

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

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

**31 DECEMBER 2011**

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

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2011.

**Principal Activity**

Aluminium Bahrain B.S.C. ("the Company") was incorporated as a Bahrain Joint Stock Company (closed) in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) Number 999. The Company converted to 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.

**Registered Office**

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

**Winterthur Branch**

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

**Hong Kong Branch**

On 30 November 2011, the Board approved the establishment of a Sales Office in Hong Kong, which is in the process of being incorporated.

**Share Capital Structure**

Shareholders	2011 (%)	2010 (%)
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. Afshan Akhtar, the General Counsel and Corporate Secretary was appointed on 1 August 2011 in place of Ms. Alisa Newman Hood who has left the Company.

Tm

LA

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

**Chief Officers**

Mr. Mohammed Mahmood retired as Chief Operating Officer of the Company on 1 February 2011. Mr. Jean Baptiste Lucas was appointed as the Chief Marketing Officer of the Company on 9 January 2011.

**Results and Retained Earnings**

The Company made a profit of BD211.903 Million during the year as compared to a profit of BD138.222 Million in 2010.

**Results and retained earnings (continued)**

The movements in retained earnings of the Company were:

	<b>BD '000</b>
Balance as at 31 December 2010	<b>429,245</b>
Profit for the year 2011	<b>211,903</b>
Interim dividend paid for 2011	<b>(38,203)</b>
Final dividend proposed for 2011	<b>(56,509)</b>
Excess of Final Dividend for 2010 reversed	<b>26</b>
Loss on resale of treasury shares	<b>(27)</b>
Transfer to statutory reserve	<b>(2,371)</b>
	<hr/>
<b>Balance as at 31 December 2011</b>	<b>544,064</b>

**Appropriations**

- (1) On 30 March 2011, the Company's shareholders approved the Board of Directors' recommendation to pay a final dividend for 2010 of BD0.044 per share (excluding treasury shares) totalling BD62,294 thousand relating to 2010 from which BD 62,268 thousand was paid. No dividend was paid for 2009.
- (2) (a) On 1 August 2011, the Board of Directors recommended an interim dividend of BD0.027 per share (excluding treasury shares) totalling BD38,203 thousand (2010: no interim dividend) which was subsequently paid.  
  
(b) On 16 February 2012, the Board of Directors recommended a final dividend of BD0.040 per share (excluding treasury shares) totalling BD56,509 thousand.

Both of the above noted appropriations per item (2) are subject to the approval of the shareholders of the Company at the Annual General Meeting to be held on 8 March 2012.

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

**Directors of the Company**

The following Directors served during the year ended 31 December 2011 up to the date of this report:

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

Mr. Mahmood H. Al Kooheji, Chairman  
Mr. Fawzi Ahmed Kanoo, Director  
Sheikh Mohamed Bin Khalifa al Khalifa, Director  
Mr. Yousif A. Taqi, Director  
Mr. Osama M. Al Arrayedh, Director  
Mr. David E. Meen, Director

**Sabic Industrial Investments Company**

Mr. Mutlaq H. Al Morished  
Mr. Homood A. Al Tuwaijri

**Elected Director**

Mr. Abdulaziz S. Al Humaid

**Directors' Remuneration**

Directors' remuneration charged during the year ended 31 December 2011 was BD200,000 (2010: BD195,000).

**Auditors**

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment as auditors of the Company for the year ending 31 December 2012 will be submitted to the Annual General Meeting of shareholders.

By order of the Board



Mahmood H. Al Kooheji  
Chairman  
16 February 2012



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

### **Report on the financial statements**

We have audited the accompanying financial statements of Aluminium Bahrain B.S.C. ('the Company'), which comprise the statement of financial position as at 31 December 2011 and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board of Directors' Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other regulatory requirements**

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

- a) the Company has maintained proper accounting records and the financial statements are in agreement therewith; and
- b) the financial information contained in the Report of Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain (CBB) Rule Book (applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Company's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

A stylized, handwritten signature of 'Ernst & Young' in black ink.

16 February 2012  
Manama, Kingdom of Bahrain

# Aluminium Bahrain B.S.C.

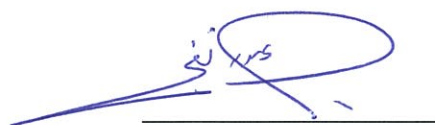
## STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Note	2011 BD '000	2010 BD '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	946,807	992,149
Long term receivable	4	13,753	17,192
		<b>960,560</b>	<b>1,009,341</b>
<b>Current assets</b>			
Inventories	5	158,020	152,308
Current portion of long term receivable	4	3,438	3,438
Accounts receivable and prepayments	6	83,285	99,342
Derivative financial instruments	18	-	2,352
Bank balances and cash	7	99,487	59,812
		<b>344,230</b>	<b>317,252</b>
<b>TOTAL ASSETS</b>		<b>1,304,790</b>	<b>1,326,593</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	8	142,000	142,000
Treasury shares	9	(5,029)	(3,735)
Statutory reserve	11	71,000	68,629
Capital reserve	12	249	249
Retained earnings		544,064	429,245
Proposed dividend	13	56,509	62,294
<b>Total equity</b>		<b>808,793</b>	<b>698,682</b>
<b>Non-current liabilities</b>			
Borrowings	14	167,140	243,738
Derivative financial instruments	18	34,324	102,742
Employees' end of service benefits	15 (a)	940	972
		<b>202,404</b>	<b>347,452</b>
<b>Current liabilities</b>			
Borrowings	14	149,733	145,367
Short term loans	16	13,084	6,813
Accounts payable and accruals	17	100,130	84,765
Derivative financial instruments	18	30,646	43,514
		<b>293,593</b>	<b>280,459</b>
<b>Total liabilities</b>		<b>495,997</b>	<b>627,911</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,304,790</b>	<b>1,326,593</b>

These financial statements were authorised for issue in accordance with a resolution of the Directors on 16 February 2012 and signed on their behalf by:

  
Chairman

  
Director

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

# Aluminium Bahrain B.S.C.

## STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	<i>Note</i>	<b>2011</b> <b>BD '000</b>	<b>2010</b> <b>BD '000</b>
Sales		<b>883,317</b>	750,819
Cost of sales		<b>(662,259)</b>	(555,079)
<b>GROSS PROFIT</b>		<b>221,058</b>	195,740
Other income	19	<b>7,641</b>	6,160
Selling and distribution expenses		<b>(21,835)</b>	(15,566)
Administrative expenses		<b>(24,820)</b>	(26,854)
Gain (loss) on exchange		<b>394</b>	(3,072)
Directors' fees	23	<b>(200)</b>	(195)
Finance costs	20	<b>(7,233)</b>	(7,633)
<b>PROFIT FOR THE YEAR BEFORE DERIVATIVES</b>		<b>175,005</b>	148,580
Gain (loss) on revaluation/settlement of derivative financial instruments (net)	18	<b>36,898</b>	(10,358)
<b>PROFIT FOR THE YEAR</b>	20	<b>211,903</b>	138,222
Other comprehensive income for the year		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>211,903</b>	138,222
Basic and diluted earnings per share (fils)	10	<b>150</b>	98

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



**Aluminium Bahrain B.S.C.**  
**STATEMENT OF CASH FLOWS**

Year ended 31 December 2011

	Note	2011 BD '000	2010 BD '000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		211,903	138,222
Adjustments for:			
Depreciation	3	78,777	74,239
Provision for employees' end of service benefits	15 (a)	789	904
Gain on revaluation of derivative financial instruments	18	(78,934)	(12,521)
Loss (gain) on disposal of property, plant and equipment		162	(206)
Write off of property, plant and equipment - net book value		81	454
Interest income	19	(392)	(533)
Finance costs	20	6,563	7,244
Cost of Employees' Stock Incentive Plan	20	645	75
		<b>219,594</b>	<b>207,878</b>
Working capital changes:			
Inventories		(5,712)	15,803
Accounts receivable and prepayments		16,057	(7,127)
Accounts payable and accruals		15,621	(12,881)
Cash from operations		<b>245,560</b>	<b>203,673</b>
Employees' end of service benefits paid	15 (a)	(821)	(923)
Net cash flows from operating activities		<b>244,739</b>	<b>202,750</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	3	(34,447)	(24,002)
Proceeds from disposal of property, plant and equipment		769	389
Term deposit	7	3,011	(3,011)
Interest received	19	392	533
Net cash flows used in investing activities		<b>(30,275)</b>	<b>(26,091)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of long term receivable	4	3,439	3,438
Borrowings availed		222,141	202,186
Borrowings repaid		(294,373)	(269,688)
Movement in short term loans		6,271	(2,010)
Finance costs paid		(6,819)	(7,965)
Dividends paid		(100,471)	-
Margin deposit	7	932	(932)
Purchase of treasury shares	9	(3,125)	(12,412)
Proceeds from resale of treasury shares		1,159	-
Purchase of shares for employees' stock incentive plan	9	-	(2,700)
Purchase of shares subsequent to the Initial Public Offering	9	-	(1,110)
Repayment of contributions from shareholders		-	(75,954)
Net cash flows used in financing activities		<b>(170,846)</b>	<b>(167,147)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>43,618</b>	<b>9,512</b>
Cash and cash equivalents at 1 January		<b>55,869</b>	<b>46,357</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	7	<b>99,487</b>	<b>55,869</b>

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

Aluminium Bahrain B.S.C.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Note	Share capital BD '000	Treasury shares BD '000	Statutory reserve BD '000	Capital reserve BD '000	Contributions		Retained earnings BD '000	Proposed dividend BD '000	Total BD '000
						from shareholders BD '000				
Balance at 31 December 2009		142,000	-	54,807	249	75,954	-	380,675	-	653,685
Total comprehensive income for the year		-	-	-	-	-	-	138,222	-	138,222
Amounts repaid to shareholders		-	-	-	-	(75,954)	-	-	-	(75,954)
Treasury shares purchased from Breton	9	-	(13,536)	-	-	-	-	-	-	(13,536)
Reissue of treasury shares to shareholders	9	-	13,536	-	-	-	(13,536)	-	-	-
Treasury shares purchased during the year	9	-	(3,735)	-	-	-	-	-	-	(3,735)
Transfer to statutory reserve	11	-	-	13,822	-	-	(13,822)	-	-	-
Proposed cash dividend	13	-	-	-	-	-	(62,294)	62,294	-	-
Balance at 31 December 2010		142,000	(3,735)	68,629	249	-	429,245	62,294	-	698,682
Total comprehensive income for the year		-	-	-	-	-	211,903	-	-	211,903
Net movement in treasury shares		-	(1,939)	-	-	-	-	-	-	(1,939)
Amortisation of the cost of treasury shares held for Employees' Stock Incentive Plan		-	645	-	-	-	-	-	-	645
Loss on resale of treasury shares		-	-	-	-	-	(27)	-	-	(27)
Transfer to statutory reserve	11	-	-	2,371	-	-	(2,371)	-	-	-
Final dividend for 2010 approved and paid	13	-	-	-	-	-	-	(62,268)	-	(62,268)
Excess of final dividend for 2010 reversed		-	-	-	-	-	26	(26)	-	-
Interim dividend for 2011 proposed and paid	13	-	-	-	-	-	(38,203)	-	-	(38,203)
Proposed final dividend for 2011	13	-	-	-	-	-	(56,509)	56,509	-	-
<b>Balance at 31 December 2011</b>		<b>142,000</b>	<b>(5,029)</b>	<b>71,000</b>	<b>249</b>	<b>-</b>	<b>544,064</b>	<b>56,509</b>	<b>-</b>	<b>808,793</b>

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

---

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2011

**1 ACTIVITIES**

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

Subsequent to the Initial Public Offering (IPO), the Company became a Bahrain Public Joint Stock Company effective 23 November 2010 and its shares were listed on the Bahrain Bourse (previously the Bahrain Stock Exchange) and Global Depository Receipts were listed on the London Stock Exchange. The Company has its registered office at 150 Askar Road, Askar 951, Kingdom of Bahrain.

As of 31 December 2011, the majority shareholder of the Company was Bahrain Mumtalakat Holding Company B.S.C. (c) (Mumtalakat), a company wholly owned by the Government of the Kingdom of Bahrain through the Ministry of Finance, which holds 69.38% of the Company's share capital.

The Company is engaged in manufacturing aluminium and aluminium related products. The Company owns and operates a primary aluminium smelter and the related infrastructure. The Company also has a branch office in Zurich, Switzerland.

On 3 September 1990, the Company entered into a Quota Agreement between the Company, the Government of the Kingdom of Bahrain (GB), SABIC Industrial Investments Company (SIIC) and Breton Investments Limited (Breton). The Quota Agreement remains in full force and effect and was not amended with respect to the transfer of GB's shareholding in the Company to Mumtalakat. Consequent to the purchase of shares held by Breton in 2010, Breton ceased to be a shareholder of the Company, thereby revoking its entitlement to rights and obligations under the Quota Agreement, including the right to require the Company to sell the eligible quota of aluminium to Breton at a specified price.

On 25 May 2010, Mumtalakat provided a letter to the Company whereby it irrevocably and unconditionally waived its rights under the Quota Agreement requiring the Company to sell the eligible quota of aluminium to Mumtalakat. Consequently, as a result of this waiver the Company is no longer under an obligation to sell any part of its production to Mumtalakat. The Company is now free to sell 69.38% of its production to third-party customers on commercial terms. Mumtalakat has also acknowledged that it is under an obligation to purchase its quota of aluminium produced by the Company, should the Company decide to sell Mumtalakat's quota in accordance with the Quota Agreement. SIIC has not given a corresponding written waiver to the Company as at the date of approval of these financial statements.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New and amended standards and interpretations effective as of 1 January 2011**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretation Committee (IFRIC) interpretations effective as of 1 January 2011:

**IAS 24 Related Party Disclosures (Amendment)**

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasise a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

**IAS 32 Financial Instruments: Presentation (amendment)**

The amendment alters the definition of a financial liability in IAS 31 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given prorata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Company as the Company has not issued these type of instruments.

**IFRS 7 Financial Instruments: Disclosures (amendment)**

These amendments introduced new disclosure requirements for transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendment has had no effect on the disclosures made by the Company as the Company has not issued these types of instruments.

**Improvements to IFRSs**

In May 2010 the Board issued its third omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Company.

*IFRS 7 Financial Instruments - Disclosures*

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. In addition other amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.

*IAS 1 Presentation of Financial Statements*

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income in the statement of changes in equity or in the notes to the financial statements.

Amendments resulting from Improvements to IAS 34 Interim Financial Statements did not have any impact on the accounting policies, financial position or performance of the Company.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Prospective changes in accounting policies**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective:

**IAS 1 Financial Statement Presentation**

The amendments becomes effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Company's financial position or performance.

**IAS 19 Employee Benefits**

The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in the Other Comprehensive Income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording. The Company is currently assessing the full impact of these amendments.

**IFRS 9 Financial Instruments**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in International Accounting Standard 39 (IAS 39) Financial Instruments : Recognition and Measurement.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

The standard is currently effective for annual periods beginning on or after 1 January 2013. The IASB issued an exposure draft - that proposes the mandatory effective date is changed to periods beginning on or after 1 January 2015 with early application continuing to be permitted. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Company will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Prospective changes in accounting policies (continued)**

**IFRS 13 Fair Value Measurement**

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company is currently assessing the full impact of this new standard.

**Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company 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 repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

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

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

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

**Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company 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.

**Borrowing costs**

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

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 progress	Cost of direct materials, labour plus attributable overheads based on normal level of activity.
Stores	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.

**Accounts receivable**

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

**Cash and cash equivalents**

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

**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 statement of comprehensive income on the purchase, sale, issue or cancellation of the treasury shares. Gains arising from the subsequent resale of treasury shares is treated as non-distributable and included in treasury shares reserve. Any loss arising from the subsequent resale of treasury shares is first adjusted against the treasury shares reserve, if any, and charged to retained earnings if the amounts in treasury shares reserve is not sufficient to cover the loss.

**Borrowings**

Borrowings are recognised initially at the fair value of the consideration received less directly attributable transaction costs. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method. Instalments due within one year are disclosed under current liabilities.

Interest is charged as an expense based on effective yield, with unpaid interest amounts included in 'accounts payable and accruals'.

**Employee benefits**

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

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

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employee benefits (continued)**

*Alba Savings Benefit Scheme*

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

*Employees' Stock Incentive Plan*

The cost of shares allocated to the Employees' Stock Incentive Plan is charged to the statement of comprehensive income over three years, being the vesting period for which the employee has to remain with the Company to be entitled to the shares.

**Accounts payable and accruals**

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

**Provisions**

Provisions are recognised when the Company have an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

**Revenue recognition**

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

*Sale of goods*

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

*Other income*

Other income is recognised as the income accrues.

**Derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognised in the statement of financial position at cost, including transaction costs, and subsequently re-measured to fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

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

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



**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derivative financial instruments and hedging activities (continued)**

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

- at the inception of the hedge there is formal documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the Company 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; and
- 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;
- 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 statement of comprehensive income.

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

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

**Foreign currencies**

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

**Fair values**

The fair values of financial instruments traded in active markets (such as publicly traded derivatives) are based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market (for example, over the counter derivatives, interest rate collars etc) are determined by valuation techniques carried out by counterparties. The fair values of forward foreign exchange contracts are determined using forward exchange market rates at the reporting date with the same maturity.

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

3 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings BD '000</i>	<i>Power generating plant BD '000</i>	<i>Plant, machinery and other equipment BD '000</i>	<i>Assets in process of completion BD '000</i>	<i>Total BD '000</i>
<b>Cost:</b>					
At 1 January 2011	265,572	394,678	1,112,861	75,339	1,848,450
Additions	-	-	-	34,447	34,447
Transfers	2,056	17,404	33,728	(53,188)	-
Disposals	(478)	(4,716)	(5,348)	-	(10,542)
Write offs	(150)	-	(1,645)	-	(1,795)
At 31 December 2011	267,000	407,366	1,139,596	56,598	1,870,560
<b>Depreciation:</b>					
At 1 January 2011	86,066	191,104	579,131	-	856,301
Charge for the year	6,580	18,741	53,456	-	78,777
Relating to disposals	(276)	(4,706)	(4,629)	-	(9,611)
Relating to write offs	(122)	-	(1,592)	-	(1,714)
At 31 December 2011	92,248	205,139	626,366	-	923,753
<b>Net carrying value: At 31 December 2011</b>	<b>174,752</b>	<b>202,227</b>	<b>513,230</b>	<b>56,598</b>	<b>946,807</b>

	<i>Land and buildings BD '000</i>	<i>Power generating plant BD '000</i>	<i>Plant, machinery and other equipment BD '000</i>	<i>Assets in process of completion BD '000</i>	<i>Total BD '000</i>
<b>Cost:</b>					
At 1 January 2010	265,838	402,394	1,103,484	56,530	1,828,246
Additions	-	-	-	24,002	24,002
Transfers	55	(7,199)	12,337	(5,193)	-
Disposals	(181)	(32)	(1,142)	-	(1,355)
Write offs	(140)	(485)	(1,818)	-	(2,443)
At 31 December 2010	265,572	394,678	1,112,861	75,339	1,848,450
<b>Depreciation:</b>					
At 1 January 2010	79,703	179,964	525,556	-	785,223
Charge for the year	6,540	15,174	52,525	-	74,239
Transfers	-	(3,527)	3,527	-	-
Relating to disposals	(107)	(22)	(1,043)	-	(1,172)
Relating to write offs	(70)	(485)	(1,434)	-	(1,989)
At 31 December 2010	86,066	191,104	579,131	-	856,301
<b>Net carrying value: At 31 December 2010</b>	<b>179,506</b>	<b>203,574</b>	<b>533,730</b>	<b>75,339</b>	<b>992,149</b>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

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

- a) Land and buildings include freehold land at a cost of BD 453 thousand as at 31 December 2011 (2010: BD 453 thousand).
- b) The Company is utilising land leased from the Government of Bahrain for the operations of lines 3, 4 and 5 and land leased from The Bahrain Petroleum Company B.S.C. (c) (BAPCO) for its calciner operations. These leases are free of rent.
- c) The depreciation charge is allocated to cost of sales in the statement of comprehensive income.

**4 LONG TERM RECEIVABLE**

This represents amount due from Gulf Aluminium Rolling Mill Company B.S.C. (c) (GARMCO), a company partly owned by two of the Company's shareholders. The amount due is repayable in 16 half yearly instalments and the last instalment is due on 31 December 2016. Interest is payable half yearly on the outstanding balance at 6 months LIBOR plus a margin of 1% and the effective interest rate as of 31 December 2011 was 1.39% (2010: 1.75%).

The current and non-current portion of the long term receivable as of 31 December 2011 is as follows:

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
Current portion	<b>3,438</b>	3,438
Non-current portion	<b>13,753</b>	17,192
	<b>17,191</b>	20,630

**5 INVENTORIES**

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
Goods in transit	<b>20,247</b>	23,056
Raw materials	<b>43,897</b>	33,656
Work-in-process	<b>52,906</b>	48,766
Finished goods	<b>19,038</b>	25,597
Stores stock [net of provision of BD 1,200 thousand (2010: BD 1,200 thousand)]	<b>21,932</b>	21,233
	<b>158,020</b>	152,308

Movements in the allowance for provision for slow moving store stock were as follows:

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
At 1 January	<b>1,200</b>	1,200
Charge for the year	<b>394</b>	2,277
Write off	<b>(394)</b>	(2,277)
At 31 December	<b>1,200</b>	1,200

# Aluminium Bahrain B.S.C.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

### 6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 BD '000	2010 BD '000
Trade accounts receivable [net of provision of BD 5,357 thousand (2010: BD 5,714 thousand)]	77,084	92,780
Other receivables [net of provision of BD 354 thousand (2010 : nil)]	5,513	4,075
Prepayments	688	2,487
	<u>83,285</u>	<u>99,342</u>

Trade accounts receivable include BD 13,084 thousand (2010: BD 6,813 thousand) which have been assigned as a security for short term loans (note 16).

As at 31 December 2011, trade accounts receivable at a nominal value of BD 5,357 thousand (2010: BD 5,714 thousand) were impaired. Movements in the allowance for impairment of trade accounts receivable were as follows:

	2011 BD '000	2010 BD '000
At 1 January	5,714	6,232
Reversal for the year	(357)	(518)
At 31 December	<u>5,357</u>	<u>5,714</u>

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

	Total BD '000	Neither past due nor impaired BD '000	Past due but not impaired			
			Less than 30 days BD '000	30 – 90 days BD '000	91 – 120 days BD '000	Over 120 days BD '000
2011	77,084	76,137	891	56	-	-
2010	92,780	88,133	4,105	455	87	-

### 7 BANK BALANCES AND CASH

	2011 BD '000	2010 BD '000
Cash in hand	20	29
Cash at bank:		
- Current accounts	5,417	33,819
- Call accounts	45,150	22,021
Short term deposits	48,900	-
<b>Cash and cash equivalents</b>	<u>99,487</u>	<u>55,869</u>
Term deposit	-	3,011
Margin deposit	-	932
<b>Bank balances and cash</b>	<u>99,487</u>	<u>59,812</u>

# Aluminium Bahrain B.S.C.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

### 7 BANK BALANCES AND CASH (continued)

A major portion of the bank balances is held with banks in the Kingdom of Bahrain and these balances are denominated in Bahraini Dinars and US Dollars. The call accounts earn interest and the effective interest rates as of 31 December 2011 ranged between 0.12% to 0.25% (2010: 0.12% to 0.2%).

Short term deposits were placed with financial institutions in the Kingdom of Bahrain and matured between 3 January 2012 and 9 January 2012. The effective interest rate on these short term deposits as of 31 December 2011 ranged between 0.12% to 0.65%.

### 8 SHARE CAPITAL

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
Authorised		
2,000,000,000 shares of 100 fils each	<b>200,000</b>	200,000
Issued and fully paid		
1,420,000,000 shares of 100 fils each	<b>142,000</b>	142,000

The distribution of shareholdings are as follows:

<b>Categories</b>	<b>2011</b>			<b>2010</b>		
	<b>Number of shares</b>	<b>Number of shareholders</b>	<b>% of total outstanding share capital</b>	<b>Number of shares</b>	<b>Number of shareholders</b>	<b>% of total outstanding share capital</b>
Less than 1%	59,736,839	2,430	4.21	52,010,689	2,572	3.66
1% up to less than 5%	82,263,161	2	5.79	14,175,966	1	1.00
5% up to less than 20%	-	-	-	75,813,345	1	5.34
20% up to less than 50%	292,804,000	1	20.62	292,804,000	1	20.62
50% and above	985,196,000	1	69.38	985,196,000	1	69.38
	<b>1,420,000,000</b>	<b>2,434</b>	<b>100.00</b>	<b>1,420,000,000</b>	<b>2,576</b>	<b>100.00</b>

### 9 TREASURY SHARES

As explained in note 1, during 2010 the Company purchased its own shares from Breton for a purchase consideration of BD 13,536 thousand (US\$ 36,000 thousand).

On 1 September 2010, the Company reissued the above treasury shares to Mumtalakat and SIIC in a ratio of 79.34% and 20.66% respectively.

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2011

**9 TREASURY SHARES (continued)**

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

	2011		2010	
	No of shares	BD '000	No of shares	BD '000
Held for the Employees' Stock Incentive Plan [(note 15 (c))]	2,215,000	1,274	2,714,000	2,368
Excess of the shares in Employees' Stock Incentive Plan [note 15 (c)]	785,000	707	286,000	257
	<b>3,000,000</b>	<b>1,981</b>	3,000,000	2,625
Purchased subsequent to the IPO - net of sales	4,269,253	3,048	1,226,494	1,110
	<b>7,269,253</b>	<b>5,029</b>	4,226,494	3,735

**10 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 Company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares and is as follows:

	2011 BD '000	2010 BD '000
Profit for the year - BD' 000	<b>211,903</b>	138,222
Weighted average number of shares, net of treasury shares - thousands of shares	<b>1,415,161</b>	1,403,513
Basic and diluted earnings per share (fils)	<b>150</b>	98

Basic and diluted earnings per share are the same since the Company 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 financial statements.

**11 STATUTORY RESERVE**

The Bahrain Commercial Companies Law requires companies to transfer 10% of their annual profit to a statutory reserve, until such time the reserve equals 50% of the paid up share capital. During the year, the company transferred BD 2,371 thousand (2010: BD 13,822 thousand) to achieve the stipulated percentage and has resolved to discontinue transfers. This reserve cannot be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

**12 CAPITAL RESERVE**

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

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**13 DIVIDEND PROPOSED AND PAID**

On 1 August 2011, the Board of Directors proposed an interim dividend of BD 0.027 per share (excluding treasury shares) totalling BD 38,203 thousand (2010: no interim dividend) which was subsequently paid. On 16 February 2012, the Board of Directors recommended a final dividend of BD 0.040 per share (excluding treasury shares) totalling BD 56,509 thousand. Both interim and final dividends are subject to the approval of the Company's shareholders at the Annual General Meeting to be held on 8 March 2012.

On 30 March 2011, the Company's shareholders approved the Board of Directors' proposal to pay a final dividend of BD 0.044 per share (excluding treasury shares) totalling BD 62,294 thousand relating to 2010 from which BD 62,268 thousand was paid (2010: no dividend was paid for 2009).

**14 BORROWINGS**

	<i>Current maturities BD '000</i>	<i>Non-current maturities BD '000</i>	<b>Total 2011 BD '000</b>	<i>Total 2010 BD '000</i>
Working capital revolving credit at 1.5 % to 3.44% (2010: 2.13% to 5.44%) [1]	60,160	-	<b>60,160</b>	75,200
Coke Calcining Project (2010: 0.76% to 1.46%)	-	-	-	4,178
Line 5 projects at 0.86 % to 1.77 % (2010: 0.84% to 2.86%)	19,007	128,762	<b>147,769</b>	166,775
Coface loan at 0.78 % to 0.9 % (2010: 0.78% to 2.23%)	6,492	12,984	<b>19,476</b>	25,968
Refinancing loan at 0.89 % to 1.27 % (2010: 0.65% to 1.27%)	58,705	-	<b>58,705</b>	99,065
Euro Coface loan at 2.63 % to 3.26 % (2010: 2.48% to 2.81%) [2]	3,585	17,543	<b>21,128</b>	14,132
Euro SERV Loan at 2.48 % to 2.98 % (2010: 2.15% to 2.49%) [3]	1,784	7,851	<b>9,635</b>	3,787
<b>Total borrowings</b>	<b>149,733</b>	<b>167,140</b>	<b>316,873</b>	<b>389,105</b>
Payable within one year			<b>149,733</b>	145,367
Payable after one year			<b>167,140</b>	243,738
			<b>316,873</b>	<b>389,105</b>

[1] The working capital revolving credit facilities are subject to annual renewal or periodic review and are expected to be reviewed or confirmed on an on-going basis. The working capital revolving facilities allow the Company to issue promissory notes of up to 12 month terms. It is the Company's policy to maintain the current level of borrowings under these facilities by issuing new promissory notes in place of maturing notes.

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

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**14 BORROWINGS (continued)****[3] Euro SERV Loan**

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

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

**15 EMPLOYEE BENEFITS****a) Defined benefit scheme - leaving indemnity**

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

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
Provision as at 1 January	<b>972</b>	991
Provided during the year (note 20)	<b>789</b>	904
Employees' end of service benefits paid	<b>(821)</b>	(923)
Provision as at 31 December	<b>940</b>	972

**b) Defined contribution schemes**

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

	<i>ALBA Savings Benefit Scheme</i>		<i>Social Insurance Organisation</i>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
Provision as at 1 January	<b>1,528</b>	1,876	<b>989</b>	666
Expense recognised in the statement of comprehensive income (note 20)	<b>3,301</b>	3,561	<b>5,225</b>	5,404
Contributions paid	<b>(3,240)</b>	(3,909)	<b>(4,927)</b>	(5,081)
Provision as at 31 December (note 17)	<b>1,589</b>	1,528	<b>1,287</b>	989

**c) Employees' Stock Incentive Plan**

In accordance with an Employees' Stock Incentive Plan approved by the Board of Directors, the Company purchased 3,000,000 of its shares to be allocated to all of its employees on the Company's payroll as of 1 December 2010. The Company has allocated 1,000 shares each to its 2,714 employees as of 1 December 2010 and these shares will vest after a period of three years. As of 31 December 2011, the number of employees eligible for this plan was 2,215 (2010 : 2,714) and the excess of 785,000 shares is held as treasury shares as of 31 December 2011 (2010 : 286,000 shares).

**16 SHORT TERM LOANS**

These represent short term financing availed from financial institutions in the Kingdom of Bahrain denominated in Bahraini Dinars which is fully secured by the assignment of certain trade receivables amounting to BD 13,084 thousand (2010: BD 6,813 thousand) (note 6). The effective interest rates as of 31 December 2011 ranged between 0.92% to 2.55% (2010: 2.3% to 3%).



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

## 17 ACCOUNTS PAYABLE AND ACCRUALS

	2011 BD '000	2010 BD '000
Trade payables	53,488	50,057
Retentions payable	124	148
Employee related accruals	32,152	20,652
Accrued expenses	11,269	9,256
Advances from customers	221	2,135
Alba Savings Benefit Scheme [note 15 (b)]	1,589	1,528
Social Insurance Organisation [(note 15 (b))]	1,287	989
	<b>100,130</b>	<b>84,765</b>

## 18 DERIVATIVE FINANCIAL INSTRUMENTS

The Company has a number of derivative financial instruments comprising interest rate collars, knockout swaps, forward foreign exchange contracts, commodity options and commodity futures. The fair values of the derivative financial instruments at 31 December 2011 and 31 December 2010 are as follows:

	2011		2010	
	Assets BD '000	Liabilities BD '000	Assets BD '000	Liabilities BD '000
Commodity options	-	55,599	1,440	131,391
Commodity futures	-	715	912	-
Interest rate collars and knockout swaps	-	8,318	-	13,530
Forward foreign exchange contracts	-	338	-	1,335
Total	-	<b>64,970</b>	2,352	146,256

Classified in the statement of financial position as follows:

Non-current portion:

Commodity options	-	29,911	-	95,211
Interest rate collars and knockout swaps	-	4,366	-	7,531
Forward foreign exchange contracts	-	47	-	-
	-	<b>34,324</b>	-	102,742

Current portion:

Commodity options	-	25,688	1,440	36,180
Commodity futures	-	715	912	-
Interest rate collars and knockout swaps	-	3,952	-	5,999
Forward foreign exchange contracts	-	291	-	1,335
	-	<b>30,646</b>	2,352	43,514

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**18 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

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

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
<b>Revaluation:</b>		
Commodity options	74,352	11,385
Commodity futures	(1,627)	46
Interest rate collars and knockout swaps	5,212	1,415
Forward foreign exchange contracts	997	(325)
	<b>78,934</b>	<b>12,521</b>
<b>Realised:</b>		
Commodity options	(34,241)	(14,997)
Commodity futures	(270)	803
Interest rate collars and knockout swaps	(7,525)	(8,685)
	<b>(42,036)</b>	<b>(22,879)</b>
Net gain (loss) on fair valuation taken to statement of comprehensive income	<b>36,898</b>	<b>(10,358)</b>

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

**Commodity options**

The Company entered into commodity options to offset the premium payable on the interest rate collars. The exposure to the Company is that if the LME price of aluminium exceeds US\$ 1,658 (2010: US\$ 1,658) per metric tonne (which is above the London Metal Exchange (LME) price used in the feasibility study for line 5), then the Company will pay the difference between the market price and the average contracted price of US\$ 1,658 (2010: US\$ 1,658) per metric tonne for certain tonnages of aluminium.

**Commodity futures**

The Company entered into commodity futures contracts to reduce the price risk on behalf of its customers for 13,900 metric tonnes (2010: 14,375 metric tonnes).

**Interest rate collars and knockout swaps**

The Company entered into interest rate collar and knockout swap transactions for US\$ 1.5 billion floating rate borrowings for financing the line 5 project (note 14) to manage overall financing costs. These contracts expire on 17 February 2015.

The notional amounts outstanding as at 31 December 2011 was US\$ 513,097 thousand (2010: US\$ 606,451 thousand).

**Forward foreign exchange contracts**

The Company has entered into forward foreign exchange contracts for capital expenditure cash outflows in foreign currencies equivalent to BD 2,179 thousand (2010: BD 10,783 thousand) as of 31 December 2011. These contracts expire on 8 March 2013.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**19 OTHER INCOME**

	<b>2011</b>	2010
	<b>BD '000</b>	BD '000
Interest on bank deposits and receivables	392	533
Sale of water	1,973	1,617
Miscellaneous	5,276	4,010
	<u>7,641</u>	<u>6,160</u>

**20 PROFIT FOR THE YEAR**

Profit for the year is stated after charging:

	<b>2011</b>	2010
	<b>BD '000</b>	BD '000
<i>Staff costs:</i>		
Wages and salaries	83,475	64,865
Employees' end of service benefits [note 15 (a)]	789	904
Alba savings benefit scheme [note 15 (b)]	3,301	3,561
Social Insurance Organisation [note 15 (b)]	5,225	5,404
Indirect benefits (housing, education)	532	517
Payments to contractors	2,580	2,328
Cost of Employees' Stock Incentive Plan	645	75
Others	297	336
	<u>96,844</u>	<u>77,990</u>
Inventories recognised as an expense in cost of sales	<u>392,312</u>	<u>315,475</u>

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

	<b>2011</b>	2010
	<b>BD '000</b>	BD '000
Cost of sales	82,942	67,112
Administrative expenses	12,414	9,680
Selling and distribution expenses	1,488	1,198
	<u>96,844</u>	<u>77,990</u>
<i>Finance costs:</i>		
Interest on borrowings and short term loans	6,563	7,244
Bank charges	670	389
	<u>7,233</u>	<u>7,633</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**21 COMMITMENTS AND CONTINGENCIES****a) Commitments**

	2011 BD '000	2010 BD '000
<i>Physical metal commitments</i>		
Sales commitments :		
14,480 metric tonnes (2010: 7,250 metric tonnes)	<u>13,853</u>	<u>7,268</u>

*Raw material supply agreements*

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

*Treasury shares*

The Board of Directors authorised the Company to purchase its own shares to a total cost amounting to BD 5,000 thousand. As of 31 December 2011, the Company has a remaining commitment of BD 1,500 (2010: BD 3,000 thousand) towards the purchase of its own shares.

*Capital expenditure*

Estimated capital expenditure contracted for at the reporting date amounted to BD 21,995 thousand (2010: BD 28,197 thousand). The commitments are expected to be settled within 1 to 5 years.

*Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2011 were BD 10,752 thousand (2010: BD 3,873 thousand). The commitments are expected to be settled within 1 year.

At 31 December 2011, the Company's bankers have issued letters of credit to counterparties for derivative transactions amounting to BD 11,290 thousand (2010: BD 24,440 thousand).

**b) Contingencies**

The Company has issued guarantees to banks in the Kingdom of Bahrain in respect of the Albaskan Scheme, amounting to BD 11,974 thousand (2010: BD 9,705 thousand). The Albaskan Scheme entitles all qualifying employees to acquire houses.

**c) Legal claims**

- i) A third party has initiated a claim against the Company towards damages caused to its business unit. The Company is defending the claim and it is not practicable to estimate the liability and timing of any payments at this stage. Hence no provision has been recognised in these financial statements.
- ii) On 27 February 2008, the Company filed a suit in a U.S. Federal District Court against Alcoa, Inc., Alcoa World Alumina LLC and members of its senior management (together, "Alcoa"). In the complaint, the Company alleges that Alcoa conspired to bribe certain former members of its senior management and officials of the Government of the Kingdom of Bahrain to ensure that Alcoa continued to benefit from the Company's alumina purchases at inflated prices. Among other remedies, the Company is seeking damages in excess of (BD 376 million) US\$ 1 billion for illicit activities that took place from 1993 to 2008.

The U.S. Government had in March 2008 been granted an unopposed motion to intervene and to stay discovery to allow the U.S. Government to conduct a criminal investigation into the allegations without interference from the ongoing civil litigation. The stay was lifted in November 2011 and the suit is still ongoing.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**21 COMMITMENTS AND CONTINGENCIES (continued)****c) Legal claims (continued)**

- iii) During 2009 the Company filed a complaint with the Public Prosecutor, who initiated a criminal proceeding against three former employees of Alba Marketing (ALMA). The Company joined the proceedings as a civil right claimant. In its submission the Company claimed that the three former employees earned money from criminal activities and received commissions in contravention of the Bahrain Commercial Companies Law and the Prohibition of and Combating Money Laundering Law of Bahrain ("PCMLL"). In its civil right claim the Company sought to oblige the defendants to pay the amount of US\$ 17,499,412 as interim relief, while preserving the Company's civil right to have recourse against the defendants for all the damages which ALMA has incurred as a result of the acts committed by the three former employees. In November 2010, the Bahrain criminal court found the defendants guilty under the PCMLL. In its judgment, the court did not make any reference to the reservation of the Company's right to compensation pursuant to Article 3.2 of PCMLL. Therefore, it is not clear whether the Company in fact will be able to collect any damages from the defendants. The criminal conviction was pardoned by a Royal Decree. However the Company's civil claim is still pending under a civil court proceeding.
- iv) On 18 December 2009, the Company filed a suit in the U.S. Federal District Court for the Southern District of Texas against Sojitz Corporation (Japan) and Sojitz Corporation of America (together, "Sojitz"). In the complaint, the Company alleges that Sojitz, a former customer of ALMA, conspired to bribe certain former members of the Company's senior management in order to gain substantial price discounts. Among other remedies, the Company is seeking compensatory damages in excess of US\$ 31 million for the illicit activities that took place from 1993 to 2006. On 27 May 2010, the U.S. Government filed an unopposed motion to intervene and stay discovery in this case.

It is not practical to estimate the effect of any of these law suits on the financial statements at this stage.

**22 OPERATING SEGMENT INFORMATION**

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

**a) Product**

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

	2011 BD '000	2010 BD '000
Aluminium	866,791	734,768
Calcined coke	16,526	16,051
<b>Total sales revenue</b>	<b>883,317</b>	<b>750,819</b>

**b) Geographic information**

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

	2011 BD '000	2010 BD '000
Kingdom of Bahrain	405,807	350,841
Asia	131,512	150,636
Rest of the Middle East and North Africa	203,230	154,287
Europe	142,768	95,055
<b>Total sales revenue</b>	<b>883,317</b>	<b>750,819</b>

The revenue information above is based on the location of the customers.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**22 OPERATING SEGMENT INFORMATION (continued)****c) Customers**

Sales revenue from two customers of the Company amounted to BD 301,733 thousand (2010: BD 262,062 thousand), each being more than 10% of the total sales revenue for the year.

**23 RELATED PARTY TRANSACTIONS**

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

**Transactions with shareholders**

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

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

	2011 BD '000	2010 BD '000
<b>Other related parties</b>		
<b>Revenue and other income</b>		
Sale of metal	130,665	108,695
Sale of water	1,502	1,227
Interest on long term receivable	286	373
	<u>132,453</u>	<u>110,295</u>
<b>Cost of sales and expenses</b>		
Purchase of natural gas and diesel	63,494	59,635
Royalty	3,653	3,526
	<u>67,147</u>	<u>63,161</u>

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

	2011 BD '000	2010 BD '000
<b>Other related parties</b>		
<b>Assets</b>		
Long term receivable	17,191	20,630
Bank balances	13,834	15,040
Receivables	8,400	10,531
	<u>41,436</u>	<u>46,201</u>
<b>Liabilities</b>		
Borrowings	7,520	-
Payables	9,283	14,661
	<u>16,803</u>	<u>14,661</u>

**NOTES TO THE FINANCIAL STATEMENTS**

At 31 December 2011

**23 RELATED PARTY TRANSACTIONS (continued)**

Outstanding balances at year-end arise in the normal course of business. For the year ended 31 December 2011, the Company has not recorded any impairment on amounts due from related parties (2010: nil).

**Compensation of key management personnel**

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

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
Short term benefits	<b>1,321</b>	1,179
End of service benefits	<b>103</b>	70
Contributions to Alba Savings Benefit Scheme	<b>17</b>	29
Other benefits	<b>-</b>	377
	<b>1,441</b>	1,655

Directors' fees during the year amounted to BD 200 thousand (2010: BD 195 thousand).

**24 RISK MANAGEMENT**

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

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

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

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

**Market risk**

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

**Interest rate risk**

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

The Company is exposed to interest rate risk on its interest bearing assets and liabilities (long term receivable, call accounts and borrowings). The Company has an interest rate collar and knockout swaps to limit the fluctuation in interest rates arising out of borrowings for its line 5 expansion.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the Company's result for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2011.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2011

**24 RISK MANAGEMENT (continued)****Interest rate risk (continued)**

The interest earned on long term receivable is based on floating LIBOR rate plus margin. The call accounts and short term deposit earn interest at commercial rates. The interest rates are disclosed in notes 4 and 7.

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

	<i>Interest on call accounts and short term deposit</i>		<i>Interest on borrowings (after giving effect for derivative financial instruments)</i>	
	<i>Increase / decrease in basis points</i>	<i>Effect on results for the year</i>	<i>Increase / decrease in basis points</i>	<i>Effect on results for the year</i>
		<i>BD '000</i>		<i>BD '000</i>
<b>2011</b>	<b>25</b>	<b>235</b>	<b>25</b>	<b>1,018</b>
	<b>-25</b>	<b>(235)</b>	<b>-25</b>	<b>(1,018)</b>
<b>2010</b>	<b>25</b>	<b>65</b>	<b>25</b>	<b>(2,418)</b>
	<b>-25</b>	<b>(65)</b>	<b>-25</b>	<b>2,418</b>

**Commodity price risk**

Commodity price risk is the risk that future profitability is affected by changes in commodity prices. The Company 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 following table demonstrates the sensitivity of the statement of comprehensive income to reasonably possible changes in the LME price on derivatives outstanding as of 31 December 2011, with all other variables held constant.

	<i>Increase/ decrease in LME price</i>	<i>Effect on results for the year BD '000</i>
<b>2011</b>	<b>+30%</b>	<b>(16,894)</b>
	<b>-30%</b>	<b>16,049</b>
<b>2010</b>	<b>+30%</b>	<b>(38,712)</b>
	<b>-30%</b>	<b>36,776</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 Company's financial instruments are mainly denominated in Bahraini Dinars, US Dollars, Euros and Great Britain Pounds. The Company uses forward foreign exchange contracts to hedge against foreign currency payables (note 18).

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



At 31 December 2011

**24 RISK MANAGEMENT (continued)****Foreign currency risk**

The table below indicates the Company's unhedged foreign currency exposures at 31 December 2011, as a result of its monetary assets and liabilities. As of 31 December, the following financial instruments are denominated in currencies other than Bahrain Dinars and US Dollars, which were unhedged:

<i>Financial</i>	<i>Currency</i>	<b>2011</b> <i>BD '000</i>	<b>2010</b> <i>BD '000</i>
Bank balances	<i>Euro</i>	<b>2,067</b>	8,106
	<i>Great Britain Pound</i>	<b>35</b>	35
Receivables	<i>Euro</i>	<b>5,294</b>	18,140
Borrowings	<i>Euro</i>	<b>31,899</b>	17,919
Payables	<i>Euro</i>	<b>728</b>	2,288
	<i>Great Britain Pound</i>	-	39

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 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.

<b>Currency</b>	<b>2011</b>		<b>2010</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%	<b>(2,527)</b>	+10%	604
<i>Great Britain Pounds</i>	+10%	<b>4</b>	+10%	-
		<b>(2,523)</b>		<b>604</b>

**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 Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Cash is placed with reputable banks having good credit ratings. The Company 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 granting credit terms and by monitoring the exposure to customers on an ongoing basis.

Provisions for bad and doubtful debts are made for doubtful receivables whenever risks of default are identified.

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

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

At 31 December 2011

**24 RISK MANAGEMENT (continued)**

**Credit risk (continued)**

The Company sells its products to a large number of customers. Its five largest customers account for 53.57% of outstanding accounts receivable at 31 December 2011 (2010: 42%).

As of 31 December 2011, the Company has a significant concentration of credit risk to Gulf Aluminium Rolling Mill Company B.S.C. (c) which consists of:

	<b>2011</b>	<b>2010</b>
	<b>BD '000</b>	<b>BD '000</b>
Long term receivable	<b>17,191</b>	20,630
Trade accounts receivable	<b>8,159</b>	9,982
	<b>25,350</b>	<b>30,612</b>

Derivative contracts are entered into with counterparties with good credit rating and are not subject to significant credit risk.

**Liquidity risk**

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at or close to its fair value. Trade payables are normally settled within 45 days of the date of purchase.

The Company limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sale require amounts to be paid within 30 to 180 days of the date of sale. Trade payable are non-interest bearing and are normally settled on 45 days terms.

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

	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>31 December 2011</b>					
Borrowings (including interest payable)	<b>65,311</b>	<b>88,075</b>	<b>171,938</b>	-	<b>325,324</b>
Short term loans	<b>11,657</b>	<b>1,427</b>	-	-	<b>13,084</b>
Derivative financial instruments	<b>8,122</b>	<b>24,363</b>	<b>36,383</b>	-	<b>68,868</b>
Accounts payable and accruals	<b>59,668</b>	-	-	-	<b>59,668</b>
<b>Total</b>	<b>144,758</b>	<b>113,865</b>	<b>208,321</b>	-	<b>466,944</b>
	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>	<b>BD '000</b>
<b>31 December 2010</b>					
Borrowings (including interest interest payable)	64,150	85,607	242,603	9,172	401,532
Short term loans	4,970	1,843	-	-	6,813
Derivative financial instruments	10,837	35,675	108,907	-	155,419
Accounts payable and accruals	25,575	30,064	-	-	55,639
<b>Total</b>	<b>105,532</b>	<b>153,189</b>	<b>351,510</b>	<b>9,172</b>	<b>619,403</b>

## 24 RISK MANAGEMENT (continued)

### Capital management

Capital comprises share capital, statutory reserve, capital reserve, retained earnings less treasury shares, and is measured at BD 808,793 thousand as at 31 December 2011 (2010: BD 698,682 thousand).

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

The Company 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 2011 and 31 December 2010.

## 25 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 receivables. Financial liabilities consist of borrowings, short term loans, payables and amounts due to shareholders. Derivative financial instruments consist of interest rate collars, knockout swaps, forward exchange contracts and commodity options.

The Company uses the following hierarchy to determine and to disclose the fair value of financial instruments by valuation technique:

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

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

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

As at 31 December 2011, the Company's derivative financial instruments are measured at fair value. These are Level 2 as per the hierarchy above for the years ended 31 December 2011 and 31 December 2010. The Company does not have financial instruments qualifying for Level 1 or Level 3 classification.

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

## 26 KEY SOURCES OF ESTIMATION UNCERTAINTY

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 discussed below.

### Impairment of trade accounts receivable

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

**26 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

**Impairment of trade accounts receivable (continued)**

At 31 December 2011, gross trade accounts receivable were BD 82,441 thousand (2010: BD 98,494 thousand), and the provision for impairment was BD 5,357 thousand (2010: BD 5,714 thousand). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

**Impairment of inventories**

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

At 31 December 2011, stores stock was BD 23,132 thousand (2010: BD 22,433 thousand) with provisions for old and obsolete items of BD 1,200 thousand (2010: BD 1,200 thousand). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

**Useful lives of property, plant and equipment**

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

**27 ALBA SAVINGS BENEFIT SCHEME**

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

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

The Scheme is established as a trust and administered by trustees representing the Company and the employees. The trustees manage the risks relating to the Scheme's assets by approving the entities in which the Scheme can invest and by setting limits for investment in individual entities.