,843</b>	<b>776,474</b>

- (i) Represents US\$ 600 million Sukuk issued by the Company under its US\$ 1 billion Multi Currency Trust Certificate Issuance Programme established during 2014.

The Sukuk program is structured as a "Wakala". The 7 year senior unsecured trust certificates issued under this program are listed on the Irish Stock Exchange. The terms of the arrangement include transfer of beneficial ownership of certain identified assets (the "Wakala assets") of the Group to a Special Purpose Vehicle, Mumtalakat Sukuk Holding Company. (the "Issuer"), formed for the issuance of trust certificates. In substance, the Wakala assets remain in control of the Group and shall continue to be serviced by the Group. The note holders have no recourse to the assets. The Sukuk is due for repayment in 2021.

- (ii) Represents MYR 450 million 5 year sukuks issued by the Company during 2012 and 2013. The Sukuks are unsecured, carry profit rates at 5.35%- 5.5% per annum. The Sukuks are hedged through cross currency swaps whereby the MYR 450 million is swapped to US\$ 146,230 thousand with profit rates at 4.25%- 5% per annum (note 14).

- (iii) Other term loans comprise of the following:

- Loans amounting to BD 1,229 thousand (2015: BD 1,502 thousand) which are secured against certain miscellaneous receivables of the Group (note 11). The effective interest rate at the year end was 6% (2015: 6.00%) per annum.
- Loan amounting to BD 1,382 thousand (2015: BD 1,380 thousand) obtained during 2014 to finance a capital project. The loan is secured against property, plant and equipment and is repayable on a monthly basis over a period of 25 years. The effective interest rate at the year end was 3% (2015: 3%) per annum.
- Unsecured loans amounting to BD 337,338 thousand (2015: BD 323,536 thousand). The effective interest rate at the year end was 1.81% (2015: 1.36%) per annum.
- Loans amounting to BD 2,513 thousand as of 31 December 2015 that required re-routing of certain cash collections, calculated as a multiple of the monthly loan instalment amount. There were no restrictions on the use of such proceeds. The effective interest rate was 4.27% per annum. This has been fully repaid during the year.

Bahrain Mumtalakat Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

13 BORROWINGS (continued)

(iv) Represents finance lease obligations which are secured against property, plant and equipment.

Future minimum lease payments under finance leases together with the present value of the minimum lease payments at 31 December 2016 are as follows:

	2016		2015	
	<i>Minimum payments BD '000</i>	<i>Present value of payments BD '000</i>	<i>Minimum payments BD '000</i>	<i>Present value of payments BD '000</i>
Within one year	16,611	14,573	15,482	13,134
After one year but not more than five years	63,762	59,040	66,028	60,184
After five years	6,847	6,491	21,202	19,923
	<b>87,220</b>	<b>80,104</b>	<b>102,712</b>	<b>93,241</b>
Less: Finance charges	(7,115)	-	(9,471)	-
Present value of minimum lease payments	<b>80,105</b>	<b>80,104</b>	<b>93,241</b>	<b>93,241</b>

14 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has a number of derivative financial instruments comprising interest rate collars, knockout swaps, foreign exchange swaps, commodity options and commodity futures. The fair value of the derivative financial instruments at 31 December 2016 is as follows:

	<i>Negative fair value</i>	
	<i>2016 BD '000</i>	<i>2015 BD '000</i>
<i>Held as trading</i>		
Commodity futures	-	39
<i>Held as cash flow hedges</i>		
Cross currency swaps	18,161	17,827
	<b>18,161</b>	<b>17,866</b>

There is no gain or loss on derivative financial instruments recognised in the consolidated statement of income for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

14 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The gains or losses on derivative financial instruments for the year ended 31 December 2015 are as follows:

	<i>Gains (losses)</i>		
	<i>Revaluation BD '000</i>	<i>Realised BD '000</i>	<i>Total BD '000</i>
<i>Held as trading</i>			
Commodity futures	4,517	(4,253)	264
Interest rate collars and knockout swaps	66	(66)	-
	<u>4,583</u>	<u>(4,319)</u>	<u>264</u>
<i>Held as cash flow hedges</i>			
Cross currency swaps	-	-	-
<b>Total</b>	<u>4,583</u>	<u>(4,319)</u>	<u>264</u>

The Group does not engage in proprietary trading activities in derivatives. However, the Group enters into derivative transactions to hedge economic risks under its risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income. Derivatives held under cash flow hedges represent cross currency swaps to hedge against certain borrowings (note 13 ii).

The fair values of derivative financial instruments are obtained from counterparty financial institutions. These are classified under level 2 fair value hierarchy (note 32).

15 TRADE ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	<i>2016 BD '000</i>	<i>2015 BD '000</i>
Trade accounts payable (i)	191,000	152,391
Accrued expenses (ii)	215,213	234,599
Unearned revenue	29,043	31,966
Other payables	24,618	16,504
	<u>459,874</u>	<u>435,460</u>

(i) Details of payables to related parties included in trade accounts payable are disclosed in note 30.

(ii) Accrued expenses include BD 3,000 thousand (2015: BD 3,000 thousand) in respect of legal claims (refer note 29).

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 16 EMPLOYEES' END OF SERVICE BENEFITS

	2016 BD '000	2015 BD '000
Balance at beginning of the year	11,969	11,313
Provision for the year	2,867	3,553
Payments during the year	(2,568)	(2,897)
Balance at end of the year	<u>12,268</u>	<u>11,969</u>

### 17 OBLIGATIONS RELATING TO ACQUIRED ENTITIES

	2016 BD '000	2015 BD '000
Balance at beginning of the year	52,203	82,110
Movements during the year	(30,641)	(29,907)
Balance at end of the year	<u>21,562</u>	<u>52,203</u>

These obligations were assumed by Bahrain Mumtalakat Holding Company B.S.C. (c) on 29 June 2006 as an integral part of the acquisition of investments.

### 18 SHARE CAPITAL AND CAPITAL CONTRIBUTION

	2016 BD '000	2015 BD '000
<i>Share capital</i>		
Authorised:		
2,000,000,000 shares of BD 1 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
2,000,000,000 shares of BD 1 each (2015: 2,000,000,000 shares of BD 1 each)	<u>2,000,000</u>	<u>2,000,000</u>

During 2015, the Company issued 154,365,409 shares of BD 1 each by transferring BD 154,365 thousand from capital contribution. Accordingly, the issued and fully paid share capital were increased to BD 2 billion.

#### *Capital contribution*

During the year, the Group received properties of BD 7,808 thousand from the shareholder and withdrew properties with net book value of BD 1,276 thousand (note 9). The net amount of BD 6,532 thousand is recognised as additional capital contribution. During 2015, the Group received BD 36,260 thousand in the form of cash and BD 60,934 thousand as settlement of certain amounts payable to a related party from the shareholder as capital contribution.

During 2015 accumulated losses amounting to BD 769,695 thousand were offset against capital contribution (2016: nil).

### 19 STATUTORY RESERVE

The statutory reserve has been created in accordance with the requirements of the Bahrain Commercial Companies Law and the Articles of Association of the Company. The Company transfers 10% of its annual net profit to its statutory reserve until such time as the reserve equals 50% of the issued share capital of the Company. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law. BD 5,391 thousand has been transferred to statutory reserve during the current year (2015: BD 1,030 thousand).

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 20 OTHER RESERVES

	<i>Available-for -sale financial assets reserve BD '000</i>	<i>Cash flow hedges reserve BD '000 (i)</i>	<i>Foreign currency translation reserve BD '000</i>	<i>Pension plan reserve BD '000</i>	<i>Total BD '000</i>
Balance at 1 January 2016	20,170	(2,392)	(40,966)	(2,553)	(25,741)
Total other comprehensive income (loss) for the year	3,673	1,315	(54,678)	(344)	(50,034)
Balance at 31 December 2016	<u>23,843</u>	<u>(1,077)</u>	<u>(95,644)</u>	<u>(2,897)</u>	<u>(75,775)</u>
Balance at 1 January 2015	73,752	(3,065)	(26,112)	(1,551)	43,024
Total other comprehensive (loss) income for the year	(53,582)	673	(14,854)	(1,002)	(68,765)
Balance at 31 December 2015	<u>20,170</u>	<u>(2,392)</u>	<u>(40,966)</u>	<u>(2,553)</u>	<u>(25,741)</u>

(i) Cash flow hedges reserve represents the change in fair value of cross currency swaps and share of associates' change in fair value of derivatives during the year. These hedges have been assessed as effective.

### 21 OTHER MOVEMENT IN NON-CONTROLLING INTERESTS

Other movement in non-controlling interests represents the net movement in treasury shares held by Alba.

### 22 REVENUE

	<i>2016 BD '000</i>	<i>2015 BD '000</i>
Metals and minerals	666,857	766,411
Transportation	319,602	364,995
Other	36,939	36,522
	<u>1,023,398</u>	<u>1,167,928</u>

### 23 DIRECT COSTS

	<i>2016 BD '000</i>	<i>2015 BD '000</i>
Raw materials, spares and consumables	287,926	373,056
Staff costs	129,638	146,197
Depreciation	108,664	111,300
Fuel	71,485	78,766
Operating lease rentals	15,991	15,931
Repairs and maintenance	65,349	66,028
Others	222,874	193,475
	<u>901,927</u>	<u>984,753</u>

In addition to the above staff costs, selling and distribution expenses and administrative expenses include staff costs of BD 8,766 thousand and BD 40,754 thousand respectively (2015: BD 9,303 thousand and BD 43,783 thousand respectively).

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 24 OTHER OPERATING INCOME

	2016 BD '000	2015 BD '000
Write back of restructuring provisions	-	3,454
Miscellaneous	7,805	7,769
	<u>7,805</u>	<u>11,223</u>

### 25 GOVERNMENT ASSISTANCE

	2016 BD '000	2015 BD '000
Government assistance	<u>63,401</u>	<u>75,685</u>

The Government assistance comprises of BD 55,000 thousand (2015: BD 65,000 thousand) recognised by Gulf Air, BD 8,190 thousand (2015: BD 10,435 thousand) by Bahrain Flour Mills Company B.S.C. and BD 211 thousand by Southern Tourism Company B.S.C (c) (2015: BD 250 thousand) from the Ministry of Finance on behalf of the Government of the Kingdom of Bahrain.

Government assistance received by Gulf Air is to be utilised in repaying certain liabilities, financing interim working capital requirements and settling certain capital expenditure payments. The amount received by Bahrain Flour Mills Company B.S.C. is to subsidise flour price.

At 31 December 2016, government assistance receivable amounting to BD 15,097 thousand (2015: BD 1,713 thousand) is included in trade accounts receivable, prepayments and other receivable.

### 26 OTHER OPERATING EXPENSES

	2016 BD '000	2015 BD '000
Loss on disposal of property, plant and equipment	422	564
Exchange loss	3,698	21
Other	163	170
	<u>4,283</u>	<u>755</u>

### 27 IMPAIRMENT LOSSES

	2016 BD '000	2015 BD '000
Impairment losses on non-trading investments (note 7)	2,885	-
Impairment losses on investment in associates (note 8)	30,625	-
Impairment losses on investment properties (note 9)	-	24,481
Impairment losses on goodwill (note 12)	-	221,342
	<u>33,510</u>	<u>245,823</u>

### 28 WRITE BACK OF PROVISIONS AND ACCOUNTS PAYABLE

	2016 BD '000	2015 BD '000
Write back of provision for other receivable (i)	-	68,924
Write back of related party payable (note ii)	-	22,058
	<u>-</u>	<u>90,982</u>

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 28 WRITE BACK OF PROVISIONS AND ACCOUNTS PAYABLE (continued)

**Notes:**

- (i) Represents write back of certain provision made in prior years relating to other receivable. The receivable was offset against certain liabilities to a related party by the shareholder during the year.
- (ii) During 2015, the Group has written back an amount of BD 22,058 thousand as part of the Group's settlement with a related party.

### 29 COMMITMENTS AND CONTINGENCIES

#### Commitments

(i) *Capital expenditure*

At the reporting date, the Group had the following capital expenditure commitments relating to the acquisition of property, plant and equipment and investments.

	2016 BD '000	2015 BD '000
Aircraft (note a)	1,703,524	1,783,626
Other	283,478	96,398
	<u>1,987,002</u>	<u>1,880,024</u>

**Notes:**

- (a) At 31 December 2016, aircraft commitments of BD 194,967 thousand (2015: BD 196,702 thousand) are due within one year, BD 940,208 thousand (2015: BD 803,932 thousand) are due within one to five years and BD 568,349 thousand (2015: BD 782,992 thousand) are due after more than five years from the reporting date.

(ii) *Operating lease commitments*

Future minimum rentals payable under non-cancellable operating leases at 31 December 2016 are as follows:

	2016 BD '000	2015 BD '000
Within one year	15,808	15,703
After one year but not more than five years	27,942	43,122
After five years	2,786	3,269
	<u>46,536</u>	<u>62,094</u>

(iii) *Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2016 were BD 9,575 thousand (2015: BD 7,546 thousand). The commitments are expected to be settled within one year.

#### Contingencies

(i) *Guarantees*

The Group has issued guarantees to banks and other institutions amounting to BD 23,786 thousand (2015: BD 24,299 thousand).

In addition, the Group's bankers have issued guarantees to third parties on behalf of the Group amounting to BD 60,000 thousand (2015: BD 60,000 thousand).

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 29 COMMITMENTS AND CONTINGENCIES (continued)

#### Contingencies (continued)

(ii) *Law suits*

- a) Law suits have been filed against Gulf Air in the Kingdom of Bahrain and in certain other jurisdictions where Gulf Air operates. These relate to claims which are in the normal course of business. In management's view based on independent legal advice, adequate provision has been made in these consolidated financial statements for liabilities that may arise from these law suits, and the possibility of incurring significant additional penalties or damages pending final judgment is expected to be remote [note 15 (ii)].
- b) A third party has initiated a claim against Aluminium Bahrain B.S.C. ("Alba"), towards damages caused to its business unit. Alba is defending the claim and it is not practicable to estimate the liability and timing of any payments at this stage. Hence, no provision has been recognised in these consolidated financial statements.
- c) Alba's civil claim against certain employees of Alba Marketing (ALMA) has been fully settled.

### 30 RELATED PARTY DISCLOSURES

Related parties as defined in IAS 24: Related Party Disclosures, represent the shareholder, entities controlled by the shareholder, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the boards of directors of the various group companies.

In the ordinary course of business, the Group purchases supplies and services from entities related to the Government of the Kingdom of Bahrain, principally natural gas, jet fuel and public utility services. A royalty, based on the production of Aluminium Bahrain B.S.C., is also paid to the Government of the Kingdom of Bahrain.

Transactions with related parties included in the consolidated statement of income are as follows:

	<b>2016</b>			<b>Total BD '000</b>
	<b>Shareholder BD '000</b>	<b>Entities controlled by the shareholder BD '000</b>	<b>Associates BD '000</b>	
<b>Income</b>				
Revenue	-	382	79,770	80,152
Government assistance	63,401	-	-	63,401
Interest income	-	-	168	168
	<b>63,401</b>	<b>382</b>	<b>79,938</b>	<b>143,721</b>
<b>Expenses</b>				
Direct costs	4,027	150,765	18,119	172,911
Administrative expenses	288	-	685	973
Interest expense	-	-	3,041	3,041
	<b>4,315</b>	<b>150,765</b>	<b>21,845</b>	<b>176,925</b>

Bahrain Mumtalakat Holding Company B.S.C. (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

30 RELATED PARTY DISCLOSURES (continued)

	<b>2015</b>			
	<i>Shareholder</i> <i>BD '000</i>	<i>Entities controlled by the shareholder</i> <i>BD '000</i>	<i>Associates</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>Income</b>				
Revenue	-	-	100,533	100,533
Government assistance	75,685	-	-	75,685
Interest income	-	-	270	270
	<u>75,685</u>	<u>-</u>	<u>100,803</u>	<u>176,488</u>
<b>Expenses</b>				
Direct costs	3,982	139,826	18,842	162,650
Administrative expenses	288	-	1,012	1,300
Interest expense	18	-	4,547	4,565
	<u>4,288</u>	<u>139,826</u>	<u>24,401</u>	<u>168,515</u>

Details of land leased from related parties are disclosed in note 10.

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

	<b>2016</b>			
	<i>Shareholder</i> <i>BD '000</i>	<i>Entities controlled by the shareholder</i> <i>BD '000</i>	<i>Associates</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>Assets</b>				
Other assets (note 11)	-	-	11,938	11,938
Trade accounts receivable, prepayments and other assets	15,097	-	9,026	24,123
Cash and bank balances	-	-	10,394	10,394
	<u>15,097</u>	<u>-</u>	<u>31,358</u>	<u>46,455</u>
<b>Liabilities</b>				
Borrowings	-	-	156,620	156,620
Trade accounts payable, accrued expenses and other liabilities	-	52,662	16,396	69,058
	<u>-</u>	<u>52,662</u>	<u>173,016</u>	<u>225,678</u>

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 30 RELATED PARTY DISCLOSURES (continued)

	2015			
	Shareholder BD '000	Entities controlled by the shareholder BD '000	Associates BD '000	Total BD '000
<b>Assets</b>				
Other assets (note 11)	-	-	17,283	17,283
Trade accounts receivable, prepayments and other assets	1,713	-	7,228	8,941
Cash and bank balances	-	-	39,513	39,513
	<u>1,713</u>	<u>-</u>	<u>64,024</u>	<u>65,737</u>
<b>Liabilities</b>				
Borrowings	-	-	160,853	160,853
Trade accounts payable, accrued expenses and other liabilities	1,377	58,922	8,434	68,733
	<u>1,377</u>	<u>58,922</u>	<u>169,287</u>	<u>229,586</u>

#### Compensation of key management personnel

The remuneration of members of key management personnel for the year was BD 4,829 thousand (2015: BD 4,830 thousand).

Fees to the directors of the Group companies provided for during the year was BD 340 thousand (2015: BD 482 thousand).

### 31 FINANCIAL RISK MANAGEMENT

#### Overview

The Group has exposure to the following risks from a financial perspective:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note represents information about the Group's exposure to each of the above risks, the Group's approach to risk management and the management of capital. Quantitative disclosures about various risks are included in the respective sections. The Group's overall risk management approach is to moderate the effects of such risks on its financial performance. The Group uses derivatives in hedging specific exposures (note 14).

#### Risk Management Framework

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management approach and for approving the risk management policies and procedures. These policies are established to identify and analyse risks faced by the Company and set appropriate risk limits and controls to monitor risks. These policies are reviewed regularly to reflect changes according to market condition and Group's activities. The Company, through its policies, procedures and processes aims to develop and maintain a robust control environment in which all employees understand their roles and responsibilities.

**31 FINANCIAL RISK MANAGEMENT (continued)**

**Risk Management Framework (continued)**

The Company assesses and manages risk through a committee structure. The existing committee structure for risk is designed to ensure a periodic review of risks, a sharing of knowledge about risks across all functions, an understanding of the relationships of the risks of the enterprise, and to ensure that each functional area remains accountable for the risks for which it is responsible.

**Board Audit and Risk Committee**

The Board Audit and Risk Committee oversees how the management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board Audit and Risk Committee is assisted in these functions by the Internal Audit Function which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit and Risk Committee.

**Board Investment Committee**

The Board Investment Committee is responsible for assessing risks associated with investment/divestment decisions and monitoring risks associated with the existing portfolio. The Board Investment Committee is assisted by the Management Investment Committee in fulfilling its oversight responsibilities on policy, standards and procedures for investing in a responsible manner.

**Management Committee**

The Management Committee regularly reviews several aspects of Company's various risks.

**(a) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risk on its bank balances including term deposits, loans and receivables and the positive fair value of derivatives. The Group places its deposits with reputable banks with a good financial standing. Derivative contracts are entered into with counterparties with strong credit ratings and are not subject to significant credit risk.

Credit risk with respect to loans and receivables is managed by assessing the feasibility of the investment opportunity that is being funded, prior to advancing any funding.

The sale of passenger and cargo transportation is largely achieved through a large number of International Air Traffic Association (IATA) accredited sales agents. Unless expressly stated otherwise in the contract, receivables and payables among airlines are settled either bilaterally or via the IATA clearing house. For all other service relationships, depending on the nature and scope of the service rendered, collateral is required, credit reports/references are obtained and use is made of historical data from previous business relations, especially with regard to payment behaviour, in order to avoid non-performance.

Credit risk with respect to receivables from customers is managed by granting credit terms and monitoring the exposure to customers on an ongoing basis. An impairment allowance is made for doubtful accounts whenever objective evidence of impairment is identified.

The maximum credit risk exposure at the reporting date is equal to the carrying value of the financial assets shown in the consolidated statement of financial position, which are net of impairment allowances.

The Group sells its products to a large number of customers. Its five largest customers account for 55% of the outstanding trade accounts receivable as of 31 December 2016 (2015: 35%).

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 31 FINANCIAL RISK MANAGEMENT (continued)

#### (b) Liquidity risk

Liquidity risk (also referred to as funding risk) is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group limits its liquidity risk by managing cash and ensuring bank facilities are available. Trade payables are normally settled within 30 to 150 days of the date of invoice. The Group's cash flows from operations are normally adequate to meet expected liquidity requirements.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates.

<i>31 December 2016</i>	<i>Less than 3 months BD '000</i>	<i>3 to 12 months BD '000</i>	<i>1 to 5 years BD '000</i>	<i>More than 5 years BD '000</i>	<i>Total BD '000</i>
Borrowings	49,227	85,787	727,138	8,335	870,487
Derivatives	-	11,587	6,574	-	18,161
Trade accounts payable and other liabilities	157,310	44,981	2	-	202,293
Obligations relating to acquired entities	19,646	2,469	-	-	22,115
	<b>226,183</b>	<b>144,824</b>	<b>733,714</b>	<b>8,335</b>	<b>1,113,056</b>
<i>31 December 2015</i>	<i>Less than 3 months BD '000</i>	<i>3 to 12 months BD '000</i>	<i>1 to 5 years BD '000</i>	<i>More than 5 years BD '000</i>	<i>Total BD '000</i>
Borrowings	50,213	49,252	530,535	257,937	887,937
Derivatives	39	-	17,827	-	17,866
Trade accounts payable and other liabilities	136,206	20,352	1,407	-	157,965
Obligations relating to acquired entities	17,454	14,936	24,094	-	56,484
	<b>203,912</b>	<b>84,540</b>	<b>573,863</b>	<b>257,937</b>	<b>1,120,252</b>

Details of capital expenditure commitments are given in note 29.

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 31 FINANCIAL RISK MANAGEMENT (continued)

#### (c) Market risk

##### *Currency risk*

Currency risk is the risk associated with fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Group's financial instruments are mainly denominated in Bahraini Dinars and US Dollars. The Group uses forward foreign exchange contracts and cross currency swaps to hedge against currency fluctuations (note 14).

As the Bahraini Dinar is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The table below indicates the Group's sensitivity to currency risk at 31 December 2016, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar currency rate against the Euro, Pound Sterling, Indian Rupee and Sudanese Pound with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities). The effect of decreases in currency rate is expected to be equal and opposite.

	<i>Change in currency rate</i>	<i>Foreign exchange position long (short)</i>		<i>Effect on results for the year</i>	
		<i>2016</i>	<i>2015</i>	<i>2016</i>	<i>2015</i>
		<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Euro	10%	13,412	4,751	1,341	475
Pound Sterling	10%	14,689	13,893	1,469	1,389
Indian Rupee	10%	(134)	500	(13)	50
Sudanese Pounds	10%	14,068	9,340	1,407	934

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of financial assets and financial liabilities. The significant portion of the financial assets and financial liabilities are variable interest rate based.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (call account, term deposits, margin deposits and borrowings). This risk is partly mitigated by interest rate derivatives (note 14).

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's net income for one year, based on the floating rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	<i>Increase/ decrease in basis points</i>	<i>Effect on results for the year BD '000</i>
<b>2016</b>	+100	(4,330)
	-100	4,330
<b>2015</b>	+100	(2,807)
	-100	2,807

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

31 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

*Commodity price risk*

Commodity price risk is the risk that future profitability is affected by change in commodity prices. The Group is exposed to commodity price risk as selling prices for aluminium are generally based on aluminium prices quoted on the London Metal Exchange (LME). Alba hedges its selling price using futures commodity contracts, based on customers' options. The forecast is deemed to be highly probable.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in the LME price on derivatives outstanding as of 31 December 2016, with all other variables held constant.

	<i>Increase/ decrease in LME price</i>	<i>Effect on results for the year BD '000</i>
2016	10%	4
	-10%	(4)
2015	10%	4
	-10%	(4)

*Jet fuel price risk*

The Group's earnings are affected by changes in the price of jet fuel relating to Gulf Air. Gulf Air's strategy for managing the risk on fuel price aims to provide Gulf Air with protection against sudden and significant increase in jet fuel prices. In meeting these objectives, Gulf Air uses derivatives to a limited extent in hedging specific exposures to jet fuel price risk. During the years ended 31 December 2016 and 31 December 2015, Gulf Air did not enter into derivative transactions.

A 10% change in the price of jet fuel affects the Group's annual fuel cost by BD 8,162 thousand (2015: BD 7,160 thousand), assuming there is no change in the volume of fuel consumed.

*Equity price risk*

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in equity prices or indices, or fair value in case of unquoted equities. Equity price risk arises from the Group's investment in equities and managed funds included in non-trading investments and investments carried at fair value through statement of income. The Group manages the risk through a process of diversification of its investments in terms of industry concentration.

The majority of the Group's investments carried at fair value through statement of income are investments in managed funds. The Group's non-trading investment portfolio is mainly comprised of unquoted investment which is re-measured to fair value using different valuation techniques.

*FVTPL investments*

A 10% (2015: 10%) increase in the fair value of equities, debt securities and net asset values of funds will increase the net profit by BD 24,537 thousand (2015: BD 21,902 thousand). The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

*Non-trading investments*

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

# Bahrain Mumtalakat Holding Company B.S.C. (c)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

### 31 FINANCIAL RISK MANAGEMENT (continued)

#### (c) Market risk (continued)

##### Equity price risk (continued)

	<b>% Change in equity price</b>	<b>Effect on equity 2016 BD '000</b>	<b>Effect on equity 2015 BD '000</b>
Quoted and unquoted investments	+ 10%	24,908	21,955

#### (d) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure dynamically and makes necessary adjustments, in light of the macro economic conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2016 and the comparative period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity.

	<b>2016 BD '000</b>	<b>2015 BD '000</b>
Borrowings (note 13)	734,843	776,474
Derivative financial instruments (note 14)	18,161	17,866
<b>Total debt</b>	<b>753,004</b>	<b>794,340</b>
Less: cash and bank balances (note 3)	(164,279)	(360,948)
<b>Net debt</b>	<b>588,725</b>	<b>433,392</b>
<b>Total equity</b>	<b>2,685,282</b>	<b>2,662,668</b>
<b>Gearing ratio</b>	<b>22%</b>	<b>16%</b>

### 32 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Financial assets comprise of investments, deposits, bank balances, loans and accounts receivable. Financial liabilities comprise of borrowings, obligations relating to acquired entities and trade and other payables.

With the exception of certain unquoted available-for-sale-investments which are carried at cost and details of which are disclosed in note 7 and deposits which are interest free and details of which are disclosed in note 11, the fair values of financial assets and financial liabilities are not materially different from their carrying values at the reporting date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## Bahrain Mumtalakat Holding Company B.S.C. (c)

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2016

#### 32 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

<i>31 December 2016</i>	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total BD '000</i>
Investments carried at fair value through statement of income	2,273	65,034	178,058	245,365
Non-trading investments	11,243	441	237,396	249,080
Derivative financial instruments (liabilities)	-	18,161	-	18,161
<i>31 December 2015</i>	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total BD '000</i>
Investments carried at fair value through statement of income	2,271	63,864	152,884	219,019
Non-trading investments	10,436	417	208,696	219,549
Derivative financial instruments (liabilities)	-	17,866	-	17,866

During the years 2016 and 2015 there have been no transfers between Level 1 and Level 2 and no transfers into and out of Level 3. Unquoted investments carried at cost are not included in the above hierarchy.

For level 3 measurements, changing inputs to reasonably possible alternative assumptions will not result in significant change in fair values.

The movements in level 3 financial instruments measured at fair value were as follows:

	<i>2016 BD '000</i>	<i>2015 BD '000</i>
Balance at beginning of the year	361,580	350,310
Purchases during the year	38,320	39,335
Sale during the year	(10,037)	(672)
Fair value changes	28,442	(27,393)
Impairment loss	(2,851)	-
Balance at end of the year	<u>415,454</u>	<u>361,580</u>

#### 33 OPERATING SEGMENT INFORMATION

For management purposes the Group is organised into the following major business segments:

<b>Metals and minerals</b>	- Comprising of manufacture of aluminium.
<b>Transportation</b>	- Principally handling air transportation.
<b>Banking and finance</b>	- Comprising of investment in banking and financial services.
<b>Real estate</b>	- Comprising of investment in real estate.
<b>Telecom</b>	- Comprising of investment in telecommunications.
<b>Other</b>	- Includes all other activities not included above.

There are no material transfers between operating segments.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**33 OPERATING SEGMENT INFORMATION (continued)**

Segment information for the year ended 31 December 2016 was as follows:

<b>2016</b>	<b>Metals and minerals BD '000</b>	<b>Transport- ation BD '000</b>	<b>Banking and finance BD '000</b>	<b>Real estate BD '000</b>	<b>Telecom BD '000</b>	<b>Other BD '000</b>	<b>Total BD '000</b>
Revenue	669,620	333,234	-	2,610	-	17,934	1,023,398
Share of results of associates	(1,940)	(822)	25,065	871	8,588	7,661	39,423
Impairment losses	-	-	-	-	30,015	3,495	33,510
Net profit (loss)	45,076	(8,520)	32,986	1,530	(20,983)	18,816	68,905
Investment in associates	9,504	225,994	309,095	24,570	255,601	50,037	874,801
Total assets	1,501,669	847,483	481,170	324,537	264,971	512,160	3,931,990
<b>2015</b>	<b>Metals and minerals BD '000</b>	<b>Transport- ation BD '000</b>	<b>Banking and finance BD '000</b>	<b>Real estate BD '000</b>	<b>Telecom BD '000</b>	<b>Other BD '000</b>	<b>Total BD '000</b>
Revenue	766,411	381,174	-	2,749	-	17,594	1,167,928
Share of results of associates	(6,539)	789	23,788	41,577	20,093	5,182	84,890
Impairment losses	220,212	1,130	-	24,481	-	-	245,823
Net profit (loss)	(168,601)	73,918	30,488	18,649	20,592	53,664	28,710
Investment in associates	4,743	272,986	287,879	9,139	298,919	41,836	915,502
Total assets	1,507,130	880,428	458,858	292,830	311,872	505,522	3,956,640

The segment revenue reported above represents revenue generated from external customers. Inter-segment revenue is negligible.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**33 OPERATING SEGMENT INFORMATION (continued)**

**Geographic information**

An analysis of the revenue by geographic location is as follows:

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Kingdom of Bahrain	<b>425,113</b>	515,393
Asia	<b>154,743</b>	169,911
Rest of Middle East and North Africa	<b>216,964</b>	278,357
Rest of the world	<b>226,578</b>	204,267
	<b><u>1,023,398</u></b>	<b><u>1,167,928</u></b>

**Customers**

Revenue from a customer amounted to BD 149,047 thousand (2015: BD 180,823 thousand) being more than 10% of the consolidated revenue of the Group.

**34 MATERIAL PARTLY OWNED SUBSIDIARIES**

Aluminium Bahrain B.S.C (Alba) is a partly owned subsidiary of the Group that has material non-controlling interests. The proportionate ownership interest and voting rights held by non-controlling interests as of 31 December 2016 and 31 December 2015 was 30.62%. The summarised financial information of Alba before intragroup eliminations is set out below:

<b>Summarised statement of financial position</b>	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Current assets	<b>321,900</b>	366,550
Non-current assets	<b>851,830</b>	815,889
Current liabilities	<b>(177,590)</b>	(200,256)
Non-current liabilities	<b>(8,043)</b>	(34,373)
Total equity	<b><u>988,097</u></b>	<b><u>947,810</u></b>
Attributable to :		
Equity holders of the parent	<b>685,542</b>	657,591
Non-controlling interests	<b>302,555</b>	290,219
	<b><u>988,097</u></b>	<b><u>947,810</u></b>

**Summarised statement of income and comprehensive income**

	<b>2016</b>	<b>2015</b>
	<b>BD '000</b>	<b>BD '000</b>
Revenue	<b>669,760</b>	766,686
Net profit and total comprehensive income	<b>48,390</b>	59,961
Attributable to:		
Equity holders of the parent	<b>33,573</b>	41,601
Non-controlling interests	<b>14,817</b>	18,360
	<b><u>48,390</u></b>	<b><u>59,961</u></b>

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

31 December 2016

**34 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)**

<b>Summarised statement of cash flows</b>	<b>2016</b> <b>BD '000</b>	<b>2015</b> <b>BD '000</b>
Net cash inflow from operating activities	<b>102,547</b>	173,991
Net cash outflows from investing activities	<b>(107,571)</b>	(48,367)
Net cash outflows from financing activities	<b>(44,572)</b>	(76,813)
Net cash inflow	<b>(49,596)</b>	48,811
Dividends paid to non-controlling interests	<b>2,337</b>	8,766

**35 CURRENT AND NON CURRENT ASSETS AND LIABILITIES**

The table below provides the analysis of current and non current assets and liabilities:

	<i>Less than one year</i>		<i>Over one year</i>	
	<b>2016</b> <b>BD '000</b>	<b>2015</b> <b>BD '000</b>	<b>2016</b> <b>BD '000</b>	<b>2015</b> <b>BD '000</b>
<b>ASSETS</b>				
Cash and bank balances	<b>164,279</b>	360,948	-	-
Trade accounts receivable, prepayments and other assets	<b>182,810</b>	174,113	-	-
Inventories	<b>180,932</b>	165,324	-	-
Investments carried at fair value through statement of income	<b>99,955</b>	107,572	<b>145,410</b>	111,447
Non-trading investments	<b>12,033</b>	-	<b>249,368</b>	219,871
Investment in associates	-	-	<b>874,801</b>	915,502
Investment in joint venture	-	-	<b>5,151</b>	5,000
Investment properties	-	-	<b>359,470</b>	343,376
Property, plant and equipment	-	-	<b>1,278,805</b>	1,172,366
Other assets	-	3,630	<b>32,712</b>	31,227
Goodwill	-	-	<b>346,264</b>	346,264
	<b>640,009</b>	811,587	<b>3,291,981</b>	3,145,053
	<i>Less than one year</i>		<i>Over one year</i>	
	<b>2016</b> <b>BD '000</b>	<b>2015</b> <b>BD '000</b>	<b>2016</b> <b>BD '000</b>	<b>2015</b> <b>BD '000</b>
<b>LIABILITIES</b>				
Borrowings	<b>65,656</b>	80,600	<b>669,187</b>	695,874
Derivative financial instruments	<b>11,587</b>	39	<b>6,574</b>	17,827
Trade accounts payable, accruals and other liabilities	<b>427,008</b>	400,146	-	-
Employees' end of service benefits	-	-	<b>12,268</b>	11,969
Obligations relating to acquired entities	<b>21,562</b>	29,907	-	22,296
	<b>525,813</b>	510,692	<b>688,029</b>	747,966

Note: Trade accounts payable exclude the effect of unearned income and deferred income of BD 28,924 thousand and BD 3,823 thousand (2015: BD 31,966 thousand and BD 3,348 thousand) respectively as these do not represent financial liabilities.

**Bahrain Mumtalakat Holding Company B.S.C. (c)**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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31 December 2016

**36 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

**Judgments**

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

*Operating lease commitments – group as lessor*

The Group has entered into commercial property leases on its investment property portfolio and leases for aircrafts. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

*Classification of investments*

The Group's management determines the classification of investments as either fair value through statement of income, held to maturity, or available-for-sale. This classification is based on management's investment strategy taking into account their evaluation of performance, the intention and ability to hold investments for certain time periods and their assessment of investments which are available to be sold.

**Estimates and assumptions**

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

*Useful lives of property, plant and equipment*

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

*Impairment of aircraft*

In case of aircraft, impairment is recognised when events and circumstances indicate that the aircraft may be impaired and the carrying amounts of the aircraft exceed the recoverable amounts. In determining the recoverable amounts of the aircraft, certain estimates regarding the current fair market value and the base value (value in use) of the aircraft are made. The current fair market and the base values are determined based on independent valuations carried out by an industry expert.

*Impairment of non-financial assets (including goodwill)*

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including key assumptions, are given in notes 9 and 12.

31 December 2016

**36 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)**

**Estimates and assumptions (continued)**

*Impairment of available-for-sale financial assets*

The Group classifies certain assets as available-for-sale and recognises movements in their fair value in other comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the consolidated statement of income. Impairment loss of BD 2,885 thousand has been recognised for available-for-sale assets at 31 December 2016 (2015: nil). The carrying amount of available-for-sale assets was BD 249,368 thousand (2015: BD 219,871 thousand).

*Restructuring costs*

Restructuring provisions are recognised only if events have occurred that give rise to a constructive obligation as of the reporting date, include only direct expenditure which is necessarily entailed by the restructuring plan and not associated with the ongoing activities of the Gulf Air. In determining the amounts that can be provided for and presented as restructuring costs, estimates are made by the management on the approximate number of employees who will be compensated under voluntary redundancy scheme, settlement to lessors of aircraft whose operating leases are intended to be terminated early and other relevant restructuring expenses.

At 31 December 2016, the total carrying amount of estimated restructuring provisions was BD 3,306 thousand (2015: BD 3,500 thousand).