Aluminium
for the world

Together, Partnering to Reach **New Heights**

Annual Report **2016**

His Royal Highness Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa
The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

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BOARD OF DIRECTORS

Shaikh Daij bin Salman bin Daij Al Khalifa
Chairman

Yousif A. Taqi
Director

Osama M. Al Arrayedh
Director

Abdul Aziz Al Humaid
Director

Fahad Nasser Al Hazzani
Director

Dr. Mohamed Kameshki
Director

Suha Karzoon
Director

Fahad S. Al Sheaibi
Director

Khalid Al-Garni
Director

Mutlaq H. Al Morished
Director

EXECUTIVE MANAGEMENT

Tim Murray
Chief Executive Officer

Ali Al Baqali
Chief Financial Officer

Amin Sultan
Chief Operations Officer

Khalid A. Latif
Chief Marketing Officer

TO OUR SHAREHOLDERS

Shaikh Daij bin Salman bin Daij Al Khalifa
Chairman

> We are pleased with where Alba stands today - stronger and in a better position to deliver long-term value to our shareholders and people alike via our transformational Line 6 Expansion Project.

Dear Shareholders

It gives me great pleasure to present the Annual Report of Aluminium Bahrain B.S.C. for the year ended 31st December 2016 on behalf of Alba's Board of Directors.

Sustaining Momentum

2016 was another strong year for Alba both in terms of Safety and Financial performance. In 2016, Alba had a record setting year in terms of production of 971,420 metric tonnes and was able to outperform the industry despite very difficult market conditions.

At Alba, Safety remains the foundation of everything we do and we believe that the continued improvement in Safety is a key competitive advantage over our competitors. In addition, our focus on managing cost, through our ongoing Operational Excellence initiatives, is keeping Alba one step ahead of the competition.

We believe that this focus on delivering results ensures that we not only create long-term value for our stakeholders and shareholders but also a sustainable future for Alba.

Line 6 Expansion Project: A Reality

For 2017, we remain committed to our objective of profitable growth through the sixth pot line (Line 6), which will make Alba the largest single-site smelter in the world by bringing the Company's total production output to around 1.5 million metric tonnes per annum upon completion.

Highlights

- Line 6 Expansion Project: a reality which will transform Alba into being the largest single-site smelter in the world upon its completion.
- Every year, we strive to stretch our targets through continuous improvement initiatives.

We are pleased with the tremendous success of the recent US$1.5 billion financing, which was the largest corporate loan in the history of the Bahrain. We, also, stand committed to deliver Line 6 on schedule with the first hot metal targeted for 1st January 2019.

Into 2017

The aluminium industry will continue to face new challenges, which will exert pressure on the LME prices and the industry itself. I am confident that Alba is geared up to meet the challenges through its focused approach on operational excellence by way of Project Titan – Phase II and improving costs across all departments. Safety will always be our priority as we believe that Safety is the key to a good working culture and profitable business.

As always, I would like to take this opportunity to express my sincere thanks and gratitude to the wise Leadership and Government of the Kingdom of Bahrain for their valuable guidance and generous support. I would also like to thank the Government of the Kingdom of Saudi Arabia for its most valuable support to the Company.

I remain grateful to my fellow Board of Directors for their able and dynamic leadership in supporting Alba in our long-term success. I, also, express my appreciation to Alba's Management Team for their commitment towards developing Alba from within and steering the Company to a better and stronger position. Most importantly, I thank our employees who have transformed challenges into opportunities and made Alba what it is today.

With Warm Regards,

Daij bin Salman bin Daij Al Khalifa
Chairman of the Board
Aluminium Bahrain B.S.C.

CEO MESSAGE

Tim Murray
Chief Executive Officer

> Driven by our purpose to do more than necessary, Alba managed to achieve a record-setting year in terms of production of 971,420 metric tonnes despite difficult market conditions.

2016: In Focus

2016 was a difficult year as the aluminium industry faced many challenges on the back of the global uncertainty which have resulted in a downward trend in aluminium prices. Despite this challenging environment, Alba performed exceptionally well on many fronts - we made significant progress on our number one priority 'Safety' by reducing the number of Lost Time Injuries (LTIs) by 50% and were able to deliver an all-time production record of 971,420 metric tonnes (mt), sustain our margins as well as achieve our aggressive cost reduction targets.

The Line 6 Expansion Project gained significant momentum and witnessed the successful closing of the US$1.5 billion syndicated term-loan facility – the largest corporate loan in the history of Bahrain. We are proud of this landmark achievement for it is a testimony of the market's confidence in our Line 6 Expansion Project.

Looking ahead, I believe we have laid the foundations to continue to be a leader in the Aluminium industry and deliver on our commitments to create sustainable value for all our stakeholders.

Safety Journey

At Alba, we believe that there is a direct link between Safety and the financial performance of the Company. We take pride in our number one priority which is to provide a safe and healthy work environment for all our people - employees and contractors alike.

In 2016, the number of LTIs dropped by 50% Year-over-Year to 3 (versus 6 in 2015) and despite the hottest summer temperatures on-record in Bahrain, we only had 1 heat exhaustion case compared to 10 in 2015.

We will continue to focus our efforts to improve the Safety, Health and Environment culture as we will be launching our Safety Tomorrowland in one of our most ambitious initiatives to take Alba to the future of Safety.

Leadership Development

We believe that we are in the "People Business" and that our financial success is tied to the development of our people. Alba continues to engage in world-class training and skill development programmes that embody our leadership principles: build inspiration, foster and coach as well as drive results to the benefit of our stakeholders.

Highlights

- Investing in our people, human assets, is key as they are the driving force behind Alba's performance.
- We continue our efforts towards a journey of Zero Accidents, as having a safe workplace is rooted in our culture.

Professional development, mentoring and continuous education will remain our key priorities. We shall continue to focus on finding the right development paths for our human assets through which they will continue to grow and prosper, thus building a strong future for our Company.

Operational Excellence (OPEX)

We, at Alba, aim for excellence in everything we do. We strive to create and deliver value to our shareholders and stakeholders alike. We believe the way forward in the volatile landscape of the aluminium industry is to develop a mind-set to cost-saving and continuous improvement as well as have the readiness to prepare to win.

Project Titan - Phase I demonstrated the success of our strategies through which we were able to achieve savings of US$ 148 per metric tonne (mt) against the set target of US$ 150 per mt.

We are now marching ahead with Project Titan – Phase II with an aim to reduce cash-cost by US$ 100 per mt and achieve production of 1,000,000 mt per annum by end of 2017. Through Project Titan - Phase II, we seek to leverage on our culture of operational excellence, build upon our strengths and do better than necessary to achieve a sustained growth. We closed 2016 by exceeding our target for the year and achieved US$ 78 per mt.

2017 Expectations

We expect 2017 to be another challenging year with volatile LME prices, higher US$ interest rates, continued pressure from Chinese over-production as well as the inauguration of a new USA President. However, we believe that uncertainty will also create opportunities for those bold enough to embrace the changes.

Safety will continue to be our number one priority and this will be further bolstered by our new Safety Tomorrowland initiative. Sustaining the progress we have made on Safety over the past few years is not an easy challenge but we are not in the business of easy. We believe that with the commitment of our dedicated workforce, anything is possible and ultimately we can achieve our over-arching objective of Zero-Accident work environment.

Global demand for aluminium is expected to continue to grow at a healthy rate and that is good news as Alba will be able to meet this demand with Line 6 Expansion Project, which is expected to come on stream in January 2019. Line 6 will transform every aspect of Alba's business: in 2017 and 2018 we will be working our plan to ensure the successful execution of Line 6 which will make Alba the largest single-site aluminium smelter in the world upon its completion.

Alba is in the commodity business and for us to succeed, we must always be diligent in managing our cost structure. The principle of never-ending continuous improvement and making decisions as if it is your own money must be embedded in the DNA of the Company.

We are in a business where we have to outperform the competition in order to stay at the top. The key is to do our job A+, where our aim is not just to accomplish our targets but to also achieve excellence and beyond.

I thank our workforce for their support in achieving 2016 milestones by aligning themselves to the strategic change initiatives through teamwork and synergy, and most importantly maintaining a high Safety performance through the year.

I, also, express my gratitude to Alba's Board of Directors led by our Chairman for their endless support and wise leadership. I thank the Management team for their continuous support and strategic guidance.

As we move forward into 2017, I would like to leave you with one message that "Together if We Believe it, We Can Achieve it".

Tim Murray
Chief Executive Officer
Aluminium Bahrain B.S.C.

OPERATIONAL HIGHLIGHTS

JANUARY

Achievement: Alba unveils 2016 expectations through THM, mainly: Safety universe, LME US$ 1,300 challenge, deliver on line 6 and always do more than necessary

FEBRUARY

Line 6: Alba upgrades to EGA DX+ Ultra Technology

MARCH

- **Efficiency:** Alba announces savings from Project Titan I
- **Training:** Alba wins Excellence Award in Leadership Development
- **Efficiency:** Alba launches Project Titan Phase II

APRIL

Line 6: Alba appoints Bechtel as EPCM Contractor for Line 6 Expansion Project

MAY

- **Achievement:** Alba CFO among the top 50 of "Who's Who in Middle Eastern Finance 2016"
- **Safety:** Alba unveils Summer Safety Campaign 'Safety Convoy'
- **Line 6:** Alba holds Line 6 Supplier and Contractor Forum
- **Line 6:** Alba Line 6 CAPEX down to around US$ 3 billion

JUNE

Achievement: Alba awarded Certificate of Excellence by R&D Carbon-Switzerland (RDC)

JULY

Safety: Alba achieves 4 Million hours without LTI in the first half of 2016

AUGUST

- **Line 6:** Alba Awards GE and GAMA Consortium as Power Station 5 EPC Contractor
- **Achievement:** Alba honoured with 'Best Nationalisation Initiative' Certificate
- **Line 6:** Alba Awards Siemens as Power Distribution System Contractor for Power Station 5

SEPTEMBER

- **Safety:** Alba wins RoSPA Gold Award 2016 for Safety & Health
- **Safety:** Alba launches 'Safety at the Heart of Alba' Campaign

OCTOBER

Line 6: Alba Successfully Closes $1.5 Billion Syndicated Loan

NOVEMBER

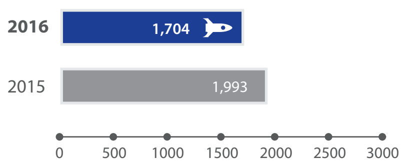
- **Efficiency:** Alba kick-starts upgrade project for Reduction Lines 4 & 5
- **Efficiency:** Alba successfully upgrades Casthouse 2 to produce T-Ingots

DECEMBER

- **Appointment:** Alba appoints new Director of Administration
- **Appointment:** Alba appoints Amin Sultan as Chief Operations Officer (COO)

FINANCIAL HIGHLIGHTS

METAL SALES



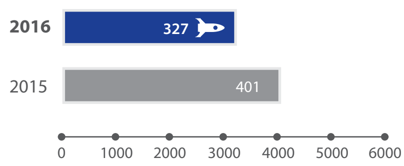
US$ **1,704 million**

(Dropped by 14.48% Y-o-Y)

2015: US$ 1,993 million

Revenues down by 14.48% YoY due to Lower LME & Premium prices

EBITDA*



US$ **327 million**

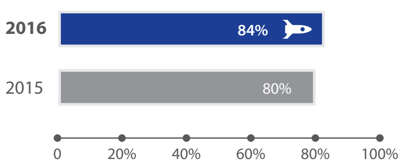
(Dropped by 18% Y-o-Y)

2015: US$ 401 million

EBITDA (excluding one-off items) down by 18% YoY due to Lower LME prices

** EBITDA excluding One-Off Items*

EQUITY RATIO



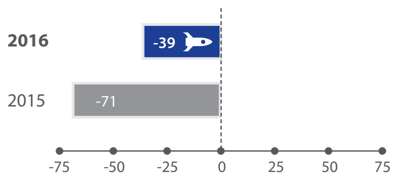
84%

(5% Y-o-Y)

2015: 80%

Equity Ratio up by 5% YoY thanks to an appreciation in the Shareholders' Equity

NET DEBT



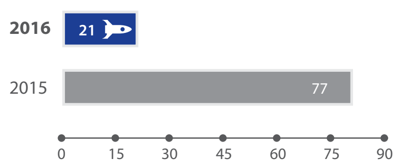
US$ **-39 million**

(Dropped by 45% Y-o-Y)

2015: -71 million

Net Debt down by 45% YoY and is mainly attributed to spending on Line 6 CAPEX and partially off-set by servicing loans

CASH PAYBACK TO SHAREHOLDERS



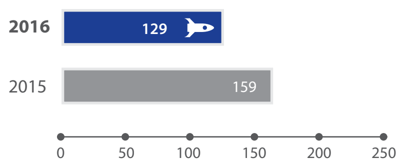
US$ **21 million**

(Dropped by 73% Y-o-Y)

2015: US$ 77 million

Cash Payback to Shareholders down by 73% (YoY) owing to lower Net Profits

NET PROFIT



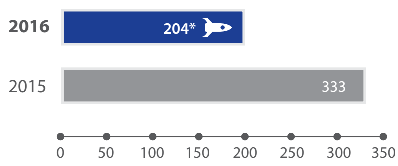
US$ **129 million**

(Dropped by 19% Y-o-Y)

2015: US$ 159 million

Net Profit amounted US$ 129 million down by 19% YoY due to lower all-in-prices (LME + premium prices)

FREE CASH FLOW



US$ **204 million***

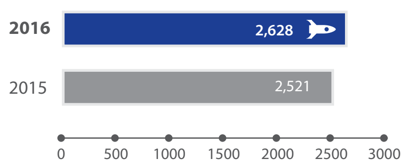
(Dropped by 39% Y-o-Y)

2015: US$ 333 million

Mainly due to lower all-in-prices (LME + premium prices)

** Excluding Line 6 CAPEX*

SHAREHOLDERS' EQUITY



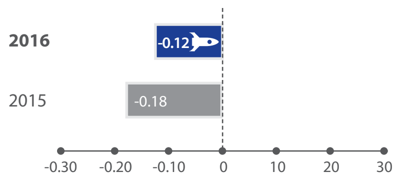
US$ **2,628 million**

(Up by 4% Y-o-Y)

2015: US$ 2,521 million

Shareholders' Equity up by 4% YoY on the back of higher Retained Earnings

NET DEBT TO EBITDA



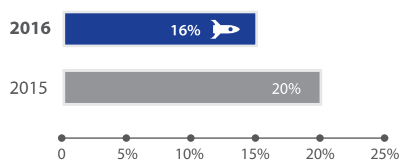
-0.12x

(Dropped by 33 % Y-o-Y)

2015: -0.18x

Net Debt to EBITDA almost flat at (0.12x). The stability in this ratio will allow Alba to add more debt now that Line 6 construction is about to commence

LEVERAGE RATIO



15%

(Dropped by 20% Y-o-Y)

2015: 20%

Leverage ratio at 16% on the back of higher Equity Ratio and lower Net Debt

CORPORATE GOVERNANCE

Description of the Company's management and supervisory bodies

Alba's Board of Directors maintains effective oversight of the Company by regularly monitoring key business activities and providing directives to Management. The Board has ten directors, all of whom are external to the company's management. The Board operates in accordance with the laws of the Kingdom of Bahrain, including the Commercial Companies Law (as amended), the Memorandum and Articles of Association of the Company, its own Board Charter, and the Company's 'Levels of Authority' document.

The Board of Directors has three sub-committees. The Board Audit Committee (BAC) carries out the Board's audit functions in accordance with the BAC Charter, and also has responsibilities for risk and corporate governance. It has six members, each of whom has a financial and/or audit background. The Nomination and Remuneration Committee (NRC) carries out the Board's nominating and remuneration functions in accordance with the NRC Charter. It has three members, all of whom are external directors. The Board Executive Committee is responsible for assisting the Board in fulfilling its oversight responsibility with respect to strategic initiatives and projects, and business and operational plans in accordance with its Charter.

Corporate governance practices applied by the Company

Alba has adopted, and is committed to implementing, both the Corporate Governance Code of the Kingdom of Bahrain (the Code) issued in March 2010 by the Ministry of Industry and Commerce, and the Corporate Governance Module (the Module) of the Central Bank of Bahrain (issued in July 2011, as amended). The principles governing these frameworks are:

- The Company shall be headed by an effective, collegial and informed Board;
- The directors and officers shall have full loyalty to the Company;
- The Board shall have rigorous controls for financial audit and reporting, internal control, and compliance with law;
- The Company shall have rigorous procedures for appointment, training and evaluation of the Board;
- The Company shall remunerate directors fairly and responsibly;
- The Board shall establish a clear and efficient management structure;
- The Company shall communicate with shareholders, encourage their participation, and respect their rights; and
- The Company shall disclose its corporate governance practices.

The Company seeks, where applicable, to exceed the minimum requirements of the Code and Module, and to implement the additional recommendations and guidance of the Code, as well as other international best practice in Corporate Governance.

The following are some of the key improvements in corporate governance instituted by the Company in recent years:

Corporate Governance Guidelines - The Company operates in line with a set of Board approved 'Corporate Governance Guidelines'. This document is fully aligned with the above Code, and is published on Alba's website.

Corporate Governance Report - The Board has presented a comprehensive annual 'Corporate Governance Report' at each Shareholders Meeting since March 2011. This report, (also available on Alba's website), sets out Alba's compliance with the Code and with the additional guidelines, along with explanations for areas of non-application and required disclosures.

Code of Conduct - A Board approved 'Code of Conduct', on par with leading international codes of ethics, sets out required ethical conduct for all employees and representatives of the Company. It was re-launched during 2015 by the Board and Executive team through a comprehensive communication and training program. Compliance with the Code of Conduct is monitored by Alba's Integrity Task Force, which comprises the Chief Internal Auditor and the Legal Manager, and reports directly to the Board Audit Committee. Monitoring tools include 'IntegrityLine'; an independently operated confidential hotline and reporting system that provides for reporting in multiple languages by phone and intranet 24 hours a day, every day.

Evaluation and assessment of the Board and its Committees – The Board and its three standing sub-committees, the BAC the NRC, and the Board Executive Committee, conduct annual self-evaluations and assessments using questionnaires and a discussion of gaps and areas of improvement. The results of the assessments by the sub-committees are reported to the Board.

Directors' orientation/ handbook - A Director's handbook consisting of key documents and other content on directors' responsibilities serves as a reference guide for incumbent directors and to facilitate orientation of new directors.

Directors' independence – The Board conducts an annual review of directors' independence, applying the classification criteria and guidance from the Central Bank of Bahrain and from the Code.

Conflicts of Interest – Policies are in place to prohibit a member of the Board of Directors from voting in any meeting, or participating in any business operation or activity, in which the member has a conflict of interest with the Company.

Abstentions are required to be minuted. Directors are required to list directorships of all Bahraini companies, and any potential conflicts of interest through an annual declaration process.

CEO and CFO Certification of financial statements – The CEO and CFO produce a memorandum certifying each quarter's financial statements, as well as the year-end financials.

Ownership and trading of company shares – Following the company's dual listing on the Bahrain Bourse and the London Stock Exchange in November 2010, a process was implemented to identify and report Directors' and Executives' ownership and trading of company shares. The Company has issued policies on Key Persons Dealing/ Insider Trading and circulated these to all directors, officers, and other key employees identified by the Company, and has established, for all directors and officers, quarantine periods for trading in Alba shares.

Levels of Authority – In September 2016, the Board approved an updated Levels of Authority document for the Company. This document defines the limits of approvals and decision-making authority designated to specified positions of responsibility within the Company, including the Board and Executives.

Succession plans – An annual review of succession plans for executives is now built into the Board agenda.

CORPORATE GOVERNANCE

Main features of the internal control and risk management systems in relation to the financial reporting process

The Board, through the BAC, is responsible for ensuring a sound and effective control environment. Monitoring of internal controls is provided through a number of internal and external assurance providers, including:

- Statutory Audit by our External Auditors, and discussion by the BAC of the results of the statutory audit, including a review of the financial performance, any changes to disclosure, a subsequent events review, important accounting matters and other internal control matters;
- Review and formal approval of financial results by the CFO, CEO, BAC and Board;
- Co-ordination and review by Public Relations and Investor Relations department of all releases of financial results and other market-sensitive information to the market and to regulators;
- Monitoring of progress against agreed actions for financial and other risks identified through the application of Alba's Board approved Enterprise Risk Management Framework, and with regard to the Risk Appetite set by the Board. The BAC reviews changes to the risk profile, together with progress on actions for key risks, on a quarterly basis;
- Internal Audit function, working from a risk-based annual internal audit plan covering key controls. The audit plan, budget, and methodologies are approved and monitored by the BAC. On a quarterly basis, the BAC reviews and discusses the internal audit findings, recommendations and agreed management actions, as well as progress made against prior audit findings. Additional private meetings are held between the BAC Chairman and the Chief Internal Auditor and Risk Officer;
- Audits carried out by the National Audit Office, and by Shareholder Audit teams;
- Board and sub-committee approvals and monitoring of Operating, Financial, Manpower and other Plans; and
- Executive and management monitoring activities (including the monitoring of Key Performance Indicators).

Assurance is also provided through application of the Levels of Authority document for financial transactions, through financial reporting policies and procedures, and through IT controls in the financial reporting system. Alba's Code of Conduct also sets out clear and specific expectations for accurate financial reporting.

Principal risks and uncertainties faced by the business

We encourage you to carefully consider the risks described below. Their occurrence could have a material adverse impact on our business, financial condition and results of operations, and could result in a decline in the trading price and liquidity of our securities. Our systems of governance, internal control and risk management identify and provide responses to key risks through the establishment of standards and other controls. Any failure of these systems could lead to the occurrence, or re-occurrence, of any of the risks described below:

- The cyclical nature of the Company's industry has historically meant that there is significant aluminium price and demand volatility, and a general production overcapacity in the industry. The Company has no control over a number of factors that affect the price of aluminium;
- The Company operates in an industry that gives rise to health, safety, security and environmental risks;
- Fire, equipment breakdown, attack on the physical or IT infrastructure, civil strike or unrest, or loss of gas, power or other utilities may result in loss of operational capability or shutdowns for significant periods, resulting in a significant adverse impact on the Company's financial condition and results of operations;
- The loss of either of the Company's two largest customers, or its inability to recover the receivables due from either of them, or the long-term loan extended to one of them may have a material adverse effect on its financial condition and future prospects;

"Alba was well above regional benchmarks and had made significant progress across most elements of Corporate Governance."

- The Company relies on third-party suppliers for certain raw materials, and any disruption in its supply chain or failure to renew these contracts at competitive prices may have an adverse impact on the Company's financial condition, results of operations and future prospects;

- The Company's competitive position in the global aluminium industry is highly dependent on continued access to competitively priced and uninterrupted natural gas supply. An increase in the price of natural gas, or interruption in its supply, could have a material adverse effect on the Company's business, financial condition, results of operations and future prospects;

- The Company's business may be affected by shortages of skilled employees (including management), labour cost inflation and increased rates of attrition;

- The Company depends on the provision of uninterrupted transportation of raw materials and finished products across significant distances. Interruption of these activities could have a material adverse impact on the company. Prices for such services (particularly for sea transport) could increase;

- The Company has a number of hedging contracts, and has historically experienced significant mark-to-market and realised losses from certain of the Company's derivative positions;

- The Company is exposed to foreign currency fluctuations, which may affect its financial condition;

- There is a high level of competition in the GCC aluminium market, and the Company may lose its market share in the GCC as its competitors increase their production levels;

- The Company's strategy includes growth and expansion of its operations, as well as cost savings initiatives, which may not be achieved on time or on budget;

- The Company does not insure against certain risks, and some of its insurance coverage may be insufficient to cover actual losses incurred; and

- Changes in laws or regulations, or a failure to comply with any laws or regulations, may adversely affect the Company's business.

PRODUCTS AND MARKETS

Global demand

Global market consumption hit a record high with 59.6 million metric tonnes, up by 5% YoY while world production stood at 58.9 million metric tonnes, an increase of 3% YoY.

2016 Metal Sales stood at

US$ 1,704 million

Metal Sales in metric tonnes (mt) up by

2.3% YoY

Value-Added Sales topped

543,934 mt

Market Summary

- The average LME cash price in 2016 settled at US$1,604 down by 4% YoY. Aluminium prices set new high during the year with LME price rising in the fourth quarter to US$1,710 per mt, up by 14% YoY, due to lower inventories & sound metal demand.
- Falling LME inventories would cause tightness in the market: Aluminium stocks in LME-registered warehouses stood at 2.2 million at the end of December, down by 22% YoY.
- Global market consumption hit a record high with 59.6 million metric tonnes, up by 5% YoY while world production stood at 58.9 million metric tonnes, an increase of 3% YoY.
- Chinese output continued to surge (close to 32 million metric tonnes) on the back of the smelters restarting idle capacity. Chinese producers added 3.3 million per annum (pa) of smelting capacity in 2016 on top of 2 million pa of restarted capacity.
- Physical premiums have been under pressure throughout 2016. Billet premiums in Europe and US hit low levels since the global financial crisis.

2017 Industry Outlook

Aluminium will continue to be the metal of choice

- Aluminium prices will continue to be volatile on the back of strong US$ and potential hikes in US interest rates and will range between US$1,700/t - US$1,800/t.
- The Chinese Ministry of Environmental Protection is working alongside the Chinese aluminium industry to propose a winter shutdown of 30% of aluminium smelting in many provinces (Shandong, Shanxi, Hebei and Henan) which account for more than 20% of the global output. In contrast, production growth will come mainly from provinces with major Greenfield projects.
- The transport sector demand to remain steady in 2017: the auto sector represents one third of aluminium demand and is considered to be the key growth driver for aluminium. The sound growth in the construction sector will drive more demand towards the electrical sector through the need for transmission networks.
- Outside China, there will be a deficit in smelting capacity which will drawdown inventories.
- The significant amount of stockpiles held in non-LME registered warehouses around the world is one of the main ongoing challenges for the aluminium market in 2017.

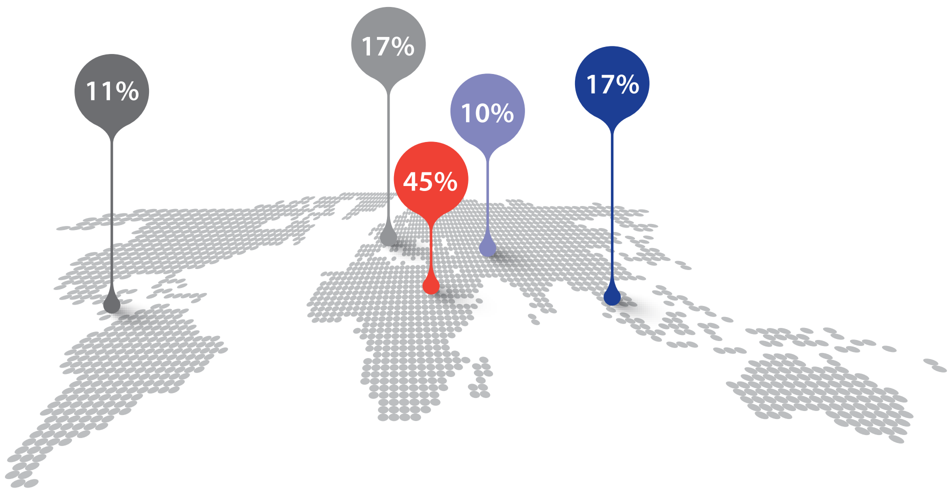
Sales Footprint and Product Portfolio - 2016

Products and Sales

Alba exports to more than 25 countries around the world.

By Foot Print

- Europe
- Americas
- Other MENA
- Asia
- Bahrain



By Product Line

Casthouse 2016 Performance

Alba Casthouse continues to raise the bar:

- Billet production reached 331,798 metric tonnes (mt), down by 11% YoY.
- Foundry alloys volumes topped 109,000 mt, down by 5% YoY.
- Slab output at 103,000 mt, down by 10% YoY.

Alba closed 2016 Value-Added sales with an average of 56% versus 64% in 2015. In addition, Alba successfully upgraded Casthouse 2 to produce Foundry T-Bar.

Downstream Markets

Our downstream markets continue to boom:

- Billets are sold to aluminium extruders which use the versatile properties of aluminium alloys to create profiles in all shapes and sizes that are mainly used in building applications such as window frames or structural components.
- Slabs are casted in rolling mills to produce foil stock which is then re-rolled into household foil or packaging material used mainly in food or pharmaceutical industries. Other types of slabs are rolled into plates or sheets for usage in the general engineering and building industries.
- Foundry alloys are used by automotive components manufacturers to cast wheels and engine blocks.
- Molten metal is sold primarily to Midal Cables - one of the world's leading cable and rod manufacturers.

CLIENTELE PROFILE

LEGENDS

Garmco

Founded in 1981 | Gulf Aluminium Rolling Mill Company (GARMCO) is one of the largest downstream aluminium facilities in the Middle East.

Midal Cables Limited

Founded in 1997 | Midal Cables was established in 1997 and was conceived between Al Zayani investments (Bahrain) and Olex Cables (Australia) with Saudi Cable Company substituting Olex Cables to manufacture Aluminium Rods, Wires and Overhead Conductors for Electrical Transmission.

Ronal Wheels

Founded in 1962 | RONAL Company is the pioneer of light alloy wheels in the world market. Karl Wirth Born founded the Company in 1962. Since then, Ronal has been applying a high technology, innovative design and quality without compromise for all its products.

Maxion Wheels

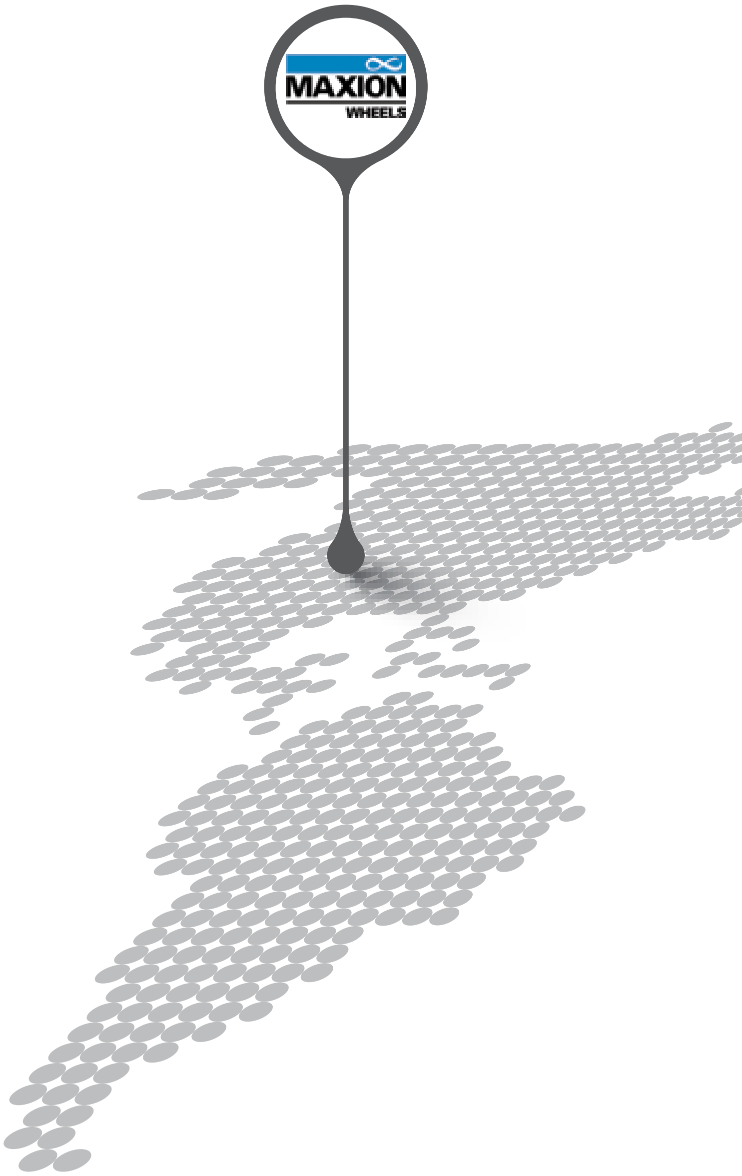
Founded in 1972 | Maxion Wheels and its subsidiaries have been supplying OEMs with the highest quality wheels and most innovative technologies for over 100 years.

Hands Corporation Korea

Founded in 1972 | HANDS has been consistently growing and leading the industry in alloy wheel manufacturing in Korea.

Capral Australia

Founded in 1936 | Capral is an Australian company listed on the ASX (Code: CAA). It commenced operations in Australia in 1936 and is Australia's largest manufacturer and distributor of aluminium profiles, with net assets of approximately $110 million.




RONAL
alba
Aluminium
for the world
HANDS
جارمكو
GARMCO
CAPRAL

CLIENTELE PROFILE

Bahrain:

Garmco

Established in 1981, Gulf Aluminium Rolling Mill (GARMCO) is one of the largest downstream aluminium facilities in the Middle East. With an annual production capacity of 160,000 tonnes, the Company specialises in producing high-quality rolled aluminium products in various sizes and alloys, including sheets and coils. These products are exported to key markets around the world, stretching from Australia to the USA. Accreditation to all relevant ISO, OSHAS and BCMS standards underlines GARMCO's commitment to quality, health and safety, information security, and protection of the environment. The Company employs over 750 people worldwide, and has an annual turnover exceeding US$ 450 million.

http://www.garmco.com/

Midal Cables Limited

Midal Cables was established in 1997 and was conceived between Al Zayani investments (Bahrain) and Olex Cables (Australia) with Saudi Cable Company substituting Olex Cables to manufacture Aluminium Rods, Wires and Overhead Conductors for Electrical Transmission. Midal Cables Limited has expanded its capacity both locally and globally over the years and has participated in numerous transmission and distribution projects globally meeting various international technical standards. Midal Cables Limited has emerged as one of the top ranking companies in the world in the field of Aluminium and Aluminium Alloy Rods and Conductors manufacturing with a high reputation for good quality products and excellent customer service. Today, Midal Cables Limited has operations in Bahrain, Turkey, Australia, Saudi Arabia and Mozambique with a total capacity of about 450,000 MT per annum and is ranked amongst the largest rods and conductors manufacturing organizations in the world.

Certified with various International Management System Standards like ISO 9001, ISO 17025, ISO 14001 and OHSAS 18001 – Midal Cables Limited is looking forward for continuous growth and improvement in its business processes.

http://www.midalcable.com/

Far East:

Hands

HANDS is the largest alloy wheel manufacturer in Korea. Since the establishment in 1972, HANDS has been consistently growing and leading the industry in alloy wheel manufacturing. Alba supplies alloyed aluminium ingots to HANDS that are used to make wheels for top car makers in Korea and rest of the world.

Over the years, HANDS has won several industry and national awards. In 2015, HANDS was awarded grand prize of Korea Sejong-Daewang Sharing Volunteer Service. In the same year, it was selected as an Outstanding Enterprise of Company Renovation and of Competitive Power for Quality. Management philosophy of HANDS is:

- Faithful to basic, think different and do different
- Enjoy happiness and richness of mind
- Pride to be members of HANDS Corporation and enjoy work

Five fingers of a hand can be used to describe five key elements of HANDS' management philosophy:

1. Trust – HANDS builds credit with its customers
2. Happiness – HANDS cares that small things make a better world
3. Center – HANDS stands on the top and at the center of the world
4. Direction – HANDS pursues to benefit customers and humanity
5. No. 1 – HANDS thinks creatively as the top of the world

http://www.handscorp.co.kr/

Capral Australia

Capral is an Australian company listed on the ASX (Code: CAA). It commenced operations in Australia in 1936 and is Australia's largest manufacturer and distributor of aluminium profiles, with net assets of approximately $110 million.

Capral has a National footprint of world class aluminium extrusion plants, with 8 operating presses with annual capacity of 75KT.

Capral has an extensive distribution network, consisting of major distribution facilities, as well as regional and metropolitan centers with an extensive range of products and logistics capabilities.

Capral is a market leader in supply to fabricators and distributors, focusing on the Residential, Commercial and Industrial segments.

Capral has a comprehensive product range, innovative R&D capability, and is well positioned to take advantage of changing building regulations in Australia.

Capral employs around 820 people within its operations throughout Australia, with significant industry skills and expertise.

www.capral.com.au/

Europe:

Maxion Wheels

Maxion Wheels and its subsidiaries have been supplying OEMs with the highest quality wheels and most innovative technologies for over 100 years. During that time, we've acquired some of the most recognizable names in the industry, including Kelsey Hayes, Lemmerz and Fumagalli. Today, we put our combined expertise to work for nearly every OEM and vehicle market in the world.

We're also backed by the strength and security of our parent company, Iochpe-Maxion, which ensures that our customers can count on us for the long-term growth, infrastructure and stability they need.

With an international network of strategically located engineering, technology and production facilities, Maxion is one of the only wheel manufacturers who can deliver on a truly global platform. This allows us to not only reduce logistical costs — it also allows us to eliminate duplicate processes, and to streamline the complexities that come from managing variation in a single vehicle platform. We're able to implement the same design, technology and controls across multiple production lines, and to ensure a consistent and quality product whenever and wherever you need it.

No matter where a Maxion wheel is made, it's made exactly right.

http://www.maxionwheels.com

Ronal Wheels

RONAL Company is the pioneer of light alloy wheels in the world market. Karl Wirth Born founded the Company in 1962. Since then, Ronal has been applying a high technology, innovative design and quality without compromise for all its products. The lasting growth was achieved thanks to the customers' service, continuing innovations and a high standard of quality. For ensuring the highest quality RONAL develops and manufactures its own manufacturing tools, which originate both in Cantanhede Portugal and Härkingen Switzerland.

RONAL Company serves customers in Germany, France, Italy, Mexico, Poland, Spain, the Czech Republic and the USA. Light alloy wheels with own RONAL & SPEEDLINE brands are the lasting leaders on the demanding aftermarket. Both brands are distinguished for their quality and incommutable design. Presence on particular markets; a high technology and a product design; and a state-of-the-art manufacturing equipment help the company to satisfy the customer needs all over the world.

http://www.ronal.com

LINE 6 EXPANSION PROJECT

From Blueprint to Reality

SPECS

EGA DX+ Ultra

Proprietary Technology for Line 6 Smelter

424 pots to pump-in

540,000 MT

per annum

CAPEX around

US $ 3 Billion

to build Line 6 and Power Station 5

Power Station 5 upgraded to

1,792 MW

EPCM CONTRACTOR

Bechtel is the Engineering, Procurement, Construction and Management (EPCM) Contractor for Line 6 Smelter.

EPC CONTRACTOR

General Electric (GE) and GAMA Consortium is the Engineering, Procurement and Construction (EPC) Contractor while Siemens is the Power Distribution (PDS) Contractor.

FINANCING

Alba successfully closed US$ 1.5 billion syndicated loan – transaction highlights:

a. This facility comprises two tranches: a US Dollar-denominated senior unsecured conventional term-loan facility (the Conventional Facility) of US$ 882 million and a US Dollar-denominated senior Shari'ah-compliant facility (the Islamic Facility) of US$ 618 million.

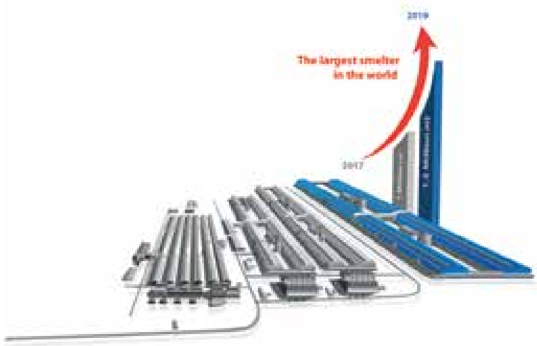
b. Interest Margin is 325 basis point (bp) per annum over the London Interbank Offered Rate (LIBOR).

c. Tenor is 7-years and the principal amount will be repaid in eight semi-annual instalments and includes a 3-year grace period to support Line 6 construction period.

LINE 6 EXPANSION PROJECT

The Line 6 Expansion Project will:

- Make Alba the world's largest single-site aluminium smelter with a total production capacity of around 1.5 mtpa upon completion.
- Contribute to Bahrain Economic Vision 2030 due to the co-investment opportunities through local and foreign direct investments.
- Create employment opportunities for Bahrainis both at Alba and local downstream industry.



SAFETY, HEALTH AND ENVIRONMENT

Employees are our most valuable asset. A safe working environment is imperative as it will benefit the current and future generations to come.

Alba, as one of the leading industrial companies in Bahrain, has a responsibility to provide its people with a safe and healthy work environment. We believe that a safe and healthy workplace is a continuous journey and by working together as one team we can achieve our ultimate objective of ZERO accidents.

Occupational Health

Continuous and numerous initiatives are exerted at all organisational levels in Alba to promote and sustain a high level of occupational health standards as well as ensure that our initiatives match the national and international recommendations.

While diverse campaigns were undertaken by the Safety, Health and Environment (SHE) Department to create awareness, Summer Safety remained a significant aspect of Alba's daily operations. This year, as well, lots of efforts were focused on spreading the message of 'how to stay safe during the hot summer months', which resulted in a substantial reduction in heat exhaustion cases to a single case in 2016 as compared to ten cases in 2015. Both, employees and contractors were extensively educated about heat stress and its management, while at the same time, campaigns such as the Ramadan Challenge, July Challenge and August Challenge were carried-out simultaneously. Body Hydration survey was a new concept that was introduced to gauge the body hydration levels of the employees prior commencing work as well as the amount of water required to beat the heat during summer. This survey was extremely beneficial as it provided the workers with factual insights about their body hydration levels.

Numerous programmes were also held to include Respiratory Protective Equipment in Reduction Lines and Carbon departments, protection against various gases and fumes, personal exposure at workplace as well as Hearing Conservation etc.

Workplace Safety

Alba places great importance on its Safety Principles: (1) OWNERSHIP of Safety is everyone's responsibility (2) Working SAFELY is a condition of employment (3) All workplace injuries and illnesses are PREVENTABLE.

We continue to push the envelope on creativity and making Safety fun. In 2016, we achieved this through our 'Safety Convoy' and 'Safety at the Heart of Alba' Campaigns.

'Safety Convoy' and **'Safety at the Heart of Alba'** campaigns targeted all areas of Alba's workforce to include on-site contractors. In addition, the Executive Management continued with the practice of regular visits to the shop-floor as a means of direct communication with employees. These visits covered all departments during the summer months, including Ramadan, to boost the employees' morale and refresh them with Alba's objectives and safety expectations.

Safety, Health and Environmental training programmes have become an integral part of Alba's journey with employees being educated, encouraged to do more and trained to boost their skills and knowledge, thus enriching the Company's Safety culture. Some of the training programmes were also extended to the community such as private and public schools, governmental entities as well as Alba customers outside the Kingdom of Bahrain.

The Company believes that all accidents and injuries are preventable and that a successful Safety culture is directly linked to its financial performance. Ownership of Safety comes from the heart and attaining a ZERO accident environment at the workplace is a journey which will never end.

Environment

Alba has earned international praise and recognition for being continuously committed to implement the highest environmental standards across the organisation.

Alba meets with the environmental representatives of Bahrain's major industries such as BAPCO, GPIC, GARMCO, TATWEER and BANAGAS on a quarterly basis to discuss the latest national and international environmental developments. These organisations, also, share amongst them the latest environmental developments that could benefit the Kingdom and improve the overall contribution of these corporate citizens towards a better sustainable national environment.

Environmental training is an ongoing initiative which the Company has embedded in its culture. A one-day environmental training intensive course is provided on a monthly basis to all employees as well as contractors covering broad subjects such as environmental management system and certification, waste management, pollution control and prevention as well as global environmental issues and concerns. Awareness sessions are also conducted in Operations' departments to cover specific topics that might have environmental impacts.

Environmental monitoring activities are carried-out to cover the requirements for routine and non-routine statutory reporting of environmental data covering the source emissions from around 30 major stacks and three pot room roofs fugitive emission as well as ambient air quality monitoring stations distributed over four points in and around Alba plant.

On another line, there is extensive work with regards to the Environment that is being carried out by Alba's Line 6 Project team in line with Bahrain's Supreme Council of Environment (SCE) policies, procedures and recommendations. Alba's Environment team supports the Line 6 Project team by providing them with the required environmental data, reports and procedures as per international regulatory standards and compliance requirements.

TRAINING & DEVELOPMENT

Training Workshops Building

The Training Centre consists of Training Administration Building and Training Workshops Building, which houses nine smart classrooms, and workshops for Automotive, Mechanical, Electrical, Instrumentation and Hydraulics & Pneumatics.

Training & Development

For any organisation to succeed, it is vital to develop its human capital, its people, as they are the catalysts who will push the Company to success. This is a core aspect of Alba's functioning. With a firm belief that we can always do more than necessary, Alba has been steadily working on developing its employees through intensive training programmes and leadership skills workshops to create the best level of teamwork and alignment. Over the years, Alba's investment in its employees has yielded positive results, making us one of the leading employers in the Kingdom of Bahrain.

Alba's Training Department leads the programmes for the overall development of its employees and applies an intensive training curriculum that is rooted in the goals of operational excellence and commitment towards developing the workforce.

In 2016, Alba's focus remained on creating and delivering generic and specialised training courses for its employees to include a wide range of competencies from technical, safety, health, and environment to management, leadership, language, communication, business and professional education.

It is a matter of great pride that this year Alba achieved above the industry benchmark of 5% training hours for the fourth year in a row.

Executive Development Series: Executive Development is a critical part of Alba's leadership strategy. Numerous programmes are tailored and delivered to provide management employees with key business and leadership skills. In 2016, Alba adopted the concept of payback from the Executives, Directors and Managers, wherein they shared their knowledge gained in their MBAs through workshops on team alignment, teamwork, business strategies, management and leadership. These sessions were held for managers, middle management and supervisors as well as shop-floor staff.

Soft Skills Courses: Soft skills -- ability to communicate, problem solving, delegating, motivating, and team building -- are an important part of the employee's training and development at Alba. Courses such as Supervisory Management Development Programme; Industrial and Employee Relationship Programme; High Performance Leadership Training; Leadership & Change Management Programme for Management; Problem Solving & Decision Making for Management and Miracle Team Building Programme are delivered by speakers from reputed international universities to the employees.

This year, two women-centric workshops were held: 'Women's Leadership: Succeeding in the Workplace' and Supreme Council for Women Participation in Shaikha Sabeeka Award.

Technical Trainings: Alba continuously designs specialised technical training programmes, which are crucial to the smelter operations. These trainings are delivered by expert instructors from Operations' departments to the respective employees.

This year, a fresh initiative was undertaken to provide hands-on training to plant operators and included class room theories,

Technical Trainings

Specialised technical training programmes are a crucial part of smelter operations and Alba has continuously designed and delivered such trainings through specialised instructors.

practical training and on-job experience development. These programmes were designed and delivered by training instructors and plant operation specialists.

Safety, Health & Environment Trainings: Achieving a Zero-Accident work environment remains Alba's number one priority. Numerous training programmes in Safety, Health and Environment were held throughout 2016 in which employees were inculcated on Safety, both on-the-job and off-the-job.

In 2016, among other standard SHE courses, various subjects such as Accident Investigation, JSP and Planned Job Observation, Risk Assessment, Permit to Work and Working at Height were included. These courses were attended by both management and non-management employees, thus ensuring that every employee becomes an ambassador of Safety.

Continuing Development Programmes

Academic Education

Alba places great emphasis on higher education, which is a key element of training and development for succession at management positions. Over the last three years, many employees were sponsored for the Bachelor's degrees and MBA programmes in reputed universities.

Vocational Training

Alba's Vocational Training (VT) Programme is a key succession planning tool in the non-supervisory cadre. It has been in operation for over 25 years and presents a highly structured and focused approach towards achieving the Company's Bahrainisation goals. Its success can be measured by the fact that many of its graduates have been absorbed into the workforce with some of them taking up senior decision-making roles in Alba.

Alba launched the maiden Women's VT Programme in 2014 to encourage women to pursue careers in the smelting industry. As part of this, 10 Bahraini women were selected to undergo a two-year structured training programme during which they were provided with skills and hands-on training on all aspects of the job in the assigned department. The first batch of women VTs completed their training in February 2016 and accordingly were inducted into different departments in the Company.

Training & Development Programme (TDP)

One of the most successful employee programmes is Alba's TDP wherein Bahraini employees are selected to take up higher responsibilities and/or middle and senior level management roles based on their knowledge, abilities, initiatives and demonstration of potential growth. They are then given wholesome development in educational, functional as well as management and leadership areas which enable them to satisfy the criteria for the selected positions.

In 2016, as many as 78 candidates were selected for TDP wherein they will be promoted upon completion to higher positions mainly to replace the national retirees and expatriates.

TRAINING & DEVELOPMENT

Training Centre
Alba's Training Centre is a state-of-the-art building, which focuses on strengthening the core skills of existing employees and provide new joiners with the skills-set needed in their functions. The Training Centre consists of a Training Administration Building and Training Workshop Building which houses smart classrooms and workshops dedicated to each of the five maintenance disciplines -- Automotive, Mechanical, Electrical, Instrumentation and Hydraulics & Pneumatics.

The workshops focus on practical training and have state-of-the-art equipment that are currently being used within the Alba plant as well as simulators, both of which will ensure that trainees are competent to work within designated areas of the smelter. Both in-house and external experts in various disciplines deliver these training courses to the trainees.

Mini MBA
In line with the Company's commitment towards developing its workforce and under the guidance of CEO Tim Murray, the Mini MBA Programme was launched this year.

A week-long training is delivered by Alba's MBA alumni covering many subjects such as Leadership, Finance, Strategy, Marketing, Logistics & Supply Chain Management.

Tim's Book Club
Tim's Book Club was established in 2015 with the sole purpose to develop a reading culture in Alba. Through this Club, employees can access well-known business/management books, which will help them enhance their skills and capabilities. Bringing more value to the reading practice, books with the highest reading rate are converted into workshops, thus giving insights about the author, the book and lessons from it. To assert the value of reading, Tim's Book Club was also integrated into the TDP.

Line 6 Training
Alba is preparing for the extensive training requirements associated with its Line 6 Expansion Project through both in-house programmes and training inputs from OEM's and vendors. The Training Department will also establish classroom sessions, on-job practical demonstrations as well as hands-on practice. Furthermore, short sessions and long programmes are being designed to meet the various requirements to ensure that the Project runs successfully and safely on schedule and is handed over to a competent workforce.

Investing in our People
Alba's success rests largely on its 2,600-plus workforce of which more than 85% are Bahraini nationals.

Employee training and development is an essential objective for the Company wherein lots of efforts are placed to provide employees with new skills all the while sharpening their existing ones.

Alba will always continue to push the envelope on training and development initiatives as it believes that empowering employees to stretch their capabilities and learn new horizons will create a bright future for themselves and the Company alike.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Listening to our different stakeholders' needs sits at the basis of our CSR activities.

Our commitment to stakeholders is summarised in Alba's first Sustainability Report the to be released in March 2017. It highlights the Company's ongoing efforts on sustainable development and underpins our aspiration to integrate business principles with social responsibility.

People
(Employees)

Customers

Suppliers
(suppliers of goods and services)

Shareholders
(Mumtalakat, Sabic and public)

Community
(Media, NGOs, Environmental Groups, Non-profit organizations, students and academia)

Institutions
(local and international authorities, Bahrain Bourse and London Stock Exchange, Ministry of Industry, Commerce and Tourism, Ministry of Labour)

Having a legacy for over 45 years and with a strong presence in corporate citizenship within the region, Alba takes pride in being at the forefront of initiatives that seek the development of its stakeholders and in particular the society in which it operates.

This year, Alba continued with its initiatives to spread safety awareness to the members of the general public, which demonstrated the Company's commitment towards a holistic approach to safety, both inside and outside the workplace.

The Car Child Safety campaign was the highlight of 2016. Organised for the second consecutive year, the campaign sought to educate the general public about the importance of using booster seats to ensure the safety of children. It was held in collaboration with the General Directorate of Traffic and the Community Service Committee and involved the distribution of booster seats to the public along with instructions on how to use them.

Alba's people development initiatives remained strong; numerous training and development programmes were rolled-out, which focussed on empowering employees with skills and strengthening their professional calibre. It is notable that in recent years, Alba has achieved above industry average training hours per employee. These constant efforts have strengthened Alba's reputation as a leading employer of choice.

Alba also partners with several leading vocational and technical institutes in Bahrain to provide quality on-the-job training to their students. For example, Alba is a member of Injaz Bahrain's Board of Directors and contributes to the decision making process of upcoming strategic programmes and initiatives for the advancement of the Bahraini Youth. In addition, the Company sponsors as well as participates in flagship developmental initiatives such as Injaz Bahrain, Bahrain Entrepreneurship and Angel Investors initiatives, campus recruitments, job fairs, Corporate Social Responsibility conferences and Human Resources development exhibitions.

Moving away from business, Alba takes keen interest in hosting and sponsoring charitable, social and recreational activities such as the Annual Raft Race, Bahrain Marathon, Industrial Football and Basketball leagues, reputed national annual horse races, Golf tournaments and similar events held in the Kingdom. A number of employee-based social programmes are some of the many initiatives that the Company endorses at occasions such as the annual Ramadan Sports Season, Alba Family Day Festival and the Celebration of the National Day of the Kingdom of Bahrain.

At Alba, we believe, along with business, our success also lies in maintaining the best CSR standards and initiatives that serve as springboard for achievements in the years to come.

FINANCIAL STATEMENTS

31 December 2016

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Aluminium Bahrain B. S. C.

Building a better working world

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Aluminium Bahrain B.S.C. ('the Company') and its subsidiary ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Aluminium Bahrain B. S. C. (continued)

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

Key audit matters (continued)

1. Impairment testing of property, plant and equipment

Refer to note 4 to the consolidated financial statements

Key audit matter / risk	How the key audit matter was addressed in the audit
As at 31 December 2016, the Group held property, plant and equipment of BD 848 million in the consolidated statement of financial position. Management performed an impairment assessment on its property, plant and equipment classes of buildings, power generating plant, plant and machinery and other equipment with a carrying value of BD 718 million. Land and assets in the process of completion were excluded as these were not considered as cash generating units. The recoverable amount of these classes of property, plant and equipment was determined based on value in use calculation. Assessing the impairment indicators on the carrying value of the Group's property, plant and equipment is an area that requires management of the Group to make significant judgements. The decline in LME prices and premium recently has resulted in an increased risk of impairment of the Group's property, plant and equipment. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows with many of the key underlying assumptions being impacted by economic factors in the local economy and globally. The performance of and outlook for aluminium industry, continues to be challenging due to excess global capacity which gives rise to a heightened risk of impairment. The outcome of these impairment reviews could vary significantly if different assumptions were applied in the model. Management's assessment did not identify any impairment of the Group's property, plant and equipment.	We examined the cash flow projections that have been determined on the basis of management's expectation of the performance of the Group's business considering the prevailing global and regional economic conditions in general and the aluminium industry in particular. Revenue forecasts from metal sales are based on forward estimates of LME prices and premium published by independent market consultants on metal prices and the management has considered a growth rate from year 5 into perpetuity in line with the long term average growth rates of the business in which the Group operates. The discount rate used for discounting the cash flows was assessed against external benchmarks and risks specific to the assets. Management's accounting policy and assessment relating to impairment of property, plant and equipment is disclosed under significant accounting judgements and estimates in note 3 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Aluminium Bahrain B. S. C. (continued)

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

Other information included in the Group's 2016 annual report

Other information consists of the Board of Directors' report and information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Prior to the date of this auditors' report, we obtained the Board of Directors' report set out on pages 1 to 4 which forms part of the consolidated financial statements, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

Responsibilities of Management and the Board of Directors for the consolidated financial statements

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

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

Auditor's Responsibilities for the audit of the consolidated financial statements

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Aluminium Bahrain B. S. C. (continued)

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Aluminium Bahrain B. S. C. (continued)

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

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

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

Report on Other Legal and Regulatory Requirements

We report that:

a) as required by the Bahrain Commercial Companies Law,
   i) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith;

   ii) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements; and

   iii) satisfactory explanations and other information have been provided to us by management in response to all our requests.

b) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Company or on its consolidated financial position.

The partner in charge of the audit resulting in this independent auditor's report is Essa Al- Jowder.

Ernst + Young

Partner's Registration No. 45
9 February 2017
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December 2016

	Note	2016 BD '000	2015 BD '000
ASSETS			
Non-current assets			
Property, plant and equipment	4	**847,500**	811,377
Other asset	5	**4,320**	4,512
Deferred tax asset	17	**10**	-
		851,830	815,889
Current assets			
Inventories	6	**163,422**	146,404
Long term receivable	24	**-**	3,439
Trade and other receivables	7	**92,065**	100,698
Bank balances and cash	8	**66,413**	116,009
		321,900	366,550
TOTAL ASSETS		**1,173,730**	1,182,439
EQUITY AND LIABILITIES			
Equity			
Share capital	9	**142,000**	142,000
Treasury shares	10	**(4,965)**	(4,905)
Statutory reserve	12	**71,000**	71,000
Capital reserve	13	**249**	249
Retained earnings		**779,813**	731,698
Proposed dividend	14	**-**	7,768
Total equity		**988,097**	947,810
Non-current liabilities			
Borrowings	15	**6,489**	33,024
Employees' end of service benefits	16 (a)	**1,554**	1,349
		8,043	34,373
Current liabilities			
Borrowings	15	**45,235**	56,373
Trade and other payables	18	**132,355**	143,844
Derivative financial instruments	19	**-**	39
		177,590	200,256
Total liabilities		**185,633**	234,629
TOTAL EQUITY AND LIABILITIES		**1,173,730**	1,182,439

Daij Bin Salman Bin Daij Al Khalifa
Chairman

Tim Murray
Chief Executive Officer

Yousif Taqi
Director

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Note	2016 BD '000	2015 BD '000
Sales	23(a)	**669,760**	766,686
Cost of sales		**(587,381)**	(663,428)
GROSS PROFIT		**82,379**	103,258
Other income	20	**2,989**	3,701
(Loss) gain on foreign exchange translation		**(19)**	728
Administrative expenses		**(22,548)**	(32,417)
Selling and distribution expenses		**(11,259)**	(12,187)
Finance costs	21	**(2,504)**	(3,176)
Directors' fees	24	**(210)**	(210)
Gain on revaluation/settlement of derivative financial instruments (net)	19	**-**	264
PROFIT FOR THE YEAR BEFORE TAX	21	**48,828**	59,961
Tax expense	17	**(438)**	-
PROFIT FOR THE YEAR		**48,390**	59,961
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**48,390**	59,961
Basic and diluted earnings per share (fils)	11	**34**	42

Daij Bin Salman Bin Daij Al Khalifa
Chairman

Tim Murray
Chief Executive Officer

Yousif Taqi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	Note	Share capital BD '000	Treasury shares BD '000	Statutory reserve BD '000	Capital reserve BD '000	Retained earnings BD '000	Proposed dividend BD '000	Total BD '000
Balance at 31 December 2014		142,000	(3,696)	71,000	249	687,387	21,200	918,140
Total comprehensive income for the year		-	-	-	-	59,961	-	59,961
Net movement in treasury shares		-	(1,209)	-	-	-	-	(1,209)
Loss on resale of treasury shares		-	-	-	-	(119)	-	(119)
Final dividend for 2014 approved and paid	14	-	-	-	-	-	(21,198)	(21,198)
Excess of final dividend for 2014 reversed		-	-	-	-	2	(2)	-
Interim dividend for 2015 paid	14	-	-	-	-	(7,765)	-	(7,765)
Proposed final dividend for 2015	14	-	-	-	-	(7,768)	7,768	-
Balance at 31 December 2015		142,000	(4,905)	71,000	249	731,698	7,768	947,810
Total comprehensive income for the year		-	-	-	-	48,390	-	48,390
Net movement in treasury shares		-	(60)	-	-	-	-	(60)
Loss on resale of treasury shares		-	-	-	-	(287)	-	(287)
Final dividend for 2015 approved and paid	14	-	-	-	-	-	(7,756)	(7,756)
Excess of final dividend for 2015 reversed		-	-	-	-	12	(12)	-
Balance at 31 December 2016		**142,000**	**(4,965)**	**71,000**	**249**	**779,813**	**-**	**988,097**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Note	2016 BD '000	2015 BD '000
OPERATING ACTIVITIES			
Profit for the year before tax		**48,828**	59,961
Adjustments for:			
Depreciation	4	**71,380**	73,775
Amortisation of other asset	5	**192**	192
Provision for employees' end of service benefits - net	16 (a)	**1,521**	1,476
Provision for slow moving inventories - net	6	**53**	177
Provision for impairment of receivables - net	7	**(197)**	197
Gain on revaluation of derivative financial instruments	19	**-**	(4,583)
Loss on disposal of property, plant and equipment		**239**	1,114
Interest income	20	**(171)**	(142)
Interest on borrowings	21	**2,306**	2,749
		124,151	134,916
Working capital changes:			
Inventories		**(17,071)**	5,888
Trade and other receivables		**8,820**	(8,007)
Trade and other payables (refer note below)		**(11,820)**	42,586
Cash from operations		**104,080**	175,383
Employees' end of service benefits paid	16 (a)	**(1,316)**	(1,392)
Income tax paid		**(217)**	-
Net cash flows from operating activities		**102,547**	173,991
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	**(108,122)**	(48,575)
Proceeds from disposal of property, plant and equipment		**380**	66
Interest received	20	**171**	142
Net cash flows used in investing activities		**(107,571)**	(48,367)
FINANCING ACTIVITIES			
Repayment of long term receivable		**3,439**	3,438
Borrowings availed		**105,280**	103,400
Borrowings repaid		**(142,953)**	(150,491)
Interest on borrowings paid (refer note below)		**(2,235)**	(2,869)
Dividends paid	14	**(7,756)**	(28,963)
Purchase of treasury shares		**(818)**	(1,933)
Proceeds from resale of treasury shares		**471**	605
Net cash flows used in financing activities		**(44,572)**	(76,813)
(DECREASE) INCREASE IN BANK BALANCES AND CASH		**(49,596)**	48,811
Bank balances and cash at 1 January		**116,009**	67,198
BANK BALANCES AND CASH AT 31 DECEMBER	8	**66,413**	116,009

Non-cash item:

Movements in unpaid interest on borrowings amounting to BD 71 thousand is excluded from the movement in trade and other payables (2015: BD 120 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

1. ACTIVITIES

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

Subsequent to the Initial Public Offering (IPO), the Company became a Bahrain Public Joint Stock Company effective 23 November 2010 and its shares were listed on the Bahrain Bourse and Global Depository Receipts were listed on the London Stock Exchange. 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 aluminium and aluminium related products. The Company owns and operates a primary aluminium smelter and the related infrastructure in the Kingdom of Bahrain. The Company also has representative sales branch offices in Zurich, Switzerland and Hong Kong and a subsidiary incorporated in the United States of America.

The Group comprises of the Company and the following subsidiary:

Name	Effective ownership		Country of incorporation	Principal activity
	2016	2015		
Aluminium Bahrain US, Inc.	**100%**	100%	United States of America (USA)	Selling and distribution of aluminium throughout USA

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Directors on 9 February 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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 subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

New and amended standards and interpretations as of 1 January 2016

The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards and interpretations which are effective as of 1 January 2016. The adoption of these standards and interpretations did not have any effect on the Group's financial position, financial performance or disclosures.

IFRS 14	Regulatory Deferral Accounts: Guidance on presentation and disclosures;
IFRS 11	Joint Arrangements (Amendments): Accounting for Acquisition of Interests - Guidance on acquisition of an interest in a joint operation;
IAS 16 and IAS 38	Property, Plant and Equipment and Intangible Assets (Amendments): Clarification of acceptable methods of depreciation and amortisation;
IAS 16 and IAS 41	Property, Plant and Equipment and Agriculture (Amendments): Guidance on the accounting requirements of plant-based bearer biological assets;
IAS 27	Separate Financial Statements (Amendments): Guidance on equity method for investments in subsidiaries, joint ventures and associates;
IAS 1	IAS 1 Disclosure Initiative: Presentation of Financial Statements (Amendments): Clarification on materiality requirements and presentation and disclosures; and
IFRS 10, IFRS 12 and IAS 28	Consolidated Financial Statements, Disclosure of Interest in other Entities and Investments in Associates and Joint Ventures (Amendments): The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations as of 1 January 2016 (continued)

Annual Improvements 2012-2014 Cycle

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

Several other new standards and amendments apply for the first time in 2016. However, they do not impact the consolidated financial statements of the Group.

Standards issued but not yet effective

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

IFRS 9	Financial Instruments: Guidance on classification and measurement, impairment and hedge accounting (effective for annual periods beginning on or after 1 January 2018);
IFRS 15	Revenue from Contracts with Customers: Guidance on performance obligations, variable consideration, warranty obligations, loyalty points program, rendering of services and equipment received from customers (effective for annual periods beginning on or after 1 January 2018);
IFRS 10 and IAS 28	Consolidated Financial Statements and Investment in Associates and Joint Ventures (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date is not decided);
IAS 7	Statement of Cash Flows (Amendments): The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted;
IAS 12	Income Taxes (Amendments): The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 2	Share-based Payment Transactions: Classification and Measurement of Share-based Payment (Amendments) (effective for annual periods beginning on or after 1 January 2018). Early application is permitted; and
IFRS 16	Leases - Revised guidance on single model accounting for leases (effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied).

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

Foreign currencies

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.

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.

Current versus non-current classification

The Group presents assets and liabilities in 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

A liability is presented as current when:

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

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

Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

Property, plant and equipment

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

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

Freehold buildings	45 years
Power generating plant	23-25 years
Plant, machinery and other equipment	3-23 years

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

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 they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.
Spares	Purchase cost calculated on a weighted average basis after making due allowance for any obsolete items.

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

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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.

Financial assets consist of bank balances and cash and trade and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

Trade and other receivables

Trade and other receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of 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 assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of financial assets is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of comprehensive income;

- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and

- For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

Derivative financial instruments and hedging activities
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.

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging activities (continued)

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

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

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

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

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

Taxes

Current income tax

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

Current income tax relating to items recognised directly in the other comprehensive income or equity is recognised in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred tax (continued)

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

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

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences cannot be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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.

Leases

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

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognised in finance costs in the consolidated statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably normally on delivery to the customer.

Other income

Other income is recognised as the income accrues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

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

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

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Operating leases - the Group as lessee:

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

Estimates

Impairment of trade and other receivables

An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At 31 December 2016, gross trade receivables were BD 87,592 thousand (2015: BD 95,584 thousand), and the provision for impairment was BD 4,547 thousand (2015: BD 4,744 thousand) and gross other receivables were BD 6,428 thousand (2015: BD 7,128 thousand), and the provision for impairment was BD 45 thousand (2015: BD 45 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates (continued)

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 2016, gross inventories of spares was BD 25,910 thousand (2015: BD 27,194 thousand) with provisions for slow moving spares of BD 1,780 thousand (2015: BD 1,727 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of comprehensive income.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. These estimates are determined after considering the expected usage of the asset or physical wear and tear. Management 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 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 management do not believe that there is any impairment of property, plant and equipment as at 31 December 2016 and 31 December 2015 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings BD '000	Power generating plant BD '000	Plant, machinery and other equipment BD '000	Assets in process of completion BD '000	**Total BD '000**
Cost:					
At 1 January 2016	275,845	438,209	1,232,700	74,659	**2,021,413**
Additions	15	56	1,419	106,632	**108,122**
Transfers	3,064	1,737	47,787	(52,588)	**-**
Disposals	(461)	(3,311)	(4,537)	-	**(8,309)**
At 31 December 2016	278,463	436,691	1,277,369	128,703	**2,121,226**
Depreciation:					
At 1 January 2016	118,324	261,582	830,130	-	**1,210,036**
Charge for the year	6,697	16,410	48,273	-	**71,380**
Relating to disposals	(409)	(2,944)	(4,337)	-	**(7,690)**
At 31 December 2016	124,612	275,048	874,066	-	**1,273,726**
Net carrying value:					
At 31 December 2016	**153,851**	**161,643**	**403,303**	**128,703**	**847,500**

	Land and buildings BD '000	Power generating plant BD '000	Plant, machinery and other equipment BD '000	Assets in process of completion BD '000	Total BD '000
Cost:					
At 1 January 2015	272,595	435,004	1,181,294	87,655	1,976,548
Additions	392	3	4,332	43,848	48,575
Transfers	3,004	3,729	50,111	(56,844)	-
Disposals	(146)	(527)	(3,037)	-	(3,710)
At 31 December 2015	275,845	438,209	1,232,700	74,659	2,021,413
Depreciation:					
At 1 January 2015	111,638	245,068	782,085	-	1,138,791
Charge for the year	6,767	16,986	50,022	-	73,775
Relating to disposals	(81)	(472)	(1,977)	-	(2,530)
At 31 December 2015	118,324	261,582	830,130	-	1,210,036
Net carrying value:					
At 31 December 2015	157,521	176,627	402,570	74,659	811,377

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

4. PROPERTY, PLANT AND EQUIPMENT (continued)

a) Land and buildings include freehold land at a cost of BD 453 thousand as at 31 December 2016 (2015: BD 453 thousand).

b) The Group is using land leased from the Government of Bahrain for the operations of lines 3, 4 and 5 and land leased from The Bahrain Petroleum Company B.S.C. (c) (BAPCO) for its calciner operations. These leases are free of rent.

c) The depreciation charge is allocated to cost of sales in the consolidated statement of comprehensive income.

5. OTHER ASSET

The Group acquired the lease rights of the land adjacent to the Company from the Ministry of Industry, Commerce and Tourism on 28 May 2014 for a term of 25 years effective 1 July 2014 and the amount of BD 4,800 thousand is being amortised over the lease period.

	2016 BD '000	2015 BD '000
At 1 January	**4,512**	4,704
Amortised during the year	**(192)**	(192)
At 31 December	**4,320**	4,512

6. INVENTORIES

	2016 BD '000	2015 BD '000
Raw materials	**28,961**	24,197
Work-in-process	**36,888**	48,648
Goods in transit	**39,530**	29,268
Finished goods	**33,913**	18,824
Spares stock [net of provision of BD 1,780 thousand (2015: BD 1,727 thousand)]	**24,130**	25,467
	163,422	146,404

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

	2016 BD '000	2015 BD '000
At 1 January	**1,727**	1,550
Charge for the year	**53**	181
Write off against provision	**-**	(4)
At 31 December	**1,780**	1,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

7. TRADE AND OTHER RECEIVABLES

	2016 BD '000	2015 BD '000
Trade receivables - others [net of provision of BD 4,547 thousand (2015: BD 4,744 thousand)]	**74,105**	71,667
Trade receivables - related parties (note 24)	**8,940**	19,173
	83,045	90,840
Other receivables [net of provision of BD 45 thousand (2015: BD 45 thousand)]	**6,383**	7,083
Prepayments	**2,637**	2,775
	92,065	100,698

As at 31 December 2016, trade receivables of BD 4,547 thousand (2015: BD 4,744 thousand) and other receivables of BD 45 thousand (2015: BD 45 thousand) were impaired. Movements in the provision for doubtful trade and other receivables were as follows:

	Trade receivables		Other receivables	
	2016 BD '000	2015 BD '000	**2016 BD '000**	2015 BD '000
At 1 January	**4,744**	4,547	**45**	45
Charge for the year	**-**	360	**-**	-
Write off against provision	**(197)**	(163)	**-**	-
At 31 December	**4,547**	4,744	**45**	45

As at 31 December, the ageing of unimpaired trade accounts receivable was as follows:

			Past due but not impaired	
	Total BD '000	Neither past due nor impaired BD '000	Less than 30 days BD '000	Over 30 days BD '000
2016	**83,045**	**76,440**	**6,605**	**-**
2015	90,840	81,927	8,913	-

Subsequent to the year end, unimpaired trade receivables of BD 32,656 thousand were collected and the balance is expected, on the basis of past experience, to be fully recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

8. BANK BALANCES AND CASH

	2016 BD '000	2015 BD '000
Cash at bank:		
- Current accounts	**38,817**	78,871
- Call accounts	**8,761**	37,111
- Short term deposits	**18,800**	-
Cash in hand	**35**	27
	66,413	116,009

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 and US Dollars. The call accounts earn interest and the effective interest rate as of 31 December 2016 is 0.044% (2015: range between 0.11% to 0.12%). Short term deposits earn interest at 2.5% p.a. and have maturities less than three months (2015: nil).

9. SHARE CAPITAL

	2016 BD '000	2015 BD '000
Authorised		
2,000,000,000 shares of 100 fils each	**200,000**	200,000
Issued and fully paid		
1,420,000,000 shares of 100 fils each	**142,000**	142,000

	2016			2015		
Categories	**Number of shares**	**Number of shareholders**	**% of total outstanding share capital**	Number of shares	Number of shareholders	% of total outstanding share capital
Less than 1%	**82,611,451**	**3,520**	**5.82**	79,302,516	3,547	5.58
1% up to less than 5%	**59,388,549**	**2**	**4.18**	62,697,484	2	4.42
5% up to less than 20%	**-**	**-**	**-**	-	-	-
20% up to less than 50%	**292,804,000**	**1**	**20.62**	292,804,000	1	20.62
50% and above	**985,196,000**	**1**	**69.38**	985,196,000	1	69.38
	1,420,000,000	**3,524**	**100.00**	1,420,000,000	3,551	100.00

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

10. TREASURY SHARES

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

	2016		2015	
	No of shares	**BD '000**	No of shares	BD '000
Excess of the shares in Employees' Stock Incentive Plan [note 16 (c)]	**697,000**	**627**	697,000	627
Purchased subsequent to the IPO - net of sales	**9,793,001**	**4,338**	8,776,694	4,278
	10,490,001	**4,965**	9,473,694	4,905

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:

	2016	2015
Profit for the year - BD' 000	**48,390**	59,961
Weighted average number of shares, net of treasury shares - thousands of shares	**1,410,097**	1,412,616
Basic and diluted earnings per share (fils)	**34**	42

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 2016. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

14. DIVIDEND PROPOSED AND PAID

At the Annual General Meeting held on 16 March 2016, the Company's shareholders approved the Board of Directors' proposal to pay a final dividend of BD 0.0055 per share (excluding treasury shares) totalling BD 7,768 thousand relating to 2015, out of which BD 7,756 thousand was paid as of 30 June 2016.

On 29 July 2015, the Board of Directors proposed an interim dividend of BD 0.0055 per share (excluding treasury shares) totalling BD 7,765 thousand which was fully paid as of 30 September 2015. This was ratified by the shareholders at the Annual General Meeting held on 16 March 2016.

On 1 March 2015, the Company's shareholders approved the Board of Directors' proposal to pay a final dividend of BD 0.015 per share (excluding treasury shares) totalling BD 21,198 thousand relating to 2014 which was fully paid as of 31 March 2015.

15. BORROWINGS

		2016		2015
	Current	Non-current	**Total**	Total
	BD '000	BD '000	**BD '000**	BD '000
Working capital revolving credit at 1.85 % to 2.26 % (2015: 1.43 % to 1.67 %) [1]	18,800	-	**18,800**	26,320
Refinancing loan at 1.61 % to 2.86 % (2015: 2.58 % to 2.73 %) [2]	6,392	3,153	**9,545**	18,533
Line 5 projects at 0.94 % to 1.31 % (2015: 0.73 % to 0.80 %) [3]	9,111	-	**9,111**	18,224
Working capital term loan at 1.37 % to 1.81 % (2015: 1.23 % to 1.33 %) [4]	6,860	-	**6,860**	13,713
Euro Coface loan at 1.40 % to 1.51 % (2015: 1.60 % to 1.73 %) [5]	3,336	3,336	**6,672**	10,374
Euro SERV Loan at 1.11 % to 1.24 % (2015: 1.43 % to 1.51 %) [6]	736	-	**736**	2,233
Total borrowings	45,235	6,489	**51,724**	89,397
Payable within one year			**45,235**	56,373
Payable after one year			**6,489**	33,024
			51,724	89,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

15. BORROWINGS (continued)

1. 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.

2. Refinancing Loan
   In 2013, the Group entered into refinancing agreements with two financial institutions for USD 169 million. These loans were obtained to partially repay the line 5 project loans. These loans are repayable in ten semi-annual and twelve quarterly instalments respectively and the repayment dates have been agreed with the facility agent after the last drawdown.

3. Line 5 projects
   In 2004, the Group obtained a term loan from a financial institution for USD 300 million. This loan is repayable in twenty four semi-annual instalments and the repayment dates have been agreed with the facility agent after the last drawdown.

4. Working Capital Term Loan
   In 2014, the Group obtained a term loan from HSBC for USD 80 million by converting a portion of the existing short term woking capital revolving loans from various financial institutions. This loan is repayable in twelve quarterly instalments after the last drawdown and the repayment dates have been agreed with the facility agent.

5. Euro Coface Loan
   On 27 April 2010, the Group entered into a Coface facility agreement with a syndicate of financial institutions for Euro 54 million. BNP Paribas, France is the agent for this facility. This loan was obtained to finance the replacement of rectiformers for lines 1 and 2. The loan is repayable in twelve semi-annual instalments and the repayment dates had been agreed with the facility agent after the last drawdown.

6. Euro SERV Loan
   On 20 June 2010, the Group entered into a SERV facility agreement with a syndicate of financial institutions for Euro 22.4 million. BNP Paribas (Suisse) SA, Switzerland is the agent for this facility. This loan was obtained to finance the replacement of rectiformers for line 4. The loan is repayable in twelve semi-annual instalments and the repayment dates had been agreed with the facility agent after the last drawdown.

Line 5 projects loans, Coface loan and refinancing loan are secured by the quota agreement entered into between the Group and the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

16. EMPLOYEE BENEFITS

a) Defined benefit scheme - leaving indemnity

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

	2016 BD '000	2015 BD '000
Provision as at 1 January	**1,349**	1,265
Provided during the year (note 21)	**1,521**	1,476
Employees' end of service benefits paid	**(1,316)**	(1,392)
Provision as at 31 December	**1,554**	1,349

b) Defined contribution schemes

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

	Alba Savings Benefit Scheme		Social Insurance Organisation	
	2016	2015	**2016**	2015
	BD '000	BD '000	**BD '000**	BD '000
Provision as at 1 January	**1,054**	1,032	**1,132**	744
Expense recognised in the consolidated statement of comprehensive income (note 21)	**4,817**	4,322	**6,116**	7,122
Contributions paid	**(4,514)**	(4,300)	**(6,538)**	(6,734)
Provision as at 31 December (note 18)	**1,357**	1,054	**710**	1,132

c) Employees' Stock Incentive Plan

In accordance with an Employees' Stock Incentive Plan approved by the Board of Directors, the Group purchased 3,000,000 of its shares to be allocated to all of its employees on the Group's payroll as of 1 December 2010. The Group allocated 1,000 shares each to its 2,714 employees as of 1 December 2010 and these shares vested after a period of three years. As of 31 December 2016, no employees are eligible for this plan (2015: nil) and the excess of 697,000 shares is held as treasury shares as of 31 December 2016 (2015: 697,000 shares). In 2015, the shares allocated to the employees had fully vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

17. TAXATION

Taxation pertains to the Group's subsidiary in the United States of America and the standard tax rate was 36.99% as of 31 December 2016 (2015 : nil). 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.

	2016 BD '000	2015 BD '000
Current liability		
Current year	140	-
Income statement		
Current year expense	357	-
Deferred tax expense	81	-
	438	-

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

	2016 BD '000	2015 BD '000
Deferred tax asset	91	-
Deferred tax liability	(81)	-
Deferred tax asset - net	10	-

	2016 BD '000	2015 BD '000
The deferred tax asset comprises the following temporary differences:		
Accelerated depreciation for tax purposes	(2)	-
Prepaid expenses	(4)	-
Accrued expenses	16	-
	10	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

18. TRADE AND OTHER PAYABLES

	2016 BD '000	2015 BD '000
Trade payables - others	**62,588**	52,021
Trade payables - related parties (note 24)	**27,536**	29,228
	90,124	81,249
Employee related accruals	**25,376**	44,166
Accrued expenses	**13,611**	15,927
Advances from customers	**1,037**	316
Alba Savings Benefit Scheme [note 16 (b)]	**1,357**	1,054
Social Insurance Organisation [(note 16 (b)]	**710**	1,132
Current tax liability	**140**	-
	132,355	143,844

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

The Group had a number of derivative financial instruments comprising interest rate collars, commodity options and commodity futures, which have expired during the prior year. The fair values of the derivative financial instruments at 31 December are as follows:

	2016 BD '000	2015 BD '000
Commodity futures	**-**	39
Classified in the consolidated statement of financial position as follows:		
Current portion	**-**	39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

19. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair valuation of the derivative financial instruments resulted in the following results taken to the consolidated statement of comprehensive income for the year ended 31 December.

	Revaluation		Realised	
	2016	2015	**2016**	2015
	BD '000	BD '000	**BD '000**	BD '000
Commodity options	-	3,750	-	(1,988)
Commodity futures	-	767	-	(2,265)
Interest rate collars	-	66	-	(66)
	-	4,583	-	(4,319)
Net gain on fair valuation taken to consolidated statement of comprehensive income			-	264

The Group does not engage in proprietary trading activities in derivatives. However, the Group enters into derivative transactions to hedge economic risks under its risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives, if any, are taken to the consolidated statement of comprehensive income.

Commodity futures

The Group entered into commodity futures contracts to reduce the price risk on behalf of its customers for 10,165 metric tonnes (2015: 12,550 metric tonnes).

20. OTHER INCOME

	2016	2015
	BD '000	BD '000
Sale of water	**1,347**	1,453
Settlement from legal case	**340**	1,128
Interest income	**171**	142
Miscellaneous	**1,131**	978
	2,989	3,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

21. PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2016 BD '000	2015 BD '000
Inventories recognised as an expense in cost of sales	**415,083**	455,481
Staff costs:		
Wages and salaries	**70,122**	94,653
Social Insurance Organisation [note 16 (b)]	**6,116**	7,122
Alba Savings Benefit Scheme [note 16 (b)]	**4,817**	4,322
Payments to contractors	**3,047**	3,017
Employees' end of service benefits [note 16 (a)]	**1,521**	1,476
Indirect benefits (housing, education)	**358**	389
Others	**545**	627
	86,526	111,606

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

	2016 BD '000	2015 BD '000
Cost of sales	**73,411**	91,460
Administrative expenses	**11,554**	17,907
Selling and distribution expenses	**1,561**	2,239
	86,526	111,606
Finance costs		
Interest on borrowings	**2,306**	2,749
Bank charges	**198**	427
	2,504	3,176

The Group also provides recreational and sports facilities to its employees, for which it registered Alba Club S.P.C ('the Club') in the Kingdom of Bahrain under CR 99789 during the year. The expenses relating to the Club are included in the consolidated statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

22. COMMITMENTS AND CONTINGENCIES

a) Commitments

	2016 BD '000	2015 BD '000
Physical metal commitments		
Sales commitments :		
10,165 metric tonnes (2015: 12,550 metric tonnes)	**6,553**	7,090

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

Treasury shares
The Board of Directors authorised the Company to purchase its own shares for a total cost amounting to BD 10,000 thousand (2015: BD 10,000 thousand). As of 31 December 2016, the Group has a remaining commitment of BD 3,500 thousand (2015: BD 4,000 thousand) towards the purchase of its own shares.

Capital expenditure
Estimated capital expenditure contracted for at the reporting date amounted to BD 190,505 thousand (2015: BD 24,263 thousand). The commitments are expected to be settled within 1 to 5 years.

Letters of credit
The commitments on outstanding letters of credit as at 31 December 2016 were BD 9,225 thousand (2015: BD 7,264 thousand). The commitments are expected to be settled within 1 year.

At 31 December 2016, the Group had outstanding letters of credit to counterparties for derivative transactions amounting to BD 445 thousand (2015: BD 150 thousand).

b) Contingencies
Under Albaskan Scheme, the Group has issued guarantees to financial institutions in the Kingdom of Bahrain in relation to the mortgage loans of its employees. The total value of these letters of guarantees is BD 16,711 thousand (2015: BD 17,176 thousand).

c) Legal claims
i) A third party has initiated a claim against the Group for damages caused to its business unit. The Group is defending the claim and it is not practicable to estimate the liability or timing of any payments at this stage. Hence, no provision has been recognised in these consolidated financial statements.

ii) The Group's civil claim against former employees of Alba Marketing (ALMA) has now been fully settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

22. COMMITMENTS AND CONTINGENCIES (continued)

d) Operating lease commitments

The Group entered into a lease agreement with the Government of the Kingdom of Bahrain ("the Government") for the lease of an industrial land in Askar, Kingdom of Bahrain for a period of 25 years commencing 1 July 2014. The annual rent for the leased land is BD 31,452 which is negotiable after the first five years.

Future minimum rentals payable under the non-cancellable operating lease as of the reporting date are mentioned below:

	2016 BD '000	2015 BD '000
Within one year	**31**	31
After one year but not more than five years	**126**	126
After five years	**566**	598
Aggregate operating lease expenditure contracted for at the consolidated statement of financial position date	**723**	755

23. OPERATING SEGMENT INFORMATION

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

a) Product

An analysis of the sales revenue by product is as follows:

	2016 BD '000	2015 BD '000
Aluminium	**640,835**	749,203
Alumina trading	**22,826**	11,171
Calcined coke	**6,099**	6,312
Total sales revenue	**669,760**	766,686

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

23. OPERATING SEGMENT INFORMATION (continued)

b) Geographic information

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

	2016 BD '000	2015 BD '000
Kingdom of Bahrain	**276,880**	345,904
Asia	**111,552**	121,863
Rest of the Middle East and North Africa	**92,796**	135,643
Europe	**121,116**	99,407
Americas	**67,416**	63,869
Total sales revenue	**669,760**	766,686

c) Customers

Sales revenue from two customers of the Group amounted to BD 227,806 thousand (2015: BD 280,388 thousand), each being more than 10% of the total sales revenue for the year.

24. RELATED PARTY TRANSACTIONS

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

Transactions with shareholders

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

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

	2016 BD '000	2015 BD '000
Other related parties		
Revenue and other income		
Sale of metal	**78,759**	111,486
Sale of water	**1,362**	1,305
Interest on long term receivable	**94**	85
	80,215	112,876

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

24. RELATED PARTY TRANSACTIONS (continued)

	2016 BD '000	2015 BD '000
Cost of sales and expenses		
Purchase of natural gas and diesel	**124,600**	110,734
Purchase of electricity	**2,565**	1,469
Royalty	**4,027**	3,982
	131,192	116,185

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

	2016 BD '000	2015 BD '000
Other related parties		
Assets		
Trade receivables (note 7)	**8,940**	19,173
Bank balances	**2,650**	9,469
Long term receivable*	**-**	3,439
	11,590	32,081
Liabilities		
Trade payables (note 18)	**27,536**	29,228
Borrowings	**-**	3,760
Other payables	**161**	122
	27,697	33,110

Outstanding balances at year-end arise in the normal course of business. For the year ended 31 December 2016, the Group has not recorded any impairment on amounts due from related parties (2015: nil).

* Long term receivable relating to an amount due from Gulf Aluminium Rolling Mill Company B.S.C. (c) (GARMCO) was repaid in full during the year. The amount carried interest on the outstanding balance at 6 months LIBOR plus margin of 1% and the effective interest rate as of 31 December 2016 was 1.88% (2015: 1.44%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

24. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

	2016 BD '000	2015 BD '000
Short term benefits	**1,221**	1,117
End of service benefits	**47**	46
Contributions to Alba Savings Benefit Scheme	**73**	67
Other benefits	**-**	650
	1,341	1,880

Directors' fees during the year amounted to BD 210 thousand (2015: BD 210 thousand).

25. RISK MANAGEMENT

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

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

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

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

Market risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

25. RISK MANAGEMENT (continued)

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 (long term receivable, call accounts and borrowings).

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

The interest earned on long term receivable is based on floating LIBOR rate plus margin. The call accounts and short term deposit earn interest at commercial rates. The interest rates are disclosed in notes 8 and 24.

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.

	Interest on call accounts and short term deposit		Interest on borrowings (after giving effect for derivative financial instruments)	
	Increase/ decrease in basis points	Effect on results for the year BD '000	Increase/ decrease in basis points	Effect on results for the year BD '000
2016	**25**	**69**	**25**	**129**
	(25)	**(69)**	**(25)**	**(129)**
2015	25	93	25	223
	(25)	(93)	(25)	(223)

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, based on customers' options. The forecast is deemed to be highly probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

25. RISK MANAGEMENT (continued)

Commodity price risk (continued)

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.

	Increase/ decrease in LME price	Effect on results for the year BD '000
2016	+30%	**13**
	-30%	**(12)**
2015	+30%	12
	-30%	(11)

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 Company uses forward foreign exchange contracts to hedge againt foreign currency payables. As of 31 December 2016 and 31 December 2015 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:

Financial	Currency	2016 BD '000	2015 BD '000
Bank balances	Euro	**19,596**	15,617
	Swiss Francs	**77**	54
Receivables	Euro	**6,572**	5,998
Borrowings	Euro	**7,408**	12,606
Payables	Euro	**6,786**	5,479
	Swiss Francs	**1,963**	583
	Great Britain Pounds	**33**	192

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

25. RISK MANAGEMENT (continued)

Foreign currency risk (continued)

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown.

	2016		2015	
	Increase in currency rate to the BD	Effect on results for the year BD '000	Increase in currency rate to the BD	Effect on results for the year BD '000
Euro	**+10%**	**1,197**	+10%	353
Swiss Francs	**+10%**	**(189)**	+10%	(53)
Great Britain Pounds	**+10%**	**(3)**	+10%	(19)
		1,005		281

Credit risk

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

Bank balances and financial intruments

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. Provision for doubtful receivables is made whenever risks of default are identified.

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

Credit risk concentration

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

The Group sells its products to a large number of customers. Its five largest customers account for 52% of outstanding trade receivables at 31 December 2016 (2015: 44%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

25. 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 180 days of the date of sale. Trade payable are non-interest bearing and are normally settled on 45 days terms.

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

31 December 2016	**Less than 3 months BD '000**	**3 to 12 months BD '000**	**1 to 5 years BD '000**	**Total BD '000**
Borrowings (including interest payable)	**24,819**	**21,046**	**6,584**	**52,449**
Trade and other payables	**92,331**	**-**	**-**	**92,331**
Total	**117,150**	**21,046**	**6,584**	**144,780**

31 December 2015	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Total BD '000
Borrowings (including interest payable)	38,958	18,188	33,602	90,748
Derivative financial instruments	39	-	-	39
Trade and other payables	83,435	-	-	83,435
Total	122,432	18,188	33,602	174,222

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

25. RISK MANAGEMENT (continued)

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 2016 and 31 December 2015.

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

Capital comprises share capital, statutory reserve, capital reserve, retained earnings and proposed dividend less treasury shares, and is measured at BD 988,097 thousand as at 31 December 2016 (2015: BD 947,810 thousand).

26. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Financial assets consist of bank balances and cash and trade and other receivables. Financial liabilities consist of borrowings and trade and other payables. Derivative financial instruments consist of commodity options and futures.

Set out below is an overview of financial instruments, other than bank balances and cash, held by the Group as at 31 December 2016:

	Loans and receivables		Fair value through profit or loss	
	2016	2015	**2016**	2015
	BD '000	BD '000	**BD '000**	BD '000
Financial assets:				
Trade and other receivables	**89,428**	97,923	**-**	-
Financial liabilities:				
Borrowings	**51,724**	89,397	**-**	-
Trade and other payables	**92,331**	83,435	**-**	-
Derivative financial instruments	**-**	-	**-**	39
	144,055	172,832	**-**	39

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016

26. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2016, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values.

- The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rates, interest rate curves and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk. As at 31 December 2016, the Group did not have any outstanding derivative financial instruments (2015: nil).

- Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2016 was assessed to be insignificant.

Fair value hierarchy

As at 31 December 2016, the Group did not have any derivative financial instruments are measured at fair value. As at 31 December 2015, 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 2016 and 31 December 2015, 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 (2015: same).

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

27. ALBA SAVINGS BENEFIT SCHEME

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

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

The Scheme is established as a trust and administered by trustees representing the Group and the employees. The trustees manage 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.

Aluminium
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2017
Expectations

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