

Aluminium Bahrain B.S.C.

**REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2018



Aluminium
for the world

Aluminium Bahrain B.S.C.
C.R. No.999



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للعالم

ألمنيوم البحرين ش.م.ب.
سجل تجاري رقم: ٩٩٩

Aluminium Bahrain B.S.C. REPORT OF THE BOARD OF DIRECTORS

The Directors have the pleasure to submit their report together with the Audited Consolidated Financial Statements for the year-ended 31 December 2018.

Principal Activity

Aluminium Bahrain B.S.C. ("the Company") was incorporated as a Bahrain Joint Stock Company (closed) in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under Commercial Registration (CR) Number 999. The Company was converted into a Bahrain Public Joint Stock Company effective 23 November 2010 and its shares were listed on two exchanges: Ordinary Shares on the Bahrain Bourse and Global Depositary Receipts (GDRs) on the London Stock Exchange - Alternative Investment Market (AIM).

The principal activities of the Company are to build and operate smelters for the production of aluminium, to sell aluminium within and outside the Kingdom of Bahrain and to carry on any related business to complement the Company's operations and/or to enhance the value or profitability of any of the Company's property or rights.

Registered Office

The official business address of the Company is located at Building 150, Road 94, Block 951, Askar, Kingdom of Bahrain.

Winterthur Branch

On 7 July 2011, the Company established and registered Aluminium Bahrain B.S.C., Manama, Bahrain, Winterthur Branch in Zurich, Switzerland, with office address at Merkustrsse 25, CH-8400 Winterthur, Switzerland.

Hong Kong Branch

On 30 November 2011, the Board approved the establishment of a Sales Office in Hong Kong, with address at 2210, Windsor House, 311 Gloucester Road, Causeway Bay, Hong Kong.

U.S. Subsidiary

On 11 June 2014, the Board approved the incorporation of a U.S. entity and the creation of a Sales Office with address at Aluminium Bahrain US, Inc. 400 Colony Square, Suite 1001, 1201 Peachtree St. NE, Atlanta, GA 30361.



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Bahrain Subsidiary

On 21 October 2014, the Board approved the formation of Alba Club S.P.C., a subsidiary entity of Aluminium Bahrain B.S.C. in relation to the Bahraini Commercial Registration for Alba Social Club which is located at Building 23, Road 43, Block 937, Riffa /Al Bhaier, Kingdom of Bahrain.

Share Capital Structure

Shareholders	2018 (%)	2017 (%)
Bahrain Mumtalakat Holding Company B.S.C. (c)	69.38	69.38
SABIC Industrial Investments Company	20.62	20.62
Others – Public	10.00	10.00
	100.00	100.00

Corporate Secretary

Ms. Eline Hilal, is the Corporate Secretary since February 2015.

Executive Management Team

Mr. Tim Murray, Chief Executive Officer

Mr. Ali Al Baqali, Deputy Chief Executive Officer and Chief Supply Chain Officer

Mr. Abdulla Habib, Chief Operations Officer (appointed as the acting Chief Operations Officer in February 2018 then confirmed as the Chief Operations Officer in December 2018)

Mr. Amin Sultan, Chief Power Officer

Mr. Khalid Abdul Latif, Chief Marketing Officer

Mr. Waleed Tamimi, Chief Administration Officer

Mr. Bryan Harris, acting Chief Financial Officer (appointed as the acting Chief Financial Officer in December 2018)

Results and Retained Earnings

The Company made a profit of **BD 59.8 Million** for the financial year of 2018 as compared to a profit of **BD 92.5 Million** for the financial year of 2017.

The Movements in Retained Earnings of the Company were:

	BD '000
Balance as at 31 December 2017	805,029
Profit for the year 2018	59,755
Gain on resale of treasury shares	151
Excess of 2017 dividend reversed	86
Proposed dividend for 2018 (none)	0
Balance as at 31 December 2018	865,021

ألبا، ص.ب.: ٥٧٠، المنامة، مملكة البحرين، تليفون: ١٧٨٢٠٠٠٠ (+٩٧٣)، فاكس: ١٧٨٢٠٠٠٨٣ (+٩٧٣)

Alba, P.O. Box : 570, Manama, Kingdom of Bahrain, Tel. : (+973) 17830000, Fax : (+973) 17830083, e-mail : alba@alba.com.bh

Appropriations

- (1) On 07th March 2018, the Company's Shareholders approved the Board of Directors' recommendation to distribute cash dividends of BD 0.026 per share (excluding treasury shares) totalling BD 36,806 Thousand to Shareholders for the year ended 31 December 2017.
- (2) On 07th February 2019, the Board of Directors recommended no dividend payment for 2018.

The above-noted appropriation per point (2) is subject to the approval of the shareholders of the Company at the Annual General Meeting/Extraordinary General Meeting which will be held on Thursday March 07, 2019.

Directors of the Company

The following Directors served on the Board of Alba from 01 January 2018 to 31 December 2018:

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

Shaikh Daij Bin Salman Bin Daij Al Khalifa, Chairman
Yousif A. Taqi, Director
Osama M. Al Arrayedh, Director
Suha S. Karzoon, Director
Yaser E. Humaidan, Director
Dr. Mohammed S. Kameshki, Director

Sabic Industrial Investments Company

Ali Al Shamrani, Director
Ahmed Al Jabr, Director

Elected Directors

Mr. Uwaidh Al Harethi, Director
Mr. Mutlaq H. Al Morished, Director

Directors' Remuneration

Directors' remuneration charged during the year ended 31 December 2018 was BD 210,000 (2017: BD 210,000).

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A one-time bonus of BD 210,000 in recognition of the Directors' efforts towards the successful and safe completion of the Line 6 Expansion Project, subject to the approval of the shareholders of the Company at the Annual General Meeting/Extraordinary General meeting which will be held on Thursday March 07, 2019.

By order of the Board,



Daij Bin Salman Bin Daij Al Khalifa
Chairman

07 February 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUMINIUM BAHRAIN B.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Aluminium Bahrain B.S.C. ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
ALUMINIUM BAHRAIN B.S.C. (continued)**

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

Key audit matters (continued)

1. Assessment for impairment of property, plant and equipment	
Refer to note 4 to the consolidated financial statements	
Key audit matter / risk	How the key audit matter was addressed in the audit
<p>As at 31 December 2018, the Group held property, plant and equipment of BD 1,702 million in the consolidated statement of financial position.</p> <p>This area was important to our audit due to the size of the carrying value of the property, plant and equipment (77% of the total assets as at 31 December 2018) as well as the judgement involved in the assessment of the recoverability of the carrying value of the assets. This assessment requires management to make assumptions in the underlying cash flow forecasts in respect of factors such as future production and sales levels, LME prices, raw material prices and overall market and economic conditions.</p>	<p>We examined the cash flow projections that have been determined on the basis of management's expectation of the performance of the Group's business considering the prevailing economic conditions in general and the aluminium industry in particular. Revenue forecasts from metal sales are based on forward estimates of LME prices and premium published by independent market consultants and the management has considered growth rates from year 5 into perpetuity in line with the the long term expected gross domestic product (GDP) growth rate of the Country. The discount rate used for discounting the cash flows was assessed against external benchmarks including market risk and country specific risk as well as risks specific to the Group.</p> <p>Management's accounting policy and assessment relating to the impairment of property, plant and equipment are disclosed under notes 2 and 3 respectively in the consolidated financial statements.</p>

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUMINIUM BAHRAIN B.S.C. (continued)

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

Other information included in the Group's 2018 annual report

Other information consists of the Board of Directors' report and information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report set out on pages 1 to 4 which forms part of the consolidated financial statements, and the remaining sections of the annual report are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUMINIUM BAHRAIN B.S.C. (continued)

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ALUMINIUM BAHRAIN B.S.C. (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

We report that:

- a) as required by the Bahrain Commercial Companies Law,
 - i) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
 - ii) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements; and
 - iii) satisfactory explanations and other information have been provided to us by management in response to all our requests.
- b) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2018 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

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



Partner's Registration No. 210
7 February 2019
Manama, Kingdom of Bahrain

Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 BD '000	2017 BD '000
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,702,117	1,242,073
Other asset	5	3,936	4,128
Derivative financial instruments	19	1,725	-
Deferred tax asset	17	34	19
		<u>1,707,812</u>	<u>1,246,220</u>
Current assets			
Inventories	6	266,229	198,577
Trade and other receivables	7	130,522	163,924
Derivative financial instruments	19	471	-
Bank balances and cash	8	103,684	77,459
		<u>500,906</u>	<u>439,960</u>
TOTAL ASSETS		<u>2,208,718</u>	<u>1,686,180</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	9	142,000	142,000
Treasury shares	10	(4,800)	(2,690)
Statutory reserve	12	71,000	71,000
Capital reserve	13	249	249
Retained earnings		865,021	805,029
Proposed dividend	14	-	36,806
Total equity		<u>1,073,470</u>	<u>1,052,394</u>
Non-current liabilities			
Borrowings	15	785,877	453,611
Employees' end of service benefits	16 (a)	1,677	1,564
Trade and other payables	18 (iii)	47,000	-
Derivative financial instruments	19	-	412
		<u>834,554</u>	<u>455,587</u>
Current liabilities			
Borrowings	15	74,504	22,050
Trade and other payables	18	225,332	156,058
Derivative financial instruments	19	858	91
		<u>300,694</u>	<u>178,199</u>
Total liabilities		<u>1,135,248</u>	<u>633,786</u>
TOTAL EQUITY AND LIABILITIES		<u>2,208,718</u>	<u>1,686,180</u>



Daij Bin Salman Bin Daij Al Khalifa
Chairman



Yousif Taqi
Director



Tim Murray
Chief Executive Officer

The attached notes 1 to 27 form part of these consolidated financial statements.

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Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

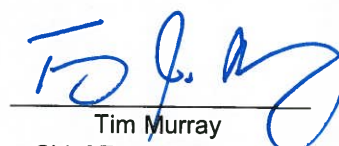
	Note	2018 BD '000	2017 BD '000
Revenue from contracts with customers	23(a)	911,317	857,762
Cost of sales		(825,335)	(723,114)
GROSS PROFIT		85,982	134,648
Other income (net)	20	12,831	7,451
Gain/(loss) on foreign exchange		11,665	(1,837)
General and administrative expenses		(26,927)	(27,120)
Selling and distribution expenses		(23,622)	(16,908)
Finance costs	21	(2,135)	(2,149)
Directors' fees	24	(210)	(210)
Changes in fair value of derivative financial instruments	19	2,699	(503)
PROFIT FOR THE YEAR BEFORE TAX	21	60,283	93,372
Tax expense	17	(528)	(915)
PROFIT FOR THE YEAR		59,755	92,457
Other comprehensive income for the year		-	-
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		59,755	92,457
Basic and diluted earnings per share (fils)	11	42	65



Daj Bin Salman Bin Daj Al Khalifa
Chairman



Yousif Taqi
Director



Tim Murray
Chief Executive Officer

The attached notes 1 to 27 form part of these consolidated financial statements.

Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Note	Share capital BD '000	Treasury shares BD '000	Statutory reserve BD '000	Capital reserve BD '000	Retained earnings BD '000	Proposed dividend BD '000	Total BD '000
Balance at 31 December 2016		142,000	(4,965)	71,000	249	779,813	-	988,097
Total comprehensive income for the year		-	-	-	-	92,457	-	92,457
Net movement in treasury shares		-	2,275	-	-	-	-	2,275
Loss on resale of treasury shares		-	-	-	-	(777)	-	(777)
Final dividend for 2016 approved and paid	14	-	-	-	-	(29,658)	-	(29,658)
Proposed dividend for 2017		-	-	-	-	(36,806)	36,806	-
Balance at 31 December 2017		142,000	(2,690)	71,000	249	805,029	36,806	1,052,394
Total comprehensive income for the year		-	-	-	-	59,755	-	59,755
Net movement in treasury shares		-	(2,110)	-	-	-	-	(2,110)
Gain on resale of treasury shares		-	-	-	-	151	-	151
Final dividend for 2017 approved and paid	14	-	-	-	-	-	(36,720)	(36,720)
Excess of final dividend for 2017 reversed		-	-	-	-	86	(86)	-
Balance at 31 December 2018		142,000	(4,800)	71,000	249	865,021	-	1,073,470

The attached notes 1 to 27 form part of these consolidated financial statements.

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Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Note	2018 BD '000	2017 BD '000
OPERATING ACTIVITIES			
Profit for the year before tax		60,283	93,372
Adjustments for:			
Depreciation	4	64,633	67,654
Amortisation of other asset	5	192	192
Provision for employees' end of service benefits	16 (a)	1,556	1,420
Provision for slow moving inventories	6	52	28
Provision for impairment of receivables - net	7	4,081	(164)
(Gain) loss on revaluation of derivative financial instruments	19	(2,699)	503
Loss on disposal of property, plant and equipment	20	1,043	2,519
Interest income	20	(537)	(573)
Interest paid on borrowings	21	2,135	1,927
		130,739	166,878
Working capital changes:			
Inventories		(67,704)	(35,183)
Trade and other receivables		29,306	(71,704)
Trade and other payables (refer to note below)		112,305	18,677
Cash from operations		204,646	78,668
Employees' end of service benefits paid	16 (a)	(1,443)	(1,410)
Income tax paid		(528)	(915)
Net cash flows from operating activities		202,675	76,343
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	(525,845)	(464,835)
Proceeds from disposal of property, plant and equipment		125	89
Interest received	20	537	573
Net cash flows used in investing activities		(525,183)	(464,173)
FINANCING ACTIVITIES			
Borrowings availed		506,409	615,290
Borrowings repaid		(121,691)	(191,353)
Interest on borrowings (refer to note below)		2,694	3,099
Dividends paid	14	(36,720)	(29,658)
Purchase of treasury shares		(5,769)	(5,281)
Proceeds from resale of treasury shares		3,810	6,779
Net cash flows from financing activities		348,733	398,876
INCREASE IN BANK BALANCES AND CASH		26,225	11,046
Bank balances and cash at 1 January		77,459	66,413
BANK BALANCES AND CASH AT 31 DECEMBER	8	103,684	77,459

Non-cash item:

The Group had movements in unpaid interest on borrowings amounting to BD 4,829 thousand which was excluded from the movement in trade and other payables (2017: BD 5,026 thousand).

The attached notes 1 to 27 form part of these consolidated financial statements.

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

1 ACTIVITIES

Aluminium Bahrain B.S.C. ("the Company") was incorporated as a Bahrain Joint Stock Company (closed) in the Kingdom of Bahrain and registered with the Ministry of Industry, Commerce and Tourism under commercial registration (CR) number 999.

Subsequent to the Initial Public Offering (IPO) on 23 November, 2010, the Company became a Bahrain Public Joint Stock Company with a dual listing on the Bahrain Bourse (primary listing) as well as the Global Depository Receipts on the London Stock Exchange – Alternative Investment Market (AIM). The Company has its registered office at 150 Askar Road, Askar 951, Kingdom of Bahrain.

The Company's majority shareholder is Bahrain Mumtalakat Holding Company B.S.C. (c) (Mumtalakat), a company wholly owned by the Government of the Kingdom of Bahrain through the Ministry of Finance, which holds 69.38% of the Company's share capital.

The Company is engaged in manufacturing and sale of aluminium and aluminium related products. The Company owns and operates a primary aluminium smelter and the related infrastructure in the Kingdom of Bahrain.

The Group comprises of the Company and the following subsidiaries:

<i>Name</i>	<i>Effective ownership</i>		<i>Country of incorporation</i>	<i>Principal activity</i>
	<i>2018</i>	<i>2017</i>		
Aluminium Bahrain US, Inc.	100%	100%	United States of America (USA)	Selling and distribution of aluminium throughout the Americas
ALBA Club S.P.C.	100%	100%	Kingdom of Bahrain	Provider of recreational and sports facilities

The Group also has representative sales branch offices in Zurich, Switzerland and Hong Kong.

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Directors on 7 February 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and in conformity with the Bahrain Commercial Companies Law, applicable requirements of the Central Bank of Bahrain Rule Book and associated resolutions, rules and procedures of the Bahrain Bourse.

The consolidated financial statements have been presented in Bahraini Dinars (BD).

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a) The contractual arrangement with the other vote holders of the investee;
- b) Rights arising from other contractual arrangements; and
- c) The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries.

Assets, liabilities, income and expenses of a subsidiaries acquired or disposed of during the year are included in the consolidated statement of other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to ensure the financial statements of the subsidiaries conform to the accounting policies of the Company.

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

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:

- a) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- b) derecognises the carrying amount of any non-controlling interest;
- c) derecognises the cumulative translation differences, recorded in equity;
- d) recognises the fair value of the consideration received;
- e) recognises the fair value of any investment retained;
- f) recognises any surplus or deficit in the consolidated statement of income; and
- g) reclassifies the parent's share of components previously recognised in OCI to the consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations as of 1 January 2018

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for certain new standards and interpretations and amendments to standards and interpretations adopted by the Group as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15, Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

Several other amendments and interpretations apply for the first time in 2018, but do not have a significant impact on the consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts and IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised when control of the goods are transferred to the customer 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation; to deliver goods to the customer. The Group has concluded that revenue from the sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

Variable consideration

Some contracts for the sale of goods provide customers with volume discounts. Under IFRS 15, volume discounts give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred.

Volume discounts

The Group provides retrospective volume discounts to certain customers on the products purchased by the customer once the quantity of products purchased during the period exceeds a threshold specified in the contract.

Under IFRS 15, retrospective volume discounts give rise to variable consideration. To estimate the variable consideration, the Group applied the 'expected value method'. The selected method that best predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration. The Group has not recognised any liabilities for the expected future discounts during the year ended 31 December 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations as of 1 January 2018 (continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The new classification and measurement of the Group's debt financial assets are, as follows:

Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. The adoption of the classification and measurement requirements of IFRS 9 did not have any effect on the Group's consolidated financial statements.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all debt instruments not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 did not have any material effect on the Group's consolidated financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

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

- IFRS 9 Financial Instruments: Guidance on Prepayment Features with Negative Compensation (the amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted);*
- IFRS 10 Consolidated Financial Statements and Investments in Associates and Joint Ventures and IAS 28 (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the IASB has deferred the effective date of these amendments indefinitely);*
- IAS 28 Investments in Associates and Joint Ventures: Clarification relating to long-term interests in associates and joint ventures (the amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted);*
- IFRS 16 Leases - Revised guidance on single model accounting for leases (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;*
- IFRS 17 Insurance Contracts: The standard covers recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts, that was issued in 2005 (effective for annual periods beginning on or after 1 January 2021);*
- IFRIC 23 Uncertainty over income tax treatment (effective for annual periods beginning on or after 1 January 2019); and*
- IAS 19 The amendments to IAS 19 which address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period (effective for annual periods beginning on or after 1 January 2019).*

Annual Improvements 2015-2017 Cycle

- IFRS 3 Previously held interests in a joint operation (the amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted);*
- IFRS 11 Previously held interests in a joint operation (the amendments are effective from 1 January 2019, with earlier application permitted);*
- IAS 12 Income tax consequences of payments on financial instruments classified as equity (the amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted); and*
- IAS 23 Borrowing costs eligible for capitalisation (the amendments are effective from 1 January 2019, with earlier application permitted).*

The management is currently assessing the impact of the above standards and interpretations on the consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. 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 statement of financial position model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)****IFRS 16 Leases (continued)**

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Transition to IFRS 16

The Group plans to use the modified retrospective approach for the adoption of IFRS 16.

The Group is in the process of finalising their analysis as the date of issuance of the consolidated financial statements as of 31 December 2018. Therefore, the below represents a reasonable estimate of the impact on adoption of IFRS 16 using the modified retrospective approach.

	BD '000
Assets	
Property, plant and equipment (right-of-use assets)	6,788
Liability	
Lease liability	6,788
Net impact on equity	<u><u>-</u></u>

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is presented as current when it is:

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is presented as current when:

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

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current.

Fair value measurement

The Group measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 26.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

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

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

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

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

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

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

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Foreign currencies

The Group's consolidated financial statements have been presented in Bahraini Dinars (BD). However, the Group's functional currency is US Dollars (USD) in respect of sales and raw material purchases. The Group uses the pegged exchange rate of 0.376 to translate USD into the BD equivalent.

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the reporting date. All exchange differences are taken to the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

Property, plant and equipment

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

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

Freehold buildings	45 years
Power generating plant	23-25 years
Plant, machinery and other equipment	3-23 years
Steel pot relining	4-5 years

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Land and assets in the process of completion are not depreciated. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Change in useful economic life of the relining costs relating to the steel pots used in the aluminium smelting process

In prior years, the Group expensed the costs incurred in relation to the relining of the steel pots that are used in the aluminium smelting process, on the basis that the Useful Economic Life ("UEL") was considered to be less than 12 months. During the six month period ended 31 December 2018, management carried out a detailed analysis of the UEL of these pot relining materials and concluded that a more appropriate UEL is between 1,500 and 2,000 days. The actual number of days in relation to the UEL is reduction line dependent; there are 5 reduction lines in operation as at the year end date. In accordance with International Accounting Standard 8, Accounting Policies, Changes in Accounting Estimates and Errors, the change in UEL is considered to be a change in accounting estimate and the effect of a change in an accounting estimate is recognized prospectively. Therefore the costs incurred for the relining of the steel pots for the six month period ended 31 December 2018 have no longer been expensed but instead have been capitalized and depreciated, with depreciation calculated on a straight-line basis over the new estimated useful lives stated above.

Accordingly, if the Group had not changed the UEL of the relining costs and capitalized the same as property, plant and equipment during the year ended 31 December 2018, the profit for the year ended 31 December would have been lower by BD 8,250 thousand, and the carrying value of property, plant and equipment would have been lower by BD 8,250 thousand net of depreciation of BD 876 thousand as of 31 December 2018.

Lease rights

Lease rights for leasehold land are stated at cost, net of accumulated amortisation and accumulated impairment losses, if any. Amortisation is calculated on a straight line basis over the lease term.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

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 weighted average cost of capital would not cause a material change to the recoverable amount. However, an increase in alumina prices by USD 200/MT (with all other variables remain unchanged) throughout the forecast period would result in the recoverable amount of the cash generating unit lower than its carrying amount by BD 741,966 thousand (2017: BD 342,700 thousand) and a reduction in LME price by USD 350/MT (with all other variables remain unchanged) throughout the forecast period would result in the recoverable amount of the cash generating unit lower than its carrying amount by BD 545,272 thousand (2017: BD 154,948 thousand).

Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a weighted average basis.
Finished goods and work in process	Cost of direct materials, labour plus attributable overheads based on normal level of activity, but excluding borrowing costs
Spares	Purchase cost calculated on a weighted average basis after making due allowance for any obsolete items.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policy for revenue from contracts with customers.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

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

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

The Group's financial assets at amortised cost includes bank balances and cash and trade and other receivables.

Trade and other receivables

Trade and other receivables represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Trade and other receivables are stated at original invoice amount, less any impairment allowances provided.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

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

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

Impairment of financial assets

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Further disclosures relating to impairment of trade receivables are provided in Note 7 and Note 24.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Impairment of financial assets is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of comprehensive income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, borrowings and derivative financial instruments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

Trade and other payables

Trade and other payables and accruals are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Group.

Borrowings

After initial recognition, borrowings are stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest rate method. Instalments due within one year are classified under current liabilities.

Interest is charged as an expense based on the effective yield, with unpaid interest amounts included in 'trade and other payables'.

Employee benefits

For Bahraini nationals, the Group makes contributions to the Social Insurance Organisation (SIO). This is a funded defined contribution scheme and the Group's contributions are charged to the consolidated statement of comprehensive income in the year to which they relate. The Group's obligations are limited to the amounts contributed to the Scheme.

For non-Bahraini employees the Group provides for end of service benefits in accordance with the Bahrain Labour Law based on their salaries at the time of leaving and number of years of service. Provision for this unfunded commitment, which represents a defined benefit scheme, has been made by calculating the liability had all employees left at the reporting date.

Further, adequate provision is created for staff entitlements in accordance with the labour laws prevailing in the respective countries in which the subsidiaries operate.

Alba Savings Benefit Scheme

The Group operates a compulsory savings scheme for its Bahraini employees. The Group's obligations are limited to the amounts to be contributed to the scheme. This saving scheme represents a funded defined contribution scheme.

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.

Derecognition

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

Derivative financial instruments and hedging activities

The Group uses derivative financial instruments, such as interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Derivative financial instruments are initially recognised in the consolidated statement of financial position at cost, including transaction costs, and subsequently re-measured to fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derivative financial instruments and hedging activities (continued)

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 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 a 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 Group'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 Group 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 net 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 as a separate component in equity as a cash flow hedge reserve. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in the consolidated statement of comprehensive 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 equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of comprehensive income.

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

Taxes

Current income tax

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Current income tax (continued)

Current income tax relating to items recognised directly in other comprehensive income or equity is recognised in other comprehensive income or equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Deferred tax relating to items recognised outside consolidated statement of comprehensive income is recognised outside consolidated statement of comprehensive income. Deferred tax is recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the treasury shares. Gains arising from the subsequent resale of treasury shares is treated as non-distributable and included in the treasury shares reserve. Any loss arising from the subsequent resale of treasury shares is first adjusted against the treasury shares reserve, if any, and charged to retained earnings if the amounts in the treasury shares reserve is not sufficient to cover the loss. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Share options exercised during the reporting period are satisfied with treasury shares.

Borrowing costs

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

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property 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 finance costs in the consolidated statement of comprehensive income. A leased asset is 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 lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Revenue from contracts with customers

The Group is in the business of manufacturing and selling aluminium in liquid form as well as in the form of billets, slabs and ingots. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements relating to revenue from contracts with customers are provided in Note 3.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from sale of goods is recognised at the point in time when control is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 60 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Certain contracts for the sale of goods provide customers with volume discounts. The volume discounts give rise to variable consideration.

Volume discounts

The Group provides retrospective volume discounts to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Discounts are offset against amounts payable by the customer. To estimate the variable consideration for the expected future discounts, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future discounts.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

(ii) Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

During the current year, the Group also received a long-term advance from a customer in consideration for the sale of aluminium. All settlements against the advance will be in the form of quantities of aluminium and any adjustments arising due to the fluctuations in price will be adjusted in the quantities delivered over the term of the contract. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

Interest income

Interest income is recognised as the interest is accrued using the effective interest rate method.

Other income

Other income is recognised as the income accrues.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgements

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

Going concern

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

Operating leases - the Group as lessee

The Group has entered into agreements for lease of land and items of machinery and vehicles. The Group has determined, based on an evaluation of the terms and conditions of the arrangements that the lessor retains all the significant risks and rewards of ownership of these assets and so accounts for the contracts as operating leases. Operating lease rentals and amortisation of the lease rights have been charged to administrative expenses in the consolidated statement of comprehensive income.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgements (continued)

i) Variable consideration

Certain contracts for the sale of goods include volume discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods, given the large number of customer contracts that have similar characteristics. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Provision for expected credit losses of trade receivables

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

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

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

At 31 December 2018, gross trade receivables were BD 106,408 thousand (2017: BD 111,883 thousand), and the allowance for impairment was BD 6,614 thousand (2017: BD 2,702 thousand) and gross other receivables were BD 9,699 thousand (2017: BD 10,717 thousand), and the allowance for impairment was BD 195 thousand (2017: BD 45 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories of spares become old or obsolete or if their selling prices have declined, an estimate is made of their net realisable values. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

Impairment of inventories (continued)

At 31 December 2018, gross inventories of spares was BD 25,081 thousand (2017: BD 24,511 thousand) with provisions for slow moving spares of BD 1,681 thousand (2017: BD 1,629 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

Useful lives of property, plant and equipment

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

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects a current market assessment of the time value of money and the risks specific to the assets. The cash flows are prepared for the next five years and do not include restructuring activities that the Group is not yet committed to. A long term growth rate is calculated and applied to future cash flows after the fifth year. The Board of Directors do not believe that there is any impairment of property, plant and equipment as at 31 December 2018 and 31 December 2017 respectively.

Taxes

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

4 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings BD '000</i>	<i>Power generating plant BD '000</i>	<i>Plant, machinery and other equipment BD '000</i>	<i>Assets in process of completion BD '000</i>	<i>Total BD '000</i>
Cost:					
At 1 January 2018	284,619	433,272	1,264,855	550,956	2,533,702
Additions	615	2,168	15,382	507,680	525,845
Transfers	738	6,771	28,523	(36,032)	-
Disposals	(47)	(2,272)	(7,556)	-	(9,875)
At 31 December 2018	285,925	439,939	1,301,204	1,022,604	3,049,672
Depreciation:					
At 1 January 2018	125,567	288,508	877,554	-	1,291,629
Charge for the year	6,347	12,146	46,140	-	64,633
Relating to disposals	(32)	(1,540)	(7,135)	-	(8,707)
At 31 December 2018	131,882	299,114	916,559	-	1,347,555
Net carrying value: At 31 December 2018	154,043	140,825	384,645	1,022,604	1,702,117
Cost:					
At 1 January 2017	278,463	436,691	1,277,369	128,703	2,121,226
Additions	2,519	56	9,151	453,109	464,835
Transfers	9,646	931	20,279	(30,856)	-
Disposals	(6,009)	(4,406)	(41,944)	-	(52,359)
At 31 December 2017	284,619	433,272	1,264,855	550,956	2,533,702
Depreciation:					
At 1 January 2017	124,612	275,048	874,066	-	1,273,726
Charge for the year	6,733	16,343	44,578	-	67,654
Relating to disposals	(5,778)	(2,883)	(41,090)	-	(49,751)
At 31 December 2017	125,567	288,508	877,554	-	1,291,629
Net carrying value: At 31 December 2017	159,052	144,764	387,301	550,956	1,242,073

Land and buildings

Land and buildings include freehold land at a cost of BD 453 thousand as at 31 December 2018 (2017: BD 453 thousand).

Leases

The Group is using land leased from the Government of Bahrain for the operations of lines 3, 4 and 5 and land leased from The Bahrain Petroleum Company B.S.C. (c) (BAPCO) for its calciner operations. These leases are free of rent. The land used for the construction of Line 6 is also leased from the Government of Bahrain for 25 years effective 1 July 2014 at an annual rent as disclosed in note 22 (c).

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Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

4 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation

The depreciation charge is allocated to cost of sales, administration expenses and selling and distribution expenses in the consolidated statement of comprehensive income.

Capitalized borrowing costs

The construction of Line 6 expansion project is expected to be completed in July 2019. The carrying amount of the Line 6 expansion project at 31 December 2018 included under assets in process of completion was BD 973,505 thousand (2017: BD 499,733 thousand). The expansion project is financed by a syndicated term loan facility as well as a consortium of export credit facilities. The amount of borrowing costs capitalised during the year ended 31 December 2018 was BD 28,259 thousand (2017: BD 12,613 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was from 0.55% to 6.17%, which is the EIR of the specific borrowing.

5 OTHER ASSET

The Group acquired the lease rights of the land adjacent to the Company in the Kingdom of Bahrain from the Ministry of Industry, Commerce and Tourism on 28 May 2014 for a term of 25 years effective 1 July 2014 and the amount of BD 4,800 thousand is being amortised over the lease period with an annual charge of BD 192 thousand (2017: BD 192 thousand).

	2018	2017
	BD '000	BD '000
At 1 January	4,128	4,320
Amortised during the year	(192)	(192)
At 31 December	3,936	4,128

6 INVENTORIES

	2018	2017
	BD '000	BD '000
Raw materials	73,820	43,497
Work-in-process	66,459	49,009
Goods in transit	42,781	38,822
Finished goods	59,769	44,367
Spares [net of provision of BD 1,681 thousand (2017: BD 1,629 thousand)]	23,400	22,882
	266,229	198,577

Movements in the provision for slow moving spares were as follows:

	2018	2017
	BD '000	BD '000
At 1 January	1,629	1,780
Charge for the year	91	28
Write off against provision	(39)	(179)
At 31 December	1,681	1,629

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

7 TRADE AND OTHER RECEIVABLES

	2018	2017
	BD '000	BD '000
Trade receivables - others [net of allowance for ECL of BD 3,201 thousand (2017: BD 2,702 thousand)]	85,856	95,373
Trade receivables - related parties [net of allowance for ECL of BD 3,413 thousand (2017: nil)] (note 24)	13,938	13,808
	99,794	109,181
Advances to suppliers	12,926	25,182
Prepayments	8,298	2,673
Other receivables [net of provision of BD 195 thousand (2017: BD 45 thousand)]	9,504	10,672
Insurance claim receivable	-	16,216
	130,522	163,924

As at 31 December 2018, trade receivables of BD 6,614 thousand (2017: BD 2,702 thousand) and other receivables of BD 195 thousand (2017: BD 45 thousand) were impaired. Movements in the provision for doubtful trade and other receivables were as follows:

	<i>Trade receivables</i>		<i>Other receivables</i>	
	2018	2017	2018	2017
	BD '000	BD '000	BD '000	BD '000
At 1 January	2,702	4,547	45	45
Provision during the year	3,931	-	150	-
Reversal during the year	-	(164)	-	-
Write off against provision	(19)	(1,681)	-	-
At 31 December	6,614	2,702	195	45

Subsequent to the year end, unimpaired trade receivables of BD 50,753 thousand (2017: BD 69,469 thousand) were collected and the balance is expected, on the basis of past experience, to be fully recoverable.

8 BANK BALANCES AND CASH

	2018	2017
	BD '000	BD '000
Cash at bank:		
- Current accounts	22,275	20,062
- Call accounts	24,944	16,004
- Short term deposits	56,400	41,360
Cash in hand	65	33
	103,684	77,459

A major portion of the bank balances is held with financial institutions in the Kingdom of Bahrain and these balances are denominated in Bahraini Dinars, US Dollars and Euros. The call accounts earn interest and the effective interest rate as of 31 December 2018 is 0.077% (2017: 0.075%). Short term deposits earn interest between 2.5% to 4.5% p.a. (2017: 2.25% p.a.) and have maturities less than three months.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

9 SHARE CAPITAL

	2018	2017
	BD '000	BD '000
Authorised 2,000,000,000 shares of 100 fills each	200,000	200,000
Issued and fully paid 1,420,000,000 shares of 100 fills each	142,000	142,000

The distribution of shareholdings is as follows:

Categories	2018			2017		
	Number of shares	Number of shareholders	% of total outstanding share capital	Number of shares	Number of shareholders	% of total outstanding share capital
Less than 1%	72,565,949	3,255	5.11	90,023,499	3,379	6.34
1% up to less than 5%	69,434,051	3	4.89	51,976,501	2	3.66
5% up to less than 20%	-	-	-	-	-	-
20% up to less than 50%	292,804,000	1	20.62	292,804,000	1	20.62
50% and above	985,196,000	1	69.38	985,196,000	1	69.38
	1,420,000,000	3,260	100.00	1,420,000,000	3,383	100.00

10 TREASURY SHARES

Treasury shares held by the Group as of 31 December were:

2018		2017	
No of shares	BD '000	No of shares	BD '000
7,397,000	4,800	4,381,144	2,690

Included in treasury shares are 697,000 shares (2017: 697,000) that were an excess in the Employees' Stock Incentive Plan [note 16 (c)].

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Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

11 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares and is as follows:

	2018	2017
Profit for the year - BD' 000	<u>59,755</u>	<u>92,457</u>
Weighted average number of shares, net of treasury shares - thousands of shares	<u>1,415,636</u>	<u>1,414,368</u>
Basic and diluted earnings per share (fils)	<u>42</u>	<u>65</u>

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

12 STATUTORY RESERVE

The Bahrain Commercial Companies Law requires companies to transfer 10% of their annual profit to a statutory reserve, until such time the reserve equals 50% of the paid up share capital. A statutory reserve equal to 50% of the paid-up capital has been created by transfer of prior years' profits. Therefore no further transfers have been made for the year ended 31 December 2018. This reserve cannot be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

13 CAPITAL RESERVE

This reserve was created from the surplus on disposal of property, plant and equipment in prior years. This reserve is distributable subject to the approval of the shareholders.

14 DIVIDEND PROPOSED AND PAID

At the Annual General Meeting held on 7 March 2018, the Company's shareholders approved the Board of Directors' proposal to pay a final dividend of BD 0.026 per share (excluding treasury shares) totalling BD 36,806 thousand relating to 2017, out of which BD 36,720 thousand was paid as of 31 December 2018 and an excess of BD 86 thousand was reversed.

At the Annual General Meeting held on 21 March 2017, the Company's shareholders approved the Board of Directors' proposal to pay a final dividend of BD 0.021 per share (excluding treasury shares) totalling BD 29,658 thousand relating to 2016, which was fully paid as of 31 December 2017.

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

15 BORROWINGS

	2018			2017
	Non-current BD '000	Current BD '000	Total BD '000	Total BD '000
Line 6 Term Loan Facility at 5.1 % to 6.17 % (2017: 5.1 % to 5.6 %) [1]	488,800	-	488,800	282,000
Line 6 Euro SERV Loan at EURIBOR + 0.65 % (2017: EURIBOR + 0.65%) [2]	109,749	4,772	114,521	92,934
Line 6 USD SERV Loan at LIBOR + 0.9 % (2017: LIBOR + 0.9 %) [2]	94,220	4,096	98,316	73,280
Line 6 Hermes 1 Covered Facility at EURIBOR + 0.55 % (2017: EURIBOR + 0.55 %) [3]	15,853	689	16,542	5,397
Line 6 Hermes 2 Covered Facility at EURIBOR + 0.55 % (2017: EURIBOR + 0.55 %) [4]	16,810	885	17,695	-
Line 6 BPAI Covered Facility at EURIBOR + 0.60 % (2017: nil) [5]	38,508	1,577	40,085	-
Line 6 EDC Covered Facility at LIBOR + 0.725 % (2017: nil) [6]	34,015	1,790	35,805	-
Line 6 JBIC / NEXI 2 Covered Facility at EURIBOR + 0.60 % (2017: nil) [7]	29,337	3,741	33,078	-
Working capital revolving credit at 2.52 % to 3.41 % (2017: 1.57 % to 2.44 %) [8]	-	63,901	63,901	15,040
Refinancing loan (2017: 2.65 % to 3.75 %) [9]	-	-	-	3,183
Euro Coface loan (2017: 1.51 % to 1.73 %) [10]	-	-	-	3,827
Total borrowings	827,292	81,451	908,743	475,661
Less: unamortised transaction costs	(41,415)	(6,947)	(48,362)	-
Net borrowings	785,877	74,504	860,381	475,661
Payable after one year			785,877	453,611
Payable within one year			74,504	22,050
			860,381	475,661

[1] Line 6 Term Loan Facility

In 2016, the Group entered into a term loan facility with a syndicate of financial institutions for USD 1.5 billion comprising two tranches; USD 882 million as a conventional credit facility and USD 618 million as an Islamic Ijara facility. National Bank of Abu Dhabi PJSC is the global facility agent for this facility and Riyadh Bank is the investment agent. This loan was obtained to finance capital expenditure requirements for Line 6. The loan is repayable in eight semi-annual instalments starting from March 2020.

[2] Euro and USD Serv loan

On 25 April 2017, the Group entered into an Export Credit Financing (SERV-covered facilities) with a syndicate of financial institutions for Euro 314 million and USD 310 million. Commerzbank Finance & Covered Bond S.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for line 6. The loan is repayable in twenty-four semi-annual instalments starting from December 2019.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 BORROWINGS (continued)

[3] Line 6 Hermes 1 Covered Facility

On 30 April 2017, the Group entered into an Export Credit Financing (Euler Hermes covered facilities) with Citibank N.A London for Euro 50 million. Commerzbank Finance & Covered Bond S.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for line 6. The loan is repayable in twenty-four semi-annual instalments starting from October 2019.

[4] Line 6 Hermes 2 Covered Facility

On 24 October 2017, the Group entered into an Export Credit Financing (Euler Hermes covered facilities) with Commerzbank for Euro 47 million. Commerzbank Finance & Covered Bond S.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for line 6. The loan is repayable in twenty-four semi-annual instalments starting from July 2019.

[5] Line 6 BPAI Covered Facility

On 2 January 2018, the Group entered into an Export Credit Financing agreement amounting to Euro 156 million. Standard Chartered Bank is the agent for this facility and the lenders are Citibank N.A London, Credit Agricole Corporate Investment Bank and Standard Chartered Bank. This loan was obtained to finance capital expenditure requirements for line 6. The loan is repayable in twenty semi-annual instalments starting from July 2019.

[6] Line 6 EDC Covered Facility

On 17 October 2018, the Group entered into an Export Credit Financing with Citibank N.A., Canadian branch for USD 136 million. Citibank N.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for line 6. The loan is repayable in twenty semi-annual instalments starting from November 2019.

[7] Line 6 JBIC / NEXI 2 Covered Facility

On 31 October 2018, the Group entered into an Export Credit Financing agreement amounting to Euro 90 million. BNP Paribas, Tokyo branch is the agent and lender for this facility and the other lender is Japan Bank For International Cooperation. This loan was obtained to finance capital expenditure requirements for line 6. The loan is repayable in twenty semi-annual instalments starting from March 2019.

[8] Working capital revolving credit

The working capital revolving credit facilities are subject to periodic renewal and repricing. The working capital revolving facilities allow the Group to issue promissory notes for up to 12 month terms. It is the Group's policy to maintain the current level of borrowings under these facilities by issuing new promissory notes in place of maturing notes.

[9] Refinancing Loan

In 2013, the Group entered into refinancing agreements with two financial institutions for USD 169 million. These loans were obtained to partially repay the line 5 project loans and the final instalment was paid in 2018.

[10] Euro Coface Loan

On 27 April 2010, the Group entered into a Coface facility agreement with a syndicate of financial institutions for Euro 54 million. BNP Paribas, France is the agent for this facility. This loan was obtained to finance the replacement of rectifiers for lines 1 and 2 and the final instalment was paid in 2018.

All borrowings have requirements to meet certain financial and non-financial covenants and there is no instance of non compliance at the reporting date (2017: nil). At 31 December 2018, the Group had available BD 171,058 thousand (2017: BD 419,017 thousand) of undrawn committed borrowing facilities.

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16 EMPLOYEE BENEFITS

a) Defined benefit scheme - leaving indemnity

Movements in the provision recognised in the consolidated statement of financial position are as follows:

	2018	2017
	BD '000	BD '000
Provision as at 1 January	1,564	1,554
Provided during the year (note 21)	1,556	1,420
Employees' end of service benefits paid	(1,443)	(1,410)
Provision as at 31 December	1,677	1,564

b) Defined contribution schemes

Movements in liabilities recognised in the consolidated statement of financial position are as follows:

	<i>Alba Savings Benefit Scheme</i>		<i>Social Insurance Organisation</i>	
	2018	2017	2018	2017
	BD '000	BD '000	BD '000	BD '000
Provision as at 1 January	1,927	1,357	596	710
Expense recognised in the consolidated statement of comprehensive income (note 21)	5,199	4,963	6,163	6,043
Contributions paid	(5,326)	(4,393)	(6,380)	(6,157)
Provision as at 31 December (note 18)	1,800	1,927	379	596

c) Employees' Stock Incentive Plan

In accordance with an Employees' Stock Incentive Plan approved by the Board of Directors, the Group purchased 3,000,000 of its shares to be allocated to all of its employees on the Group's payroll as of 1 December 2010. The Group allocated 1,000 shares each to its 2,714 employees as of 1 December 2010 and these shares vested after a period of three years. As of 31 December 2018, no employees are eligible for this plan (2017: nil) and the excess of 697,000 shares is held as treasury shares as of 31 December 2018 (2017: 697,000 shares). In 2015, the shares allocated to the employees had fully vested.

17 TAXATION

Taxation pertains to the Group's subsidiary in the United States of America and the standard tax rate was 21% as of 31 December 2018 (2017 : 37.85%). The actual provision for income taxes differs from the amounts computed by applying statutory income taxes primarily due to state income taxes and non-deductible items.

	2018	2017
	BD '000	BD '000
Current liability		
Current year	-	155
Income statement		
Current year expense	543	923
Deferred tax (benefit) expense	(15)	(8)
	528	915

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17 TAXATION (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of taxes and liabilities for financial reporting purposes and the amounts used for income tax purposes.

	2018	2017
	BD '000	BD '000
Deferred tax asset	105	106
Deferred tax liability	(71)	(87)
Deferred tax asset - net	<u>34</u>	<u>19</u>
	2018	2017
	BD '000	BD '000
The deferred tax asset comprises the following temporary differences:		
Deductible temporary differences	41	25
Taxable temporary differences	(7)	(6)
	<u>34</u>	<u>19</u>

18 TRADE AND OTHER PAYABLES

	2018	2017
	BD '000	BD '000
Trade payables - others	87,517	74,143
Trade payables - other related parties (note 24)	25,737	24,663
	<u>113,254</u>	<u>98,806</u>
Employee related accruals (ii)	25,163	29,062
Accrued expenses	36,226	25,213
Alba Savings Benefit Scheme [note 16 (b)]	1,800	1,927
Social Insurance Organisation [(note 16 (b))]	379	596
Advances from customers (iii)	95,510	299
Current tax liability	-	155
	<u>272,332</u>	<u>156,058</u>
Less: Non-current portion of advances from customers (iii)	(47,000)	-
	<u>225,332</u>	<u>156,058</u>

i) For terms and conditions with other related parties, refer to note 24.

ii) Employee related accruals include accruals for wages and salaries, bonus, sick leave, annual leave, medical and other benefits.

iii) Advances from customers includes BD 94,000 thousand (2017: nil) received from one customer; settlements against the advance will start in early 2019, and will be in the form of quantities of aluminium. The non-current portion of this advance amounts to BD 47,000 thousand (2017:nil).

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2018	2017
	BD '000	BD '000
Classified in the consolidated statement of financial position as follows:		
Positive fair values - assets		
Non-current portion	1,725	-
Current portion	471	-
Total	<u>2,196</u>	<u>-</u>

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At 31 December 2018

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2018 BD '000	2017 BD '000
Classified in the consolidated statement of financial position as follows (continued):		
Negative fair values - liabilities		
Non-current portion	-	412
Current portion	858	91
Total	<u>858</u>	<u>503</u>
Changes in fair value of derivative financial instruments taken to the consolidated statement of comprehensive income	<u>2,699</u>	<u>(503)</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 IFRS 9. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives, if any, are taken to the consolidated statement of comprehensive income.

Interest rate swaps

The Group entered into interest rate swap transactions for US\$ 0.75 billion floating rate borrowings for financing the line 6 project to manage overall financing costs. These contracts expire on 20 September 2023. The notional amount outstanding as at 31 December 2018 was US\$ 750,000 thousand (2017: US\$ 550,000 thousand).

Commodity futures

The Group entered into commodity futures contracts to reduce the price risk on behalf of its customers for 22,975 metric tonnes (2017: 32,400 metric tonnes) and these mature between one to six months from the reporting date.

20 OTHER INCOME (NET)

	2018 BD '000	2017 BD '000
Insurance claim	10,709	6,400
Sale of water	1,177	1,325
Interest income	537	573
Loss on disposal of property, plant and equipment	(1,043)	(2,519)
Miscellaneous	1,451	1,672
	<u>12,831</u>	<u>7,451</u>

21 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2018 BD '000	2017 BD '000
Inventories recognised as an expense in cost of sales	<u>637,393</u>	<u>533,589</u>
<i>Staff costs:</i>		
Wages and salaries	74,033	78,704
Social Insurance Organisation [note 16 (b)]	6,163	6,043
Alba Savings Benefit Scheme [note 16 (b)]	5,199	4,963
Payments to contractors	5,114	4,642
Employees' end of service benefits [note 16 (a)]	1,556	1,420
Indirect benefits (housing, education)	448	352
Others	530	341
	<u>93,043</u>	<u>96,465</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

21 PROFIT FOR THE YEAR (continued)

The staff costs have been allocated in the consolidated statement of comprehensive income as follows:

	2018	2017
	BD '000	BD '000
Cost of sales	78,001	80,028
Administrative expenses	13,409	14,639
Selling and distribution expenses	1,633	1,798
	93,043	96,465
<i>Finance costs</i>		
Interest on borrowings	1,862	1,927
Bank charges	273	222
	2,135	2,149

22 COMMITMENTS AND CONTINGENCIES

a) Commitments

	2018	2017
	BD '000	BD '000
<i>Physical metal commitments</i>		
Sales commitments :		
22,975 metric tonnes (2017: 32,400 metric tonnes)	16,663	25,580

Raw material supply agreements

In the ordinary course of business the Group has entered into long-term commitments to purchase raw materials. These contracts are based on the market price of the raw material at the time of delivery.

Treasury shares

The Board of Directors authorised the Company to purchase its own shares for a total cost amounting to BD 10,000 thousand (2017: BD 10,000 thousand). As of 31 December 2018, the Group has a remaining commitment of BD 2,250 thousand (2017: BD 3,500 thousand) towards the purchase of its own shares.

Capital expenditure

Estimated capital expenditure contracted for at the reporting date amounted to BD 93,635 thousand (2017: BD 157,076 thousand). The commitments are expected to be settled within 1 to 5 years from the reporting date.

Letters of credit

At 31 December 2018, the Group had outstanding letters of credit to counterparties of nil (2017: BD 942 thousand).

b) Contingencies

Under Albaskan Scheme, the Group has issued guarantees to financial institutions in the Kingdom of Bahrain in relation to the mortgage loans of its employees. The total value of these letters of guarantee is BD 19,453 thousand (2017: BD 17,947 thousand).

At 31 December 2018, the Group had contingent liabilities in respect of bank guarantees amounting to BD 11,042 thousand (2017: BD 18,641 thousand) from which is anticipated that no material liabilities will arise.

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22 COMMITMENTS AND CONTINGENCIES (continued)

c) Operating lease commitments

The future minimum rentals payable under operating leases as of the reporting date are given below:

	2018	2017
	BD '000	BD '000
Within one year	1,650	1,028
After one year but not more than five years	2,131	2,926
After five years	944	488
Aggregate operating lease expenditure contracted for at the consolidated statement of financial position date	<u>4,725</u>	<u>4,442</u>

The Group has a lease agreement with the Government of the Kingdom of Bahrain ("the Government") for the lease of industrial land in Askar, Kingdom of Bahrain for a period of 25 years commencing 1 July 2014. The annual rent for the leased land is BD 31,452 (2017: BD 31,452) which is negotiable after the first five years. The Group has also entered into operating leases for the rental of equipment and vehicles.

23 OPERATING SEGMENT INFORMATION

For management purposes, the Group has a single operating segment which is the ownership and operation of a primary aluminium smelter and related infrastructure. Hence no separate disclosure of profit or loss, assets and liabilities is provided as this disclosure will be identical to the consolidated statement of comprehensive income and consolidated statement of financial position of the Group.

a) Product

An analysis of revenue from contracts with customers by product is as follows:

	2018	2017
	BD '000	BD '000
Aluminium	889,674	783,332
Alumina trading	19,594	66,287
Calcined coke	2,049	8,143
Total revenue from contracts with customers	<u>911,317</u>	<u>857,762</u>

b) Geographic information

An analysis of the revenue from contracts with customers by geographic location of customers is as follows:

	2018	2017
	BD '000	BD '000
Kingdom of Bahrain	292,053	316,128
Europe	205,036	200,037
Rest of the Middle East and North Africa	159,661	149,424
Asia	120,282	99,252
Americas	134,285	92,921
Total revenue from contracts with customers	<u>911,317</u>	<u>857,762</u>

c) Customers

Revenue from contracts with the two largest customers of the Group amounted to BD 229,073 thousand (2017: BD 252,914 thousand).

24 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Company and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's Board of Directors.

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24 RELATED PARTY TRANSACTIONS (continued)

Transactions with shareholders

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

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

	2018 BD '000	2017 BD '000
Other related parties		
Revenue from contracts with customers and interest income		
Sale of metal	48,778	81,743
Sale of water	997	1,164
Interest on receivable	580	228
	50,355	83,135
Cost of sales and expenses		
Purchase of natural gas and diesel	150,246	132,633
Royalty	3,162	4,066
Purchase of electricity	3,211	2,134
	156,619	138,833

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

	2018 BD '000	2017 BD '000
Other related parties		
Assets		
Trade receivables net of allowance for ECL of BD 3,413 thousand (2017: nil) (note 7)	13,938	13,808
Bank balances	1,556	1,175
	15,494	14,983
Liabilities		
Trade payables (note 18)	25,737	24,663
Term loan	32,595	17,709
Other payables	234	471
	58,566	42,843

Outstanding balances at year-end arise in the normal course of business are interest free, unsecured and payable on demand. However, the Group charged interest at an agreed rate on an overdue receivable amount from a related party as of 31 December 2018 (2017: same terms). For the year ended 31 December 2018, the Group recorded an impairment of BD 3,413 thousand on amounts due from other related parties (2017: nil) [note 7].

24 RELATED PARTY TRANSACTIONS (continued)**Compensation of key management personnel**

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

	2018	2017
	BD '000	BD '000
Short term benefits	1,850	1,637
End of service benefits	80	72
Contributions to Alba Savings Benefit Scheme	115	92
Other benefits	69	-
	2,114	1,801

Directors' fees during the year amounted to BD 210 thousand (2017: BD 210 thousand).

25 RISK MANAGEMENT

The Group's principal financial liabilities, other than derivatives, comprise borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has trade and other receivables, bank balances and cash and short-term deposits that arise directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk.

The Group's executive management oversees the management of these risks. The Group's executive management is supported by a risk management team that advises on financial risks and the appropriate financial risk governance framework for the Group. The risk management team provides assurance to the Group's executive management that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies and Group risk appetite.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, commodity price risk and foreign currency risk. Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (receivable balance, call accounts and borrowings).

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

The interest earned on overdue receivables is based on floating LIBOR rate plus margin. The call accounts and short term deposits earn interest at commercial rates. The interest rates are disclosed in notes 8 and 15, as applicable.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 RISK MANAGEMENT (continued)

Interest rate risk (continued)

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

	<i>Interest on call accounts and short term deposit</i>		<i>Interest on borrowings (after giving effect for derivative financial instruments)</i>	
	<i>Increase/ decrease in basis points</i>	<i>Effect on results for the year BD '000</i>	<i>Increase / decrease in basis points</i>	<i>Effect on results for the year BD '000</i>
2018	25	213	25	783
	(25)	(213)	(25)	(783)
2017	25	143	25	55
	(25)	(143)	(25)	(55)

Commodity price risk

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

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

	<i>Increase/ decrease in LME price</i>	<i>Effect on results for the year BD '000</i>
2018	+30%	257
	-30%	(257)
2017	+30%	115
	-30%	(115)

Foreign currency risk

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

The Group's financial instruments are mainly denominated in Bahraini Dinars, US Dollars, Euros, Swiss Francs and Great Britain Pounds. The Group sometimes uses forward foreign exchange contracts to hedge against foreign currency payables. As of 31 December 2018 and 31 December 2017 there were no outstanding forward foreign exchange contracts.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 RISK MANAGEMENT (continued)

Foreign currency risk (continued)

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 unhedged foreign currency exposures at 31 December, as a result of its monetary assets and liabilities. As of 31 December, the following financial instruments are denominated in currencies other than Bahraini Dinars and US Dollars, which were unhedged:

<i>Financial</i>	<i>Currency</i>	2018	2017
		<i>BD '000</i>	<i>BD '000</i>
Bank balances	Euro	33,026	7,996
	Swiss Francs	44	70
Receivables	Euro	14,247	11,701
Borrowings	Euro	221,921	102,158
Payables	Euro	3,140	7,635
	Swiss Francs	1,850	410
	Great Britain Pounds	283	334

The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar's currency rate against currencies which are exposed to currency risk, with all other variables held constant, on the consolidated statement of comprehensive 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 to the effect of the increases shown.

<i>Currency</i>	2018		2017	
	<i>Increase in currency rate to the</i>	<i>Effect on results for the year</i>	<i>Increase in currency rate to the</i>	<i>Effect on results for the year</i>
	<i>BD</i>	<i>BD '000</i>	<i>BD</i>	<i>BD '000</i>
<i>Euro</i>	+10%	(17,779)	+10%	(9,010)
<i>Swiss Francs</i>	+10%	(181)	+10%	(34)
<i>Great Britain Pounds</i>	+10%	(28)	+10%	(33)
		<u>(17,988)</u>		<u>(9,077)</u>

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and derivative financial instruments.

Bank balances and financial instruments

Credit risk from bank balances and derivative contracts is managed by the Group's treasury department in accordance with the Group's policy. The Group limits credit risk from bank balances and derivatives contracts by only dealing with reputable banks and brokers. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

25 RISK MANAGEMENT (continued)

Credit risk (continued)

Trade and other receivables

The Group manages credit risk with respect to receivables from customers by receiving payments in advance from customers, obtaining letters of credit and other forms of credit insurance, by monitoring the exposure to customers on an ongoing basis. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses.

2018	<i>Exposure</i> <i>BD '000</i>	<i>Weighted</i> <i>average</i> <i>loss rate</i>	<i>Loss</i> <i>allowance</i> <i>BD '000</i>
Current	77,799	0.05%	39
0 - 30 days	5,120	0.80%	41
31 - 360 days	1,031	20.85%	215
Over 360 days	2,906	100.00%	2,906
	86,856		3,201

Derivative contracts are entered into with approved counterparties and the Group is not subject to significant credit risk on these contracts.

Credit risk concentration

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 provisions for impairment.

The Group sells its products to a large number of customers. Its five largest customers account for 25% of the outstanding trade receivables at 31 December 2018 (2017: 43%).

Liquidity risk

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

The Group limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sale require amounts to be paid within 30 to 60 days of the date of sale. Trade payables are non-interest bearing and are normally settled within 45 days terms.

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.

31 December 2018	<i>Less than</i> <i>3 months</i> <i>BD '000</i>	<i>3 to 12</i> <i>months</i> <i>BD '000</i>	<i>1 to 5 years</i> <i>BD '000</i>	<i>Over 5</i> <i>years</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
Borrowings (including interest payable)	64,134	13,635	671,099	209,281	958,149
Derivative financial instruments	858	-	-	-	858
Trade and other payables	115,433	-	-	-	115,433
Total	180,425	13,635	671,099	209,281	1,074,440

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25 RISK MANAGEMENT (continued)

Liquidity risk (continued)

31 December 2017	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
Borrowings (including interest payable)	38,076	3,827	303,999	149,612	495,514
Derivative financial instruments	91	-	-	412	503
Trade and other payables	101,484	-	-	-	101,484
Total	139,651	3,827	303,999	150,024	597,501

Capital management

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

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

Capital comprises share capital, statutory reserve, capital reserve, retained earnings and proposed dividend less treasury shares, and is measured at BD 1,073,470 thousand as at 31 December 2018 (2017: BD 1,052,394 thousand).

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Financial assets consist of bank balances and cash and trade and other receivables. Financial liabilities consist of borrowings and trade and other payables. Derivative financial instruments consist of interest rate swaps and futures.

Set out below is an overview of financial instruments, other than bank balances and cash, held by the Group as at 31 December 2018:

	Loans and receivables at amortised cost		Financial assets at fair value	
	2018 BD '000	2017 BD '000	2018 BD '000	2017 BD '000
Financial assets				
Trade and other receivables	109,298	119,853	-	-
Derivative financial instruments	-	-	2,196	-
	109,298	119,853	2,196	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2018

26 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	<i>Financial liabilities at amortised cost</i>		<i>Financial liabilities at fair value</i>	
	2018	2017	2018	2017
	BD '000	BD '000	BD '000	BD '000
Financial liabilities				
Borrowings	860,381	475,661	-	-
Trade and other payables	115,433	101,484	-	-
Derivative financial instruments	-	-	858	503
	975,814	577,145	858	503

The management assessed that bank balances and cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2018, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rates, interest rate curves and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk.

Fair value hierarchy

As at 31 December 2018 and 31 December 2017, the Group's derivative financial instruments that were measured at fair value were Level 2 as per the hierarchy. The Group does not have financial instruments qualifying for Level 1 or Level 3 classification.

During the years ended 31 December 2018 and 31 December 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (2017: same).

The fair values of financial instruments are not materially different from their carrying values as of the reporting date.

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27 ALBA SAVINGS BENEFIT SCHEME

The Group operates a compulsory savings benefit scheme for its Bahraini employees ('the Scheme').

The Scheme's assets, which are not incorporated in these consolidated financial statements, consist principally of deposits with banks, equity shares and bonds.

The Scheme is managed by a committee of employees called the Board of Representatives (the 'BoR') representing the Group and the employees. The BoR manages the risks relating to the Scheme's assets by approving the entities in which the Scheme can invest and by setting limits for investment in individual entities.