

**Aluminium Bahrain B.S.C.**

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

**31 DECEMBER 2019**



Aluminium  
for the world

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



ألمنيوم  
للعالم

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

## Aluminium Bahrain B.S.C. (Alba) 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 2019.

### Principal Activity

Aluminium Bahrain B.S.C. (Alba) ("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. (Alba), Manama, Bahrain, Winterthur Branch in Zurich, Switzerland, with 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.

### 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. (Alba) in relation to the Bahraini Commercial Registration for Alba Social Club which is located at Building 23, Road 43, Block 937, Riffa /Al Bhair, Kingdom of Bahrain.



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## Guernsey Subsidiary

On 07 February 2019, the Board approved the establishment of Alba's Captive Insurance Vehicle in Guernsey 'AlbaCap Insurance Limited' with address at Suite 1 North, 1<sup>st</sup> Floor, Albert House, South Esplanade, St Peter Port, GY1 1AJ.

## Share Capital Structure

Shareholders	2019 (%)	2018 (%)
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
	<b>100.00</b>	<b>100.00</b>

## Corporate Secretary

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

## Executive Management Team

Mr. Ali Al Baqali, Acting Chief Executive Officer effective 01 August 2019  
 Mr. Abdulla Habib, Chief Operations Officer  
 Mr. Amin Sultan, Chief Power Officer  
 Mr. Khalid Abdul Latif, Chief Marketing Officer  
 Mr. Waleed Tamimi, Chief Administration and Supply Officer  
 Mr. Bryan Harris, Chief Financial Officer (appointed as Chief Financial Officer on 25 September 2019)  
 Mr. Tim Murray, Ex-Chief Executive Officer (until 31 July 2019)

## Results and Retained Earnings

The Company made a Profit of **BD5.379 Million** for the financial year of 2019 versus a Profit of **BD59.755 Million** for the financial year of 2018.

The Movements in Retained Earnings of the Company were:

	BD '000
Balance as at 31 December 2018	865,021
Profit for the year 2019	5,379
Loss on resale of treasury shares	(1,084)
Excess of 2018 dividend reversed	nil
Balance as at 31 December 2019	<b>869,316</b>

## Appropriation

At the Board meeting held on Thursday 13 February 2020, the Company's Board of Directors proposed to pay a final dividend of BD0.001 per share (excluding treasury shares) totalling BD1,412 Thousand relating to 2019.



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The above-noted appropriation is subject to the approval of the shareholders of the Company at the Annual General Meeting/Extraordinary General Meeting which will be held on Sunday 08 March 2020.

#### Directors of the Company

The following Directors served on the Board of Alba from 01 January 2019 to 31 December 2019:

#### 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. Omar Al Amoudi (since 10 March 2019)  
Mr. Uwaidh Al Harethi, Director (until 10 March 2019)  
Mr. Mutlaq H. Al Morished, Director

#### Directors' Remuneration

Directors' Remuneration charged during the year ended 31 December 2019 was BD 210,000 (2018: BD 210,000).

By order of the Board,



Daij Bin Salman Bin Daij Al Khalifa  
Chairman

13 February 2020



KPMG Fakhro  
 Audit  
 12<sup>th</sup> Floor, Fakhro Tower  
 PO Box 710, Manama  
 Kingdom of Bahrain

Telephone +973 17 224807  
 Fax +973 17 227443  
 Website: www.kpmg.com/bh  
 CR No. 6220

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS**

**ALUMINIUM BAHRAIN B.S.C.**

PO Box: 570, Kingdom of Bahrain

**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 (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

*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 *Auditors' 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 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Assessment for impairment of property, plant and equipment**

*(refer to the impairment policy in note 3(e), use of estimate and management judgement in note 4, and note 5 on disclosure of property, plant and equipment in the consolidated financial statements)*

Description	How the matter was addressed in our audit
<p>As at 31 December 2019, the Group held property, plant and equipment of BD 1,962.2 million in the consolidated statement of financial position.</p>	<p>Our audit procedures, amongst others, included:</p> <ul style="list-style-type: none"> <li>— evaluating the Group's basis of developing forecasts and cash flow projections 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;</li> <li>— We involved our own valuation specialists to assist us in:               <ul style="list-style-type: none"> <li>○ evaluating the appropriateness of the methodology used by the Group to assess impairment of property, plant and equipment;</li> <li>○ evaluating key inputs and assumptions in cash flow models used by the Group against external benchmarks including adjustments for risks specific to the Group, in particular its derivation of revenues forecasts based on forward estimates of LME prices, margins, discount rates and expected long term growth rates; and</li> </ul> </li> <li>— assessed whether the consolidated financial statements disclosures relating to key inputs and assumptions for impairment were appropriate.</li> </ul>
<p>This area was important to our audit due to the size of the carrying value of the property, plant and equipment (81% of the total assets as at 31 December 2019) 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>	



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

ALUMINIUM BAHRAIN B.S.C.

**Capitalisation and useful lives of property, plant and equipment**

(refer to the use of estimate and management judgement in note 4 and note 5 on disclosure of property, plant and equipment in the consolidated financial statements)

Description	How the matter was addressed in our audit
<p>During the year ended 31 December 2019, the Group transferred the cost of its substantially completed capital expansion – projects (“Projects”), including the new Pot Line 6, amounting to BD 1,236.5 million, to its operating property, plant and equipment in the consolidated statement of financial position.</p> <p>This area was important to our audit due to the size of the Projects (62% of the total carrying value of property, plant and equipment as at 31 December 2019) as well as the volume of transactions and complexity involved in the recognition and measurement of the initial and subsequent costs, determination of the completion dates, calculation of depreciation charge and capitalisation of borrowing costs relating to the Projects. This requires management to differentiate between operating costs and capital costs, determine the completion dates and the useful lives of new assets in accordance with IFRSs.</p>	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> <li>— we evaluated the appropriateness of the accounting policies based on the requirements of IAS 16 relating to the Projects;</li> <li>— we obtained understanding of management's processes, systems and controls implemented over capitalisation and transfer of the Projects in process of completion;</li> <li>— we tested controls in place over the acquisition process, evaluated the appropriateness of capitalisation policies and assessed the timeliness of the transfer of assets in the course of construction;</li> <li>— we examined the reports provided by the management's expert to determine the completion dates of each identifiable component within the overall Project;</li> <li>— we tested the sample of capital expenditure transactions relating to the Project to verify that these transactions are appropriately accounted for in the consolidated financial statements and do not include any operating costs, abnormal losses and other ineligible costs to be capitalised;</li> <li>— we evaluated the appropriateness of allocation and capitalisation of borrowing costs and other indirect costs attributable to the Project;</li> <li>— we evaluated whether key inputs and judgements in assessing useful life for each component of the Project capitalised were appropriate and consistent with the policies of the Group; and</li> <li>— assessed whether the consolidated financial statements disclosures relating to capitalisation and useful life of the Projects' property, plant and equipment were appropriate.</li> </ul>

*Other Matter*

The consolidated financial statements of the Group as at and for the year ended 31 December 2018, were audited by another auditor whose report thereon dated 07 February 2019 expressed an unmodified opinion.

*Other information*

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, 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 and will not express any form of assurance conclusion thereon.



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

ALUMINIUM BAHRAIN B.S.C.

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

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' 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 the consolidated financial statements in accordance with IFRS, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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



*INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)*

**ALUMINIUM BAHRAIN B.S.C.**

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2019 and are therefore the key audit matters. We describe these matters in our auditors' 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 regulatory requirements**

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

- 1 the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- 2 the financial information contained in the Board of Director's report is consistent with the consolidated financial statements;
- 3 we are not aware of any violations during the year of the Commercial Companies Law or the terms of the Company's memorandum and articles of association that would have had a material adverse effect on the business of the Company or on its financial position; and
- 4 satisfactory explanations and information have been provided to us by management in response to all our requests.

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

- 1 a corporate governance officer; and
- 2 a Board approved written guidance and procedures for corporate governance;

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG Fakhro  
Partner registration number 137  
13 February 2020



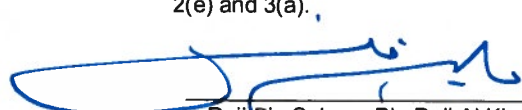
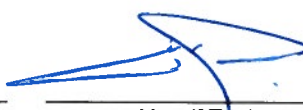
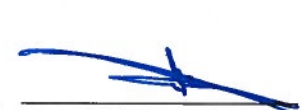
Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Note	2019 (*) BD '000	2018 BD '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	1,962,150	1,706,053
Derivative financial instruments	20	-	1,725
Deferred tax assets	18	162	34
		<u>1,962,312</u>	<u>1,707,812</u>
<b>Current assets</b>			
Inventories	6	221,155	266,229
Trade and other receivables	7	155,455	130,522
Derivative financial instruments	20	-	471
Bank balances and cash	8	81,329	103,857
		<u>457,939</u>	<u>501,079</u>
<b>TOTAL ASSETS</b>		<u><b>2,420,251</b></u>	<u><b>2,208,891</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	9	142,000	142,000
Treasury shares	10	(3,994)	(4,800)
Statutory reserve	12	71,000	71,000
Capital reserve	13	249	249
Retained earnings		869,316	865,021
<b>Total equity</b>		<u><b>1,078,571</b></u>	<u><b>1,073,470</b></u>
<b>Non-current liabilities</b>			
Loans and borrowings	15	850,537	785,877
Lease liabilities	21	5,160	-
Employees' end of service benefits	17(a)	1,627	1,677
Other payables	19	24,466	47,000
Derivative financial instruments	20	2,998	-
		<u>884,788</u>	<u>834,554</u>
<b>Current liabilities</b>			
Loans and borrowings	15	151,944	74,504
Lease liabilities	21	961	-
Trade and other payables	19	302,853	225,505
Derivative financial instruments	20	1,134	858
		<u>456,892</u>	<u>300,867</u>
<b>Total liabilities</b>		<u><b>1,341,680</b></u>	<u><b>1,135,421</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>2,420,251</b></u>	<u><b>2,208,891</b></u>

(\*) The Group has adopted IFRS 16 Leases on its effective date of 1 January 2019, using modified retrospective approach. Under this approach, comparative information is not re-stated. Refer to Notes 2(e) and 3(a).

 Daij Bin Salman Bin Daij Al Khalifa Chairman	 Yousif Taqi Director	 Ali Al Baqali Chief Executive Officer
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The attached notes 1 to 31 form part of these consolidated financial statements.

Aluminium Bahrain B.S.C.


**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2019

	Note	2019 (*) BD '000	2018 BD '000
Revenue from contracts with customers	26(a)	1,029,378	911,317
Cost of sales	23	(939,158)	(826,324)
<b>GROSS PROFIT</b>		<b>90,220</b>	<b>84,993</b>
Other (expense)/income - net	22	(568)	12,831
Gain on foreign exchange		4,520	11,665
General and administrative expenses	23	(34,824)	(26,927)
Selling and distribution expenses	23	(25,926)	(19,541)
Impairment reversal/(loss) on trade and other receivables	7	253	(4,081)
Finance costs	24	(22,458)	(1,146)
Directors' fees	27	(210)	(210)
Changes in fair value of derivative financial instruments	20	(5,426)	2,699
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		<b>5,581</b>	<b>60,283</b>
Tax expense	18	(202)	(528)
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>5,379</b>	<b>59,755</b>
Other comprehensive income for the year		-	-
<b>PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,379</b>	<b>59,755</b>
Basic and diluted earnings per share (fils)	11	4	42

(\*) The Group has adopted IFRS 16 Leases on its effective date of 1 January 2019, using modified retrospective approach. Under this approach, comparative information is not re-stated. Refer to Notes 2(e) and 3(a).

  
Daij Bin Salman Bin Daij Al Khalifa  
Chairman

  
Yousif Taqi  
Director

  
Ali Al Baqali  
Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

Aluminium Bahrain B.S.C.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2019

	Note	Share capital BD '000	Treasury shares BD '000	Statutory reserve BD '000	Capital reserve BD '000	Retained earnings BD '000	Total Equity BD '000
Balance at 31 December 2017		142,000	(2,690)	71,000	249	841,835	1,052,394
Total comprehensive income for the year		-	-	-	-	59,755	59,755
Net movement in treasury shares		-	(2,110)	-	-	151	(1,959)
Final dividend for 2017 paid	14	-	-	-	-	(36,720)	(36,720)
<b>Balance at 31 December 2018</b>		<b>142,000</b>	<b>(4,800)</b>	<b>71,000</b>	<b>249</b>	<b>865,021</b>	<b>1,073,470</b>
Total comprehensive income for the year		-	-	-	-	5,379	5,379
Net movement in treasury shares		-	806	-	-	(1,084)	(278)
<b>Balance at 31 December 2019</b>		<b>142,000</b>	<b>(3,994)</b>	<b>71,000</b>	<b>249</b>	<b>869,316</b>	<b>1,078,571</b>

The attached notes 1 to 31 form part of these consolidated financial statements.

## Aluminium Bahrain B.S.C.

### CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 BD '000	2018 BD '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year before tax		5,581	60,283
<i>Adjustments for:</i>			
Depreciation and amortisation	5	80,345	64,825
Provision for employees' end of service benefits	17(a)	1,581	1,556
Provision for slow moving inventories	6	92	52
(Reversal)/provision for impairment of receivables - net	7	(253)	4,081
Changes in fair value of derivative financial instruments	20	5,426	(2,699)
Loss on disposal of property, plant and equipment	22	4,269	1,043
Interest income	22	(791)	(537)
Forex gain on revaluation of loans and borrowings		(5,822)	(15,803)
Finance costs	24	22,458	1,146
Operating profit before working capital changes		112,886	113,947
Working capital changes:			
Inventories		44,982	(67,704)
Trade and other receivables		(24,680)	29,306
Trade and other payables (refer to note (ii) below)		58,134	112,478
Cash generated from operations		191,322	188,027
Employees' end of service benefits paid	17(a)	(1,631)	(1,443)
Income tax paid		(33)	(528)
Net cash flows generated from operating activities		189,658	186,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment (refer to note (i) below)		(299,430)	(525,845)
Proceeds from disposal of property, plant and equipment		72	125
Interest received	22	791	537
Net cash flows used in investing activities		(298,567)	(525,183)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings availed		1,460,256	522,212
Borrowings repaid		(1,319,644)	(91,032)
Interest on loans and borrowings and leases (refer to note (ii) below)		(53,122)	(26,976)
Leases liabilities paid (refer to note (iii) below)		(831)	-
Dividends paid	14	-	(36,720)
Purchase of treasury shares		(2,530)	(5,769)
Proceeds from resale of treasury shares		2,252	3,810
Net cash flows generated from financing activities		86,381	365,525
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(22,528)</b>	<b>26,398</b>
Bank balances and cash at 1 January		103,857	77,459
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	8	<b>81,329</b>	<b>103,857</b>

#### Non-cash items:

(i) Non-cash effects of right of use assets amounting to BD 6,952 thousand, recognised as a result of the initial application of IFRS 16, were excluded from acquisition of property, plant and equipment (2018: Nil).

(ii) The Group had movements in unpaid interest on borrowings amounting to BD 3,617 thousand which was excluded from the movement in trade and other payables (2018: BD 4,829 thousand).

(iii) Effective 01 January 2019, the Group has, on adoption of IFRS 16, classified cash payment for principal portion of lease liabilities under financing activities. Comparative information has not been restated.

The attached notes 1 to 31 form part of these consolidated financial statements.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 1 REPORTING ENTITY

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:

Name	Effective ownership		Country of incorporation	Principal activity
	2019	2018		
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
AlbaCap Insurance Limited**	100%	-	Guernsey	Captive insurance entity to insure risks of the Group

\*\*On 07 August 2019, AlbaCap Insurance Limited ("AlbaCap") was fully incorporated in Guernsey as a captive insurance entity for self-insurance arrangements for the Group. AlbaCap is a wholly owned subsidiary of Aluminium Bahrain B.S.C. ("the Company") and share capital of \$20 million was injected in November 2019 by the Company. Financial results of AlbaCap for the period from 07 August 2019 to 31 December 2019, are consolidated in these consolidated financial statements.

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 13 February 2020.

#### 2 BASIS OF PREPARATION

##### (a) Basis of accounting

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.

This is the first set of Group's annual consolidated financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in notes 2(e) and 3(a).

##### (b) Functional and presentation currency

The consolidated financial statements have been presented in Bahraini Dinars (BD). Unless otherwise stated, all financial information presented has been rounded off to the nearest thousand dinar.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 2 BASIS OF PREPARATION (continued)

##### (c) Basis of measurement

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

##### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- i) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- ii) Exposure, or rights, to variable returns from its involvement with the investee; and
- iii) 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, except for AlbaCap as disclosed above, 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 in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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:

- i) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- ii) derecognises the carrying amount of any non-controlling interest;
- iii) derecognises the cumulative translation differences, recorded in equity;
- iv) recognises the fair value of the consideration received;
- v) recognises the fair value of any investment retained;
- vi) recognises any surplus or deficit in the consolidated statement of income; and
- vii) 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.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 2 BASIS OF PREPARATION (continued)

##### (e) New and amended standards and interpretations effective from 1 January 2019

The Group initially applied IFRS 16 *Leases* from 01 January 2019. A number of other new standards are also effective from 01 January 2019 but these do not have a material effect on the Group's financial statements.

##### IFRS 16 *Leases*

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including 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*. The standard is effective for annual periods beginning on or after 1 January 2019.

As permitted by the transitional provisions of IFRS 16, the Group elected to use the modified retrospective approach under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

The details of the changes in accounting policies and impact due to adoption of this standard has been disclosed in note 3(a).

##### (f) New and amended standards and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted, however the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below. These amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

Effective date	New standards or amendments
01 January 2020	<i>Amendments to References to Conceptual Framework in IFRS Standards</i> <i>Definition of Business (Amendments to IFRS 3)</i> <i>Definition of Material (Amendments to IAS 1 and IAS 8)</i>
01 January 2021	<i>IFRS 17 Insurance contracts</i>
Available for optional adoption	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).</i>

#### 3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for changes arising from adoption of IFRS 16 as set below.

##### (a) Changes in accounting policies

The Group has initially adopted IFRS 16 from 01 January 2019. The details of the changes in accounting policies are disclosed below:

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Changes in accounting policies (continued)**

**I) Definition of a lease**

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 'Determining whether an Arrangement contains a Lease'. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(n).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

**II) As a Lessee**

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

**Leases classified as operating leases under IAS 17**

Previously, classification under IAS 17 was based on assessment of risk and rewards. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 3(a)(III)). Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: *the Group applied this approach to all its leases.*

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

**III) Impact on financial statements**

**Impact on transition**

On transition to IFRS 16, the Group recognised the right-of-use assets at an amount equal to the lease liabilities. The impact from the adoption of IFRS 16 as at 1 January 2019 is set out below:



Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Changes in accounting policies (continued)**

**III) Impact on financial statements (continued)**

	Property, Plant and equipment	Lease liabilities
	<i>BD '000</i>	<i>BD '000</i>
Closing balance under IAS 17 (31 December 2018)	-	-
<u>Impact on remeasurements:</u>		
Right-of-use asset - <i>property, plant and equipment</i>	5,279	-
Lease liabilities	-	5,279
<b>Opening balance under IFRS 16 on date of initial application of 1 January 2019</b>	<b>5,279</b>	<b>5,279</b>

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its weighted-average incremental borrowing rate of 6.00% as at 1 January 2019 except for factory land and office space where concessional rate of 2.75% and 1.99% respectively, are used, reflecting the terms offered for industrial contracts by the Government.

**b) 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.

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.

**c) 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 29.

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.

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### c) Fair value measurement (continued)

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.

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.

##### d) Foreign currencies and foreign operations

The Group's consolidated financial statements have been presented in Bahraini Dinars (BD). However, the Group's functional currency is US Dollars (USD) as a significant portion of its sales and raw material purchases are denominated in USD. 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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Property, plant and equipment**

*Recognition and measurement*

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.

*Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

*Depreciation*

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

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.

*Impairment of non-financial assets*

The Group assesses at each reporting date whether there is an indication that non-financial asset (except inventories and deferred tax assets) 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.

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.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### e) Property, plant and equipment (continued)

###### 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 1,414 million (2018: BD 742 million) 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 1,135 million (2018: BD 545 million).

##### f) 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.

##### g) 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, on weighted average basis
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.

##### h) Financial Instruments

###### i. 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.

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.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### h) Financial Instruments (continued)

##### i. Financial assets (continued)

###### 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 Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) 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.

###### 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 EIR. 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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Financial Instruments (continued)**

**i. Financial assets (continued)**

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 27.

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 EIR.

**ii. 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 [excluding advance from customers that are settled only through delivery of non-financial assets, refer to 3(o)(ii)], loans and borrowings and derivative financial instruments.

**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.

**Loans and borrowings**

After initial recognition, loans and 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.

**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.

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### h) Financial Instruments (continued)

###### ii. Financial liabilities (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.

###### Derecognition

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

###### iii. 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.

###### i) 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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Employee benefits (continued)**

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.

**j) 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.

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.



## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### j) Taxes (continued)

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.

##### 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 gross amount of sales tax recoverable from, or payable to, the taxation authority are included as part of receivables and payables in the statement of financial position.

##### k) 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.

##### l) 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.

##### m) 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, realised losses resulted from settlement of interest rate swaps (excluding unrealised fair value changes) and other costs that an entity incurs in connection with the borrowing of funds.

##### n) Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) Leases (continued)**

**Policy applicable from 1 January 2019**

At inception of a contract, the Group assesses whether a contract is, or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n) Leases (continued)**

**Policy applicable from 1 January 2019 (continued)**

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

*Short-term leases and leases of low-value assets*

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**Policy applicable before 1 January 2019**

For contracts entered into before 01 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of specific assets or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

**As a lessee**

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

**o) 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 4.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### o) Revenue from contracts with customers (continued)

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 90 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.

###### *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. The Group has not recognised any liabilities for the expected future discounts during the year ended 31 December 2019 (2018: Nil).

###### *(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.

Where the Group receives an advance from a customer in consideration for the sale of aluminium over a period exceeding 12 months, 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.

##### p) Interest income

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

##### q) Other income

Other income is recognised as the income accrues.

##### r) Share Capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

#### 4 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.

##### *Revenue from contracts with customers*

The Group applies the judgements in determination of effects of variable consideration that could significantly affect the determination of the amount and timing of revenue from contracts with customers

Contracts for the sale of goods that include volume discounts, 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. During the year ended 31 December 2019, the Group has not entered into any contract for sales of goods that include volume discount,

##### 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 loss 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. Gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the consumer sector, the historical loss rates are adjusted. At every reporting date, the historical observed loss rates are updated and changes in the forward-looking estimates are analysed.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

##### **Estimates and assumptions (continued)**

The assessment of the correlation between historical observed loss 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 loss in the future.

At 31 December 2019, gross trade receivables were BD 127,579 thousand (2018: BD 106,408 thousand), and the allowance for impairment was BD 3,677 thousand (2018: BD 6,614 thousand) and gross other receivables were BD 7,616 thousand (2018: BD 9,699 thousand), and the allowance for impairment was BD 147 thousand (2018: BD 195 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.

At 31 December 2019, gross inventories of spares was BD 32,831 thousand (2018: BD 25,081 thousand) with provisions for slow moving spares of BD 1,773 thousand (2018: BD 1,681 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.

##### *Capitalisation date and useful lives of property, plant and equipment*

The Group's Board of Directors determines the estimated useful lives and capitalisation dates of its property, plant and equipment for calculating depreciation. These estimates are determined after considering the stage of completion of assets, whether is asset is ready for use, 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 2019 and 31 December 2018 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.

##### *Leases*

Determination of lease term, whether the Group is reasonably certain to exercise extension options. For details, refer to note 21.

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

5 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>
<b>Cost:</b>					
At 1 January 2019	290,725	439,939	1,301,204	1,022,604	3,054,472
Recognition of right-of-use asset on initial application of IFRS 16	2,494	-	2,785	-	5,279
Adjusted balance at 1 January 2019	293,219	439,939	1,303,989	1,022,604	3,059,751
Additions	1,035	126	21,656	312,687	335,504
Transfers	164,867	344,159	727,443	(1,236,469)	-
Disposals	-	(9,103)	(7,650)	-	(16,753)
At 31 December 2019	459,121	775,121	2,045,438	98,822	3,378,502
<b>Depreciation and amortization:</b>					
At 1 January 2019	132,746	299,114	916,559	-	1,348,419
Charge for the year	8,468	12,113	59,764	-	80,345
Relating to disposals	-	(5,231)	(7,181)	-	(12,412)
At 31 December 2019	141,214	305,996	969,142	-	1,416,352
Net carrying value: At 31 December 2019	<b>317,907</b>	<b>469,125</b>	<b>1,076,296</b>	<b>98,822</b>	<b>1,962,150</b>
<b>Cost:</b>					
At 1 January 2018	289,419	433,272	1,264,855	550,956	2,538,502
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	290,725	439,939	1,301,204	1,022,604	3,054,472
<b>Depreciation and amortization:</b>					
At 1 January 2018	126,239	288,508	877,554	-	1,292,301
Charge for the year	6,539	12,146	46,140	-	64,825
Relating to disposals	(32)	(1,540)	(7,135)	-	(8,707)
At 31 December 2018	132,746	299,114	916,559	-	1,348,419
Net carrying value: At 31 December 2018	<b>157,979</b>	<b>140,825</b>	<b>384,645</b>	<b>1,022,604</b>	<b>1,706,053</b>

As at 31 December 2019, net carrying value of land and buildings includes right-of-use assets of BD 3,345 thousand related to leased properties that do not meet the definition of investment property.

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 5 PROPERTY, PLANT AND EQUIPMENT (continued)

##### *Land and buildings*

Land and buildings include freehold land at a cost of BD 453 thousand as at 31 December 2019 (2018: BD 453 thousand).

##### *Right-of-use assets*

As at 31 December 2019, the net carrying values of land and buildings and plant, machinery and other equipment include right-of-use assets amounting to BD 3,345 thousand and BD 2,709 thousand, respectively.

The Group is using land leased from the Government of Bahrain for the operations of lines 3, 4, 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 of BD 62,905 (2018: BD 31,452). This rate is subject to change every five years based on the circular issued by the Government. This lease has been presented as part of a right-of-use asset - property, plant and equipment.

##### *Depreciation and amortization*

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

	2019 BD '000	2018 BD '000
Cost of sales	78,217	64,822
General and administrative expenses	2,096	3
Selling and distribution expenses	32	-
	<u>80,345</u>	<u>64,825</u>

##### *Capitalisation of Expansion Project*

The construction of Line 6 expansion project was substantially completed in December 2019. During the year, carrying amounts relating to Line 6 expansion project were transferred to land & buildings, power generating plant and plant, machinery and other equipment amounting to BD 162,381 thousand, BD 342,269 thousand and BD 704,658 thousand respectively. The assets in process of completion includes BD 55,195 thousand at 31 December 2019 (2018: BD 973,505 thousand) related to Line 6 expansion project. 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 2019 was BD 34,401 thousand (2018: BD 28,259 thousand). The effective interest rates used to determine the amount of borrowing costs eligible for capitalisation were from 0.55% to 6.05% (2018: 0.55% to 6.17%) for specific borrowings and from 2.20% to 3.50% (2018: nil) for general borrowings.

##### *Property, plant and other equipment under construction*

During the year, the Group has started the construction of Spent Pot Lining (SPL) Plant for safe disposal of spent pot lining as agreed with Supreme Council of Environment (SCE) Bahrain. Costs incurred up to 31 December 2019 totalled BD 2,891 thousand.

#### 6 INVENTORIES

	2019 BD '000	2018 BD '000
Raw materials	19,794	73,820
Work-in-process	68,158	66,459
Goods in transit	46,771	42,781
Finished goods	55,374	59,769
Spares [net of provision of BD 1,773 thousand (2018: BD 1,681 thousand)]	31,058	23,400
	<u>221,155</u>	<u>266,229</u>

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 6 INVENTORIES (continued)

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

	2019 BD '000	2018 BD '000
At 1 January	1,681	1,629
Charge for the year in cost of sales	92	91
Write off against provision	-	(39)
At 31 December	<u>1,773</u>	<u>1,681</u>

#### 7 TRADE AND OTHER RECEIVABLES

	2019 BD '000	2018 BD '000
Trade receivables - others [net of allowance for ECL of BD 264 thousand (2018: BD 3,201 thousand)]	115,229	85,856
Trade receivables - related parties [net of allowance for ECL of BD 3,413 thousand (2018: BD 3,413)] (note 27)	8,673	13,938
	<u>123,902</u>	<u>99,794</u>
Advances to suppliers	1,106	12,926
Prepayments	1,320	8,298
Other receivables [net of provision of BD 147 thousand (2018: BD 195 thousand)]	7,469	9,504
VAT receivable	21,658	-
	<u>155,455</u>	<u>130,522</u>

Movements in the provision for doubtful trade and other receivables were as follows:

	Trade receivables		Other receivables	
	2019 BD '000	2018 BD '000	2019 BD '000	2018 BD '000
At 1 January	6,614	2,702	195	45
Provision during the year	-	3,931	-	150
Reversal during the year	(253)	-	-	-
Write off against provision	(2,684)	(19)	(48)	-
At 31 December	<u>3,677</u>	<u>6,614</u>	<u>147</u>	<u>195</u>

Subsequent to the year end, unimpaired trade receivables of BD 89,637 thousand (2018: BD 50,753 thousand) were collected and the balance is expected, on the basis of past experience, to be fully recoverable.

#### 8 BANK BALANCES AND CASH

	2019 BD '000	2018 BD '000
Cash at bank:		
- Current accounts	29,968	22,448
- Call accounts	41,191	24,944
- Short term deposits	10,085	56,400
Cash in hand	85	65
	<u>81,329</u>	<u>103,857</u>

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 2019 is 0.3% to 2.5% (2018: 0.077%). Short term deposits earn interest between 2.5% to 4.1% p.a. (2018: 2.5% to 4.5% p.a.) and have maturities less than three months.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 9 SHARE CAPITAL

	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>
Authorised 2,000,000,000 shares of 100 fills each	<b>200,000</b>	200,000
Issued and fully paid 1,420,000,000 shares of 100 fills each	<b>142,000</b>	142,000

i) The distribution of shareholdings (excluding treasury shares) is as follows:

<b>Categories</b>	<b>2019</b>			<b>2018</b>		
	<b>Number of shares</b>	<b>Number of shareholders</b>	<b>% of total outstanding share capital</b>	<b>Number of shares</b>	<b>Number of shareholders</b>	<b>% of total outstanding share capital</b>
Less than 1%	<b>62,822,832</b>	<b>3,195</b>	<b>4.45</b>	65,168,949	3,254	4.61
1% up to less than 5%	<b>71,376,905</b>	<b>3</b>	<b>5.05</b>	69,434,051	3	4.92
5% up to less than 20%	-	-	-	-	-	-
20% up to less than 50%	<b>292,804,000</b>	<b>1</b>	<b>20.73</b>	292,804,000	1	20.73
50% and above	<b>985,196,000</b>	<b>1</b>	<b>69.76</b>	985,196,000	1	69.74
	<b>1,412,199,737</b>	<b>3,200</b>	<b>100.00</b>	1,412,603,000	3,259	100.00

- i) The Company has only one class of equity shares and the holders of these shares have equal voting rights.
- ii) Total number of shares owned by the director of the Company as at 31 December 2019 was 1,250,000 shares (2018: 1,200,000).
- iii) As at 31 December 2019, Sabic Industrial Investment Co. held 20.62% (31 December 2018: 20.62%) of the total share capital of the Company.

#### 10 TREASURY SHARES

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

<b>2019</b>		<b>2018</b>	
<b>No of shares</b>	<b>BD '000</b>	<b>No of shares</b>	<b>BD '000</b>
<b>7,800,263</b>	<b>3,994</b>	7,397,000	4,800

- i) Included in treasury shares are 697,000 shares (2018: 697,000) that were an excess in the Employees' Stock Incentive Plan [note 17 (c)].
- ii) The transactions with value date post 31 December 2019 totalling 31,300 shares, were not accounted in the Treasury Shares for the year (2018: 16,000).
- iii) The Board of Directors authorised the Company to purchase its own shares for a total cost amounting to BD 10,000 thousand (2018: BD 10,000 thousand). As of 31 December 2019, the Group has a remaining commitment of BD 2,250 thousand (2018: BD 2,250 thousand) towards the purchase of its own shares.

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 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:

	2019	2018
Profit for the year - BD' 000	<u>5,379</u>	<u>59,755</u>
Weighted average number of shares, net of treasury shares - thousands of shares	<u>1,412,904</u>	<u>1,415,636</u>
Basic and diluted earnings per share (fils)	<u>4</u>	<u>42</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 2019. 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 Board Meeting held on 13 February 2020, the Company's Board of Directors' proposed to pay a final dividend of BD 0.001 per share (excluding treasury shares) totalling BD 1,412 thousand relating to 2019.

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.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 15 LOANS AND BORROWINGS

	2019			2018
	Non-current BD '000	Current BD '000	Total BD '000	Total BD '000
<i>Unsecured loans and borrowings</i>				
Line 6 Term Loan Facility [1]	-	-	-	488,800
Line 6 Refinancing Term Loan Facility [2]	530,160	33,840	564,000	-
Line 6 Euro SERV Loan [3]	113,901	10,848	124,749	114,521
Line 6 USD SERV Loan [3]	101,351	9,653	111,004	98,316
Line 6 Hermes 1 Covered Facility [4]	14,975	1,426	16,401	16,542
Line 6 Hermes 2 Covered Facility [5]	16,932	1,992	18,924	17,695
Line 6 BPAI Covered Facility [6]	45,016	5,176	50,192	40,085
Line 6 EDC Covered Facility [7]	40,515	5,064	45,579	35,805
Line 6 JBIC / NEXI 2 Covered Facility [8]	26,382	3,826	30,208	33,078
Working capital revolving credit [9]	-	84,862	84,862	63,901
Total loans and borrowings	889,232	156,687	1,045,919	908,743
Less: unamortised transaction costs	(38,695)	(4,743)	(43,438)	(48,362)
Net loans and borrowings	850,537	151,944	1,002,481	860,381
Payable after one year			850,537	785,877
Payable within one year			151,944	74,504
			1,002,481	860,381

[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 was the global facility agent for this facility and Riyadh Bank was the investment agent. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan was fully repaid in November 2019 from the proceeds of new term loan facility as disclosed in Note 15[2] below. The term loan facility carried interest at LIBOR plus 3.25% (2018: LIBOR plus 3.25%).

[2] Line 6 Refinancing Term Loan Facility

On 29 October 2019, the Group entered into a new term loan facility with a syndicate of financial institutions for USD 1.5 billion comprising two tranches; USD 590 million as a conventional credit facility and USD 910 million as an Islamic Ijara facility. Gulf International Bank B.S.C. is the global facility agent and investment agent for this facility. This loan is obtained to repay all amounts borrowed by the Group under the term loan facility as disclosed in Note 15[1] above. The loan is repayable in sixteen semi-annual instalments starting from April 2020. The new term loan facility carries interest at LIBOR plus 3.00% (2018: nil).

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 15 LOANS AND BORROWINGS (continued)

- [3] 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 Expansion Project. The loan is repayable in twenty-four semi-annual instalments started from December 2019. Euro SERV loan and USD SERV loan carry interest at EURIBOR plus 0.65% (2018: EURIBOR plus 0.65%) and LIBOR plus 0.90% (2018: LIBOR plus 0.90%) respectively.
- [4] 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 Expansion Project. The loan is repayable in twenty-four semi-annual instalments which started from October 2019. Hermes 1 Covered Facility carries interest at EURIBOR plus 0.55% (2018: EURIBOR plus 0.55%).
- [5] 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 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from July 2019. Hermes 2 Covered Facility carries interest at EURIBOR plus 0.55% (2018: EURIBOR plus 0.55%).
- [6] 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 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from July 2019. BPAI Covered Facility carries interest at EURIBOR plus 0.60% (2018: EURIBOR plus 0.60%).
- [7] 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 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from October 2019. EDC Covered Facility carries interest at LIBOR plus 0.725% (2018: LIBOR plus 0.725%).
- [8] 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 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from March 2019. JBIC / NEXI 2 Covered Facility carries interest at EURIBOR plus 0.60% (2018: EURIBOR plus 0.60%).
- [9] 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. Working capital revolving credit carries interest at rates ranging from 2.20% to 3.50% (2018: 2.52 % to 3.41 %).

All loans and borrowing have requirements to meet certain financial and non-financial covenants and there is no instance of non compliance at the reporting date (2018: nil). At 31 December 2019, the Group had available BD nil (2018: BD 171,058 thousand) of undrawn committed borrowing facilities.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
At 31 December 2019

16 Reconciliation of movement of liabilities to cash flows arising from financing activities:

	Liabilities		Derivative (assets) liabilities held to hedge long term borrowings				Equity			Total
	Short term borrowings used for cash management purposes	Other loans and borrowings	Accrued interest	Lease liabilities	Interest rate swap	Share capital	Treasury shares	Reserves	Retained Earnings	
	----- BHD '000 -----									
2019										
Balance as at 01 January 2019	63,901	796,480	10,271	-	(1,338)	142,000	(4,800)	71,249	865,021	1,942,784
<i>Change from financing cash flows</i>										
Proceeds from short term borrowings	754,573	-	-	-	-	-	-	-	-	754,573
Proceeds from loans and borrowings	-	705,683	-	-	-	-	-	-	-	705,683
Proceeds from sale of treasury shares	-	-	-	-	-	-	2,252	-	-	2,252
Proceeds from settlement of derivatives	(733,612)	-	-	-	-	-	-	-	-	-
Repayments of short term borrowings	-	(586,032)	-	-	-	-	-	-	-	(733,612)
Repayments of loans and borrowings	-	-	-	-	-	-	(2,530)	-	-	(586,032)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,530)
Payment lease liabilities	-	-	(53,002)	(831)	-	-	-	-	-	(831)
(Settlement)/payment of interest and other costs	-	-	(53,002)	(164)	44	-	-	-	-	(53,122)
<b>Total changes from financing cashflows</b>	<b>20,961</b>	<b>119,651</b>	<b>(53,002)</b>	<b>(995)</b>	<b>44</b>	<b>-</b>	<b>(278)</b>	<b>-</b>	<b>-</b>	<b>86,381</b>
The effect of change in foreign exchange rates	-	(5,822)	-	-	-	-	-	-	-	(5,822)
Changes in fair value	-	-	-	-	5,426	-	-	-	-	5,426
	<b>20,961</b>	<b>113,829</b>	<b>(53,002)</b>	<b>(995)</b>	<b>5,470</b>	<b>-</b>	<b>(278)</b>	<b>-</b>	<b>-</b>	<b>85,985</b>
<b>Other changes - liability related</b>										
New leases	-	-	-	6,952	-	-	-	-	-	6,952
Capitalised borrowing and other costs	-	6,458	27,943	-	-	-	-	-	-	34,401
Interest expense and other costs	-	852	21,442	164	-	-	-	-	-	22,458
Total liability related changes	-	7,310	49,385	7,116	-	-	-	-	-	63,811
<b>Total equity related changes</b>										
	-	-	-	-	-	-	1,084	-	4,295	5,379
<b>Total changes</b>	<b>20,961</b>	<b>121,139</b>	<b>(3,617)</b>	<b>6,121</b>	<b>5,470</b>	<b>-</b>	<b>806</b>	<b>-</b>	<b>4,295</b>	<b>155,175</b>
<b>Balance as at 31 December 2019</b>	<b>84,862</b>	<b>917,619</b>	<b>6,654</b>	<b>6,121</b>	<b>4,132</b>	<b>142,000</b>	<b>(3,994)</b>	<b>71,249</b>	<b>869,316</b>	<b>2,097,959</b>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

**17 EMPLOYEE BENEFITS**

**(a) Defined benefit scheme - leaving indemnity**

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

	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>
Provision as at 1 January	1,677	1,564
Provided during the year (note 23)	1,581	1,556
Employees' end of service benefits paid	(1,631)	(1,443)
Provision as at 31 December	<u>1,627</u>	<u>1,677</u>

**(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>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
Provision as at 1 January	1,800	1,927	379	596
Expense recognised in the consolidated statement of comprehensive income (note 23)	5,405	5,199	6,880	6,163
Contributions paid	(5,111)	(5,326)	(7,111)	(6,380)
Provision as at 31 December (note 19)	<u>2,094</u>	<u>1,800</u>	<u>148</u>	<u>379</u>

**(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. In 2015, the shares allocated to the employees had been fully vested and the excess of 697,000 shares is held as Treasury Shares as of 31 December 2019 (2018: 697,000 shares).

**18 TAXATION**

Taxation pertains to the Group's subsidiary in the United States of America and the standard tax rate was 21.00% as of 31 December 2019 (2018 : 21.00%). 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.

	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>
<i>Current liability / (asset)</i>		
Current year	<u>31</u>	<u>(266)</u>
<i>Income statement</i>		
Current year expense	330	543
Deferred tax benefit	(128)	(15)
	<u>202</u>	<u>528</u>

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

**18 TAXATION (continued)**

	2019 BD '000	2018 BD '000
Deferred tax asset	167	41
Deferred tax liability	(5)	(7)
Deferred tax asset - net	<u>162</u>	<u>34</u>

	2019 BD '000	2018 BD '000
The deferred tax asset comprises the following temporary differences:		
Deductible temporary differences	728	171
Taxable temporary differences	(23)	(31)
	<u>705</u>	<u>140</u>

**19 TRADE AND OTHER PAYABLES**

	2019 BD '000	2018 BD '000
Trade payables - others	70,624	87,517
Trade payables - other related parties (note 27)	38,547	25,737
	<u>109,171</u>	<u>113,254</u>
Employee related accruals (i)	26,739	25,163
Accrued expenses	30,344	36,226
Alba Savings Benefit Scheme [note 17(b)]	2,094	1,800
Social Insurance Organisation [(note 17(b)]	148	379
Advances from customers (ii)	146,672	95,510
VAT liability	12,031	-
Unclaimed Dividend	120	173
	<u>327,319</u>	<u>272,505</u>
Less: Non-current portion of advances from customers (ii)	(24,466)	(47,000)
	<u>302,853</u>	<u>225,505</u>

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

ii) Advances from customers includes BD 146,379 thousand (2018: BD 94,000 thousand) received from two customers; settlements against the advance have been started and are in the form of quantities of aluminium. The non-current portion of this advance amounts to BD 24,466 thousand (2018: BD 47,000 thousand).

**20 DERIVATIVE FINANCIAL INSTRUMENTS**

	2019 BD '000	2018 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>-</u>	<u>2,196</u>

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2019 BD '000	2018 BD '000
Classified in the consolidated statement of financial position as follows (continued):		
Negative fair values - liabilities		
Non-current portion	2,998	-
Current portion	1,134	858
Total	<u>4,132</u>	<u>858</u>
Changes in fair value of derivative financial instruments taken to the consolidated statement of comprehensive income	<u>(5,426)</u>	<u>2,699</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 on its floating rate borrowings for financing the line 6 project to manage its overall financing costs. These contracts expire on 20 September 2023. The notional amount outstanding as at 31 December 2019 was BD 282,000 thousand (31 December 2018: BD 282,000 thousand).

#### Commodity futures

The Group entered into commodity futures contracts to reduce the price risk on behalf of its customers for 480 metric tonnes (2018: 22,975 metric tonnes) and these mature between one to six months from the reporting date.

#### 21 LEASES

##### Leases as lessee (IFRS 16)

The Group leases industrial land, vehicles and apartments. The leases typically run for a period ranging from 2 years to 25 years, with an option to renew the lease after that date except for vehicles where there are no renewable options. Lease payments are renegotiated every 5 years for industrial land to reflect market rentals whereas lease rentals for apartments and vehicles are fixed with no escalation clauses. No leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sub-lease arrangements.

Information about leases for which the Group is a lessee is presented below.

##### i. Right-of-use assets

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

2019	Land and buildings BD '000	Plant, machinery and other equipment BD '000	Total BD '000
Balance at 1 January	2,494	2,785	5,279
Depreciation charge for the year	(45)	(853)	(898)
Additions to right-of-use assets	917	1,820	2,737
Adjustments	(21)	(1,043)	(1,064)
<b>Balance at 31 December</b>	<b><u>3,345</u></b>	<b><u>2,709</u></b>	<b><u>6,054</u></b>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

21 LEASES (continued)

	2019		
	Non-current BD '000	Current BD '000	Total BD '000
<b>ii. Lease liabilities under IFRS 16</b>			
Lease liabilities at 1.99 % to 6.00 % (2018: Nil)	5,160	961	6,121

**iii. Amounts recognised in profit or loss**

	2019 BD '000
<i>Leases under IFRS 16</i>	
Interest on lease liabilities	164
Depreciation	898
Expenses relating to short-term leases and low-value assets leases	908
	<u>1,970</u>
	2018 BD '000
<i>Operating leases under IAS 17</i>	
Lease expense	1,285
Contingent rent expense	-
	<u>1,285</u>

**iv. Amounts recognised in statement of cash flows**

	2019 BD '000
Total cash outflow for lease liabilities	<u>831</u>

**v. Extension option**

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

22 OTHER (EXPENSE)/INCOME - NET

	2019 BD '000	2018 BD '000
Insurance claim	-	10,709
Sale of water	1,363	1,177
Interest income	791	537
Loss on disposal of property, plant and equipment	(4,269)	(1,043)
Miscellaneous	1,547	1,451
	<u>(568)</u>	<u>12,831</u>

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 23 EXPENSES BY NATURE

	2019 BD '000	2018 BD '000
Changes in inventories of finished goods and work in progress	(4,951)	(19,739)
Inventories recognised as an expense in cost of sales	743,203	660,265
Depreciation and amortization	80,345	64,825
Staff costs (i)	101,276	94,363
Spares & Consumables	27,468	26,535
Contracted Repairs	13,040	12,997
Insurance	10,499	6,591
Freight	20,690	16,447
Other expenses	8,338	10,508
<b>Total cost of sales, selling and distribution, General and administrative expenses</b>	<b>999,908</b>	<b>872,792</b>

#### (i) Break-down of staff costs is as follows:

Wages and salaries	77,598	74,247
Social Insurance Organisation [note 17(b)]	6,880	6,163
Alba Savings Benefit Scheme [note 17(b)]	5,405	5,199
Payments to contractors	7,001	5,114
Employees' end of service benefits [note 17(a)]	1,581	1,556
Indirect benefits (housing, education)	440	448
Others	2,371	1,636
	<b>101,276</b>	<b>94,363</b>

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

Cost of sales	83,186	78,990
Administrative expenses	16,421	13,740
Selling and distribution expenses	1,669	1,633
	<b>101,276</b>	<b>94,363</b>

#### 24 Finance costs

Interest on loans and borrowings	19,952	873
Interest on advances from customers	2,082	-
Interest on lease liabilities	164	-
Bank charges	260	273
	<b>22,458</b>	<b>1,146</b>

#### 25 COMMITMENTS AND CONTINGENCIES

##### a) Commitments

	2019 BD '000	2018 BD '000
<i>Physical metal commitments</i>		
Sales commitments :		
1,655 metric tonnes (2018: 22,975 metric tonnes)	1,094	16,663

##### *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.

##### *Capital expenditure*

Estimated capital expenditure contracted for at the reporting date amounted to BD 27,604 thousand (2018: BD 93,635 thousand). The commitments are expected to be settled within 1 to 5 years from the reporting date.

##### *Letters of credit*

At 31 December 2019, the Group had outstanding letters of credit to counterparties of BD 6,147 thousand (2018: nil).

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 25 COMMITMENTS AND CONTINGENCIES (continued)

##### b) Contingencies

(i) A third party filed a claim against the Company to determine fault in a pollution claim relating to its business operations and the matter is sub judice. In addition, the Company is also party to ongoing labor claims and disputes. Based on the advice of the Company's external legal counsel, the management is of the opinion that the Company has strong grounds to successfully defend itself against these claims. No further disclosures regarding contingent liabilities arising from any such claims are being made by the Company as the Board of Directors of the Company believe that such disclosures may be prejudicial to the Company's legal position.

(ii) Under an employee scheme, the Group has issued guarantees to financial institutions in the Kingdom of Bahrain in relation to the mortgage loans of its employees to the extent of their cumulative balance in the Alba saving scheme. The total value of these letters of guarantee is BD 20,710 thousand (2018: BD 19,453 thousand).

At 31 December 2018, the Group had contingent liabilities in respect of the bank guarantees amounting to BD 11,496 thousand (2018: BD 11,042 thousand) from which is anticipated that no material liabilities will arise.

#### 26 OPERATING SEGMENT INFORMATION

As on 31 December 2019, the Group has a single reportable 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:

	2019 BD '000	2018 BD '000
Aluminium	1,025,086	889,674
Alumina trading	4,292	19,594
Calcined coke	-	2,049
<b>Total revenue from contracts with customers</b>	<b>1,029,378</b>	<b>911,317</b>

##### (b) Geographic information

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

	2019 BD '000	2018 BD '000
Kingdom of Bahrain	234,689	292,053
Europe	247,531	205,036
Rest of the Middle East and North Africa	173,189	159,661
Asia	234,037	120,282
Americas	139,932	134,285
<b>Total revenue from contracts with customers</b>	<b>1,029,378</b>	<b>911,317</b>

##### (c) Customers

Revenue from sale of aluminium to the three major customers of the Group amounted to BD 389,131 thousand with each of the customers accounting for more than 10% of the total revenue from contracts with customers for the year ended 31 December 2019 (three major customers accounted for BD 260,098 thousand with one of the customers accounting for more than 10% of the total revenue from contracts with customers for the year ended 31 December 2018).

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

**27 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.

**Transactions with shareholders**

The Company qualifies as a government related entity under the definitions provided in IAS 24. The Company makes purchases, supplies and services to/from parties related to the Government of the Kingdom of Bahrain, principally natural gas and public utility services, under the ordinary course of business. These are not deemed significant on an individual basis. A royalty, based on production, was also paid to the Government of the Kingdom of Bahrain under concession agreement which had expired in September 2018.

Transactions with other commercial non-government related parties related to the controlling shareholder included in the consolidated statement of comprehensive income are as follows:

	2019 BD '000	2018 BD '000
<b>Other related parties</b>		
<b>Revenue from contracts with customers and interest income</b>		
Sale of metal	45,281	48,778
Sale of water	1,278	997
Interest on receivable	788	580
	<u>47,347</u>	<u>50,355</u>
	<b>2019</b> <b>BD '000</b>	<b>2018</b> <b>BD '000</b>
<b>Transactions</b>		
Purchase of natural gas and diesel	238,677	150,246
Royalty	-	3,162
Interest on loans and borrowings	1,834	1,296
Others	1,314	-
	<u>241,825</u>	<u>154,704</u>

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

	2019 BD '000	2018 BD '000
<b>Other related parties</b>		
<b>Assets</b>		
Trade receivables net of allowance for ECL of BD 3,413 (2018: BD 3,413 thousand) (note 7)	8,673	13,938
Bank balances	906	1,556
Other receivable	710	-
	<u>10,289</u>	<u>15,494</u>
<b>Liabilities</b>		
Trade payables (note 19)	38,547	25,737
Loans and Borrowings	78,272	32,595
Interest payable on loans and borrowings	548	234
	<u>117,367</u>	<u>58,566</u>

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 27 RELATED PARTY TRANSACTIONS (continued)

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 2019 (2018: same terms). For the year ended 31 December 2019, the Group recorded an impairment of BD: Nil on amounts due from other related parties (2018: BD 3,413 thousand) [note 7].

#### Compensation of key management personnel (KMP)

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

	2019 BD '000	2018 BD '000
Short term benefits	1,552	1,850
End of service benefits	55	80
Contributions to Alba Savings Benefit Scheme	119	115
Other benefits	-	69
	<u>1,726</u>	<u>2,114</u>

Directors' fees during the year amounted to BD 210 thousand (2018: BD 210 thousand).

#### 28 RISK MANAGEMENT

The Group's principal financial liabilities, other than derivatives, comprise loans and 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.

##### Risk management framework

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 loans and 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 loans and borrowings). The Group uses interest rate swap transactions for floating rate borrowings as hedge of the variability in cash flows attributable to movements in interest rates.

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.

A fundamental review and reform of major interest rate benchmarks is being undertaken globally. There is uncertainty as to the timing and the methods of transition for replacing existing benchmark interbank offered rates (IBORs) with alternative rates.

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

**28 RISK MANAGEMENT (continued)**

**Interest rate risk (continued)**

At this stage, the Group is in the process of assessing the likely impact from this transition to new benchmark rates.

As a result of these uncertainties, significant accounting judgement is involved in determining whether certain hedging relationships that hedge the variability of foreign exchange and interest rate risk due to expected changes in IBORs continue to qualify for hedge accounting as at 31 December 2019. IBOR continues to be used as a reference rate in financial markets and is used in the valuation of instruments with maturities that exceed the expected end date for IBOR. Therefore, the Group believes the current market structure supports the continuation of hedge relationships as at 31 December 2019.

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.

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>
<b>2019</b>	<b>25</b>	<b>128</b>	<b>25</b>	<b>(1,910)</b>
	<b>(25)</b>	<b>(128)</b>	<b>(25)</b>	<b>1,910</b>
<b>2018</b>	<b>25</b>	<b>203</b>	<b>25</b>	<b>(1,567)</b>
	<b>(25)</b>	<b>(203)</b>	<b>(25)</b>	<b>1,567</b>

**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>
<b>2019</b>	<b>+30%</b>	<b>4</b>
	<b>-30%</b>	<b>(4)</b>
<b>2018</b>	<b>+30%</b>	<b>257</b>
	<b>-30%</b>	<b>(257)</b>

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 28 RISK MANAGEMENT (continued)

##### 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 2019 and 31 December 2018 there were no outstanding forward foreign exchange contracts.

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>	<i>2019</i>	<i>2018</i>
		<i>BD '000</i>	<i>BD '000</i>
Bank balances	Euro	47,876	33,026
	Swiss Francs	72	44
Receivables	Euro	9,409	14,247
Loans and Borrowings	Euro	240,474	221,921
	Payables		
Payables	Euro	6,928	3,140
	Swiss Francs	966	1,850
	Great Britain Pounds	131	283

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>	<i>2019</i>		<i>2018</i>	
	<i>Increase in</i>	<i>Effect on</i>	<i>in</i>	<i>Effect on</i>
	<i>currency</i>	<i>results for</i>	<i>currency</i>	<i>results for</i>
	<i>rate to the</i>	<i>the year</i>	<i>rate to the</i>	<i>the year</i>
	<i>BD</i>	<i>BD '000</i>	<i>BD</i>	<i>BD '000</i>
<i>Euro</i>	+10%	(19,012)	+10%	(17,779)
<i>Swiss Francs</i>	+10%	(89)	+10%	(181)
<i>Great Britain Pounds</i>	+10%	(13)	+10%	(28)
		<u>(19,114)</u>		<u>(17,988)</u>



## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 28 RISK MANAGEMENT (continued)

##### 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.

The maximum exposure to credit risk at the reporting date is as follows:

	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>
Cash at bank	<b>81,244</b>	103,792
Trade receivables	<b>123,902</b>	99,794
Other receivables	<b>7,469</b>	9,504
	<b><u>212,615</u></b>	<b><u>213,090</u></b>

##### 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.

##### 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 on outstanding receivables balances net of advances.

<b>2019</b>	<i>Exposure</i>	<i>Weighted</i>	<i>Loss</i>
	<i>BD '000</i>	<i>average</i>	<i>allowance</i>
		<i>loss rate</i>	<i>BD '000</i>
Current	100,640	0.06%	56
0 - 30 days	12,803	0.80%	102
31 - 360 days	1,487	5.78%	86
Over 360 days	20	100.00%	20
	<b><u>114,950</u></b>		<b><u>264</u></b>
<b>2018</b>	<i>Exposure</i>	<i>Weighted</i>	<i>Loss</i>
	<i>BD '000</i>	<i>average</i>	<i>allowance</i>
		<i>loss rate</i>	<i>BD '000</i>
Current	76,799	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
	<b><u>85,856</u></b>		<b><u>3,201</u></b>

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 Group sells its products to a large number of customers. Its five largest customers account for 38% of the outstanding trade receivables at 31 December 2019 (2018: 25%).

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 28 RISK MANAGEMENT (continued)

##### Liquidity risk

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

The Group limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sale require amounts to be paid within 30 to 90 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.

	Carrying values BD '000	Gross Contractual Cashflows				Total BD '000
		Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	
<b>31 December 2019</b>						
Loans and borrowings (including interest payable)	1,009,135	(12,610)	(86,169)	(448,964)	(535,759)	(1,083,502)
Derivative financial instruments	4,132	(1,134)	-	(2,998)	-	(4,132)
Trade and other payables	180,379	(180,379)	-	-	-	(180,379)
Lease liabilities	6,121	(380)	(904)	(2,675)	(3,965)	(7,924)
<b>Total</b>	<b>1,199,767</b>	<b>(194,503)</b>	<b>(87,073)</b>	<b>(454,637)</b>	<b>(539,724)</b>	<b>(1,275,937)</b>

		Gross Contractual Cashflows				Total BD '000
		Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	
<b>31 December 2018</b>						
Loans and Borrowings (including interest payable)	870,652	(64,134)	(13,635)	(671,099)	(209,281)	(958,149)
Derivative financial instruments	858	(858)	-	-	-	(858)
Trade and other payables	176,443	(176,443)	-	-	-	(176,443)
<b>Total</b>	<b>1,047,953</b>	<b>(241,435)</b>	<b>(13,635)</b>	<b>(671,099)</b>	<b>(209,281)</b>	<b>(1,135,450)</b>

##### 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 2019 and 31 December 2018. 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.

The Company is not subject to externally imposed capital requirements, except those, related to maintenance of debt covenants including restriction on dividend declaration, imposed by the providers of debt finance with which the Group is compliant with as at 31 December 2019.

Capital comprises share capital, statutory reserve, capital reserve, retained earnings and proposed dividend less treasury shares, and is measured at BD 1,078,571 thousand as at 31 December 2019 (2018: BD 1,073,470 thousand).

Dividend per share to ordinary shareholders, is proposed by the Board of directors and approved by the Company's shareholders at the Annual General Meeting.

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## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2019

#### 29 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 loans and 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 held by the Group as at 31 December 2019:

	<i>Finance assets at amortised cost</i>		<i>Financial assets at fair value through profit or loss</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>Financial assets</b>				
Cash at bank	<b>81,244</b>	103,792	-	-
Trade and other receivables	<b>131,371</b>	109,298	-	-
Derivative financial instruments	-	-	-	2,196
	<b>212,615</b>	213,090	-	2,196
	<i>Financial liabilities at amortised cost</i>		<i>Financial liabilities at fair value</i>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>Financial liabilities</b>				
Loans and Borrowings	<b>1,002,481</b>	860,381	-	-
Trade and other payables	<b>180,379</b>	176,443	-	-
Derivative financial instruments	-	-	<b>4,132</b>	858
	<b>1,182,860</b>	1,036,824	<b>4,132</b>	858

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:

- Receivables/borrowings are evaluated by the Group based on parameters such as specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the contract terms. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2019, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

**29 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

- 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 2019 and 31 December 2018, 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 2019 and 31 December 2018, 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 (2018: same).

The fair value of loans & borrowings approximate its carrying values as a significant portion of the liabilities are at variable interest rates which are repriced at short intervals.

The fair values of other financial instruments are not materially different from their carrying values as of the reporting date due to their short term nature.

**30 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.

**31 CORRESPONDING FIGURES**

The corresponding's prior year figures have been regrouped, where necessary, in order to conform to current year's presentation. Such regroupings did not affect the previously reported net profit and comprehensive income for the year or total equity.

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