

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

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

**31 DECEMBER 2020**



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CR No. 6220

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

### ALUMINIUM BAHRAIN B.S.C.

PO Box: 570, Kingdom of Bahrain

#### Report on the audit of the consolidated financial statements

##### *Opinion*

We have audited the consolidated financial statements of Aluminium Bahrain B.S.C (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

##### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

##### **Description**

As at 31 December 2020, the Group held property, plant and equipment (PPE) of BD 1,950.6 million in the consolidated statement of financial position.

This area was important to our audit due to the size of the carrying value of the PPE (83% of the total assets as at 31 December 2020) as well as the judgement involved in the assessment of the recoverability of the carrying value of the assets.

##### **How the matter was addressed in our audit**

Our audit procedures in this area included, amongst others:

- Evaluating the Group's basis of developing forecasts and cash flow projections on the basis of management's expectation of the performance of the Group's business considering the prevailing economic conditions in general and the aluminium industry in particular;
- We involved our own valuation specialist to assist us in:
  - evaluating the appropriateness of the methodology used by the Group to assess impairment of PPE; and
  - evaluating key inputs and assumptions in cash flow models used by the Group against external benchmarks including adjustments for risks specific to the Group, in particular its derivation of revenue forecasts based on forward estimates of LME prices, margins on value added products, discount rates and expected long term growth rates;
- Agreeing the relevant financial and quantitative data used in the model to the latest production plans and approved budgets; and



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

**Description**

**How the matter was addressed in our audit**

The recoverability of the carrying value of the PPE is in part dependent on the Group's ability to generate sufficient future profits. This assessment requires management to make assumptions in the underlying cash flow forecasts in respect of factors such as future production and sales levels, LME prices, product margins, input prices and overall market and economic conditions, including the potential impacts of COVID-19.

— Assessed whether the consolidated financial statements disclosures relating key inputs and assumptions for impairment where appropriate.

*Other information*

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Board of Directors' report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

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

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

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the board of directors for the consolidated financial statements*

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

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

*Auditors' responsibilities for the audit of the consolidated financial statements*

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



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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other regulatory requirements**

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

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



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

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

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

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

A handwritten signature in blue ink that reads 'KPMG'. The signature is written in a cursive, stylized font. A long, horizontal blue line is drawn underneath the signature, extending to the right.

KPMG Fakhro  
Partner registration number 137  
10 February 2021



Aluminium  
for the world

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



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سجل تجاري رقم: ٩٩٩

## Aluminium Bahrain B.S.C. (Alba) REPORT OF THE BOARD OF DIRECTORS

The Directors have the pleasure to submit their report together with the Audited Consolidated Financial Statements for the year-ended 31 December 2020.

### Principal Activity

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

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

### Registered Office

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

### Winterthur Branch

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

### Hong Kong Branch

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

### U.S. Subsidiary

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

### Bahrain Subsidiary

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

### Guernsey Subsidiary

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

### Singapore Branch

On 27 September 2020, the Board approved the establishment of Alba's branch in Singapore with address at Level 35, The Gateway West, 150 Beach Road, Singapore 189720, Singapore.

### Share Capital Structure

Shareholders	2019 (%)	2020 (%)
Bahrain Mumtalakat Holding Company B.S.C. (c)	69.38	69.38
SABIC Industrial Investments Company	20.62	20.62
Others – Public	10.00	10.00
	<b>100.00</b>	<b>100.00</b>

### Corporate Secretary

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

### Executive Management Team

Mr. Ali Al Baqali, Chief Executive Officer  
 Dr. Abdulla Habib, Chief Operations Officer  
 Mr. Amin Sultan, Chief Power Officer  
 Mr. Khalid Abdul Latif, Chief Marketing Officer  
 Mr. Waleed Tamimi, Chief Supply Officer  
 Mr. Bryan Harris, Chief Financial Officer

### Alba Executives' Remuneration

The total remunerations paid to Alba's Executive Management (Chief Executive Officer, Chief Operations Officer, Chief Power Officer, Chief Marketing Officer, Chief Supply Officer, and Chief Financial Officer) including other allowances and benefits amounted BD817,525 (equivalent to US\$2,162,764) in 2020.

### Results and Retained Earnings

The Company made a Profit of **BD9.755 Million** for the financial year of 2020 versus a Profit of **BD5.379 Million** for the financial year of 2019.





Aluminium  
for the world

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



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سجل تجاري رقم: ٩٩٩

The Movements in Retained Earnings of the Company were:

	BD '000
Balance as at 31 December 2019	869,316
Profit for the year 2020	9,755
Loss on resale of treasury shares	(466)
Final dividend for 2019 approved and paid	(1,412)
Balance as at 31 December 2020	877,193

### Appropriation

At the Board meeting held on Wednesday 10 February 2021, the Company's Board of Directors proposed no dividend payment for 2020.

The above-noted appropriation is subject to the approval of the shareholders of the Company at the Annual General Meeting which will be held on Thursday 11 March 2021.

### Directors of the Company

The following Directors served on the Board of Alba from 01 January 2020 to 07 March 2020:

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

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

#### Sabir Industrial Investments Company

Mr. Ali Al Shamrani, Director  
Mr. Ahmed Al Jabr, Director

#### Elected Directors

Mr. Omar Al Amoudi, Director  
Mr. Mutlaq H. Al Morished, Director

The following Directors served on the Board of Alba from 08 March 2020 to-date:

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

Shaikh Daij Bin Salman Bin Daij Al Khalifa, Chairman  
Mr. Yousif A. Taqi, Director  
Shaikh Isa bin Khalid Al Khalifa, Director  
Mrs. Suha S. Karzoon, Director  
Mrs. Rasha Sabkar, Director  
Mr. Tim Murray, Director



### Sabic Industrial Investments Company

Mr. Iyad Al Garawi, Director  
Mr. Ahmed Al Duriaan, Director  
Mr. Omar Al Amoudi, Director

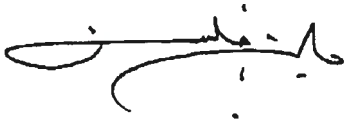
### Elected Director

Mr. Mutlaq H. Al Morished, Director

### Alba Directors' Remuneration

Directors' Remuneration charged during the year ended 31 December 2020 was BD 210,000 (2019: BD 210,000). Further details on the sitting and attendance fees can be found in 2020 Corporate Governance Report (refer to section 3.b) – which will be made available during the Annual General Meeting.

By order of the Board,



Daij Bin Salman Bin Daij Al Khalifa  
Chairman



Yousif A. Taqi  
Director

10 February 2021

Aluminium Bahrain B.S.C.


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

	Note	2020 BD '000	2019 BD '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	1,950,584	1,962,150
Deferred tax assets	18	64	162
		<u>1,950,648</u>	<u>1,962,312</u>
<b>Current assets</b>			
Inventories	6	239,505	221,155
Trade and other receivables	7	119,105	143,424
Bank balances and cash	8	44,438	81,329
		<u>403,048</u>	<u>445,908</u>
<b>TOTAL ASSETS</b>		<u><b>2,353,696</b></u>	<u><b>2,408,220</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	9	142,000	142,000
Treasury shares	10	(2,589)	(3,994)
Statutory reserve	12	71,000	71,000
Capital reserve	13	249	249
Cash flow hedge reserve	20	(8,300)	-
Retained earnings		877,193	869,316
<b>Total equity</b>		<u><b>1,079,553</b></u>	<u><b>1,078,571</b></u>
<b>Non-current liabilities</b>			
Loans and borrowings	15	800,745	850,537
Lease liabilities	21	5,561	5,160
Employees' end of service benefits	17(a)	1,619	1,627
Other payables	19	-	24,466
Derivative financial instruments	20	5,680	2,998
		<u>813,605</u>	<u>884,788</u>
<b>Current liabilities</b>			
Loans and borrowings	15	223,389	151,944
Lease liabilities	21	993	961
Trade and other payables	19	233,541	290,822
Derivative financial instruments	20	2,615	1,134
		<u>460,538</u>	<u>444,861</u>
<b>Total liabilities</b>		<u><b>1,274,143</b></u>	<u><b>1,329,649</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>2,353,696</b></u>	<u><b>2,408,220</b></u>

  
Daij Bin Salman Bin Daij Al Khalifa  
Chairman

  
Yousif Taqi  
Director

  
Ali Al Baqali  
Chief Executive Officer

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



# Aluminium Bahrain B.S.C.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

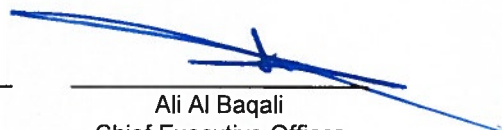
	Note	2020 BD '000	2019 BD '000
Revenue	26(a)	1,061,423	1,029,378
Cost of sales	23	(920,411)	(939,158)
<b>GROSS PROFIT</b>		<b>141,012</b>	<b>90,220</b>
Other income / (expense) - net	22	2,739	(568)
(Loss) / gain on foreign exchange		(16,800)	4,520
General and administrative expenses	23	(41,590)	(34,824)
Selling and distribution expenses	23	(29,277)	(24,166)
Impairment (loss)/ reversal on trade and other receivables	7	(2,994)	253
Finance costs	24	(40,108)	(22,458)
Directors' fees	27	(210)	(210)
Changes in fair value of derivative financial instruments	20	(2,734)	(7,186)
<b>PROFIT FOR THE YEAR BEFORE TAX</b>		<b>10,038</b>	<b>5,581</b>
Tax	18	(283)	(202)
<b>PROFIT FOR THE YEAR AFTER TAX</b>		<b>9,755</b>	<b>5,379</b>
Basic and diluted earnings per share (fils)	11	<u>7</u>	<u>4</u>



Daij Bin Salman Bin Daij Al Khalifa  
Chairman



Yousif Taqi  
Director



Ali Al Baqali  
Chief Executive Officer

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

Aluminium Bahrain B.S.C.

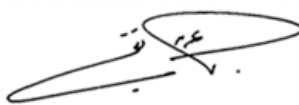
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	2020 BD '000	2019 BD '000
PROFIT FOR THE YEAR		9,755	5,379
<b>Other comprehensive loss</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge	20	(8,300)	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>1,455</b>	<b>5,379</b>



Daij Bin Salman Bin Daij Al Khalifa  
Chairman



Yousif Taqi  
Director



Ali Al Baqali  
Chief Executive Officer

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

Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital BD '000	Treasury shares BD '000	Statutory reserve BD '000	Capital reserve BD '000	Cash flow hedge reserve BD '000	Retained earnings BD '000	Total Equity BD '000
Balance at 31 December 2018	142,000	(4,800)	71,000	249	-	865,021	1,073,470
Total profit and other comprehensive income for the year	-	-	-	-	-	5,379	5,379
Net movement in treasury shares	-	806	-	-	-	(1,084)	(278)
<b>Balance at 31 December 2019</b>	<b>142,000</b>	<b>(3,994)</b>	<b>71,000</b>	<b>249</b>	<b>-</b>	<b>869,316</b>	<b>1,078,571</b>
Profit for the year	-	-	-	-	-	9,755	9,755
Other comprehensive loss:							
Effective portion of changes in fair value of cash flow hedge	-	-	-	-	(8,300)	-	(8,300)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,300)</b>	<b>9,755</b>	<b>1,455</b>
Net movement in treasury shares	-	1,405	-	-	-	(466)	939
Final dividend for 2019 approved and paid	-	-	-	-	-	(1,412)	(1,412)
<b>Balance at 31 December 2020</b>	<b>142,000</b>	<b>(2,589)</b>	<b>71,000</b>	<b>249</b>	<b>(8,300)</b>	<b>877,193</b>	<b>1,079,553</b>

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

BA

Aluminium Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 BD '000	2019 BD '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year before tax		10,038	5,581
<i>Adjustments for:</i>			
Depreciation and amortisation	5	118,158	80,345
Provision for employees' end of service benefits	17(a)	1,766	1,581
Provision for slow moving inventories	6	59	92
Provision/ (reversal) for impairment of receivables	7	2,994	(253)
Changes in fair value of derivative financial instruments	20	2,734	7,186
Loss on disposal of property, plant and equipment	22	1,014	4,269
Interest income	22	(768)	(791)
Forex loss/ (gain) on revaluation of borrowings and bank balances		19,707	(6,151)
Finance costs	24	40,108	22,458
Operating profit before working capital changes		195,810	114,317
<i>Working capital changes:</i>			
Inventories		(18,409)	44,982
Trade and other receivables		21,325	(12,649)
Trade and other payables		(69,035)	46,103
Cash generated from operations		129,691	192,753
Employees' end of service benefits paid	17(a)	(1,774)	(1,631)
Income tax paid		(263)	(33)
Net cash flows generated from operating activities		127,654	191,089
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment (refer to note (i) below)		(118,894)	(299,430)
Proceeds from disposal of property, plant and equipment		74	72
Interest received	22	768	791
Net cash flows used in investing activities		(118,052)	(298,567)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Borrowings availed		674,318	1,460,256
Borrowings repaid		(677,916)	(1,319,644)
Interest on loans and borrowings and leases		(35,196)	(53,122)
Leases liabilities paid		(1,009)	(831)
Dividends paid	14	(1,412)	-
Settlement of derivatives		(6,871)	(1,760)
Purchase of treasury shares		(4,265)	(2,530)
Proceeds from resale of treasury shares		5,204	2,252
Net cash flows (used in)/ generated from financing activities		(47,147)	84,621
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(37,545)</b>	<b>(22,857)</b>
Bank balances and cash at 1 January		81,329	103,857
Effect of movement in exchange rates on cash held		654	329
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	8	<b>44,438</b>	<b>81,329</b>

**Non-cash items:**

i) Non-cash effects of addition in right of use assets amounting to BD 1,442 thousand were excluded from acquisition of property, plant and equipment (2019: BD 6,952 thousand) (refer note 21).

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

BA

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

#### 1 REPORTING ENTITY

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

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

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

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

The Group comprises the Company and the following significant subsidiaries:

Name	Effective ownership		Country of incorporation	Principal activity
	2020	2019		
Aluminium Bahrain US, Inc.	100%	100%	United States of America (USA)	Selling and distribution of aluminium throughout the South and North America
ALBA Club S.P.C.	100%	100%	Kingdom of Bahrain	Provider of recreational and sports facilities
AlbaCap Insurance Limited	100%	100%	Guernsey	Captive insurance entity to insure risks of the Group

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

The consolidated financial statements of the Group were authorised for issue in accordance with a resolution of the Directors on 10 February 2021.

#### 2 BASIS OF PREPARATION

##### (a) Basis of accounting

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

##### (b) Impact of COVID-19

On 11 March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization (WHO) and has rapidly evolved globally. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global commodity markets have also experienced great volatility and a significant drop in prices. Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The pandemic as well as the resulting measures and policies have had some impact on the Group. The Group is actively monitoring the COVID-19 situation, and in response to this outbreak, has activated its business continuity plan and various other risk management practices to manage the potential business disruption on its operations and financial performance.



**2 BASIS OF PREPARATION (continued)**

**(b) Impact of COVID-19 (continued)**

The Group's products are priced by reference to London Metal Exchange (LME) cash settlement prices for aluminium, which has exhibited an initial decline during the reporting period, thus affecting the overall revenue and profitability of the Group for the reporting period. Also, as at balance sheet date, the current liabilities exceed current assets of the Group.

Governments and central banks across the world have responded with monetary and fiscal interventions to stabilize economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group has received certain benefits from these Packages mainly in the form of partial waiver of Electricity and Water Authority utility bills, reimbursement of salaries of national employees from the Unemployment Fund and exemption of government-owned industrial land rental fees for three months from April 2020 to June 2020. The financial impact of these Packages have been included under expenses (note 23).

The Group has also made a one-off donation of BD 3,500 thousand to National Taskforce for combating COVID-19.

The management and the Board of Directors (BOD) have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including impact on asset valuations, review of onerous contracts and debt covenants etc. The Company has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements. Further, during the last quarter of 2020 LME prices have also shown a significant positive turnaround as compared to rest of the year and the Group was able to obtain covenant waivers from its major lenders. Based on their overall assessment, the BOD is confident of the view that the Group will continue as a going concern entity for the next 12 months from the date of these consolidated financial statements.

**(c) Functional and presentation currency**

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

**(d) Basis of measurement**

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments and certain trade receivables subject to provisional pricing arrangements.

**(e) Basis of consolidation**

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

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

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

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

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**2 BASIS OF PREPARATION (continued)**

**(e) Basis of consolidation (continued)**

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

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

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

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

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

- i) derecognises the assets (including goodwill) and liabilities of the subsidiary;
- ii) derecognises the carrying amount of any non-controlling interest;
- iii) derecognises the cumulative translation differences, recorded in equity;
- iv) recognises the fair value of the consideration received;
- v) recognises the fair value of any investment retained;
- vi) recognises any surplus or deficit in the consolidated statement of profit or loss; and
- vii) reclassifies the parent's share of components previously recognised in OCI to the consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Intra-group balances and transactions, and any un-realised income and expenses (except for foreign currency transactions, gains or losses) arising from intra-group transactions, are eliminated.

**(f) New and amended standards and interpretations effective from 1 January 2020**

The Group has initially adopted Interest Rate Benchmark Reform (*Amendment to IFRS 9 and IFRS 7*) from 01 January 2020 as disclosed in note 3(a). Following amendments to existing standards and framework are also effective from 01 January 2020:

*(I) Amendments to References to Conceptual Framework in IFRS Standards.*

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of this amendment had no significant impact on the consolidated financial statements.

*(II) Definition of Material (Amendments to IAS 1 and IAS 8).*

The IASB has made amendments to IAS 1 Presentation of consolidated financial statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify:

**2 BASIS OF PREPARATION (continued)**

**(f) New and amended standards and interpretations effective from 1 January 2020 (continued)**

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the consolidated financial statements as a whole, and

- the meaning of 'primary users of general-purpose consolidated financial statements' to whom those consolidated financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose consolidated financial statements for much of the financial information they need.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of this amendment had no significant impact on the consolidated financial statements.

*(III) Definition of a Business (Amendments to IFRS 3):*

The amended definition of a business is narrowed and clarified. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendment requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs.

The term 'outputs' focuses on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendment includes an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of this amendment had no significant impact on the consolidated financial statements.

*(IV) COVID-19-Related Rent Concessions (Amendment to IFRS 16):*

In response to the COVID-19 coronavirus pandemic, the Board has issued amendments to IFRS 16 Leases to allow lessees not to account for rent concessions as lease modifications if they are a direct consequence of COVID-19 and meet certain conditions. The rent concessions could be in various forms and may include one-off rent reductions, rent waivers or deferrals of lease payments. If the concession is in the form of a one-off reduction in rent, it will be accounted for as a variable lease payment and be recognized in profit or loss.

The practical expedient will only apply if:

- (i) the revised consideration is substantially the same or less than the original consideration;
- (ii) the reduction in lease payments relates to payments due on or before 30 June 2021; and
- (iii) no other substantive changes have been made to the terms of the lease.

Lessees applying the practical expedient are required to disclose:

- (i) that fact, if they have applied the practical expedient to all eligible rent concessions and, if not, the nature of the contracts to which they have applied the practical expedient; and
- (ii) the amount recognized in profit or loss for the reporting period arising from application of the practical expedient.

No practical expedient is provided for lessors. Lessors are required to continue to assess if the rent concessions are lease modifications and account for them accordingly.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

The Group does not expect to have a significant impact on its consolidated financial statements.

**(g) New and amended standards and interpretations issued but not yet effective**

A number of new standards and amendments to standards that are relevant to the Group's consolidated financial statements are effective for annual periods beginning after 1 January 2021 and earlier application is permitted. However the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

**2 BASIS OF PREPARATION (continued)**

**(g) New and amended standards and interpretations issued but not yet effective (continued)**

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are disclosed below.

*(I) Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37):*

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

The Group does not expect to have a significant impact on its consolidated financial statements.

*(II) Property, Plant and Equipment (PPE): Proceeds before Intended Use (Amendments to IAS 16):*

The amendments clarify that testing whether an item of PPE is functioning properly means assessing its technical and physical performance rather than assessing its financial performance – e.g. assessing whether the PPE has achieved a certain level of operating margin.

In the process of making an item of PPE available for its intended use, a Group may produce and sell items before starting production. Under the amendments, proceeds from selling items before the related item of PPE is available for use should be recognized in profit or loss, together with the costs of producing those items. IAS 2 Inventories should be applied in identifying and measuring these production costs.

Companies will therefore need to distinguish between:

- costs associated with producing and selling items before the item of PPE is available for use; and
- costs associated with making the item of PPE available for its intended use.

The Group does not expect to have a significant impact on its consolidated financial statements.

*(III) Classification of liabilities as current or non-current (Amendments to IAS 1):*

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional 'right to defer' settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. This assessment may require management to exercise interpretive judgement.

The Group could expect to have a significant impact on its classification of current liabilities in the consolidated financial statements and is currently assessing the likely impact on its arrangements with lenders including recent discussions of the IFRIC on this matter.

*(IV) Interest Rate Benchmark Reform-Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16)*

The amendments made to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16 provide certain reliefs in relation to interest rate benchmark reforms. The post-IBOR reform is when the uncertainty goes away, and companies update the rates in their contracts and the details of their hedging relationships. The amendments are effective for annual reporting periods beginning on or after 1 January 2021.

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

**2 BASIS OF PREPARATION (continued)**

**(g) New and amended standards and interpretations issued but not yet effective (continued)**

The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

**(i) Change in basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities;**

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate (EIR) of the financial asset or financial liability.

**(ii) Hedge accounting**

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, the hedged items are allocated sub-groups based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a non-contractually specified risk component if it is not separately identifiable at the designation date.

**(iii) Disclosure**

The amendments will require the Group to disclose additional information about the entity's exposure to risks arising from interest rate benchmark reform and related risk management activities.

**(iv) Transition**

The Group plans to apply the amendments from 1 January 2021. Application will not impact amounts reported for 2020 or prior periods.

The Group does not expect to have a significant impact on its consolidated financial statements.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these consolidated financial statements are set below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for changes arising from initial adoption of Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7) as set below.

**(a) Changes in accounting policies**

The Group has initially adopted Interest Rate Benchmark Reform (Amendment to IFRS 9 and IFRS 7) from 01 January 2020. The Group applied the interest rate benchmark reform amendments retrospectively to hedging relationships that existed at 01 January 2020 or were designated thereafter and that are directly affected by interest rate benchmark reform. These amendments also apply to the gain or loss recognised in OCI that existed at 01 January 2020. The details of accounting policies and related disclosures about risks and hedge accounting are set out in note 3(g)(iii) and note 28 respectively.

**b) Fair value measurement**

The Group measures financial instruments at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 29.

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

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

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

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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**b) Fair value measurement (continued)**

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

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

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

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

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

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

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

**c) Foreign currencies and foreign operations**

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

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d) Revenue**

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

The disclosures of significant accounting judgements relating to revenue from contracts with customers are provided in note 4.

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

*Sale of goods*

Revenue from sale of goods is recognised at the point in time when control is transferred to the customer, generally on delivery of the goods. The normal credit term is 30 to 90 days upon delivery. The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer (if any).

*(i) Variable consideration*

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

*(ii) Significant financing component*

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

Where the Group receives an advance from a customer in consideration for the sale of aluminium over a period exceeding 12 months, the transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception, to take into consideration the significant financing component.

*(iii) Provisional pricing arrangement*

Majority of the Group's sales often incorporate provisional pricing that allows for a market price benchmark based adjustment at a date set by contract terms.

Adjustments to the sales price normally occur based on movements in LME market prices up to the end of the period agreed with customer. The period between provisional invoicing and the end of the final sale price can be between one to two months. For these provisional pricing arrangements, any future changes that occur over the final price are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15.

Where the Group records a 'trade receivable' for the preliminary price, subsequent changes in the estimated final price shall not be recorded as revenue from contract with customers until such point in time at which the actual final price is determined (as long as these changes result from changes in the market price/market price index of the products). They may however be considered in subsequent re-measurement as a financial asset at fair value. Such re-measurement are recorded as a separate component within total revenue as price adjustments. All other updates to the preliminary price is recorded against revenue with the additional receivable amount recorded under a contract asset or contract liability. Such contract asset or liability is de-recognised against the 'trade receivable (subject to provisional pricing)' at the point in time at which the actual final price is determined.



**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Property, plant and equipment**

*Recognition and measurement*

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

*Capital Spares*

The Group capitalises the spare parts of machines that are high in value, critical to the plant operations and have a life equal to the life of the machine. These spare parts are depreciated over the life of the related machine.

*Capital work-in-progress*

The Capital work-in-progress comprises expenditure incurred on the acquisition and installation of property, plant and equipment which is transferred to the appropriate category of asset and depreciated after it is put to commercial use. These include assets that are periodically refurbished.

*Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. If subsequent expenditure is related to a previously capitalised project, it is depreciated over the remaining useful life.

*Depreciation*

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

Freehold buildings	3-45 years
Power generating plant	3-40 years
Plant, machinery and other equipment	3-30 years
Steel pot relining	4-5 years

Land and assets in the process of completion are not depreciated. An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit or loss when the asset is derecognised. The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

*Impairment of non-financial assets*

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

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

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

**f) Inventories**

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

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

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

**g) Financial Instruments**

Financial instruments in these consolidated financial statements include financial assets and financial liabilities that are recognized and measured under the requirements of IFRS 9: Financial Instruments. Financial assets of the Group mainly comprise of bank balances (including deposits), trade and other receivables and derivative financial assets. Financial liabilities comprise loans and borrowings, trade and other payables and derivative financial liabilities. Advance to and from customers that would be settled by transfer of non-financial items are not considered financial instruments. Liabilities and assets that are not contractual (such as those that are created as a result of statutory requirements imposed by the government) are not financial assets or liabilities under IFRS 9.

**i. Classification**

**Financial assets**

Financial assets are classified into one of the following three categories:

- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income (FVTOCI); and
- Financial assets at fair value through the profit or loss (FVTPL).

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Financial Instruments (continued)**

**Financial liabilities**

Financial liabilities are classified into one of the following two categories

- Financial liabilities at amortised cost; and
- Financial liabilities at fair value through the profit or loss (FVTPL).

**ii. Initial recognition and measurement**

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets (other than trade receivables) are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition of the financial asset except transaction costs on financial instruments measured at FVTPL which are expensed in profit or loss. A trade receivable without a significant financing component is initially measured at the transaction price (i.e. invoiced amounts).

Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

**iii. Subsequent measurement**

**Financial assets**

Subsequent to initial measurement, financial assets are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:

Financial assets are measured at amortised cost using the effective interest rate method if:

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

If either of these two classification criteria is not met, the financial assets are classified and measured at fair value, either through the profit or loss (FVTPL) or through other comprehensive income (FVTOCI).

If the objective of the business model is to both hold to collect and sell debt instrument, it is classified at FVTOCI. The Group currently does not hold such instruments.

Additionally, even if a financial asset meets the amortised cost criteria, the entity may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

The Group's financial assets measured at amortised cost comprises trade receivables (not subject to provisional pricing), bank balances and other receivables on the consolidated statement of the financial position.

'Trade receivables (subject to provisional pricing)' include embedded derivatives and hence are accounted for as FVTPL instruments (refer note 3 (g) and 26(a) – Revenue recognition). FVTPL assets also include derivative financial assets.

**Financial liabilities**

All financial liabilities, other than those classified and measured as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method.

Financial liabilities classified as financial liabilities at FVTPL includes derivatives.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Financial Instruments (continued)**

**iv. Derecognition of financial assets and liabilities**

Financial assets are derecognised and removed from the consolidated statement of financial position when the right to receive cash flows from the assets has expired; the Group has transferred its contractual right to receive the cash flows from the assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised and removed from the consolidated statement of financial position when the obligation is discharged, cancelled, or expires. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in consolidated statement of profit or loss.

**v. Impairment of financial assets**

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, for purposes of calculating the provision, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the trade receivables and the economic environment. Further disclosures relating to impairment of trade receivables are provided in note 7 and note 28.

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 assets' original effective interest rate.

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

**vi. Derivative financial instruments and hedging activities**

The Group uses derivative financial instruments, such as interest rate swaps and forward commodity contracts, to hedge its interest rate risks and commodity price risks, respectively. In certain circumstances the Group enters into derivative instruments to hedge foreign currency risks.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of a derivative is the equivalent to its prevailing market rates or is based on broker quotes. Derivatives with positive market values are disclosed as assets and derivatives with negative market values are disclosed as liabilities in the consolidated statement of financial position.

Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the statement of income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealised gains or losses on hedged assets which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities. For derivatives that are not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in the consolidated statement of profit or loss.

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

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**g) Financial Instruments (continued)**

- 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. The 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 profit or loss.

*Hedges directly affected by interest rate Benchmark*

For the purpose of evaluating whether there is an economic relationship between the hedged item(s) and the hedging instrument(s), the Group assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform.

For a cash flow hedge of a forecast transaction, the Group assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform for the purpose of assessing whether the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Group assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

The Group will cease to apply the specific policy for assessing the economic relationship between the hedged item and the hedging instrument (i) to a hedged item or hedging instrument when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the respective item or instrument or (ii) when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the specific policy when the uncertainty arising from interest rate benchmark reform about the timing and the amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

*Discontinuation of hedge accounting*

If the hedge no longer meets the criteria for hedge accounting or the hedge instrument is sold, expires, is terminated or is exercised, then hedge accounting is discontinued prospectively. When hedge accounting for cash flow hedges is discontinued, the amount that has been accumulated in the hedge reserve remains in equity until it is reclassified to consolidated statement of profit or loss in the same period or periods as the hedged expected future cash flows affect profit or loss.

If the hedge cash flows are no longer expected to occur, then the amounts that have been accumulated in the hedging reserve and the cost of hedging reserve are immediately reclassified to the consolidated statement of profit or loss.

**vii. 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.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) 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 profit or loss in the year to which they relate. The Group's obligations are limited to the amounts contributed to the Scheme.

For contractual 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 end of contract period of two years service. Provision for this unfunded commitment, which represents a defined benefit scheme, has been made by calculating the liability for remainder of contract period, had all employees left at the reporting date.

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

Terminal and other employee's benefits, entitlements to annual leaves, air passage and others are recognised as they accrue to the employees.

*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.

**i) Taxes**

*Current income tax*

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

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

*Deferred tax*

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

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

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

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

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i) Taxes (continued)**

Deferred tax relating to items recognised outside consolidated statement of profit or loss is recognised outside consolidated statement of profit or loss. 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.

*Value added tax (VAT)*

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

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

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

**j) 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 profit or loss 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.

**k) 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 profit or loss on the purchase, sale, issue or cancellation of the treasury shares. Gain or loss arising from the subsequent resale of treasury shares is included in the retained earnings in the consolidated statement of changes in equity. Net movement from repurchase and resales of treasury shares is booked under the treasury shares.

**l) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest, realised losses resulted from settlement of interest rate swaps (excluding unrealised fair value changes) and other costs that an entity incurs in connection with the borrowing of funds.



**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Leases**

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

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

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

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

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

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

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

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**m) Leases (continued)**

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

The Group presents right-of-use assets that do not meet the definition of investment property in property, plant and equipment and lease liabilities as separate line item on face of the consolidated statement of financial position.

*Extension and termination options*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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

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

**n) Interest income**

Interest income is recognised using the effective interest rate method.

**o) Government grants**

The Group recognises an unconditional government grant in the consolidated statement of profit or loss as other income/ net off against the respective expenses when the grants become receivable.

Government grants related to assets are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in consolidated statement of profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in consolidated statement of profit or loss as reduction from respective expenses, on a systematic basis in the periods in which the expenses are recognised unless the conditions for receiving the grant are met after the related expenses have been recognised. In this case, the grant is recognised when it becomes receivable.

**p) Share Capital**

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

**q) Dividend Distribution**

Dividends are recognised as a liability in the period in which they are approved by the shareholders.

#### 4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

##### **Judgements**

In the process of applying the Group's accounting policies, the Board of Directors has made the following judgments after taking into consideration the impacts of COVID-19 outbreak as explained in note 2b, which have the most significant effect on the amounts recognised in the consolidated financial statements:

##### *Going concern*

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

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

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

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

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods, given the large number of customer contracts that have similar characteristics. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds contained in the contract. During the year ended 31 December 2020, the Group has not entered into any contract for sales of goods that include volume discount.

##### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared and have considered the impacts of COVID-19 outbreak as explained in note 2b. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

##### *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 realisable value.

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

**Estimates and assumptions (continued)**

At 31 December 2020, gross inventories of spares was BD 34,906 thousand (2019: BD 32,831 thousand) with provisions for slow moving spares of BD 1,832 thousand (2019: BD 1,773 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

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

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

*Impairment of property, plant and equipment*

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

Following the general decline in LME prices due to disruptions of global markets due to COVID-19 and its impact on the Group's performance during the year ended 31 December 2020, the Management assessed the recoverable amount of the property, plant and equipment considering the Company as a single cash generating unit (CGU). The recoverable amount of the CGU was determined to be higher than its carrying amount and no impairment loss was recognised as on 31 December 2020. The recoverable amount of the CGU was based on its value-in-use.

Consistent with its method of impairment assessment as of 31 December 2019, the Group estimated the value-in-use of its CGU by using a discounted cash flow method that considers a 5 year cash-flow projections which do not include restructuring activities that the Group is not yet committed to and a terminal value beyond the forecast period. As compared to 31 December 2019, the weighted average cost of capital used in calculating the CGU's value-in-use as on 31 December 2020 decreased from 8.2% to 7.7% to reflect the change in overall market based inputs as at the reporting date including lower risk free rates, cost of funds and use of industry long term leverage ratios. Other key assumptions that impact the forecast include the future London Metal Exchange (LME) cash settlement prices and premium rates for aluminium and market alumina index which were updated using the most recent forecasts from various market sources.

*Sensitivity to changes in assumptions*

With regard to the assessment of value in use, management believes that reasonably possible changes in the weighted average cost of capital would cause a material change to the recoverable amount. An increase in weighted average cost of capital by 135 basis point (with all other variables remain unchanged) throughout the forecast period could result in the recoverable amount of the CGU to be lower than its carrying value.

Similarly, an increase in alumina index by 1.28% (with all other variables remain unchanged) throughout the forecast period, a reduction in LME price by USD 85/MT (with all other variables remain unchanged) and reduction in premium by USD 50/MT (with all other variables remain unchanged) throughout the forecast period could result in the recoverable amount of the CGU to be lower than its carrying value.

*Provisional pricing adjustments*

Adjustments to sale price occur based on the movements in market prices from the date of sale to the end of the period agreed with the customer. The period can range between 1-2 months. Estimates are made on likely price adjustments using available market rates of underlying commodity price benchmarks. Actual results are determined on the date of price confirmation with the customers.

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

5 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i> <i>BD '000</i>	<i>Power generating plant</i> <i>BD '000</i>	<i>Plant, machinery and other equipment</i> <i>BD '000</i>	<i>Assets in process of completion</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
<b>Cost:</b>					
At 1 January 2020	459,121	775,121	2,045,438	98,822	3,378,502
Additions	12,333	311	18,589	76,447	107,680
Transfers	12,937	23,070	56,432	(92,439)	-
Disposals	(9,616)	(2,516)	(43,872)	-	(56,004)
At 31 December 2020	474,775	795,986	2,076,587	82,830	3,430,178
<b>Depreciation and amortization:</b>					
At 1 January 2020	141,214	305,996	969,142	-	1,416,352
Charge for the year	13,845	23,096	81,217	-	118,158
Relating to disposals	(9,211)	(2,074)	(43,631)	-	(54,916)
At 31 December 2020	145,848	327,018	1,006,728	-	1,479,594
<b>Net carrying value:</b>					
At 31 December 2020	<b>328,927</b>	<b>468,968</b>	<b>1,069,859</b>	<b>82,830</b>	<b>1,950,584</b>
<b>Cost:</b>					
At 1 January 2019	290,725	439,939	1,301,204	1,022,604	3,054,472
Recognition of right-of-use asset on initial application of IFRS 16	2,494	-	2,785	-	5,279
Adjusted balance at 1 January 2019	293,219	439,939	1,303,989	1,022,604	3,059,751
Additions	1,035	126	21,656	312,687	335,504
Transfers	164,867	344,159	727,443	(1,236,469)	-
Disposals	-	(9,103)	(7,650)	-	(16,753)
At 31 December 2019	459,121	775,121	2,045,438	98,822	3,378,502
<b>Depreciation and amortization:</b>					
At 1 January 2019	132,746	299,114	916,559	-	1,348,419
Charge for the year	8,468	12,113	59,764	-	80,345
Relating to disposals	-	(5,231)	(7,181)	-	(12,412)
At 31 December 2019	141,214	305,996	969,142	-	1,416,352
<b>Net carrying value:</b>					
At 31 December 2019	<b>317,907</b>	<b>469,125</b>	<b>1,076,296</b>	<b>98,822</b>	<b>1,962,150</b>

As at 31 December 2020, net carrying value of land and buildings includes right-of-use assets of BD 4,520 thousand (2019: BD 3,345 thousand) related to leased properties that do not meet the definition of investment property (refer note 21).

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

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

##### Land and buildings

Land and buildings include freehold land at a cost of BD 453 thousand as at 31 December 2020 (2019: BD 453 thousand).

##### Right-of-use assets

As at 31 December 2020, the net carrying values of land and buildings and plant, machinery and other equipment include right-of-use assets amounting to BD 4,520 thousand and BD 1,713 thousand, respectively.

The Group is using land leased from the Government of Bahrain for the operations of lines 3, 4, 5 and land leased from The Bahrain Petroleum Company B.S.C. (c) (BAPCO) for its Calciner operations. These leases are free of rent. The land used for the construction of Line 6 is also leased from the Government of Bahrain for 25 years effective 1 July 2014. The rate is subject to change every five years based on the circular issued by the Government. This lease has been presented as part of a right-of-use asset - property, plant and equipment.

##### Depreciation and amortization

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

	2020	2019
	BD '000	BD '000
Cost of sales	115,846	78,217
General and administrative expenses	2,283	2,096
Selling and distribution expenses	29	32
	<u>118,158</u>	<u>80,345</u>

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

As at 31 December 2020, the Group incurred capital expenditure of BD 40,638 thousand (2019: BD 29,201 thousand) in respect of its major property, plant and equipment in course of construction.

#### 6 INVENTORIES (LOWER OF COST AND NET REALISABLE VALUE)

	2020	2019
	BD '000	BD '000
Raw materials	40,534	19,794
Work-in-process	70,498	68,158
Goods in transit	37,379	46,771
Finished goods	58,020	55,374
Spares [net of provision of BD 1,832 thousand (2019: BD 1,773 thousand)]	33,074	31,058
	<u>239,505</u>	<u>221,155</u>

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

	2020	2019
	BD '000	BD '000
At 1 January	1,773	1,681
Charge for the year in cost of sales	59	92
At 31 December	<u>1,832</u>	<u>1,773</u>

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

7 TRADE AND OTHER RECEIVABLES

	2020	2019
	BD '000	BD '000
Trade receivables - others [net of allowance for ECL of BD 195 thousand (2019: BD 264 thousand)]	97,883	93,139
Trade receivables (subject to provisional pricing) - fair value	2,148	22,090
Trade receivables - related parties [net of impairment allowance of BD 6,475 thousand (2019: BD 3,413)] (note 27)	5,110	8,673
	<u>105,141</u>	<u>123,902</u>
Advances to suppliers	2,719	1,106
Prepayments	1,285	1,320
Other receivables [net of provision of BD 121 thousand (2019: BD 147 thousand)]	8,180	7,469
VAT receivable	1,780	9,627
	<u>119,105</u>	<u>143,424</u>

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

	Trade receivables		Other receivables	
	2020	2019	2020	2019
	BD '000	BD '000	BD '000	BD '000
At 1 January	3,677	6,614	147	195
Provision during the year	2,994	-	-	-
Reversal during the year	-	(253)	-	-
Write off against provision	(1)	(2,684)	(26)	(48)
At 31 December	<u>6,670</u>	<u>3,677</u>	<u>121</u>	<u>147</u>

Information about the Company's exposure to credit, market risks and expected credit losses for trade receivables is included in note 28. The fair value changes arising from trade receivables (subject to provisional pricing) as at 31 December 2020 was assessed as not material for recognition purposes.

8 BANK BALANCES AND CASH

	2020	2019
	BD '000	BD '000
Cash at bank:		
- Current accounts	17,015	29,968
- Call accounts	13,574	41,191
- Short term deposits	13,778	10,085
Cash in hand	71	85
	<u>44,438</u>	<u>81,329</u>

A major portion of the bank balances is held with financial institutions in the Kingdom of Bahrain and these balances are denominated in Bahraini Dinars, US Dollars and Euros. The call accounts earn interest and the effective interest rate as of 31 December 2020 is 0.1% to 2.5% (2019: 0.3% to 2.5%). Short term deposits earn interest between 0.25% to 0.45% p.a. (2019: 2.5% to 4.1% p.a.) and have maturities less than three months.



Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

9 SHARE CAPITAL

	2020 BD '000	2019 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	<u>142,000</u>	<u>142,000</u>

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

Categories	2020			2019		
	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%	82,382,489	3,160	5.82	62,822,832	3,195	4.45
1% up to less than 5%	54,791,575	2	3.87	71,376,905	3	5.05
5% up to less than 20%	-	-	-	-	-	-
20% up to less than 50%	292,804,000	1	20.69	292,804,000	1	20.73
50% and above	985,196,000	1	69.62	985,196,000	1	69.76
	<u>1,415,174,064</u>	<u>3,164</u>	<u>100.00</u>	<u>1,412,199,737</u>	<u>3,200</u>	<u>100.00</u>

- i) The Company has only one class of equity shares and the holders of these shares have equal voting rights.
- ii) Total number of shares owned by the director of the Company as at 31 December 2020 was 1,281,000 shares (2019: 1,250,000).
- iii) As at 31 December 2020, Bahrain Mumtalakat Holding Company B.S.C. (c) held 69.38% (31 December 2019: 69.38%) of the total share capital of the Company.
- iv) As at 31 December 2020, Sabic Industrial Investment Co. held 20.62% (31 December 2019: 20.62%) of the total share capital of the Company.

10 TREASURY SHARES

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

2020		2019	
No of shares	BD '000	No of shares	BD '000
<u>4,825,936</u>	<u>2,589</u>	<u>7,800,263</u>	<u>3,994</u>

- i) Included in treasury shares are 697,000 shares (2019: 697,000) that were an excess in the Employees' Stock Incentive Plan [note 17 (c)].
- ii) The transactions with value date post 31 December 2020 totaling 22,158 shares, were not accounted in the Treasury Shares for the year (2019: 31,300).
- iii) The Board of Directors authorised the Company to purchase its own shares for a total cost amounting to BD 10,000 thousand (2019: BD 10,000 thousand).

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

#### 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:

	2020	2019
Profit for the year - BD' 000	<u>9,755</u>	<u>5,379</u>
Weighted average number of shares, net of treasury shares - thousands of shares	<u>1,413,396</u>	<u>1,412,904</u>
Basic and diluted earnings per share (fils)	<u>7</u>	<u>4</u>

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

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

#### 12 STATUTORY RESERVE

A ten percent (10%) of the net profits shall be deducted every year and set aside to the statutory (legal) reserve, unless the memorandum of association specify a higher percentage. Such deduction may be suspended if the reserve exceeds fifty percent (50%) of the paid-up capital, unless the company's memorandum of association provide for a higher percentage. However, if the statutory reserve falls below the said percentage, deduction shall resume until the reserve reaches the said percentage.

The statutory reserve may not be distributed among shareholders, but may be used to guarantee the distribution of profits among shareholders of not more than five percent (5%) of the paid-up capital in the years when the company's profits do not allow payment of profits of this percentage.

#### 13 CAPITAL RESERVE

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

#### 14 DIVIDEND PROPOSED AND PAID

At the Annual General Meeting held on 08 March 2020, the Company's shareholders approved final dividend of BD 0.001 per share (excluding treasury shares) totaling BD 1,412 thousand relating to 2019 which has been fully paid as of 31 December 2020.

For the year 2020, the Board of Directors in their meeting dated 10 February 2021 have not proposed dividend to the shareholders considering the restrictive debt covenants (refer note 15).

Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

15 LOANS AND BORROWINGS

	2020			2019
	Non-current BD '000	Current BD '000	Total BD '000	Total BD '000
<i>Unsecured loans and borrowings</i>				
Line 6 Refinancing Term Loan Facility [1]	496,320	33,840	530,160	564,000
Line 6 Euro SERV Loan [2]	112,244	11,845	124,089	124,749
Line 6 USD SERV Loan [2]	91,572	9,653	101,225	111,004
Line 6 Hermes 1 Covered Facility [3]	14,795	1,557	16,352	16,401
Line 6 Hermes 2 Covered Facility [4]	16,313	2,175	18,488	18,924
Line 6 BPAI Covered Facility [5]	43,504	5,651	49,155	50,192
Line 6 EDC Covered Facility [6]	35,451	5,064	40,515	45,579
Line 6 JBIC / NEXI 2 Covered Facility [7]	24,631	4,177	28,808	30,208
Working capital revolving credit [8]	-	153,890	153,890	84,862
Total loans and borrowings	834,830	227,852	1,062,682	1,045,919
Less: unamortised transaction costs	(34,085)	(4,463)	(38,548)	(43,438)
Net loans and borrowings	800,745	223,389	1,024,134	1,002,481
Payable after one year			800,745	850,537
Payable within one year			223,389	151,944
			1,024,134	1,002,481

[1] Line 6 Refinancing Term Loan Facility

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

[2] Euro and USD Serv loan

On 25 April 2017, the Group entered into an Export Credit Financing (SERV-covered facilities) with a syndicate of financial institutions for Euro 314 million and USD 310 million. Commerzbank Finance & Covered Bond S.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan is repayable in twenty-four semi-annual instalments started from December 2019. Euro SERV loan and USD SERV loan carry interest at EURIBOR plus 0.65% (2019: EURIBOR plus 0.65%) and LIBOR plus 0.90% (2019: LIBOR plus 0.90%) respectively.

## Aluminium Bahrain B.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

#### 15 LOANS AND BORROWINGS (continued)

[3] Line 6 Hermes 1 Covered Facility

On 30 April 2017, the Group entered into an Export Credit Financing (Euler Hermes covered facilities) with Citibank N.A London for Euro 50 million. Commerzbank Finance & Covered Bond S.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan is repayable in twenty-four semi-annual instalments which started from October 2019. Hermes 1 Covered Facility carries interest at EURIBOR plus 0.55% (2019: EURIBOR plus 0.55%).

[4] Line 6 Hermes 2 Covered Facility

On 24 October 2017, the Group entered into an Export Credit Financing (Euler Hermes covered facilities) with Commerzbank for Euro 47 million. Commerzbank Finance & Covered Bond S.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from July 2019. Hermes 2 Covered Facility carries interest at EURIBOR plus 0.55% (2019: EURIBOR plus 0.55%).

[5] Line 6 BPAI Covered Facility

On 2 January 2018, the Group entered into an Export Credit Financing agreement amounting to Euro 156 million. Standard Chartered Bank is the agent for this facility and the lenders are Citibank N.A London, Credit Agricole Corporate Investment Bank and Standard Chartered Bank. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from July 2019. BPAI Covered Facility carries interest at EURIBOR plus 0.60% (2019: EURIBOR plus 0.60%).

[6] Line 6 EDC Covered Facility

On 17 October 2018, the Group entered into an Export Credit Financing with Citibank N.A., Canadian branch for USD 136 million. Citibank N.A. is the agent for this facility. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from October 2019. EDC Covered Facility carries interest at LIBOR plus 0.725% (2019: LIBOR plus 0.725%).

[7] Line 6 JBIC / NEXI 2 Covered Facility

On 31 October 2018, the Group entered into an Export Credit Financing agreement amounting to Euro 90 million. BNP Paribas, Tokyo branch is the agent and lender for this facility and the other lender is Japan Bank For International Cooperation. This loan was obtained to finance capital expenditure requirements for Line 6 Expansion Project. The loan is repayable in twenty semi-annual instalments which started from March 2019. JBIC / NEXI 2 Covered Facility carries interest at EURIBOR plus 0.60% (2019: EURIBOR plus 0.60%).

[8] Working capital revolving credit

The working capital revolving credit facilities are subject to periodic renewal and repricing. The working capital revolving facilities allow the Group to issue promissory notes for up to 12 month terms. It is the Group's policy to maintain the current level of borrowings under these facilities by issuing new promissory notes in place of maturing notes. Working capital revolving credit carries interest at rates ranging from 0.80% to 3.9% (2019: 2.20% to 3.50%).

The Group is required to ensure that the debt covenant of above outstanding loans and borrowings should not exceed 450 percent of EBITDA on half yearly basis. If the conditions are not met, these outstanding loans and borrowings will be repayable on demand.

The Group has obtained waiver letter from all the banks with respect to debt covenant requirement up to 30 June 2021, with additional conditions to be met up to 31 December 2021. These additional covenants among other things include restriction on dividend declaration, maintenance of minimum cash balance and restriction on redemption, repurchase, defease, retire or repay any of its share capital The management is confident of meeting these additional covenants.

Aluminium Bahrain B.S.C.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

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

	Liabilities			Derivative (assets) / liabilities held to hedge long term borrowings			Equity				Total	
	Short term borrowings used for cash management purposes	Other loans and borrowings	Accrued interest	Lease liabilities	At Fair through Profit and loss	Cash flow hedge - other comprehensive income	Share capital	Treasury shares	Reserves	Cash Flow Hedge Reserve		Retained Earnings
2020												
Balance as at 01 January 2020	84,862	917,619	6,654	6,121	4,132	-	142,000	(3,994)	71,249	-	869,316	2,097,969
<i>Change from financing cash flows</i>												
Proceeds from short term borrowings	674,318	-	-	-	-	-	-	-	-	-	-	674,318
Proceeds from sale of treasury sales	-	-	-	-	-	-	-	5,204	-	-	-	5,204
Repayments of short term borrowings	(605,290)	-	-	-	-	-	-	-	-	-	-	(605,290)
Repayments of loans and borrowings	-	(72,626)	-	-	-	-	-	-	-	-	-	(72,626)
Purchase of treasury shares	-	-	-	-	-	-	-	(4,265)	-	-	-	(4,265)
Payment lease liabilities	-	-	-	(1,009)	-	-	-	-	-	-	-	(1,009)
Settlement of derivatives	-	-	-	-	(6,871)	-	-	-	-	-	-	(6,871)
Dividend Payment	-	-	-	-	-	-	-	-	-	-	(1,412)	(1,412)
Payment of interest and other costs	-	-	(34,944)	(252)	-	-	-	-	-	-	-	(35,196)
<b>Total changes from financing cashflows</b>	<b>69,028</b>	<b>(72,626)</b>	<b>(34,944)</b>	<b>(1,261)</b>	<b>(6,871)</b>	<b>-</b>	<b>-</b>	<b>939</b>	<b>-</b>	<b>-</b>	<b>(1,412)</b>	<b>(47,147)</b>
Effect of change in foreign exchange rates	-	20,361	-	-	-	-	-	-	-	-	-	20,361
Changes in fair value - OCI	-	-	-	-	-	8,300	-	-	-	(8,300)	-	-
Changes in fair value - P&L	-	-	-	-	2,734	-	-	-	-	-	-	2,734
	<b>69,028</b>	<b>(52,265)</b>	<b>(34,944)</b>	<b>(1,261)</b>	<b>(4,137)</b>	<b>8,300</b>	<b>-</b>	<b>939</b>	<b>-</b>	<b>(8,300)</b>	<b>(1,412)</b>	<b>(24,052)</b>
<b>Other changes - liability related</b>												
New leases	-	-	-	1,442	-	-	-	-	-	-	-	1,442
Interest expense and other costs	-	4,890	34,966	252	-	-	-	-	-	-	-	40,108
Total liability related changes	-	4,890	34,966	1,694	-	-	-	-	-	-	-	41,550
<b>Total equity related changes</b>												
Total changes	69,028	(47,375)	22	433	(4,137)	8,300	-	1,405	-	(8,300)	9,289	9,765
Balance as at 31 December 2020	<b>153,890</b>	<b>870,244</b>	<b>6,676</b>	<b>6,564</b>	<b>(5)</b>	<b>8,300</b>	<b>142,000</b>	<b>(2,589)</b>	<b>71,249</b>	<b>(8,300)</b>	<b>877,193</b>	<b>2,125,212</b>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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16 Reconciliation of movement of liabilities to cash flows arising from financing activities (continued):

	Liabilities			Derivative (assets)/liabilities held to hedge long term borrowings		Equity			Total
	Short term borrowings used for cash management purposes	Other loans and borrowings	Accrued interest	Lease liabilities	Interest rate swap	Share capital	Treasury shares	Reserves	
2019									
Balance as at 01 January 2019	63,901	796,480	10,271	-	(1,338)	142,000	(4,800)	71,249	865,021
<i>Change from financing cash flows</i>									
Proceeds from short term borrowings	754,573	-	-	-	-	-	-	-	754,573
Proceeds from loans and borrowings	-	705,683	-	-	-	-	-	-	705,683
Proceeds from sale of treasury shares	-	-	-	-	-	-	2,252	-	2,252
Repayments of short term borrowings	(733,612)	-	-	-	-	-	-	-	(733,612)
Repayments of loans and borrowings	-	(586,032)	-	-	-	-	-	-	(586,032)
Purchase of treasury shares	-	-	-	-	-	-	(2,530)	-	(2,530)
Payment lease liabilities	-	-	-	(831)	-	-	-	-	(831)
Settlement of derivatives (Settlement)/payment of interest and other costs	-	-	(53,002)	(164)	(1,760)	-	-	-	(1,760)
<b>Total changes from financing cashflows</b>	<b>20,961</b>	<b>119,651</b>	<b>(53,002)</b>	<b>(995)</b>	<b>(1,716)</b>	<b>-</b>	<b>(278)</b>	<b>-</b>	<b>84,621</b>
The effect of change in foreign exchange rates	-	(5,822)	-	-	-	-	-	-	(5,822)
Changes in fair value	-	-	-	-	7,186	-	-	-	7,186
	<b>20,961</b>	<b>113,829</b>	<b>(53,002)</b>	<b>(995)</b>	<b>5,470</b>	<b>-</b>	<b>(278)</b>	<b>-</b>	<b>85,985</b>
<b>Other changes - liability related</b>									
New leases	-	-	-	6,952	-	-	-	-	6,952
Capitalised borrowing and other costs	-	6,458	27,943	-	-	-	-	-	34,401
Interest expense and other costs	-	852	21,442	164	-	-	-	-	22,458
Total liability related changes	-	7,310	49,385	7,116	-	-	-	-	63,811
Total equity related changes	-	-	-	-	-	-	1,084	-	4,295
Total changes	<b>20,961</b>	<b>121,139</b>	<b>(3,617)</b>	<b>6,121</b>	<b>5,470</b>	<b>-</b>	<b>806</b>	<b>-</b>	<b>155,175</b>
Balance as at 31 December 2019	<b>84,862</b>	<b>917,619</b>	<b>6,654</b>	<b>6,121</b>	<b>4,132</b>	<b>142,000</b>	<b>(3,994)</b>	<b>71,249</b>	<b>2,097,959</b>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

**17 EMPLOYEE BENEFITS**

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

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

	2020 BD '000	2019 BD '000
Provision as at 1 January	1,627	1,677
Provided during the year (note 23)	1,766	1,581
Employees' end of service benefits paid	(1,774)	(1,631)
Provision as at 31 December	<u>1,619</u>	<u>1,627</u>

**(b) Defined contribution schemes**

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

	<i>Alba Savings Benefit Scheme</i>		<i>Social Insurance Organisation</i>	
	2020 BD '000	2019 BD '000	2020 BD '000	2019 BD '000
Provision as at 1 January	2,094	1,800	148	379
Expense recognised in the consolidated statement of profit or loss (note 23)	5,462	5,405	7,069	6,880
Contributions paid	(6,089)	(5,111)	(6,004)	(7,111)
Provision as at 31 December (note 19)	<u>1,467</u>	<u>2,094</u>	<u>1,213</u>	<u>148</u>

**(c) Employees' Stock Incentive Plan**

In accordance with an Employees' Stock Incentive Plan approved by the Board of Directors, the Group purchased 3,000,000 of its shares to be allocated to all of its employees on the Group's payroll as of 1 December 2010. The Group allocated 1,000 shares each to its 2,714 employees as of 1 December 2010 and these shares vested after a period of three years. In 2015, the shares allocated to the employees had been fully vested and the excess of 697,000 shares is held as Treasury Shares as of 31 December 2020 (2019: 697,000 shares).

**18 TAXATION**

Taxation pertains to the Group's subsidiary in the United States of America and the normalised tax rate was 23.30% as of 31 December 2020 (2019: 23.50%). 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.

	2020 BD '000	2019 BD '000
<i>Current (asset) / liability</i>		
Current year	<u>(47)</u>	<u>31</u>
<i>Recognised in consolidated statement of profit or loss</i>		
Current year expense	185	330
Deferred tax expense / (benefit)	98	(128)
	<u>283</u>	<u>202</u>

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**18 TAXATION (continued)**

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

	2020 BD '000	2019 BD '000
Deferred tax asset	69	167
Deferred tax liability	(5)	(5)
Deferred tax asset - net	<u>64</u>	<u>162</u>

	2020 BD '000	2019 BD '000
The deferred tax asset comprises the following temporary differences:		
Deductible temporary differences	297	712
Taxable temporary differences	(22)	(23)
	<u>275</u>	<u>689</u>

**19 TRADE AND OTHER PAYABLES**

	2020 BD '000	2019 BD '000
Trade payables - supplier factoring facility (i)	50,431	-
Trade payables - related parties (note 27)	47,388	38,547
Trade payables - others	59,631	70,624
	<u>157,450</u>	<u>109,171</u>
Employee related accruals (ii)	20,750	26,739
Accrued expenses	27,590	30,344
Alba Savings Benefit Scheme [note 17(b)]	1,467	2,094
Social Insurance Organisation [(note 17(b))]	1,213	148
Advances from customers (iii)	25,071	146,672
Unclaimed Dividend	-	120
	<u>233,541</u>	<u>315,288</u>
Less: Non-current portion of advances from customers (iii)	-	(24,466)
	<u>233,541</u>	<u>290,822</u>

i) The Group has entered into supplier factoring arrangement under which certain suppliers may elect to receive early payment of their invoice from a bank by factoring their receivable from the Group. Under the arrangement, the bank agrees to pay amounts to a participating supplier in respect of invoices owed by the Group and receives settlement from the Group at a later date. The principal purpose of this arrangement is to facilitate efficient payment processing and enable the suppliers to sell their receivables due from the Group to a bank before due date.

The Group has not derecognised the original liabilities to which the arrangement applies because neither a legal release was obtained nor the original liability was substantially modified on entering into the arrangement. From the Group perspective, the arrangement does not significantly extend payment terms beyond the normal terms agreed with other suppliers that are not participating. The Group does not incur any additional interest towards the bank on the amounts due to the suppliers. The Group therefore discloses the amount factored by suppliers within trade payables because nature and function of the financial liability remain the same as those of other trade payables but discloses disaggregated amounts in the notes. All payables under this arrangement are classified as current as at 31 December 2020.

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Aluminium Bahrain B.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

**19 TRADE AND OTHER PAYABLES (continued)**

The payments to the bank are included within operating cash flows because they continue to be part of the normal operating cycle of the Group and their principal nature remains operating i.e. payments for purchase of goods. The payments to a supplier by bank are considered as non-cash transactions and amounts to BD 17,552 thousand (2019: BD Nil)

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

iii) Advances from customers includes BD 24,466 thousand (2019: BD 146,379 thousand) received from two customers; settlements against the advance have been started and are in the form of quantities of aluminium. The non-current portion of this advance amounts to BD Nil (2019: BD 24,466 thousand).

**20 DERIVATIVE FINANCIAL INSTRUMENTS**

	<b>2020</b>	<b>2019</b>
	<b>BD '000</b>	<b>BD '000</b>
<i>Classified in the consolidated statement of financial position as follows:</i>		
Negative fair values - liabilities arising from interest rate swap (IRS)		
Non-current portion	<b>5,680</b>	2,998
Current portion	<b>2,620</b>	1,121
	<b>8,300</b>	4,119
Positive fair values - assets current portion arising from commodity futures	<b>(5)</b>	-
Negative fair values - liabilities current portion arising from commodity futures	<b>-</b>	13
<b>Total</b>	<b>8,295</b>	4,132

*Recognised in consolidated statements of profit or loss as follows:*

Changes in fair value of derivative financial instruments related to		
- Interest rate swap (FVTPL)	<b>(2,884)</b>	(6,314)
- Commodity futures (FVTPL)	<b>150</b>	(872)
	<b>(2,734)</b>	(7,186)

The Group does not engage in proprietary trading activities in derivatives. However, the Group enters into derivative transactions under its risk management guidelines and holds derivative financial instruments, such as interest rate swaps, to hedge its interest rate risks and commodity futures to meet customer pricing requirements.

**Interest rate swaps**

On 03 March 2020, the Group entered into amortised interest rate swap transaction with National Bank of Bahrain B.S.C., to hedge dollar 6 months LIBOR cash flows attributable to the borrowings availed for financing the line 6 project for the notional amount BD 265.08 million out of total principal amount of BD 530.16 million as on 31 December 2020.

The Group has designated this derivative as cash flow hedging instrument and it qualifies for hedge accounting under IFRS 9 and consequently effective portion of the gains or losses resulting from the re-measurement of fair value of derivative are recognised in the consolidated statement of comprehensive income as other comprehensive income / (loss).

The Group settled its previous interest rate swap contracts designated at fair value through profit and loss on 03 March 2020 and related fair value gains or losses were recognised in the consolidated statement of profit or loss.

Existing derivative contracts expire on 29 October 2027. The notional amount outstanding as at 31 December 2020 was BD 265,080 thousand (31 December 2019: BD 282,000 thousand) with fixed rate leg of 1.2125% over the term of the contract.



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At 31 December 2020

**20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

**Commodity futures**

These derivatives are entered into to reduce the price risk on behalf of its customers. These are initially measured at fair value and do not qualify for hedge accounting. Subsequent to initial recognition, these derivatives are measured at fair value, and the changes therein are recognised in the consolidated statement of profit or loss.

The Group entered into commodity futures contracts to reduce the price risk on behalf of its customers for 3,000 metric tonnes (2019: 480 metric tonnes) and these mature between one to six months from the reporting date.

**21 LEASES**

**Leases as lessee**

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

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

**i. Right-of-use assets**

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

	<i>Land and buildings BD '000</i>	<i>Plant, machinery and other equipment BD '000</i>	<i>Total BD '000</i>
<b>2020</b>			
Balance at 1 January	3,345	2,709	6,054
Depreciation charge for the year	(267)	(996)	(1,263)
Additions to right-of-use assets	1,442	-	1,442
<b>Balance at 31 December</b>	<b>4,520</b>	<b>1,713</b>	<b>6,233</b>

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

**ii. Lease liabilities under IFRS 16**

	<b>2020 BD '000</b>	<b>2019 BD '000</b>
Non-current portion	<b>5,561</b>	5,160
Current portion	<b>993</b>	961
	<b>6,554</b>	6,121

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**21 LEASES (continued)**

Effective interest on lease liabilities ranges from 1.99% to 6.00% (2019: 1.99% to 6.00%).

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

	2020 <i>BD '000</i>	2019 <i>BD '000</i>
<i>Leases under IFRS 16</i>		
Interest on lease liabilities	252	164
Depreciation	1,263	898
Expenses relating to short-term leases	670	908
	<u>2,185</u>	<u>1,970</u>

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

	2020 <i>BD '000</i>	2019 <i>BD '000</i>
Total cash outflow for lease liabilities	<u>1,009</u>	<u>831</u>

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

**22 OTHER INCOME/ (EXPENSE) - NET**

	2020 <i>BD '000</i>	2019 <i>BD '000</i>
Sale of water	1,390	1,363
Interest income	768	791
Loss on disposal of property, plant and equipment	(1,014)	(4,269)
Miscellaneous	1,595	1,547
	<u>2,739</u>	<u>(568)</u>

**23 EXPENSES BY NATURE**

	2020 <i>BD '000</i>	2019 <i>BD '000</i>
Changes in inventories of finished goods and work in progress	11,285	(4,951)
Inventories recognised as an expense in cost of sales	653,218	743,203
Depreciation and amortization	118,158	80,345
Staff costs (i)	102,033	101,276
Spares & Consumables	32,247	27,468
Contracted Repairs	19,377	13,040
Insurance	16,916	10,499
Freight	25,034	20,690
Other expenses	13,010	6,578
<b>Total cost of sales, general and administrative expenses, selling and distribution</b>	<u>991,278</u>	<u>998,148</u>
	2020 <i>BD '000</i>	2019 <i>BD '000</i>
Break-down of expenses is as follows:		
Cost of sales	920,411	939,158
General and administrative expenses	41,590	34,824
Selling and distribution expenses	29,277	24,166
	<u>991,278</u>	<u>998,148</u>

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**23 EXPENSES BY NATURE (continued)**

	2020	2019
	BD '000	BD '000
(i) Break-down of staff costs is as follows:		
Wages and salaries	77,759	77,598
Social Insurance Organisation [note 17(b)]	7,069	6,880
Alba Savings Benefit Scheme [note 17(b)]	5,462	5,405
Payments to contractors	7,860	7,001
Employees' end of service benefits [note 17(a)]	1,766	1,581
Indirect benefits (housing, education)	1,955	440
Others	162	2,371
	<u>102,033</u>	<u>101,276</u>

The staff costs have been allocated in the consolidated statement of profit or loss as follows:

Cost of sales	85,209	83,186
General and administrative expenses	14,955	16,421
Selling and distribution expenses	1,869	1,669
	<u>102,033</u>	<u>101,276</u>

Cost of sales includes COVID-19 related government grants / assistance of BHD 12,740 thousand received from the Government of Kingdom of Bahrain, for the reimbursement of salaries of the national employees, partial waiver of Electricity and Water Authority utility bills and exemption of government-owned industrial land rental fees from April 2020 to June 2020. In accordance with IAS 20, the Group has recognised these grants in profit or loss on a systematic basis in the periods in which compensated expenses are recognised. These government grants have been deducted from the related expenses in cost of sales.

During the year, as a consequence of the impacts of Covid-19, the Board authorized the Group to approach specific staff, mainly those with medical issues, or staff in excess to department needs or sub-performing staff, and offer an early retirement scheme/ Medical release, if eligible. It was only for staff that the company was targeting. The BD 7,646 thousand represented the total paid out during 2020 as part of this once-off arrangement.

**24 FINANCE COSTS**

	2020	2019
	BD '000	BD '000
Interest on loans and borrowings	36,606	19,952
Interest on advances from customers	2,538	2,082
Interest on lease liabilities	252	164
Bank charges	712	260
	<u>40,108</u>	<u>22,458</u>

**25 COMMITMENTS AND CONTINGENCIES**

**a) Commitments**

	2020	2019
	BD '000	BD '000
<i>Physical metal commitments</i>		
Sales commitments :		
3,000 metric tonnes (2019: 1,655 metric tonnes)	2,248	1,094
	<u>2,248</u>	<u>1,094</u>

*Raw material supply agreements*

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

*Capital expenditure*

Estimated capital expenditure contracted for at the reporting date amounted to BD 24,324 thousand (2019: BD 27,604 thousand). The commitments are expected to be settled within 1 to 5 years from the reporting date.

*Letters of credit*

At 31 December 2020, the Group had outstanding letters of credit to counterparties of BD 51,233 thousand (2019: 6,147 thousand).

**b) Contingencies**

(i) The Company is party to ongoing labor claims and disputes. Based on the advice of the Company's external legal counsel, the management is of the opinion that the Company has strong grounds to successfully defend itself against these claims. The total amount of claims against the Company amounting to BD 44 thousand (2019: BD 150 thousand). The Management believes that there is no provision required against these claims.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 25 COMMITMENTS AND CONTINGENCIES (continued)

##### b) Contingencies (continued)

(ii) Under an employee scheme, the Group has issued guarantees to financial institutions in the Kingdom of Bahrain in relation to the mortgage loans of its employees to the extent of their cumulative balance in the Alba saving scheme. The total value of these letters of guarantee is BD 19,459 thousand (2019: BD 20,710 thousand).

At 31 December 2020, the Group had contingent liabilities in respect of the bank guarantees amounting to BD 19,875 thousand (2019: BD 11,496 thousand) from which is anticipated that no material liabilities will arise.

#### 26 OPERATING SEGMENT INFORMATION

As on 31 December 2020, the Group has a single reportable operating segment which is the ownership and operation of a primary aluminium smelter and related infrastructure. Hence no separate disclosure of profit or loss, assets and liabilities is provided as this disclosure will be identical to the consolidated statement of comprehensive income and consolidated statement of financial position of the Group.

##### (a) Product

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

	2020 BD '000	2019 BD '000
Aluminium	1,057,457	1,027,502
Alumina trading	3,339	4,292
Calcined coke	1,469	-
Revenue from contracts with customers	<u>1,062,265</u>	<u>1,031,794</u>
Pricing adjustments*	(842)	(2,416)
<b>Total revenue</b>	<u><u>1,061,423</u></u>	<u><u>1,029,378</u></u>

\*Pricing adjustments represent mark-to-market adjustments on initial estimate of provisionally priced sales.

##### (b) Geographic information

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

	2020 BD '000	2019 BD '000
Kingdom of Bahrain	216,274	234,689
Europe	246,607	247,531
Rest of the Middle East and North Africa	176,505	173,189
Asia	307,144	234,037
Americas	114,893	139,932
Total revenue from contracts with customers	<u><u>1,061,423</u></u>	<u><u>1,029,378</u></u>

##### (c) Customers

Revenue from sale of aluminium to the three major customers of the Group amounted to BD 526,968 thousand and BD 389,131 thousand with each of the customers accounting for more than 10% of the total revenue from contracts with customers for the year ended 31 December 2020 and 31 December 2019 respectively.

#### 27 RELATED PARTY TRANSACTIONS

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

##### Transactions with shareholders

The Company qualifies as a government related entity under the definitions provided in IAS 24. The Company purchases gas and receives services from various Government and semi-government organisation and companies in the Kingdom of Bahrain. Other than purchase of natural gas, such other transactions are in the normal course of business and are not considered to be individually significant in terms of size.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

**27 RELATED PARTY TRANSACTIONS (continued)**

**Transactions with shareholders (continued)**

Transactions with other commercial non-government related parties related to the controlling shareholder and significant transaction with government related entities included in the consolidated statement of profit or loss are as follows:

	2020 BD '000	2019 BD '000
<b>Other related parties</b>		
<b>Sales of goods and interest income</b>		
Sale of metal	43,881	45,281
Sale of water	1,302	1,278
Interest on receivable	787	788
	<u>45,970</u>	<u>47,347</u>
<b>Cost of sales and expenses</b>		
Purchase of natural gas and diesel	230,664	238,677
Interest on loans and borrowings	2,823	1,834
Others	1,483	1,314
	<u>234,970</u>	<u>241,825</u>

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

	2020 BD '000	2019 BD '000
<b>Other related parties</b>		
<b>Assets</b>		
Trade receivables net of impairment allowance of BD 6,475 (2019: BD 3,413 thousand) (note 7)	5,110	8,673
Bank balances	1,065	906
Other receivable	812	710
	<u>6,987</u>	<u>10,289</u>
<b>Liabilities</b>		
Trade payables (note 19)	47,388	38,547
Loans and Borrowings	65,001	78,272
Interest payable on loans and borrowings	346	548
	<u>112,735</u>	<u>117,367</u>

Outstanding balances at year-end arise in the normal course of business are interest free, unsecured and payable on demand. However, the Group charged interest at an agreed rate on an overdue receivable amount from a related party as of 31 December 2020 (2019: same terms). For the year ended 31 December 2020, the Group recorded a specific impairment of BD 3,062 thousand on amounts due from related parties, based on the management best expectation (2019: BD Nil) [note 7].

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

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

	2020 BD '000	2019 BD '000
Short term benefits	1,768	1,552
End of service benefits	40	55
Contributions to Alba Savings Benefit Scheme	119	119
	<u>1,927</u>	<u>1,726</u>

Directors' Fees during 2020 amounting to BD 210 thousand (2019: BD 210 thousand) without accounting for the attendance fees of BD 140 thousand (2019: BD 145 thousand). Sitting fees during 2020 amounting to BD 84 thousand (2019: BD 84 thousand).

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At 31 December 2020

28 RISK MANAGEMENT

The Group is exposed to credit risk, liquidity risk and market risk from its financial instruments. The Group is also exposed to commodity price risk and operational risk as part of its business activities.

***Risk management framework***

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

The Group audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

**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 and from its financing activities, including from its trade receivables, deposits with banks and financial institutions, foreign exchange transactions and derivative financial instruments.

The maximum exposure to credit risk at the reporting date is the carrying amount of financial assets and is as follows:

	2020 BD '000	2019 BD '000
Cash at bank	44,367	81,244
Trade receivables	105,141	123,902
Other receivables	8,180	7,469
	<u>157,688</u>	<u>212,615</u>

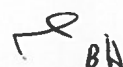
***Bank balances and financial instruments***

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

***Trade and other receivables***

The Group manages credit risk with respect to receivables from customers by receiving payments in advance from customers, obtaining letters of credit and other forms of credit insurance, by monitoring the exposure to customers on an ongoing basis. For trade receivables (other than those from related parties), an impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses on outstanding receivables balances net of advances. For receivable from a related party, a specific cash shortfall assessment is performed using inputs that are specific to the discussions being held with the related party (refer note 27).

2020	Exposure BD '000	Weighted average loss rate	Loss allowance BD '000
Current	84,281	0.0%	24
0 - 30 days	15,328	0.4%	59
31 - 360 days	422	26.5%	112
	<u>100,031</u>		<u>195</u>

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28 RISK MANAGEMENT (continued)

Credit risk (continued)

2019	Exposure BD '000	Weighted average loss rate	Loss allowance BD '000
Current	100,919	0.06%	56
0 - 30 days	12,803	0.80%	102
31 - 360 days	1,487	5.78%	86
Over 360 days	20	100.00%	20
	<u>115,229</u>		<u>264</u>

All exports are backed by letter of credits, insurance and cash against documents, which constitute 99% of the trade receivables balance (excluding related parties). The Group has been transacting with most of its export customers for a long period of time and none of these customer balances have been credit impaired or written off.

Derivative contracts are entered into with approved counterparties and the Group is not subject to significant credit risk on these contracts. Also since derivative assets and trade receivables with provisional pricing arrangements are classified as assets measured fair value through profit or loss, no separate ECL is required to be recognized for such contracts.

Credit risk concentration

The Group sells its products to a large number of customers. Its five largest customers, which account for 39% of the outstanding trade receivables at 31 December 2020 (2019: 38%).

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's objective when managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sale require amounts to be paid within 30 to 90 days of the date of sale. Trade payables are non-interest bearing and are normally settled within 45 days terms.

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

	Gross Contractual Cashflows					Total BD '000
	Carrying values BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	
<b>31 December 2020</b>						
Loans and borrowings (including interest payable)	1,030,810	(10,672)	(238,744)	(468,028)	(416,042)	(1,133,486)
Derivative financial instruments	8,295	-	(2,615)	(5,680)	-	(8,295)
Trade and other payables	207,257	(207,257)				(207,257)
Lease liabilities	6,555	(339)	(899)	(1,879)	(5,651)	(8,768)
<b>Total</b>	<b>1,252,917</b>	<b>(218,268)</b>	<b>(242,258)</b>	<b>(475,587)</b>	<b>(421,693)</b>	<b>(1,357,806)</b>

	Gross Contractual Cashflows					Total BD '000
		Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	
<b>31 December 2019</b>						
Loans and Borrowings (including interest payable)	1,009,135	(12,610)	(86,169)	(448,964)	(535,759)	(1,083,502)
Derivative financial instruments	4,132	-	(1,134)	(2,998)	-	(4,132)
Trade and other payables	168,468	(168,468)	-	-	-	(168,468)
Lease liabilities	6,121	(380)	(904)	(2,675)	(3,965)	(7,924)
<b>Total</b>	<b>1,187,856</b>	<b>(181,458)</b>	<b>(88,207)</b>	<b>(454,637)</b>	<b>(539,724)</b>	<b>(1,264,026)</b>



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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 28 RISK MANAGEMENT (continued)

##### Liquidity risk (continued)

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement.

As disclosed in Note 15, the Group has bank loans that contains various loan covenants that are regularly reviewed and negotiated with its lenders. A future breach of covenant could require the Group to repay the loan earlier than indicated in the above table. The covenant is monitored on a regular basis by the finance department and regularly reported to management and board of directors to ensure compliance with the agreement.

##### Market risk

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

The Group uses derivatives to manage interest rate market risks. All such transactions are carried out within the guidelines set by the risk management committee. Generally, the Group seeks to apply hedge accounting to manage volatility in profit or loss.

##### Interest rate risk

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

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (receivable balance, call accounts and loans and borrowings). The Group uses interest rate swap transaction for floating rate borrowing as hedge of the variability in cash flows attributable to movements in interest rates.

The Group determines the existence of an economic relationship between hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts. If a hedging relationship is directly affected by uncertainty arising from IBOR reform, then the Group assumes for this purpose that the benchmark interest rate is not altered as a result of interest rate benchmark reform.

The Group assesses whether the derivatives designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item by using the hypothetical derivative method.

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of counterparty's and the Group's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of hedged cash flows attributable to the change in interest rates, and
- difference in repricing dates between the swaps and borrowings.

Hedging relationships that are impacted by IBOR reform may experience ineffectiveness because of a timing mismatch between the hedged item and hedging instrument regarding IBOR transition. For details please refer to '*Management interest rate benchmark reform and associated risks*' below.

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

##### Exposure to interest rate risk

The interest rate profile of the Group's interest bearing financial instruments as reported to the management of the Group is as follows:

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28 RISK MANAGEMENT (continued)

Interest rate risk (continued)

	2020 BD '000	2019 BD '000
<b>Variable rate instruments</b>		
Financial assets	27,352	51,276
Financial liabilities	(1,062,682)	(1,045,919)
	(1,035,330)	(994,643)
Effect of interest rate swaps	265,080	282,000
	<b>(770,250)</b>	<b>(712,643)</b>

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible changes of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss		Equity	
	100 bp increase BD '000	100 bp decrease BD '000	100 bp increase BD '000	100 bp decrease BD '000
<b>31 December 2020</b>				
Variable-rate instrument	(10,353)	10,353	-	-
Interest rate swaps	2,651	(2,651)	12,268	(12,323)
Cash flow sensitivity (net)	<b>(7,702)</b>	<b>7,702</b>	<b>12,268</b>	<b>(12,323)</b>
<b>31 December 2019</b>				
Variable-rate instrument	(9,946)	9,946	-	-
Interest rate swaps	2,820	(2,820)	-	-
Cash flow sensitivity (net)	<b>(7,126)</b>	<b>7,126</b>	-	-

Managing interest rate benchmark reform and any risks arising due to reform:

(i) Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition across the jurisdictions that the Group operates in. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

(ii) Derivative

The Group holds interest rate swap for risk management purposes, which is designated in cash flow hedging relationships. The interest rate swap has floating leg that is indexed to dollar LIBOR. The Group's derivative instruments are governed by the International Swaps and Derivatives Association (ISDA)'s Master Agreement. ISDA is currently reviewing its standardised contracts in the light of IBOR reform. When ISDA has completed its review, the Group expects to negotiate the inclusion of new fallback clauses with its derivative counterparties. No derivative instruments have been modified as at 31 December 2020.

(iii) Hedge accounting

The Group evaluated the extent to which its cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at 31 December 2020. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rate which is dollar LIBOR. IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

However, the Group's cash flow hedging relationships extend beyond the anticipated cessation date for dollar LIBOR. The Group expects that dollar LIBOR will be discontinued after the end of 2021. The alternative reference rate is Secured Overnight Financing Rate (SOFR). However, there is uncertainty as to when and how replacement may occur with respect to the relevant hedged item and hedging instrument. Such uncertainty may impact the hedging relationship e.g. its effectiveness assessment and highly probable assessment. The Group applies the amendments to IFRS 9 issued in September 2019 to those hedging relationships directly affected by IBOR reform.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2020

#### 28 RISK MANAGEMENT (continued)

##### Interest rate risk (continued)

Hedging relationships impacted by IBOR reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and hedging instrument, which may lead to hedge ineffectiveness. The Group has measured its hedging instrument indexed to dollar LIBOR using available quoted market rates for LIBOR-based instruments of the same tenor and similar maturity and has measured the cumulative change in present value of hedged cash flows on a similar basis.

The Group's exposure to dollar LIBOR designated in a hedging relationship is BD 265.08 million nominal amount at 31 December 2020 attributable to the interest rate swap hedging dollar LIBOR cash flows on the principal amount of BD 530.16 million of the Group's dollar-denominated secured bank loan liability maturing in 2027.

##### Commodity price risk

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

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

	<i>Increase/ decrease in LME price</i>	<i>Effect on results for the year BD '000</i>
<b>2020</b>	<b>+30%</b>	<b>(2)</b>
	<b>-30%</b>	<b>2</b>
<b>2019</b>	<b>+30%</b>	<b>(4)</b>
	<b>-30%</b>	<b>4</b>

##### Foreign currency risk

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

The Group's financial instruments are mainly denominated in Bahraini Dinars, US Dollars, Euros, Swiss Francs and Great Britain Pounds. The Group sometimes uses forward foreign exchange contracts to hedge against foreign currency payables. As of 31 December 2020 and 31 December 2019 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:

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28 RISK MANAGEMENT (continued)

Commodity price risk (continued)

<i>Financial</i>	<i>Currency</i>	<b>2020</b> <i>BD '000</i>	<b>2019</b> <i>BD '000</i>
Bank balances	Euro	17,627	47,876
	Swiss Francs	25	72
Receivables	Euro	12,057	9,409
Loans and Borrowings	Euro	236,892	240,474
Payables	Euro	1,406	6,928
	Swiss Francs	361	966
	Great Britain Pounds	183	131

The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar's currency rate against currencies which are exposed to currency risk, with all other variables held constant, on the consolidated statement of comprehensive income (due to the fair value of currency sensitive monetary assets and liabilities).

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

<i>Currency</i>	<b>2020</b>		<b>2019</b>	
	<i>Increase in currency rate to the BD</i>	<i>Effect on results for the year BD '000</i>	<i>Increase in currency rate to the BD</i>	<i>Effect on results for the year BD '000</i>
<i>Euro</i>	+10%	(20,861)	+10%	(19,012)
<i>Swiss Francs</i>	+10%	(34)	+10%	(89)
<i>Great Britain Pounds</i>	+10%	(18)	+10%	(13)
		<u>(20,913)</u>		<u>(19,114)</u>

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements; and
- documentation of controls and procedures

Compliance with the Group's standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 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 2020 and 31 December 2019. The primary objective of the Company's capital management is to ensure that it maintains a healthy capital base in order to support its business and maximise shareholders' value.

The Group is not subject to externally imposed capital requirements, except those, linked to certain debt covenants that impose restrictions of payment of dividends and capital transactions (refer note 15).

29 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Set out below is an overview of financial instruments held by the Group as at 31 December 2020

	<i>Finance assets at amortised cost</i>		<i>Financial assets at fair value through profit or loss</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Financial assets</b>				
Cash at bank	44,367	81,244	-	-
Trade and other receivables	111,173	109,281	2,148	22,090
	<b>155,540</b>	<b>190,525</b>	<b>2,148</b>	<b>22,090</b>
	<i>Financial liabilities at amortised cost</i>		<i>Financial liabilities at fair value</i>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Financial liabilities</b>				
Loans and Borrowings	1,024,134	1,002,481	-	-
Trade and other payables	207,257	168,468	-	-
Derivative financial instruments	-	-	8,295	4,132
	<b>1,231,391</b>	<b>1,170,949</b>	<b>8,295</b>	<b>4,132</b>

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.

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

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

- Receivables/borrowings are evaluated by the Group based on parameters such as specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the contract terms. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at 31 December 2020, the carrying amounts of such receivables, net of allowances, were not materially different from their calculated fair values, except for the trade receivable (subject to provisional pricing).
- The Group's derivative financial instruments are measured at fair value using Level 2 inputs. The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and commodity forward contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and forward rates, interest rate curves and forward rate curves of the underlying commodity. All derivative contracts are fully cash collateralised, thereby eliminating both counterparty and the Group's own non-performance risk.

**Fair value hierarchy**

As at 31 December 2020 and 31 December 2019, the Group's derivative financial instruments and trade receivables (subject to provisional pricing) 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 2020 and 31 December 2019, 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 (2019: same).

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

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

**30 ALBA SAVINGS BENEFIT SCHEME**

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

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

**31 CORRESPONDING FIGURES**

The Group has reclassified 'trade receivables' (subject to provisional pricing) at fair value within its trade receivable note 7 and also enhanced its disclosures on accounting policies and fair value hierarchy for such components.

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