

Aluminium Bahrain B.S.C.
REPORT OF THE BOARD OF DIRECTORS AND
FINANCIAL STATEMENTS

31 DECEMBER 2012

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 2012.

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 Depositary Receipts (GDRs) on the London Stock Exchange.

Registered Office and Branches

The official business address of the Company is located at Building 150, Road 94, Block 951, Askar, Kingdom of Bahrain. The Company also has branch offices in Zurich, Switzerland and Hong Kong.

Share Capital Structure

Shareholders	2012 (%)	2011 (%)
Bahrain Mumtalakat Holding Company B.S.C. (c)	69.38	69.38
SABIC Industrial Investments Company	20.62	20.62
Others – Public	10.00	10.00
	100.00	100.00

Corporate Secretary

Ms. Afshan Akhtar, the General Counsel and Corporate Secretary was appointed on 1 August 2011.

Chief Officers

At the Board Meeting held on 19 September 2012, the Board decided to appoint Mr. Tim Murray, the Chief Finance and Supply Officer, as the new Chief Executive Officer of the Company effective 1 October 2012, replacing Mr. Laurent Schmitt who has left the Company.

At the Human Resources Committee meeting held on 21 October 2012, Mr. Ali Al Baqali was appointed as the Acting Chief Finance and Supply Officer, replacing Mr. Tim Murray. Mr. Basem Al Sharqi was appointed as the Chief Support Functions Officer effective 1 June 2012.

The title of Mr. Isa Al Ansari from Chief Operating Officer was changed to Chief Operations Officer with effect from 1 June 2012.

There are no changes in the title of Mr. Jean Baptiste Lucas as the Chief Marketing Officer.

Results and Retained Earnings

The Company made a profit of BD96.545 Million for the year 2012 as compared to a profit of BD 211.903 in year 2011.

The movements in retained earnings of the Company were:

	<i>BD'000</i>	<i>BD '000</i>
Balance as at 31 December 2011		<u>544,064</u>
Profit for the year 2012	96,545	
Interim dividend paid for 2012	(19,776)	
Final dividend proposed for 2012	(19,773)	
Excess of Final Dividend for 2012 reversed	14	
Loss on resale of treasury shares	(391)	
Transfer to statutory reserve		
Balance as at 31 December 2012		<u>600,683</u>

Appropriations

- (1) On 8 March 2012, the Company's shareholders approved the Board of Directors' recommendation to pay a final dividend for 2011 of BD 0.040 per share (excluding treasury shares) totalling BD 56,509 thousand relating to 2011 from which BD 56,495 thousand was paid.
- (2) (a) On 29 July 2012, the Board of Directors recommended an interim dividend of BD 0.014 per share (excluding treasury shares) totalling BD 19,776 thousand) which was subsequently paid.
- (b) On 13 February 2013, the Board of Directors recommended a final dividend of BD 0.014 per share (excluding treasury shares) totalling BD 19,773 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 13 March 2013.

Directors of the Company

The following Directors served during the year ended 31 December 2012 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 Tuwajiri resigned in June 2012 and was replaced by Dr. Talaat Dafer Al Qahtani.

Elected Director

Mr. Abdulaziz S. Al Humaid

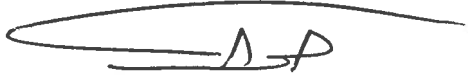
Directors' Remuneration

Directors' remuneration charged during the year ended 31 December 2012 was BD190,000 (2011: BD200,000).

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 2013 will be submitted to the Annual General Meeting of Shareholders.

By order of the Board,



Mahmood H. Al Kooheji
Chairman
13 February 2013

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 2012 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 2012 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 2012 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 handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

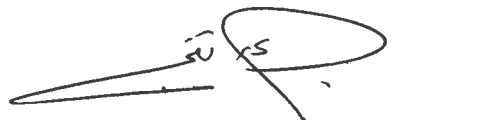
13 February 2013
Manama, Kingdom of Bahrain

Aluminium Bahrain B.S.C.
STATEMENT OF FINANCIAL POSITION
 At 31 December 2012

	Note	2012 BD '000	2011 BD '000
ASSETS			
Non-current assets			
Property, plant and equipment	3	901,779	946,807
Long term receivable	4	10,314	13,753
		912,093	960,560
Current assets			
Inventories	5	143,564	158,020
Current portion of long term receivable	4	3,438	3,438
Accounts receivable and prepayments	6	108,299	83,285
Derivative financial instruments	18	104	-
Bank balances and cash	7	61,605	99,487
		317,010	344,230
TOTAL ASSETS		1,229,103	1,304,790
EQUITY AND LIABILITIES			
Equity			
Share capital	8	142,000	142,000
Treasury shares	9	(4,087)	(5,029)
Statutory reserve	11	71,000	71,000
Capital reserve	12	249	249
Retained earnings		600,683	544,064
Proposed dividend	13	19,773	56,509
Total equity		829,618	808,793
Non-current liabilities			
Borrowings	14	77,096	167,140
Derivative financial instruments	18	23,996	34,324
Employees' end of service benefits	15 (a)	915	940
		102,007	202,404
Current liabilities			
Borrowings	14	160,303	149,733
Short term loans	16	17,160	13,084
Accounts payable and accruals	17	106,585	100,130
Derivative financial instruments	18	13,430	30,646
		297,478	293,593
Total liabilities		399,485	495,997
TOTAL EQUITY AND LIABILITIES		1,229,103	1,304,790

These financial statements were authorised for issue in accordance with a resolution of the Directors on 13 Feb 2013 and signed on their behalf by:


 Mahmood H. Al Kooheji
 Chairman


 Yousif Taqi
 Director

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

Aluminium Bahrain B.S.C.

STATEMENT OF COMPREHENSIVE INCOME

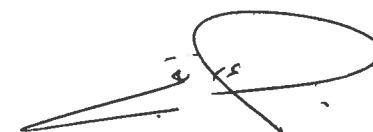
Year ended 31 December 2012

	Note	2012 BD '000	2011 BD '000
Sales		743,725	883,317
Cost of sales		(638,515)	(662,259)
GROSS PROFIT		105,210	221,058
Other income	19	39,378	7,641
Selling and distribution expenses		(17,838)	(21,835)
Administrative expenses		(27,347)	(24,820)
(Loss) gain on foreign exchange translation		(1,346)	394
Directors' fees	23	(190)	(200)
Finance costs	20	(7,182)	(7,233)
PROFIT FOR THE YEAR BEFORE DERIVATIVES		90,685	175,005
Gain on revaluation/settlement of derivative financial instruments (net)	18	5,860	36,898
PROFIT FOR THE YEAR	20	96,545	211,903
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		96,545	211,903
Basic and diluted earnings per share (fils)	10	68	150

These financial statements were authorised for issue in accordance with a resolution of the Directors on 13 Feb 2013 and signed on their behalf by:



Mahmood H. Al Kooheji
Chairman



Yousif Taqi
Director

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 2012

	Note	2012 BD '000	2011 BD '000
OPERATING ACTIVITIES			
Profit for the year		96,545	211,903
Adjustments for:			
Depreciation	3	77,573	78,777
Provision for employees' end of service benefits	15 (a)	814	789
Gain on revaluation of derivative financial instruments	18	(27,648)	(78,934)
Loss on disposal of property, plant and equipment		36	162
Write off of property, plant and equipment - net book value		16	81
Interest income	19	(389)	(392)
Finance costs	20	6,121	6,563
Cost of Employees' Stock Incentive Plan	20	765	645
		153,833	219,594
Working capital changes:			
Inventories		14,456	(5,712)
Accounts receivable and prepayments		(25,014)	16,057
Accounts payable and accruals		6,547	15,621
Cash from operations		149,822	245,560
Employees' end of service benefits paid	15 (a)	(839)	(821)
Net cash flows from operating activities		148,983	244,739
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(32,724)	(34,447)
Proceeds from disposal of property, plant and equipment		127	769
Term deposit		-	3,011
Interest received	19	389	392
Net cash flows used in investing activities		(32,208)	(30,275)
FINANCING ACTIVITIES			
Repayment of long term receivable	4	3,439	3,439
Borrowings availed		204,920	222,141
Borrowings repaid		(284,394)	(294,373)
Movement in short term loans		4,076	6,271
Finance costs paid		(6,213)	(6,819)
Dividends paid		(76,271)	(100,471)
Margin deposit		-	932
Purchase of treasury shares		(805)	(3,125)
Proceeds from resale of treasury shares		591	1,159
Net cash flows used in financing activities		(154,657)	(170,846)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(37,882)	43,618
Cash and cash equivalents at 1 January		99,487	55,869
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	7	61,605	99,487

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 2012

	Note	Share capital BD '000	Treasury shares BD '000	Statutory reserve BD '000	Capital reserve BD '000	Retained earnings BD '000	Proposed dividend BD '000	Total BD '000
Balance at 31 December 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	-
Balance at 31 December 2011		142,000	(5,029)	71,000	249	544,064	56,509	808,793
Total comprehensive income for the year		-	-	-	-	96,545	-	96,545
Net movement in treasury shares		-	177	-	-	-	-	177
Amortisation of the cost of treasury shares held for Employees' Stock Incentive Plan		-	765	-	-	-	-	765
Loss on resale of treasury shares		-	-	-	-	(391)	-	(391)
Final dividend for 2011 approved and paid		-	-	-	-	-	(56,495)	(56,495)
Excess of final dividend for 2011 reversed	13	-	-	-	-	14	(14)	-
Interim dividend for 2012 proposed and paid	13	-	-	-	-	(19,776)	-	(19,776)
Proposed final dividend for 2012	13	-	-	-	-	(19,773)	19,773	-
Balance at 31 December 2012		142,000	(4,087)	71,000	249	600,683	19,773	829,618

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

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

1 ACTIVITIES

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

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

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

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

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

Basis of preparation

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

The 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 as of 1 January 2012

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended IFRSs effective as of 1 January 2012 which had no impact on the Company's financial position, performance or its disclosures:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets.
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements.

Standards issued but not yet effective

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Company's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Company's first annual report after becoming effective.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

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 IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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

Improvements to IFRSs

During 2012 the IASB issued 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.

IAS 1 Presentation of Financial Statements

- This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

- This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 1 First-time Adoption of International Financial Reporting Standards;
- IAS 32 Financial Instruments, Presentation; and
- IAS 34 Interim Financial Reporting

These improvements are effective for annual periods beginning on or after 1 January 2013.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. No gain or loss is recognised in the 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.

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 has 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging activities (continued)

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 2012

3 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings</i>	<i>Power generating plant</i>	<i>Plant, machinery and other equipment</i>	<i>Assets in process of completion</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Cost:					
At 1 January 2012	267,000	407,366	1,139,596	56,598	1,870,560
Additions	-	-	-	32,724	32,724
Transfers	1,542	15,614	17,573	(34,729)	-
Disposals	(211)	(119)	(3,108)	-	(3,438)
Write offs	-	(56)	(55)	-	(111)
At 31 December 2012	<u>268,331</u>	<u>422,805</u>	<u>1,154,006</u>	<u>54,593</u>	<u>1,899,735</u>
Depreciation:					
At 1 January 2012	92,248	205,139	626,366	-	923,753
Charge for the year	6,575	16,221	54,777	-	77,573
Relating to disposals	(155)	(90)	(3,030)	-	(3,275)
Relating to write offs	-	(42)	(53)	-	(95)
At 31 December 2012	<u>98,668</u>	<u>221,228</u>	<u>678,060</u>	<u>-</u>	<u>997,956</u>
Net carrying value:					
At 31 December 2012	<u>169,663</u>	<u>201,577</u>	<u>475,946</u>	<u>54,593</u>	<u>901,779</u>
Cost:					
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	<u>267,000</u>	<u>407,366</u>	<u>1,139,596</u>	<u>56,598</u>	<u>1,870,560</u>
Depreciation:					
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	<u>92,248</u>	<u>205,139</u>	<u>626,366</u>	<u>-</u>	<u>923,753</u>
Net carrying value:					
At 31 December 2011	<u>174,752</u>	<u>202,227</u>	<u>513,230</u>	<u>56,598</u>	<u>946,807</u>

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

3 PROPERTY, PLANT AND EQUIPMENT (continued)

- a) Land and buildings include freehold land at a cost of BD 453 thousand as at 31 December 2012 (2011: 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 an 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 2012 was 1.73 % (2011: 1.39%).

The current and non-current portion of the long term receivable as of 31 December 2012 is as follows:

	2012 BD '000	2011 BD '000
Current portion	3,438	3,438
Non-current portion	10,314	13,753
	13,752	17,191

5 INVENTORIES

	2012 BD '000	2011 BD '000
Goods in transit	25,276	20,247
Raw materials	26,258	43,897
Work-in-process	51,611	52,906
Finished goods	18,144	19,038
Stores stock [net of provision of BD 1,200 thousand (2011: BD 1,200 thousand)]	22,275	21,932
	143,564	158,020

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

	2012 BD '000	2011 BD '000
At 1 January	1,200	1,200
Charge for the year	151	394
Write off	(151)	(394)
At 31 December	1,200	1,200

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012 BD '000	2011 BD '000
Trade accounts receivable [net of provision of BD 4,602 thousand (2011: BD 5,357 thousand)]	85,408	77,084
Other receivables [net of provision of BD 45 thousand (2011 : BD 354 thousand)]	19,742	5,513
Prepayments	3,149	688
	108,299	83,285

Trade accounts receivable include BD 17,160 thousand (2011: BD 13,084 thousand) which have been assigned as a security for short term loans (note 16).

As at 31 December 2012, trade accounts receivable at a nominal value of BD 4,602 thousand (2011: BD 5,357 thousand), other receivables of BD 45 thousand (2011: BD 354 thousand) were impaired. Movements in the allowance for impairment of trade accounts receivable were as follows:

	<i>Trade accounts receivable</i>		<i>Other receivables</i>	
	2012 BD '000	2011 BD '000	2012 BD '000	2011 BD '000
At 1 January	5,357	5,714	354	-
Write off	(623)	-	-	-
(Reversal) provision for the year	(132)	(357)	(309)	354
At 31 December	4,602	5,357	45	354

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

	<i>Neither past due nor impaired</i>	<i>Past due but not impaired</i>				
		<i>Less than 30 days</i>	<i>30 – 90 days</i>	<i>91 – 120 days</i>	<i>Over 120 days</i>	
<i>Total</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	
2012	85,408	82,687	1,496	788	314	123
2011	77,084	76,137	891	56	-	-

7 BANK BALANCES AND CASH

	2012 BD '000	2011 BD '000
Cash in hand	21	20
Cash at bank:		
- Current accounts	51,048	5,417
- Call accounts	10,536	45,150
Short term deposits	-	48,900
Bank balances and cash	61,605	99,487

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 2012 ranged between 1.12% to 0.25% (2011: 0.12% to 0.25%).

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

8 SHARE CAPITAL

	2012	2011
	BD '000	BD '000
Authorised 2,000,000,000 shares of 100 fils each	200,000	200,000
Issued and fully paid 1,420,000,000 shares of 100 fils each	142,000	142,000

The distribution of shareholdings are as follows:

Categories	2012			2011		
	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%	67,196,856	2,453	4.73	59,736,839	2,430	4.21
1% up to less than 5%	74,803,144	2	5.27	82,263,161	2	5.79
5% up to less than 20%	-	-	-	-	-	-
20% up to less than 50%	292,804,000	1	20.62	292,804,000	1	20.62
50% and above	985,196,000	1	69.38	985,196,000	1	69.38
	1,420,000,000	2,457	100.00	1,420,000,000	2,434	100.00

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.

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

	2012		2011	
	No of shares	BD '000	No of shares	BD '000
Held for the Employees' Stock Incentive Plan [(note 15 (c))]	2,376,000	653	2,215,000	1,274
Excess of the shares in Employees' Stock Incentive Plan [note 15 (c)]	624,000	562	785,000	707
	3,000,000	1,215	3,000,000	1,981
Purchased subsequent to the IPO - net of sales	4,635,087	2,872	4,269,253	3,048
	7,635,087	4,087	7,269,253	5,029

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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:

	2012 BD '000	2011 BD '000
Profit for the year - BD' 000	<u>96,545</u>	<u>211,903</u>
Weighted average number of shares, net of treasury shares - thousands of shares	<u>1,412,508</u>	<u>1,415,161</u>
Basic and diluted earnings per share (fils)	<u>68</u>	<u>150</u>

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. A statutory reserve equal to 50% of the paid-up capital has been created by transfer of prior years' profits. Therefore no further transfers have been made for the year ended 31 December 2012. In 2011, a transfer of BD 2,371 thousand was made to statutory reserve. 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.

13 DIVIDEND PROPOSED AND PAID

On 29 July 2012, the Board of Directors proposed an interim dividend of BD 0.014 per share (excluding treasury shares) totalling BD 19,776 thousand (2011: BD 0.027 per share (excluding treasury shares) totalling BD 38,203 thousand) which was subsequently paid. On 13 February 2013, the Board of Directors recommended a final dividend of BD 0.014 per share (excluding treasury shares) totalling BD 19,773 thousand (2011: 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 13 March 2013.

On 8 March 2012, the Company's shareholders approved the Board of Director's proposal to pay a final dividend of BD 0.040 per share (excluding treasury shares) totalling BD 56,509 thousand relating to 2011 (2011: BD 0.044 per share totalling BD 62,268 thousand relating to 2010) from which BD 56,495 thousand was paid.

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

14 BORROWINGS

	<i>Current maturities BD '000</i>	<i>Non-current maturities BD '000</i>	Total 2012 BD '000	<i>Total 2011 BD '000</i>
Working capital revolving credit at 1.40 % to 2.28 % (2011: 1.5 % to 3.44%) [1]	65,800	-	65,800	60,160
Line 5 projects at 0.94% to 1.77 % (2011: 0.86 % to 1.77 %)	82,422	46,340	128,762	147,769
Coface loan at 0.86% to 1.14 % (2011: 0.78 % to 0.9 %)	6,492	6,492	12,984	19,476
Refinancing loan at 0.89 % to 1.27 % (2011: 0.89 % to 1.27%)	-	-	-	58,705
Euro Coface loan at 1.90 % to 3.26 % (2011: 2.63% to 3.26%) [2]	3,729	18,053	21,782	21,128
Euro SERV Loan at 1.62 % to 2.94 % (2011: 2.48% to 2.98%) [3]	1,860	6,211	8,071	9,635
Total borrowings	160,303	77,096	237,399	316,873
Payable within one year			160,303	149,733
Payable after one year			77,096	167,140
			237,399	316,873

[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 for 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.

[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.

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

15 EMPLOYEE BENEFITS

a) Defined benefit scheme - leaving indemnity

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

	2012	2011
	BD '000	BD '000
Provision as at 1 January	940	972
Provided during the year (note 20)	814	789
Employees' end of service benefits paid	(839)	(821)
Provision as at 31 December	915	940

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>	
	2012	2011	2012	2011
	BD '000	BD '000	BD '000	BD '000
Provision as at 1 January	1,589	1,528	1,287	989
Expense recognised in the statement of comprehensive income (note 20)	3,786	3,301	5,548	5,225
Contributions paid	(3,687)	(3,240)	(6,059)	(4,927)
Provision as at 31 December (note 17)	1,688	1,589	776	1,287

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 2012, the number of employees eligible for this plan was 2,376 (2011: 2,215) and the excess of 624,000 shares is held as treasury shares as of 31 December 2012 (2011: 785,000 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 17,160 thousand (2011: BD 13,084 thousand) (note 6). The effective interest rates as of 31 December 2012 ranged between 0.95% to 1.55% (2011: 0.92% to 2.55%).

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

17 ACCOUNTS PAYABLE AND ACCRUALS

	2012	2011
	BD '000	BD '000
Trade payables	64,600	53,488
Retentions payable	94	124
Employee related accruals	26,452	32,152
Accrued expenses	12,781	11,269
Advances from customers	194	221
Alba Savings Benefit Scheme [note 15 (b)]	1,688	1,589
Social Insurance Organisation [(note 15 (b))]	776	1,287
	106,585	100,130

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 2012 and 31 December 2011 are as follows:

	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	BD '000	BD '000	BD '000	BD '000
Commodity options	-	34,424	-	55,599
Commodity futures	104	-	-	715
Interest rate collars and knockout swaps	-	2,955	-	8,318
Forward foreign exchange contracts	-	47	-	338
Total	104	37,426	-	64,970

Classified in the statement of financial position as follows:

Non-current portion:

Commodity options	-	22,799	-	29,911
Interest rate collars and knockout swaps	-	1,197	-	4,366
Forward foreign exchange contracts	-	-	-	47
	-	23,996	-	34,324

Current portion:

Commodity options	-	11,625	-	25,688
Commodity futures	104	-	-	715
Interest rate collars and knockout swaps	-	1,758	-	3,952
Forward foreign exchange contracts	-	47	-	291
	104	13,430	-	30,646

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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.

	2012 BD '000	2011 BD '000
Revaluation:		
Commodity options	21,175	74,352
Commodity futures	819	(1,627)
Interest rate collars and knockout swaps	5,363	5,212
Forward foreign exchange contracts	291	997
	<u>27,648</u>	<u>78,934</u>
Realised:		
Commodity options	(16,090)	(34,241)
Commodity futures	(850)	(270)
Interest rate collars and knockout swaps	(4,848)	(7,525)
	<u>(21,788)</u>	<u>(42,036)</u>
Net gain on fair valuation taken to statement of comprehensive income	<u>5,860</u>	<u>36,898</u>

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, if any, 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 (2011: 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 (2011: 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 10,750 metric tonnes (2011: 13,900 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 2012 was US\$ 505,098 thousand (2011: US\$ 513,097 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 311 thousand (2011: BD 2,179 thousand) as of 31 December 2012. These contracts expire on 8 March 2013.

Aluminium Bahrain B.S.C.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

19 OTHER INCOME

	2012 BD '000	2011 BD '000
Interest on bank deposits and receivables	389	392
Sale of water	2,123	1,973
Settlement with Alcoa (see note below)	31,960	-
Miscellaneous	4,906	5,276
	39,378	7,641

On 9 October 2012, the Company entered into an out-of-court settlement agreement with Alcoa Inc., Alcoa World Alumina L.L.C. and members of its senior management (together, "Alcoa"). The settlement agreed was a combination of cash amounting to BD 31,960 thousand (US\$ 85,000 thousand) as well as concessions on long term alumina supply and related agreements. Settlement amount of BD 15,980 thousand was received in 2012 and the balance is due in October 2013. The Company recognised the cash settlement of BD 31,960 thousand as other income.

20 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2012 BD '000	2011 BD '000
<i>Staff costs:</i>		
Wages and salaries	68,404	83,475
Employees' end of service benefits [note 15 (a)]	814	789
Alba savings benefit scheme [note 15 (b)]	3,786	3,301
Social Insurance Organisation [note 15 (b)]	5,548	5,225
Indirect benefits (housing, education)	496	532
Payments to contractors	2,360	2,580
Cost of Employees' Stock Incentive Plan	765	645
Others	398	297
	82,571	96,844
Inventories recognised as an expense in cost of sales	350,870	392,312

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

	2012 BD '000	2011 BD '000
Cost of sales	67,860	82,942
Administrative expenses	12,741	12,414
Selling and distribution expenses	1,970	1,488
	82,571	96,844
<i>Finance costs:</i>		
Interest on borrowings and short term loans	6,121	6,563
Bank charges	1,061	670
	7,182	7,233

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

21 COMMITMENTS AND CONTINGENCIES

a) Commitments

	2012 BD '000	2011 BD '000
<i>Physical metal commitments</i>		
Sales commitments :		
7,750 metric tonnes (2011: 14,480 metric tonnes)	<u>7,900</u>	<u>13,853</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 2012, the Company has a remaining commitment of BD 1,500 thousand (2011: BD 1,500 thousand) towards the purchase of its own shares.

Capital expenditure

Estimated capital expenditure contracted for at the reporting date amounted to BD 51,666 thousand (2011: BD 21,995 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 2012 were BD 8,911 thousand (2011: BD 10,752 thousand). The commitments are expected to be settled within 1 year.

At 31 December 2012, the Company's bankers have issued letters of credit to counterparties for derivative transactions amounting to BD 3,760 thousand (2011: BD 11,290 thousand).

b) Contingencies

The Company has issued guarantees to banks in the Kingdom of Bahrain in respect of the Albaskan Scheme, amounting to BD 12,021 thousand (2011: BD 11,974 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 of 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 lawsuit in the United States District Court for the Western District of Pennsylvania against Alcoa, Inc., Alcoa World Alumina LLC, a member of its senior management (together, "Alcoa") and Victor Dahdaleh. In the complaint, the Company alleged that Alcoa conspired to bribe certain former members of its senior management and officials of the Government of the Kingdom of Bahrain to ensure, among other things, that Alcoa continued to benefit from the Company's alumina purchases at inflated prices. Among other remedies, the Company sought damages for illicit activities that took place from 1993 to 2008.

In March 2008, the Court granted the U.S. Government's unopposed motion to intervene and stay discovery, as the U.S. Government conducted a criminal investigation related to the same allegations. The stay was lifted in November 2011, and on 11 June 2012, the Court denied motions filed by Alcoa and the other defendants seeking to dismiss the lawsuit. On 9 October 2012, the Company reached a settlement with the Alcoa defendants comprised of a combination of cash and a long-term alumina supply arrangement. The lawsuit against Victor Dahdaleh is still ongoing.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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. The criminal conviction was pardoned by a Royal Decree. However the Company's civil claim is still pending under a civil court proceeding.

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:

	2012	2011
	BD '000	BD '000
Aluminium	730,924	866,791
Calcined coke	12,801	16,526
Total sales revenue	743,725	883,317

b) Geographic information

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

	2012	2011
	BD '000	BD '000
Kingdom of Bahrain	320,797	405,807
Asia	102,967	131,512
Rest of the Middle East and North Africa	186,828	203,230
Europe	99,235	142,587
Americas	33,898	181
Total sales revenue	743,725	883,317

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

c) Customers

Sales revenue from two customers of the Company amounted to BD 235,281 thousand (2011: BD 301,733 thousand), each being more than 10% of the total sales revenue for the year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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:

	2012	2011
	BD '000	BD '000
Other related parties		
Revenue and other income		
Sale of metal	91,369	130,665
Sale of water	1,218	1,502
Interest on long term receivable	294	286
	92,881	132,453
Cost of sales and expenses		
Purchase of natural gas and diesel	96,152	63,494
Royalty	3,690	3,653
	99,842	67,147

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

	2012	2011
	BD '000	BD '000
Other related parties		
Assets		
Long term receivable	13,752	17,191
Bank balances	17,652	13,834
Receivables	7,384	8,400
	38,788	39,425
Liabilities		
Borrowings	7,520	7,520
Payables	16,523	9,283
	24,043	16,803

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

23 RELATED PARTY TRANSACTIONS (continued)

Outstanding balances at year-end arise in the normal course of business. For the year ended 31 December 2012, the Company has not recorded any impairment on amounts due from related parties (2011: nil).

Compensation of key management personnel

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

	2012	2011
	BD '000	BD '000
Short term benefits	1,677	1,321
End of service benefits	118	103
Contributions to Alba Savings Benefit Scheme	23	17
Other benefits	272	-
	2,090	1,441

Directors' fees during the year amounted to BD 190 thousand (2011: BD 200 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 2012.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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>
2012	25	26	25	667
	-25	(26)	-25	(667)
2011	25	235	25	1,018
	-25	(235)	-25	(1,018)

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 2012, with all other variables held constant.

	<i>Increase/ decrease in LME price</i>	<i>Effect on results for the year</i>
		<i>BD '000</i>
2012	+30%	(10,296)
	-30%	9,781
2011	+30%	(16,894)
	-30%	16,049

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

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

The table below indicates the Company's unhedged foreign currency exposures at 31 December 2012, 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>	2012 <i>BD '000</i>	2011 <i>BD '000</i>
Bank balances	<i>Euro</i>	5,444	2,067
	<i>Great Britain Pounds</i>	36	35
Receivables	<i>Euro</i>	6,225	5,294
Borrowings	<i>Euro</i>	30,745	31,899
Payables	<i>Euro</i>	2,061	728
	<i>Great Britain Pounds</i>	13	-

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.

Currency	2012		2011	
	<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%	(2,113)	+10%	(2,527)
<i>Great Britain Pounds</i>	+10%	2	+10%	4
		(2,111)		(2,524)

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2012

24 RISK MANAGEMENT (continued)**Credit risk (continued)**

The Company sells its products to a large number of customers. Its five largest customers account for 54.11% of outstanding accounts receivable at 31 December 2012 (2011: 53.57%).

As of 31 December 2012, the Company has a significant concentration of credit risk to Gulf Aluminium Rolling Mill Company B.S.C. (c) which consists of:

	2012	2011
	BD '000	BD '000
Long term receivable	13,752	17,191
Trade accounts receivable	7,384	8,159
	21,136	25,350

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.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
31 December 2012					
Borrowings (including interest payable)	137,703	24,133	79,392	-	241,228
Derivative financial instruments	1,617	11,813	23,996	-	37,426
Short term loans	12,913	4,247	-	-	17,160
Accounts payable and accruals	31,840	38,917	-	-	70,757
Total	184,073	79,110	103,388	-	366,571
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
31 December 2011					
Borrowings (including interest interest payable)	65,311	88,075	171,938	-	325,324
Derivative financial instruments	8,122	24,363	36,383	-	68,868
Short term loans	11,657	1,427	-	-	13,084
Accounts payable and accruals	59,668	-	-	-	59,668
Total	144,758	113,865	208,321	-	466,944

24 RISK MANAGEMENT (continued)

Capital management

Capital comprises share capital, statutory reserve, capital reserve, retained earnings, proposed dividend less treasury shares, and is measured at BD 829,618 thousand as at 31 December 2012 (2011: BD 808,793 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 2012 and 31 December 2011.

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 and payables. 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 2012, 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 2012 and 31 December 2011. 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 2012, gross trade accounts receivable were BD 90,010 thousand (2011: BD 82,441 thousand), and the provision for impairment was BD 4,602 thousand (2011: BD 5,357 thousand) and gross other receivables were BD 19,787 thousand (2011: BD 5,867 thousand), and the provision for impairment was BD 45 thousand (2011: BD 354 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 2012, stores stock was BD 23,475 thousand (2011: BD 23,132 thousand) with provisions for old and obsolete items of BD 1,200 thousand (2011: 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.