ANNUAL REPORT 2008

HERITAGE, INNOVATION & TRANSFORMATION

بتلكو
Batelco

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His Highness Shaikh Khalifa
Bin Salman Al Khalifa

THE PRIME MINISTER

His Majesty King Hamad
Bin Isa Al Khalifa

THE KING OF THE KINGDOM
OF BAHRAIN

His Highness Shaikh Salman
Bin Hamad Al Khalifa

THE CROWN PRINCE & DEPUTY
SUPREME COMMANDER

HERITAGE innovation & transformation

MEETING CHALLENGES, AVAILING OF OPPORTUNITIES AND A WILLINGNESS TO ADAPT HAVE TRANSFORMED BATELCO INTO THE MOST ACCOMPLISHED TELECOMMUNICATIONS COMPANY IN BAHRAIN AND AMONG THE FINEST IN THE MIDDLE EAST. THE COMPANY'S ROOTS CAN BE TRACED BACK TO 1864 WHEN BAHRAIN'S FIRST TELECOMMUNICATION'S LINK TO THE REST OF THE WORLD WAS ESTABLISHED. BY THE TIME BATELCO WAS LAUNCHED AS A BAHRAINI LISTED COMPANY IN 1981, THE CUSTOMER BASE CONSISTED OF LESS THAN 48,000 FIXED LINE AND TELEX SUBSCRIBERS, A VERY IMPRESSIVE FIGURE IN ITS DAY.

local REGIONAL international

Batelco's phenomenal growth has gone hand in hand with the Kingdom's growth. The country's ongoing and dynamic change and its residents' requirements are the driving forces which continually inspire us to set challenging targets, reach higher, deliver more and when we reach our target, set new target goals.

Fundamentally Batelco is about people – its own people and its customers. Without either element, there would be no Batelco. Our management and staff are dedicated to enabling our customers' communications needs, through the development and delivery of innovative products and services that are relevant and value for money.

Whilst Batelco's transformational strategy includes operating in new overseas markets, the operation in Bahrain will remain most critical to Batelco's success for the future. Our foundation and our heritage are part of the social and physical framework of the Kingdom. It is because of these solid roots that we have the confidence to venture further.

We have been in Bahrain for over 140 years; we will contribute to the delivery of the Kingdom's 2030 vision and we intend to be here for hundreds of years more.

Batelco is committed to continually deliver better value and innovation to its customers and supporting many community and humanitarian initiatives in Bahrain.

contents

MISSION statement

VISION
To enrich our customers' lifestyle and enable businesses to excel.

MISSION
We deliver an enhanced customer experience through competitive communications solutions and people excellence.

VALUES
Our People
We are proud to be Batelco, and keep empowering, appreciating and motivating others

Teamwork
We support and trust each other, think win win, and work towards our common vision

Customer Driven
We respect and listen to our customers, serve with a smile, deliver on our promises and are responsive to customer requirements

Integrity
We are professional, honest and transparent and keep our promises

Creativity
We encourage new ideas, think outside the box, are open-minded and innovative

Ownership for Performance
We are accountable and learn from our mistakes, take ownership and meet deadlines

OUR STRATEGIC IMPERATIVES

Batelco is determined to remain the leading telecommunications operator in Bahrain and extend its reach across the Middle East, Africa and Indian regions. Our strategic imperatives reflect our goals to develop a more customer focused and better performing company compared to our industry peers.

- Expedite geographic expansion with focus on mobility and broadband
- Accelerate growth in existing markets
- Differentiate through value added services
- Excel through personal leadership
- Support the communities we live in

chairman's STATEMENT

On behalf of the Board of Directors, it gives me great pleasure to present the 27th Annual Report of the Bahrain Telecommunications Company(B.S.C.) and its subsidiaries and affiliates (The Batelco Group) for the year ended 31st December 2008. Batelco's strategy in delivering the most comprehensive range of quality products and services at competitive prices in Bahrain and strong performances from our subsidiaries overseas contributed to the Company's most impressive overall accomplishments and record breaking financial results. Our clear vision to create a more customer responsive company has buoyed our business in Bahrain and continued to bolster our growing reputation for reliability throughout the region. During 2008, the Batelco Group continued to consolidate its position in the Middle East, building on a sound and successful strategy, to transform operational capabilities.

HIGHEST EVER NET PROFIT

We are delighted to have delivered the Company's highest ever net profit of BD104.2 million an increase of 2.7% compared to last year's earnings, even though the Company booked an impairment provision of BD1.3 million relating to non-operating investments.

Year-on-year gross revenues grew by 9% to BD319.1 million and net revenues grew by 10% to BD251.4 million. Earnings per share rose to 72.4 fils from 70.5 fils in 2007.

PROPOSED APPROPRIATIONS

The net profit of the Batelco Group before appropriations amounted to BD104.2 million. Based on these financial results, the Board of Directors has recommended for the approval of shareholders, the following appropriations for the year 2008.

BD millions	2008	2007
Final dividends proposed	43.2	24.0
Interim dividends paid	28.8	24.0
Donations at 2.5%	2.6	2.5
Directors' remuneration	0.4	0.4
Transfer to Statutory Reserve	–	4.1
Bonus shares in the ratio of one bonus share for every five shares held of the paid-up capital by capitalising reserves	–	24

AUDITORS

The Board of Directors will recommend the re-appointment of KPMG as Batelco's auditors for the financial year ending 31st December 2009.

On behalf of the Board of Directors, the management and employees, I extend my sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, His Highness Shaikh Khalifa bin Salman Al Khalifa, the Prime Minister, and His Highness Shaikh Salman bin Hamad Al Khalifa, the Crown Prince & Deputy Supreme Commander, for their ongoing support for all Bahraini companies including Batelco.

Our customer base continues to grow in spite of the increased number of alternative companies offering different telecom choices. Our customers' loyalty keeps us in a leading position and we extend our thanks to them for continuing to choose Batelco products and services. We intend to remain their first choice with new technologies and smart solutions throughout 2009.

The 2008 financial results prove that we have the right operating formula in place and more importantly, the right people employed at Batelco to achieve our goals. Our management team and all employees consistently demonstrate they have the imagination and agility to deliver for our customers and I offer my heartfelt thanks to the entire Batelco workforce for their efforts toward our ongoing success.

KEEPING OUR COMMUNITY CLOSE

It is vitally important for companies to be responsible and contributing members of the communities in which they operate. Batelco has an enviable track record when it comes to living up to its social responsibilities. During 2008, we committed over BD4 million towards a diverse range of worthwhile initiatives. Recipients included Al Hekma Society for the Retired, King Hamad Schools of the Future project, BDF Cardiac Centre and the Crown Prince Scholarship Fund. We also launched an ambitious project under the theme Batelco Live to provide fully equipped computer labs and free internet in villages throughout the Kingdom.

Looking ahead, Batelco will continue to deliver on its promise to create new, exciting and best value ways for our customers to communicate. We will also strive to exceed the expectations of our shareholders. I believe that we have the necessary components at Batelco to take us forward and build on our tremendous success.

Hamad bin Abdulla Al-Khalifa
Chairman of the Board
Bahrain Telecommunications Company (B.S.C.)

I believe that we have a dedicated team and the necessary focus at Batelco to keep serving our customers better and succeed in the future.

chief executive's MESSAGE

We are proud of our Bahraini heritage, and will continue to differentiate through innovation. Our transformational strategy will ensure Batelco is a company all Bahrainis admire today, in 2030 and beyond!

Peter Kaliaropoulos
Chief Executive
Bahrain Telecommunications Company (B.S.C.)

SOUND PERFORMANCE AT HOME AS COMPANY FOOTPRINT GROWS OVERSEAS

During 2008, the Batelco Group continued to consolidate its position in the Middle East, building on a sound and successful strategy to grow and transform operational capabilities. We remained committed to supporting our customers by delivering more choice, innovation and better value. Dedication to our customers is vital in Bahrain's competitive market where there are now over 160 licences issued. Transforming our operations around our customers needs, differentiates us from our competitors – such transformation remains a cornerstone of our operations in 2009.

596
training activities delivered

78,890
training hours

502
e-Learning courses

259
employees completed e-courses

As promised, we completed our Next Generation Network (NGN) migration ahead of target, backed by a BD22 million investment. We also rolled out across the Kingdom 3.5G wireless resulting in Bahrain being the first country in the world with national, high speed fixed and wireless broadband access. Batelco's network is now fully enabled to roll out a range of 21st century products and services giving our customers more choices than ever before and radically reshaping the local communications industry. With 70% broadband penetration, on a per household basis, Batelco's ADSL and 3.5G broadband services continue to be the Kingdom's leading broadband services.

SUPPORTING OUR CUSTOMERS IN BAHRAIN

Batelco's customer base continues to grow in the Kingdom. In 2008 we reached 82,000 Broadband customers, 767,000 mobile customers and 205,000 fixed line customers.

We continue to face challenges for our traditional services as a result of technological convergence and increased competition, spearheaded by accelerated regulatory reforms. In response to these conditions, we have rolled out an impressive range of compelling products and services during 2008.

82,000
broadband customers

767,000
mobile customers

205,000
fixed line customers

Throughout the past year our customers in Bahrain benefited from numerous promotions offering better value for mobile, broadband and IDD services without compromising quality.

We were the first telecommunications company in the GCC to launch the new O-net Mobile Broadband device, the smallest, sleekest, lightest and most technologically advanced Mobile Broadband USB modem in the world. The device delivers wireless broadband mobility with superior speeds of 7.2 Mbps - the fastest available in the Kingdom – and boosts Batelco's extensive variety of world-class products and services.

For our frequently travelling customers we introduced Batelco World Freedom, the service that enables customers to receive calls and SMS free of charge while roaming in 21 countries.

Batelco will continue investing in new infrastructure and innovative technologies in Bahrain and ensure the Kingdom remains the most desirable IT and Communications hub across the region. In 2008, BD40.9 million was committed for capital expenditure in Bahrain.

RELIABLE CONNECTIVITY

Ensuring the continuity of our core business and fulfilling our promise to deliver connectivity 24/7, our capabilities were tried and tested with the occurrence of damage to cables belonging to our international providers off the Egyptian coast early in 2008 and then again at the end of the year.

Our sophisticated Network Operating Centre (NOC) and advanced software has made it possible to manage the network with responsive efficiency. Our skilled engineers worked around the clock to re-route services. Batelco's investments in three diverse cable systems, most extensive satellite network and our engineers exceptional competency, minimised customer inconvenience during such unprecedented events.

BEING NUMBER ONE FOR CUSTOMER SERVICE

Raising customer care levels is an ongoing priority by all of us at Batelco. Our efforts to improve customer service were recognised at the 2nd annual Telecoms World Awards held in Dubai in November 2008 when Batelco won the award for Best Customer Care in the Middle East amongst other regional peers. Batelco also won the Telecoms Technology Investment in Mobile Networks of the Year award for the Middle East and North Africa (MENA) at the 3rd annual CommsMEA Awards. Adding to these accolades, Batelco also won two awards for the introduction and implementation of new technologies, at the inaugural SAMENA Regional Awards 2008 which took place in Jordan in November. Furthermore, Batelco was placed 1st in the Middle East and 2nd in the World for its new telephone bills layout, at the 2008 Printing Innovation with Xerox Imaging (PIXI) Awards, held in Chicago, USA. These awards highlight the efforts and commitment of Batelco employees who strive for continuous improvement and excellence in customer care at all times.

A VISIONARY STRATEGY TO EXPAND

Batelco continues to complement its Bahrain operations with expansion in overseas markets for wireless and broadband services. Batelco's continued growth in 2008 was also the result of a strong performance by its operations beyond the shores of Bahrain. Batelco's overseas operations contributed 33% and 19% of gross revenues and EBITDA respectively. All overseas operations were profitable, each delivering double digit net profit growth for 2008.

Our Company's expansion strategy has resulted in over 4.3 million mobile customers from its operations in Bahrain, Jordan and Yemen representing more than 20% year on year increase. Furthermore, our most recent overseas acquisition, a shareholding in mobile operator S Tel Limited (S Tel) in India, with licences over 6 circles with a population of 230 million people, will undoubtedly continue to fuel our growth initiatives.

NURTURING OUR PEOPLE

Our aim is to nurture our team of high-performing and motivated people to ensure they can make a difference for our customers and our shareholders. We provide ongoing development opportunities for all our staff through training and development programmes implemented by our in-house training team at Batelco's Knowledge Hub, which has had its busiest year to date. Blended e-Learning and instructor led courses, at an investment of BD1.24 million in 2008, provided a balanced choice of development opportunities. We delivered 596 training activities for 1300 staff, representing 82% of employees.

Our NGN training laboratory at Batelco's Knowledge Hub was officially inaugurated by our Chairman Shaikh Hamad in November. Established in cooperation with Huawei, the Laboratory is being used to train Batelco's engineers in order to enhance their knowledge and ensure our technical and network engineers are amongst the best in the region.

The quality of leadership is also vital to the successful transformation of Batelco. A number of our talented team has taken on new demanding roles during 2008 with the rotation of some executives and several internal senior promotions for our Bahraini employees.

For the first time in 2008, the Company's annual bonus reward scheme was linked to both personal KPIs and company values. Based on a set of Danat values, all employees' behaviours were rated by their colleagues as well as by their managers, regarding consistency with Batelco Danat values, in the manner in which Key Performance Indicators were met.

SUCCESSFUL TEAMWORK

We are delighted with the innovation and passion for transformation contributed by our employees. Talent and

chief executive's MESSAGE

determination contributed to Batelco's recognition across the region and we are very proud of the calibre of our people. My sincere thanks to all our employees in Bahrain and throughout the region for their collective contribution to the continued growth of our business, ongoing innovation and above all for ensuring we always place the needs of our customers first.

Much appreciation is owed to our Chairman, Shaikh Hamad bin Abdulla Al Khalifa, and the Board of Directors for their direction and support throughout 2008 and to our shareholders for their confidence in our transformational strategy. Sincere thanks also to my colleagues on Batelco's Senior Leadership Team for their

insightful contributions which continue to shape and mould Batelco into one of the most admired companies in Bahrain and also in the region.

Our strongest vote of thanks goes to our customers who continue to make Batelco their number one choice in Bahrain for all their telecommunications' needs. Every decision we make is taken with their future needs in mind.

Since 1981 we have come a very long way from being the sole telecommunications provider delivering fixed services to a fraction of the island's residents which then numbered less than half a million; we have faced the challenges of regulation and competition and come out stronger; we now deliver the full spectrum of integrated communications to the cosmopolitan population of the Kingdom, which is now in excess of one million. We have established a firm presence in the Middle East region and, for the first time, we are casting our net beyond our traditional geographies with our new venture in the Indian market.

Our priorities in 2009 are centered on operational effectiveness, improvements in Customer Care, delivery of innovative offerings to our customers by leveraging the fixed NGN and wireless 3.5G networks and seeking new mergers and acquisitions.

We remain proud of our Bahraini heritage and will continue to differentiate through innovation. Our transformational strategy will ensure Batelco is a company all Bahrainis admire today, in 2030 and beyond!

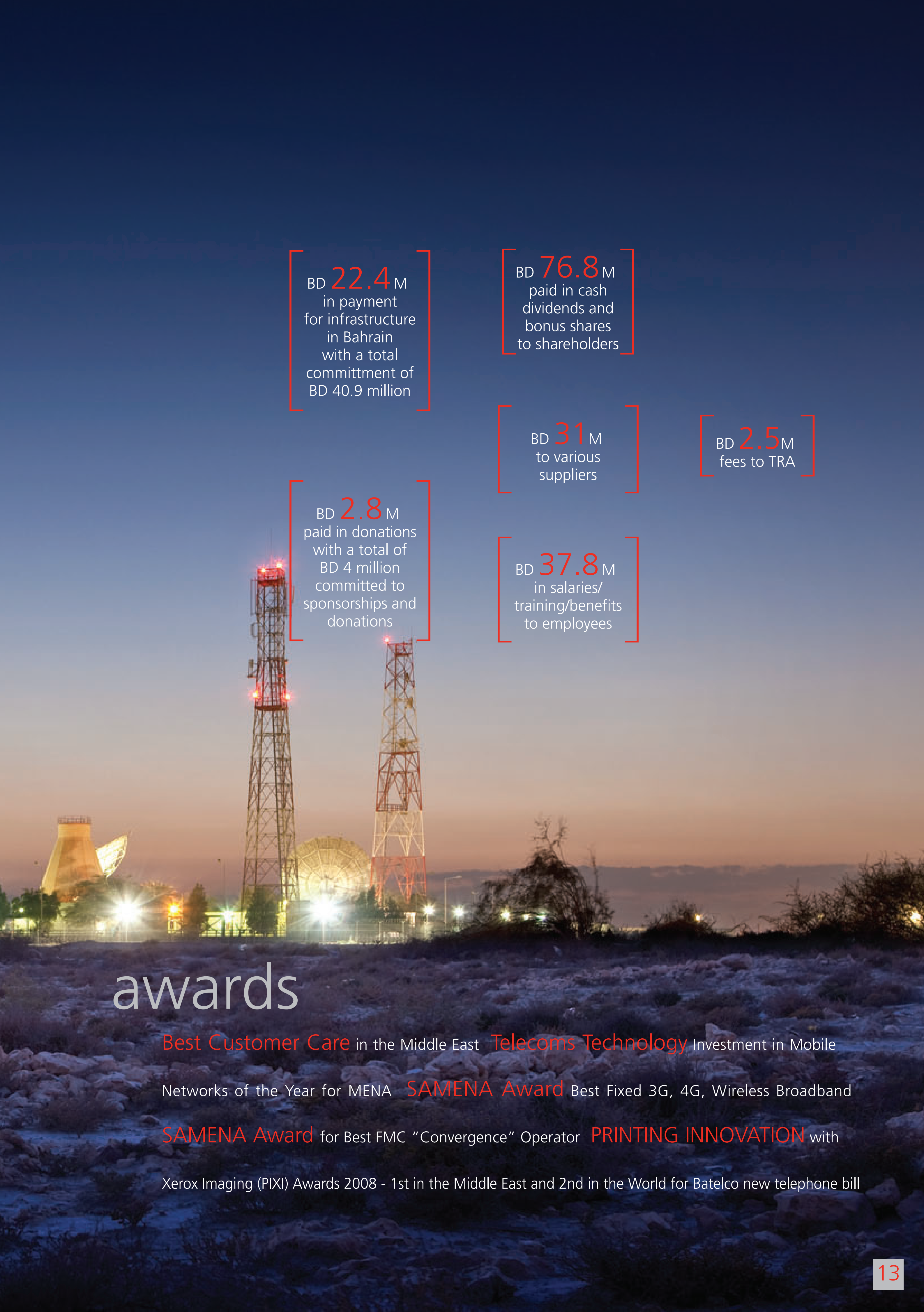
Peter Kaliaropoulos
Chief Executive
Bahrain Telecommunications Company (B.S.C.)

stats at A GLANCE

BD 173.3 M
invested in Bahrain's Economy in 2008

facts

184 Campaigns for Consumers and Business customers during 2008 4,420 Batelco news clippings published 82,000 Broadband customers 205,000 Fixed Line connections 767,000 Mobile customers in Bahrain 850,000 Average number of calls handled by Batelco Directory Enquiries monthly



BD 22.4M
in payment for infrastructure in Bahrain with a total committment of BD 40.9 million

BD 76.8M
paid in cash dividends and bonus shares to shareholders

BD 31M
to various suppliers

BD 2.5M
fees to TRA

BD 2.8M
paid in donations with a total of BD 4 million committed to sponsorships and donations

BD 37.8M
in salaries/ training/benefits to employees

awards

Best Customer Care in the Middle East Telecoms Technology Investment in Mobile Networks of the Year for MENA SAMENA Award Best Fixed 3G, 4G, Wireless Broadband SAMENA Award for Best FMC "Convergence" Operator PRINTING INNOVATION with Xerox Imaging (PIXI) Awards 2008 - 1st in the Middle East and 2nd in the World for Batelco new telephone bill

Bahrain's first telecommunications link to the rest of the world was established when the island was connected to the Indo-European undersea telegraphic cable.

1864

Bahrain became the first country in the Middle East to enter the age of satellite communications with the opening of its first INTELSAT earth station.

1969

BATELCO (Bahrain Telecommunications Company) was established as a Bahraini shareholding company.

1981

Batelco opens its ARABSAT earth station.

1984

Batelco's Hamala headquarters opened.

1990

Bahrain became one of the first countries in the world with complete digitalization of its national and international telephone switches, at a total cost of over BD17 million.

1992

100 years & MORE

Batelco launches inet and GSM.

1995

Batelco's 100,000th mobile phone customer connected and the 100th International Roaming operator link established.

1999

Speednet launched.

2001

umniah

Batelco buys 96% shareholding in Umniah.

2006

سبأفون
SABAFON

Batelco purchases shareholding in Sabafon, Yemen.

Batelco Network Operating Centre officially opened.

2007

إتحاد عذيب للاتصالات
Etihad Atheeb Telecom

Batelco, as part of the Atheeb Telecom consortium is working to deliver wireless broadband, data solutions and voice services nationwide in Saudi Arabia

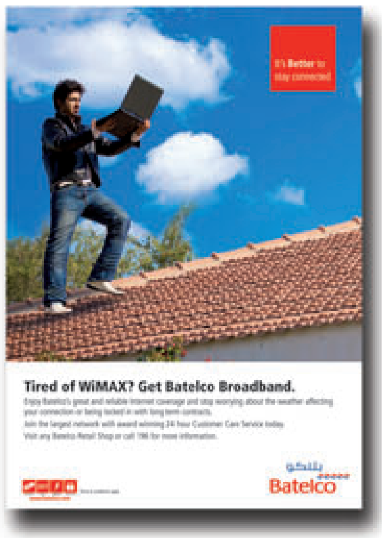
Next Generation Network (NGN) migration completed.

2008

customer services &

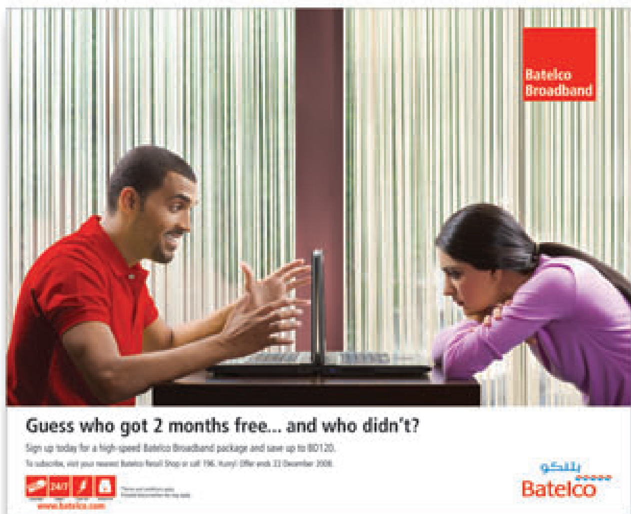
BENEFITS

We have rolled out an impressive range of compelling products and services in 2008 and launched an extensive variety of promotions, offering better value for mobile, broadband and IDD services, without any compromise on quality.



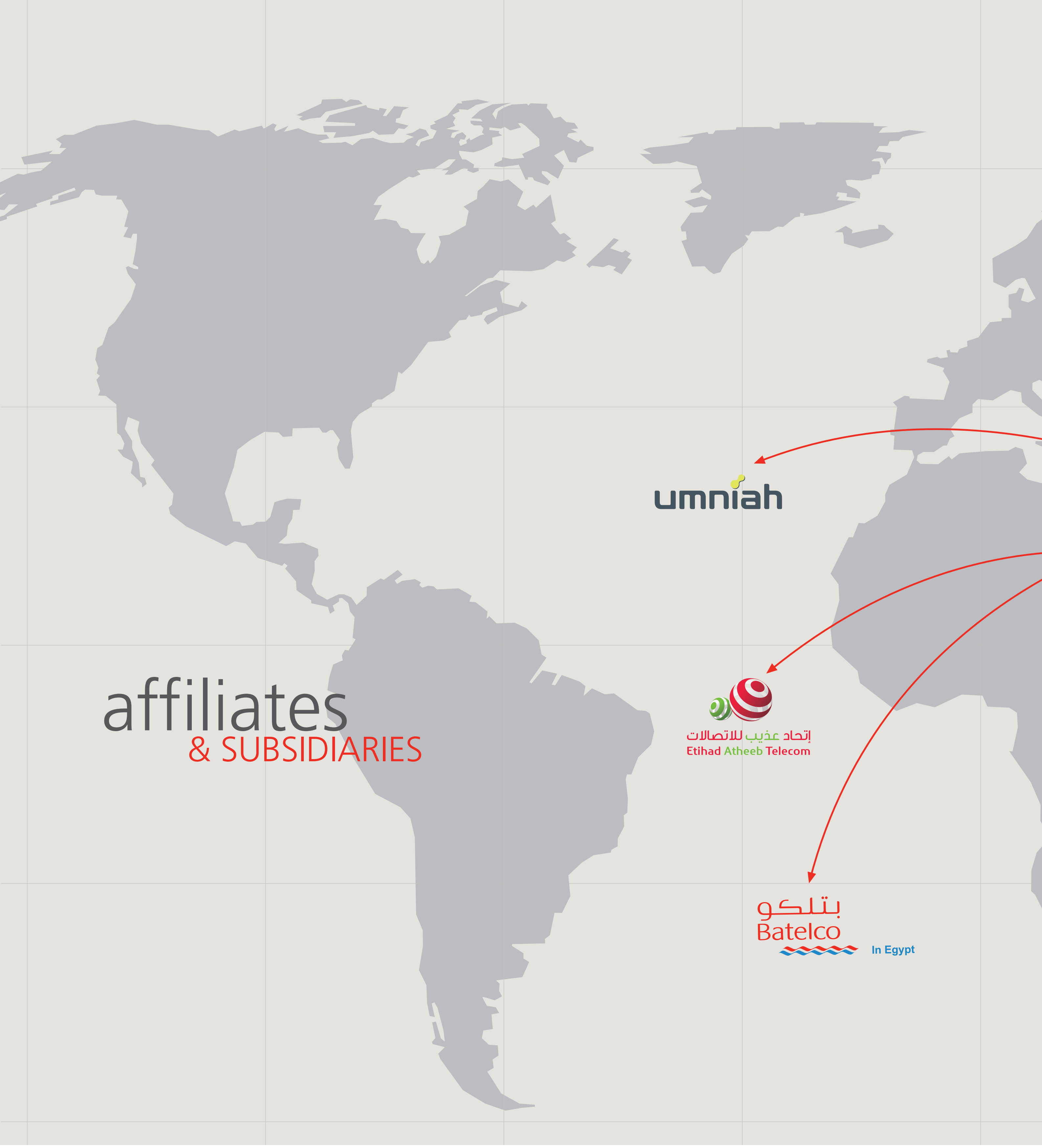
184

consumer and business customer campaigns during 2008



We will remain committed to supporting our customers by delivering more choice, innovation and better value. Transforming our operations around our customers' needs differentiates us from our competitors – such transformation remains a cornerstone of our operations in 2009.

affiliates
& SUBSIDIARIES



Umniah - Jordan: The fastest growing operator in Jordan has upgraded its offerings from GSM provider to become a total communications solution provider, now offering mobile, internet and business solutions, thus bringing itself closer to its goal by offering a more complete basket of telecommunications services and solutions that add more value to customers' needs. By the end of 2008, Umniah mobile exceeded 1,430,000 customers expanding its market share to 26% in less than four years. Umniah Business solutions services include managed data services based on IPVPN-MPLS with the business customer base exceeding 650 managed data communications links and over 300 Internet leased lines. Umniah is also a leading ISP with over 19,000 broadband customers.

Qualitynet - Kuwait: A 44% Batelco-controlled subsidiary company, Qualitynet meets the challenges of an era of convergence by providing total ICT solutions. Qualitynet remains the clear market leader in the Data Communications and Internet Services industry, with the constant introduction of innovative and new concepts and services. Qualitynet's success and growth is based on the delivery of effective and efficient solutions, developing integrated network systems tailored to their customers' needs.

Batelco Egypt Communications (S.A.E.) - Egypt: A wholly owned subsidiary of the Batelco Group. The company's managed global frame relay service, managed international private lines service and a global Internet access service, combine to form a one-stop-shop service, in a bid to cater for all of its customers' global needs.

Sabafon - Yemen: Batelco purchased a 20% shareholding in Yemen's leading mobile communications company SabaFon in March 2007 and an extra 6.942% stake in May 2008 bringing its total shareholding to 26.942%. SabaFon is the largest GSM mobile operator in Yemen with over 2 million mobile subscribers and offering national coverage with over 650 base stations across Yemen.

Etihad Atheeb Telecom - Saudi Arabia: As part of the Etihad Atheeb consortium, a number of Batelco's employees are involved in the rollout of telecommunications services across Saudi Arabia. The Company's services will include numerous wire/wireless services such as: voice telephone communications, data services, Internet telephony services, Broadband Internet via WiMax technology, fixed telephone lines, and optical fibers to homes and businesses, in addition to video services.

Batelco's overseas operations contributed 33% of gross revenues and 19% of EBITDA in 2008 with all the overseas operations being profitable and each delivering double digit net profit growth. While Batelco's operation in Bahrain will remain most critical to the Group's future success, our strategy will continue to focus on growth and diversification in new overseas markets.

BATELCO KNOWLEDGE HUB

delivering on its promise

At Batelco we are extremely proud of our talented workforce. We recognise their value and importance in the successful delivery of our strategy and achievement of our goals. Accordingly, training programmes to instill skills that we are lacking and development programmes to enrich our knowledge base remain a key priority at Batelco.

2008 Statistics:

- BD1.24 million invested in Training & Development
- 596 training activities delivered
- 78,890 training hours
- 1306 staff benefited - representing 82% of employees
- 502 e-Learning courses
- 259 employees completed e-courses

We are enormously proud of our major achievement in establishing an NGN Laboratory at Batelco Knowledge Hub. The Hub, which was officially opened by our esteemed Chairman Shaikh Hamad in the presence of the Board of Directors in November 2008, has already embarked on a Train the Trainer programme to train engineers from the Batelco Group, who will then become in-house trainers for the rest of our engineers.

Additional achievements during 2008 include:-

- Providing 105 candidates from the Ministry of Education, Bahrain Training Institute and other private universities with job placements
- Providing 8 candidates from the Ministry of Labour with CCNA courses of six month's duration
- Development of Customer Service and HR skills for 80 candidates from various Bahrain Ministries
- The roll out of our e-Learning experience to our Joint Ventures
- Implementation of a fully automated 360 degree performance management which is the 1st of its kind in the region
- Development of a succession and talent system to identify, retain and develop key staff

We know that the qualities and skills of our people have a direct impact on the quality of our service. We therefore remain committed to empowering and enabling our employees to excel, building on their knowledge base for their personal growth and the good of Batelco.

At Batelco we believe that the quality of our people, across all levels, is critical to the successful delivery of our growth strategies.

Shaikh Ahmed Bin Khalifa Al Khalifa
Group Human Resources General Manager

CORPORATE SOCIAL responsibility

Batelco continues to give back to the community and assist local charities through its sponsorship & donation programme. It is our aim to touch the lives of as many residents as possible through support for Health, Education, Sports and Cultural initiatives.

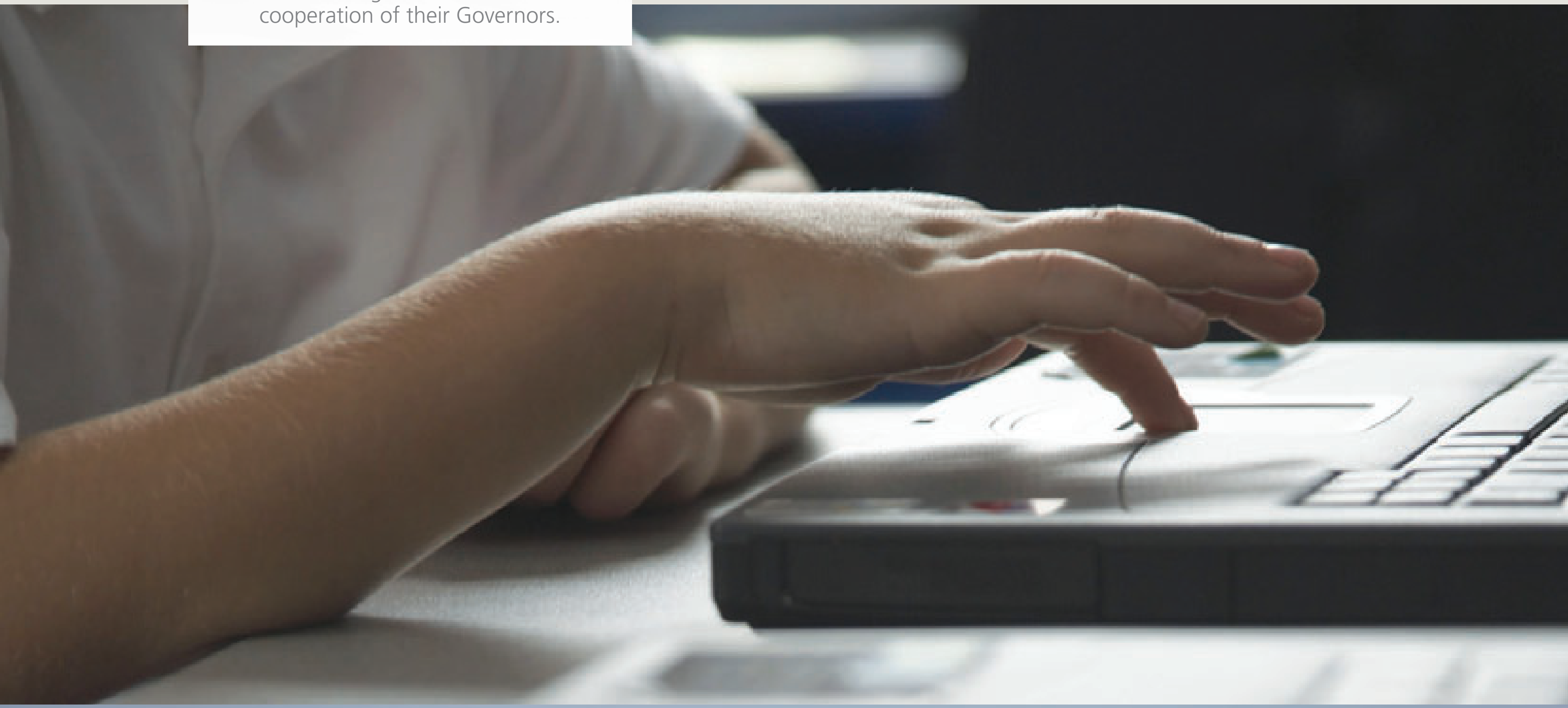
BD1.2 million

King Hamad Schools of the Future

BD300,000

Batelco Live

The ambitious Batelco Live project is being implemented to provide free internet in the Kingdom's villages. Batelco aims to provide 30 fully-equipped computer labs with free internet in clubs and youth centres in Bahrain's five governorates with the cooperation of their Governors.



BD140,000

Al Areen Wild Life Park

BD350,000

Shaikh Isa library

BD200,000

Crown Prince Scholarship Fund

Batelco's commitment towards the Crown Prince Scholarship Fund totals BD1 million to support the overseas education of some of Bahrain's brightest students who are selected through a rigorous process.

BD35,000

Batelco Challenge

The Batelco Challenge, a one of a kind series, takes place annually. Organised in conjunction with the Bahrain Equestrian and Horse Racing Club, the Challenge consists of three races - Batelco Al Dana Trophy, Batelco Broadband Stakes and Batelco Gold Cup.

BD400,000

Shaikh Mohammed Bin Khalifa Bin Salman Al Khalifa Cardiac Centre

Batelco annually supports the Shaikh Mohammed Bin Khalifa Bin Salman Al Khalifa Cardiac Centre. In 2008 we donated BD200,000 in cash and additionally specialised equipment valued at an additional BD200,000.

BD3,000

Hope Institute for Special Education

The Hope Institute for Special Education, which celebrated 30 years of serving the needs of the community in 2008, caters to more than 150 special needs students. The Institute, under the umbrella of the Children's & Mother's Welfare Society, provides education for the students to help them to become a productive part of the community.

BD5,000

Shaikh Faisal Memorial Golf Trophy

The annual Shaikh Faisal Memorial Golf Trophy is held in aid of Bahrain Mobility International, which was established in 1979 to cater to the needs of the disabled in Bahrain. Their centre in Isa Town offers training workshops and physical therapy facilities. There is also a nursery which caters to children aged 3 to 6 years and prepares them to integrate into the community once they start school.

BD175,000

Bahrain International Circuit (BIC)

Batelco has been a proud partner of the BIC since its formation and is delighted to play its part in ensuring the success of the annual Gulf Air Grand Prix by providing state-of-the-art telecommunications products and services.

BD145,000

Ramadan Baskets

Batelco, in co-ordination with local charitable societies, annually distributes Ramadan baskets to needy families across the Kingdom. Each gift basket weighs about 10 kg and includes essential foodstuffs that are traditionally in high demand during the Holy Month. In 2008, a group of Batelco staff volunteered to help with distribution.

GOING green

UNEP World Environment Day

Batelco hosted the regional celebrations for the United Nations Environment Programme World Environment Day with the theme for 2008 being "Kick the Habit ! Towards a Low Carbon Economy". A number of key influential figures from the Middle East region attended the event which aimed to raise awareness of climate change and greenhouse gas emissions.

As well as contributing financially to a wide range of health, education, sports and cultural projects, Batelco Hearts & Minds committee, a group of staff volunteers, regularly give their time to become involved in a variety of charitable causes.

Mr. Ali Engineer
Director

Dr. Zakarya Ahmed Hijris
Director

Mr. Murad Ali Murad
Director

Mr. Abdul Razak A. Hassan Al Qassim
Director

Shaikh Hamad Bin Abdulla Al-Khalifa
Chairman

board of directors

Mr. Adel Hussain Al Maskati
Director

Mr. Nedhal Saleh Al Aujan
Director

Dr. Yousif Dashkouni
Director

Shaikh Mohamed bin Isa Al-Khalifa
Deputy Chairman

Mr. Waleed Ahmed Al Khaja
Director

EXECUTIVE management

Mona Al Hashimi

Nadia Hussain

Bernadette Baynie

Peter Kaliaropoulos

Ahmed Hussain Al Janahi

Adel Daylami

David Clarke

Kataryna Stapleton

Ebrahim Zainal

CORPORATE governance

Batelco is committed to principle-based, value-driven corporate governance. This means going beyond meeting minimum legal and regulatory requirements for disclosure and control, to achieving and sustaining leading practices in corporate governance.

Corporate governance is the system by which the company is directed and controlled. This system works interdependently with other business functions to ensure the achievement of Batelco's mission, vision, values and objectives.

Corporate Governance is implemented via the Board of Directors, Audit Committee, and the Trading Committee. In 2008 Batelco and Umniah Directors met on 23 occasions.

Batelco believes in transparency. Corporate governance clearly articulates the purpose and priorities of the firm, and clearly discloses financial and non-financial performance in each of these priority areas. All stakeholders should be enabled to have a common understanding of Batelco's strategic direction and results. Batelco believes in integrity. Batelco's corporate governance ensures that a high ethical standard is maintained throughout the firm, board, management and staff, that information is reliable, and that stakeholders are treated fairly. Batelco takes seriously the fiduciary trust placed in it, and its employees, to safeguard and steward resources belonging to others. Batelco believes in performance. Corporate governance is a means towards an end, ensuring the allocation of resources to the highest uses, and the achievement of

PRINCIPLE-BASED, VALUE DRIVEN

strong, sustainable results: adding value to shareholder returns, customer service, employee satisfaction, and the well-being of communities. Clear lines of authority and accountability throughout the Company aim to eliminate inefficiencies and improve working relationships.

The company believes in going beyond structure to embrace a culture of continuous learning and innovation. Batelco's corporate governance is a journey, rather than a destination, leading the way and being a living example to companies and individuals. By striving to set a high standard, stakeholders, including all employees, will be encouraged to achieve their full potential.

CONSOLIDATED

financial statements

FOR THE YEAR ENDED 31 DECEMBER '08

independent
AUDITORS' REPORT

KPMG Fakhro
5th Floor, Chamber of Commerce Building,
P.O. Box 710, Manama, Kingdom of Bahrain.

Independent auditors' report to the shareholders
Bahrain Telecommunications Company BSC
Manama, Kingdom of Bahrain

21 January 2009

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bahrain Telecommunications Company BSC ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. Included in these consolidated financial statements are the financial statements of subsidiaries of the Company, with net assets of BD 39,864,000 (2007: BD 34,299,000), and total revenues of BD 103,238,000 (2007: BD 92,919,000) and profit of BD 12,853,000 (2007: BD 9,885,000) for the year ended 31 December 2008, which have been audited by other auditors and whose report is unqualified and has been furnished to us. Our conclusion, insofar as it relates to the amounts included in respect of these subsidiaries, is based solely on the report of the other auditors of the subsidiary companies.

Responsibility of the directors for the financial statements

The Directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001 or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material 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.

KPMG

CONSOLIDATED BALANCE SHEET
as at 31 December 2008

		BD'000	
ASSETS	Note	**2008**	2007
Non-current assets			
Property, plant and equipment	6	211,381	214,636
Goodwill	7	125,317	124,380
Intangible assets	8	30,744	33,758
Investment in associate	9	85,583	62,446
Investments	10	32,397	22,255
Total non-current assets		**485,422**	457,475
Current assets			
Inventories		3,115	4,474
Investments	10	2,666	4,524
Trade and other receivables	11	54,403	49,468
Amounts due from telecommunications operators	12	15,645	4,926
Cash and cash equivalents		153,540	213,657
Total current assets		**229,369**	277,049
Total assets		**714,791**	734,524
EQUITY AND LIABILITIES			
Equity			
Share capital	17	144,000	120,000
Statutory reserve	18	74,208	68,434
General reserve	18	15,000	15,000
Foreign currency translation reserve		(884)	558
Fair value reserve on investments	10	288	1,595
Retained earnings		219,653	200,942
Equity attributable to shareholders of the parent company		**452,265**	406,529
Minority interest		**10,648**	10,277
Total equity (Page 39)		**462,913**	416,806
Non-current liabilities			
Trade and other payables	13	6,085	10,177
Non-current portion of bank borrowings	15	38,671	113,709
Deferred tax liabilities	16	5,879	6,456
Total non-current liabilities		**50,635**	130,342
Current liabilities			
Trade and other payables	13	104,173	104,533
Amounts due to telecommunications operators		19,424	4,073
Current tax liabilities		2,889	1,350
Current portion of bank borrowings	15	74,757	77,420
Total current liabilities		**201,243**	187,376
Total liabilities		**251,878**	317,718
Total equity and liabilities		**714,791**	734,524

The consolidated financial statements, which consist of pages 36 to 64 were approved by the Board of Directors on 21 January 2009 and signed on its behalf by:

Sh. Hamad bin Abdulla Al Khalifa
Chairman

Sh. Mohamed bin Isa Al Khalifa
Deputy Chairman

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

	Note	BD'000 2008	2007
Revenue	20	319,076	293,079
Finance and other income	21	13,783	15,853
Share of profit of associate (net of income tax)	9	3,592	1,911
Total income		**336,451**	310,843
Network operating expense	22	(93,013)	(85,904)
Staff cost		(48,617)	(45,439)
Depreciation and amortization		(44,292)	(37,875)
General and administrative expenses	23	(34,378)	(29,837)
Finance expenses	24	(6,040)	(6,430)
Total expenses		**(226,340)**	(205,485)
Profit before income tax		**110,111**	105,358
Income tax expense		(2,210)	(1,259)
Profit for the year		**107,901**	104,099
Attributable to:			
Equity shareholders of the parent company		104,207	101,493
Minority interest		3,694	2,606
		107,901	104,099
Earnings per share	25		
No. of issued shares in millions		1,440	1,440
Basic earnings per share for the year (in fils)		72.4	70.5

The consolidated financial statements, which consist of pages 36 to 64 were approved by the Board of Directors on 21 January 2009 and signed on its behalf by:

Sh. Hamad bin Abdulla Al Khalifa
Chairman

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Deputy Chairman

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2008

	BD'000	
	2008	2007
Operating activities		
Cash receipts from customers	303,978	275,911
Cash paid to suppliers	(95,228)	(76,390)
Cash paid to and on behalf of employees	(47,824)	(37,978)
Cash paid to telecommunications operators	(14,894)	(12,952)
Cash flows from operating activities	**146,032**	148,591
Investing activities		
Acquisition of plant and equipment	(45,910)	(42,772)
Proceeds from sale of land	7,513	-
Acquisition of shares in an associate	(21,691)	(60,535)
Acquisition of available-for-sale investment	(15,081)	-
Acquisition of minority interest in a subsidiary	(1,130)	-
Dividend received from associate	2,146	-
Proceeds from sale and maturity of investments	4,053	2,639
Interest and investment income received	7,067	7,505
Cash flows from investing activities	**(63,033)**	(93,163)
Financing activities		
Dividend paid	(55,983)	(58,664)
Interest paid	(7,064)	(5,070)
Proceeds from bank borrowings	-	184,446
Repayment of bank borrowings	(77,256)	(3,676)
Payments to charities	(2,813)	(4,563)
Cash flows from financing activities	**(143,116)**	112,473
(Decrease) / increase in cash and cash equivalents	**(60,117)**	167,901
Cash and cash equivalents at 1 January	213,657	45,756
Cash and cash equivalents at 31 December	**153,540**	213,657

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

2008

BD'000	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Fair value reserve on investments	Retained earnings	Total	Minority interest	Total equity
	Total equity attributable to shareholders of the parent company								
At 1 January 2008	120,000	68,434	15,000	558	1,595	200,942	406,529	10,277	416,806
Fair value changes	-	-	-	-	(1,307)	-	(1,307)	-	(1,307)
Foreign currency translation	-	-	-	(1,442)	-	-	(1,442)	(777)	(2,219)
Total recognised income and expense directly in equity	-	-	-	(1,442)	(1,307)	-	(2,749)	(777)	(3,526)
Profit for the year	-	-	-	-	-	104,207	104,207	3,694	107,901
Total recognised income and expense for the year	-	-	-	(1,442)	(1,307)	104,207	101,458	2,917	104,375
Final dividend (2007)	-	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Bonus issue (2007)	24,000	-	-	-	-	(24,000)	-	-	-
Donations (2007)	-	-	-	-	-	(2,537)	(2,537)	-	(2,537)
Directors' remuneration (2007)	-	-	-	-	-	(385)	(385)	-	(385)
Transfer to statutory reserve (2007)	-	5,774	-	-	-	(5,774)	-	-	-
Interim dividends (2008)	-	-	-	-	-	(28,800)	(28,800)	-	(28,800)
Dividends to minority shareholders	-	-	-	-	-	-	-	(2,353)	(2,353)
Acquisition of minority interest in a subsidiary (Note 7)	-	-	-	-	-	-	-	(193)	(193)
At 31 December 2008	**144,000**	**74,208**	**15,000**	**(884)**	**288**	**219,653**	**452,265**	**10,648**	**462,913**

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

2007

BD'000	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Fair value reserve on investments	Retained earnings	Total	Minority interest	Total equity
	Total equity attributable to shareholders of the parent company								
At 1 January 2007	120,000	60,000	15,000	113	-	167,563	362,676	8,488	371,164
Fair value changes	-	-	-	-	1,595	-	1,595	-	1,595
Foreign currency translation	-	-	-	445	-	-	445	457	902
Total recognised income and expense directly in equity	-	-	-	445	1,595	-	2,040	457	2,497
Profit for the year	-	-	-	-	-	101,493	101,493	2,606	104,099
Total recognised income and expense for the year	-	-	-	445	1,595	101,493	103,533	3,063	106,596
Final dividend (2006)	-	-	-	-	-	(33,600)	(33,600)	-	(33,600)
Donations (2006)	-	-	-	-	-	(1,750)	(1,750)	-	(1,750)
Directors' remuneration (2006)	-	-	-	-	-	(330)	(330)	-	(330)
Transfer to statutory reserve (2006)	-	8,434	-	-	-	(8,434)	-	-	-
Interim dividends (2007)	-	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Dividends to minority shareholders	-	-	-	-	-	-	-	(1,274)	(1,274)
At 31 December 2007	120,000	68,434	15,000	558	1,595	200,942	406,529	10,277	416,806

The accompanying notes 1 to 31 form an integral part of these consolidated financial statements.

1. Background and activities

Bahrain Telecommunications Company BSC ("the Company") is a public shareholding company registered in the Kingdom of Bahrain in the year 1981 and is engaged in the provision of public telecommunications and associated products and services. The consolidated financial statements for the year ended 31 December 2008 comprise the financial statements of the Company, and its subsidiaries and its associate (collectively "the Group"). The registered office of the Company is PO Box 14, in Manama, Kingdom of Bahrain.

The subsidiaries and associate of the Group included in these consolidated financial statements are as follows:

Company	Country of incorporation	Shareholding percentage (%)
Subsidiaries		
Batelco Middle East Company SPC	Kingdom of Bahrain	100%
Arabian Network Information Services WLL	Kingdom of Bahrain	100%
Umniah Mobile Company PSC	Kingdom of Jordan	96%
Batelco Jordan PSC	Kingdom of Jordan	96%
Batelco Egypt Communications (S.A.E.)	Arab Republic of Egypt	100%
Qualitynet General Trading and Contracting Company WLL	State of Kuwait	44%
Associate		
Yemen Company for Mobile Telephony Y.S.C (effective 1 June 2008, refer to note 9)	Republic of Yemen	26.942%

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and the Central Bank of Bahrain's Disclosure Standards.

b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for available for sale investments that are stated at their fair values.

c. Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation and critical judgements in applying accounting policies on the amounts recognised in the financial statements are described in the following notes:

- Note 3 (c) (iii) – Estimates of useful lives;
- Note 3 (g) – Valuation of investments;
- Note 3 (l) – Provisions;
- Note 3 (m) – Impairment;
- Note 3 (q) – utilization of tax losses; and
- Note 7 – measurement of the recoverable amounts of cash-generating units.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by the Group's entities.

a. Basis of consolidation

i) *Subsidiaries*

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain economic benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control effectively ceases.

3. Significant accounting policies (continued)

ii) *Investments in associates*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is presumed to exist when the Group holds between 20 to 50 percent of the voting power of another entity.

Associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of the associate from the date that significant influence commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

iii) *Acquisitions from entities under common control*

Business combinations arising from transfer of interest in entity that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group controlling shareholder's consolidated financial statements. Any cash paid for the acquisition is recognised directly in equity.

iv) *Transactions eliminated on consolidation*

All material intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Foreign currency

i) *Functional and presentation currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the locations in which the Company, its subsidiaries and associate operate ("the functional currency"). These consolidated financial statements are presented in Bahraini Dinars ("BD"), the Group's presentation currency and all values are rounded to the nearest thousand (BD 000s) except where otherwise indicated.

ii) *Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency of the Group's entities at the exchange rate at that date. Exchange differences arising on the settlements of monetary items and on the retranslation of monetary items, are included in the consolidated income statement. Non monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency of the Group's entities at the exchange rate prevailing at the date that the fair value was determined. Foreign currency differences arising on translation and exchange gains and losses are recognised in consolidated income statement.

iii) *Financial statements of foreign operations*

The assets and liabilities of the Group's subsidiaries and other entities controlled by the Group based outside the Kingdom of Bahrain ("foreign operations") are translated into Bahraini Dinars at the exchange rates prevailing at the balance sheet date. The income and expenses of foreign operations are translated into Bahraini Dinars at average exchange rates prevailing during the year. Exchange differences arising on translation of foreign operations are recognized directly in equity as a foreign currency translation reserve.

c. Property, plant and equipment

i) *Recognition and initial measurement*

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The cost includes expenditures that are directly attributable to the acquisition cost of the asset. The cost of self constructed assets includes the cost of materials, direct labour and any costs that are directly attributable to bringing an asset to its working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in the consolidated income statement.

3. Significant accounting policies (continued)

ii) Subsequent expenditure

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is possible that the future economic benefits embodied in the component of the item of property, plant and equipment will flow to the Group. All other expenditures are recognised in the consolidated income statement as expenses as incurred.

iii) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of a property, plant and equipment. Assets are depreciated from the date of acquisition, or in respect of self constructed assets, from the time an asset is completed and ready for service. Freehold land, projects in progress and inventories held for capital projects are not depreciated. The estimated useful lives for the current and comparative periods are as follows:

Buildings	25 years
Plant and equipment	3 to 25 years
Motor vehicles, furniture, fittings and office equipment	2 to 10 years

Depreciation methods, useful lives and residual values, are reassessed and adjusted, if appropriate, at each balance sheet date.

d. Leased assets

i) Finance leases

Leases for which substantially all the risks and rewards of ownership are assumed by the Group are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease liabilities are reduced by the repayment of principal amount while the finance charge component of the lease payment is charged directly to the consolidated income statement. Lease payments are allocated between lease finance cost and capital repayments using the effective interest method.

ii) Operating leases

All other leases are considered as operating leases. Payments made in respect of operating leases are expensed to the consolidated income statement over the lease period.

e. Goodwill

i) Recognition and initial measurement

Goodwill arises on acquisition of subsidiaries, other entities controlled by the Group and associates. Goodwill represents the excess of cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity.

ii) Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

iii) Subsequent measurement

Goodwill is not subject to amortisation but is tested for impairment and is measured at cost less accumulated impairment losses, if any. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment.

f. Intangible assets

Intangible assets comprise license fees, trade name and associated assets and non-network software.

i) Recognition and measurement

License costs, trade name and associated assets and non-network software acquired or incurred by the Group have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses, if any. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognised in the consolidated income statement as incurred.

3. Significant accounting policies (continued)

ii) *Amortisation*

Amortisation is recognized in the consolidated income statement on a straight line basis over the estimated useful lives of the intangible assets from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

License fees	7 to 13 years
Trade name and other assets	3 to 13 years

Amortisation methods, useful lives and residual values, are reassessed and adjusted, if appropriate, at each balance sheet date.

g. Financial instruments

i) *Financial instruments*

Financial instruments comprise investments in equity and debt securities, trade receivables, unbilled revenues, amounts due from telecommunications operators, cash and cash equivalents, bank borrowings, amounts due to telecommunications operators and trade payables. Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

ii) *Held-to-maturity investments*

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity ("HTM"). Purchase and sale of HTM investments are accounted for on the trade date and are initially recorded at cost, being the fair value of the consideration given including transaction charges associated with the investment. HTM investments are measured at amortised cost using the effective interest method, less any impairment losses.

iii) *Available-for-sale financial assets*

The Group's investments in equity securities and certain debt securities are classified as available-for-sale ("AFS") investments. Purchase and sale of AFS investments are accounted for on the trade date and are initially recorded at cost, being the fair value of the consideration given including transaction charges associated with the investment. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer to note 3(m)), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to income statement. The fair value of AFS investments is their quoted bid price at the balance sheet date. AFS investments where there is no quoted market price or other appropriate methods from which to derive reliable fair values, are carried at cost less impairment.

iv) *Share capital*

The Company has one class of equity shares. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

v) *Classification of financial instruments*

Classification of financial assets and liabilities, together with the carrying amounts as disclosed in the balance sheet, are as follows:

31 December 2008 BD'000	**Loans and receivables**	**Available -for-sale**	**Others at amortised cost**	**Total carrying amount**
Investments	-	35,063	-	35,063
Trade receivables	36,928	-	-	36,928
Unbilled revenues	8,836	-	-	8,836
Amounts due from telecommunications operators	15,645	-	-	15,645
Cash and cash equivalents	153,540	-	-	153,540
	214,949	**35,063**	**-**	**250,012**
Finance lease liabilities	118	-	-	118
Borrowings	-	-	113,428	113,428
Trade payables	-	-	44,504	44,504
Amounts due to telecommunications operators	-	-	19,424	19,424
Current tax liabilities	-	-	2,889	2,889
	118	**-**	**180,245**	**180,363**

3. Significant accounting policies (continued)

31 December 2007 BD'000	Loans and receivables	Available -for-sale	Others at amortised cost	Total carrying amount
Investments	-	26,779	-	26,779
Trade receivables	34,907	-	-	34,907
Unbilled revenues	5,312	-	-	5,312
Amounts due from telecommunications operators	4,926	-	-	4,926
Cash and cash equivalents	213,657	-	-	213,657
	258,802	26,779	-	285,581
Finance lease liabilities	302	-	-	302
Borrowings	-	-	190,827	190,827
Trade payables	-	-	34,181	34,181
Amounts due to telecommunications operators	-	-	4,073	4,073
Current tax liabilities	-	-	1,350	1,350
	302	-	230,431	230,733

With the exception of available-for-sale investments carried at cost less impairment allowances, the fair values of the Group's assets and liabilities closely approximate the carrying value.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and includes expenditure incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses. Those items of inventory that are held for the expansion of the telecommunications network are classified as property, plant and equipment.

i. Trade and other receivables

Trade receivables do not carry any interest and are stated at their fair value of services rendered as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience. Individual trade receivables are written off when management deems them not to be collectible. The fair value of trade and other receivables is estimated as the present value of future cash flows at the reporting date.

j. Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and time deposits which are readily convertible to a known amount of cash.

k. Trade and other payables

Trade payables are not interest bearing and are stated at their nominal value. Fair value, which is determined for disclosure purposes, is calculated based on the present value of future cash flows at the reporting date.

l. Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

m. Impairment

i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

3. Significant accounting policies (continued)

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in consolidated income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n. Employees benefits

a. Local employees

Pension rights and other social benefits for the Group's employees are covered by the applicable social insurance scheme of the countries in which they are employed are considered as a defined contribution scheme. The employees and employers contribute monthly to the scheme on a fixed-percentage-of-salaries basis.

b. Expatriate employees

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the respective labour laws of the countries in which they are employed, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the balance sheet date.

c. Employee savings scheme

The Group has a voluntary employees saving scheme. The employees and employers contribute monthly on a fixed-percentage-of-salaries-basis to the scheme.

o. Interest bearing borrowings

Interest bearing borrowings are recognized initially at fair value of the amounts borrowed, less related transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost using the effective interest method, with any differences between the cost and final settlement values being recognized in the income statement over the period of borrowings.

p. Finance income and expenses

i) Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in income statement, using the effective interest method.

ii) Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in consolidated income statement using the effective interest method. Foreign currency gains and losses are reported on a net basis.

3. Significant accounting policies (continued)

q. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

r. Revenue

Revenue represents the value of fixed or determinable consideration that has been received or is receivable and includes revenue from revenue sharing arrangements entered into with national and international telecommunication operators in respect of traffic exchanged. Revenue for services rendered is stated at amounts invoiced to customers. Fees for installation and activation are recognised as revenue upon activation. All installation and activation costs are expensed as incurred. Monthly service revenue received from the customer is recognised in the period in which the service is delivered. Airtime revenue is recognised on the usage basis. Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in the consolidated income statement. Revenue from data services is recognised when the Group has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service. Revenue from handset sales is recognised when the product is delivered to the customer.

s. Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

t. Segment reporting

The Group's operations are considered to fall into one broad class of business, telecommunication and information services and hence, segmental analysis of assets and liabilities by business segment is not considered meaningful. Segment revenue analysis and geographical segments are as set out in Notes 20 and 29 respectively.

4. Financial instruments and risk management

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

4. Financial instruments and risk management (continued)

The Group has also established a centralised Group treasury function which works under the overall supervision of the Board of Directors of the Company and provides support to the Group for funding, foreign exchange, interest rate management and counterparty risk management. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by the Company's Board of Directors. The Group's accounting function provides regular reports of the treasury activity to the Board of Directors. The Group's internal auditors review the internal control environment regularly. There has been no significant change during the financial year, or since the end of the year, to the types of financial risks faced by the Group or the Group's approach to the management of those risks.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, international telecommunication operators and investment securities.

Trade receivables

The Group's trade receivables are spread among customer's segmentation and geographical areas. The Group has an established credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Credit limits are established for each customer, which represents the maximum open amount without requiring approval. Strict credit control is maintained for both credit period and credit limits, both of which are monitored continuously by management. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis. Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. The majority of the Group's trade receivables are due for payment within 90 days and largely comprise amounts receivable from consumers and business customers. The Group obtain collaterals for providing services to some residential customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Management believes there is no further credit risk provision required in excess of the normal impairment on receivables (refer to note 11).

Investments

The Group manages credit risk on its investments by ensuring that investments are made only after credit evaluation of the issuer. Term deposits are placed with commercial banks after credit evaluation of those banks. The Group limits its exposure to credit risk by only investing in liquid securities which offers risk free returns and only with counterparties that have a sound credit rating. Management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	BD'000	
	2008	2007
Investments	35,063	26,779
Trade receivables	52,021	49,076
Unbilled revenues	8,836	5,312
Amounts due from telecommunications operators	15,645	4,926
Cash and cash equivalents	153,540	213,657
	265,105	299,750

4. Financial instruments and risk management (continued)

Trade receivables

The maximum exposure to credit risk at 31 December 2008 classified by geographical region sharing common economic characteristics with respect to credit risk is as follows:

	BD'000	
Geographical segment	**2008**	2007
Bahrain	35,059	31,099
MENA	16,962	17,977
	52,021	49,076

Amounts due from telecommunications operators

The maximum exposure to credit risk for amount due from telecommunications operators at 31 December 2008 by type of customer was:

	BD'000	
Customer segment	**2008**	2007
International operators	2,019	1,437
Local operators	13,626	3,489
	15,645	4,926

b. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also borrows funds from the banks to meet its liquidity requirements in the normal course of business. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. A major portion of the Group's funds are invested in cash and cash equivalents which are readily available to meet expected operational expenses, including the servicing of financial obligations.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

Non derivative financial liabilities at 31 December 2008 BD'000	**Carrying amount**	**Contractual cash flows**	**Within one year**	**1-2 years**	**2-5 years**
Finance lease liabilities	118	176	39	137	-
Unsecured borrowings	113,428	115,411	76,377	38,085	949
Trade payables	44,504	44,504	38,498	3,160	2,846
Amount due to telecommunications operators	19,424	19,424	19,424	-	-
Current tax liabilities	2,889	2,889	2,889	-	-
	180,363	**182,404**	**137,227**	**41,382**	**3,795**

Non derivative financial liabilities at 31 December 2007 BD'000	Carrying amount	Contractual cash flows	Within one year	1-2 years	2-5 years
Finance lease liabilities	302	388	148	240	-
Unsecured borrowings	190,827	198,943	83,437	77,733	37,773
Trade payables	34,181	34,181	24,004	10,177	-
Amount due to telecommunications operators	4,073	4,073	4,073	-	-
Current tax liabilities	1,350	1,350	1,350	-	-
	230,733	238,935	113,012	88,150	37,773

4. Financial instruments and risk management (continued)

c. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The Group incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Group Treasury Function.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has substantial purchases from foreign suppliers and deals with international telecommunication operators. In addition, the Company has US Dollar denominated loan. The Group's currency risk is related to changes in exchange rates applicable to the settlements in foreign currencies. The Group's exposure to currency risk is limited as the majority of its investments, dues to and from international operators and borrowings are denominated in US Dollar or denominated in currencies which are pegged to US Dollar. Consequently, the currency risk of the Group is limited.

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Bahraini Dinar, (which is pegged to the US Dollar), Kuwaiti Dinar and Jordanian Dinar. The exposure to other currencies in which these transactions primarily are denominated in US Dollar, Euro, and Sterling (GBP). Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily the Bahraini Dinar. This provides an economic hedge and no derivatives are entered into.

The Group seeks to manage currency risk by continually monitoring exchange rates and by maintaining an adequate level of foreign currencies to cover its expected commitment to international telecommunication operators and repayment of loan.

These amounts are placed in short-term fixed deposit accounts. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's investment in its subsidiaries is not hedged as those currency positions are considered to be long-term in nature. The Bahraini Dinar and Jordanian Dinar are pegged to the US Dollar, thus currency risks occur only in respect of other currencies. As the net exposure to other currencies is insignificant the Group believes that foreign currency risk is immaterial. In respect of other monetary assets and liabilities denominated in foreign currencies, considering the nature of its financial instruments, the Group currently is not engaged in hedging of foreign currency risk.

The Group's exposure to foreign currency risk as at 31 December 2008 was as follows based on notional amounts:

	31 December 2008				31 December 2007			
BD'000	KWD	USD	GBP	JOD	KWD	USD	GBP	JOD
Cash and cash equivalents	8,625	84,198	750	13,149	6,061	181,864	853	6,953
Trade and other receivables	12,877	-	-	9,447	11,239	-	-	6,484
Amounts due from telecommunications operators	-	2,730	-	11,255	-	2,925	-	1,582
Trade and other payables	(21,738)	(19,624)	-	(19,803)	(17,004)	(29,021)	-	(22,898)
Amounts due to telecommunications operators	-	(6,328)	-	(12,831)	-	(3,291)	-	(708)
Borrowings	-	(109,706)	-	(3,722)	-	(182,845)	-	(8,284)
Gross balance sheet exposure	(236)	(48,730)	750	(2,505)	296	(30,368)	853	(16,871)

4. Financial instruments and risk management (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
BD	**2008**	2007	**2008**	2007
1 KWD	1.4007	1.3313	1.3639	1.3810
1 USD	0.3770	0.3770	0.3770	0.3770
1 JOD	0.5329	0.5335	0.5332	0.5357
1 GBP	0.6978	0.7541	0.5494	0.7456

Sensitivity analysis

A 10 percent strengthening of the BD against the following currencies at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007. A 10 percent weakening of the BD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

	BD'000	
	Equity	**Income statement**
31 December 2008		
KWD	-	32
USD	-	1,837
GBP	-	(41)
JOD	-	133
31 December 2007		
KWD	-	(41)
USD	-	1,145
GBP	-	(64)
JOD	-	904

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk on its fixed deposits and its borrowings. Under the Group's interest rate management policy, interest rates on monetary assets and liabilities denominated in Bahraini Dinars, Jordanian Dinars, and Kuwaiti Dinars are maintained on a floating rate basis. Where assets and liabilities are denominated in other currencies, interest rates may also be fixed. The average interest rate yield from short-term bank deposits during 2008 was 2.4% (2007: 5.28%). The weighted average effective interest rate at balance sheet date for the Group's borrowings for 2008 was 3.97% (2007: 5.52%). The Group also bears 75% of the interest on Bahraini staff housing loans. The total loans should not exceed BD 10 million at any time and the agreed interest rate applicable is 1 year-BIBOR plus 1% on the loan balance. The BIBOR rate for the whole year is fixed on the first working day in January every year. The agreed interest rate for 2008 was 5.37% and that for 2007 was 6.49%.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	BD'000	
	2008	2007
Fixed rate instruments		
Financial assets	**446**	446
Financial liabilities	**118**	302
Variable rate instruments		
Financial assets	**17,330**	23,444
Financial liabilities	**113,428**	191,129

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through the income statement. Therefore a change in interest rates at the reporting date would not affect the income statement. Increase or decrease in equity resulting from variation in interest rates will be insignificant.

4. Financial instruments and risk management (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and income statement by BD 1,548,000 (2007: BD 1,025,000). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

Other market price risk

The primary goal of the Group's investment strategy is to ensure risk free returns and invest surplus fund available with the Group in risk free securities. Market price risk arises from available-for-sale investment held by the Group. The Group Treasury Function monitors its investment portfolio based on market expectations and credit worthiness of the underlying investees. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Company's Board of Directors.

Other price risk

Other investments include AFS investments. These investments carried at cost are exposed to risk of changes in market values. Refer to note 3 (g) (iii) for accounting policies on valuation of AFS investments and note 3 (m) (i) for significant estimates and judgements in relation to impairment assessment of AFS investments. The Group manages exposure to other price risks by actively monitoring the performance of the investments. The performance assessment is performed on an annual basis and is reported to the Board of Directors.

d. Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the group. The Board seeks to maintain a balance between the higher returns and growth that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Board of Directors monitors the return on capital, which the Group defines as total equity and the level of dividends to shareholders. The Group's objectives for managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. There were no significant changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

5. New international financial reporting standards and interpretations not yet adopted

During the year, the following new / amended IFRS's standards and interpretations relevant to the activities of the Group have been issued which are not yet mandatory for adoption by the Group:

- IAS 1 Presentation of Financial Statements *
- IAS 23 Borrowing Costs *
- IAS 27 Consolidated and Separate Financial Statements ***
- IFRS 3 Business Combinations ***
- IFRS 8 Operating Segments *
- IFRIC 13 Customer Loyalty Programmes **
- IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

* Annual periods commencing on or after 1 January 2009

** Annual periods commencing on or after 1 July 2008

*** Annual periods commencing on or after 1 July 2009

The adoption of these standards and interpretations are not expected to have material impact on the financial statements.

6. Property, plant and equipment

BD'000	Freehold land	Buildings	Plant and equipment	Motor vehicles, furniture, fittings & office equipment	Projects in progress	Total 2008	Total 2007
Cost							
At 1 January	19,664	52,148	366,370	57,503	25,799	521,484	485,165
Additions	280	723	29,778	4,273	4,404	39,458	42,642
Projects completed	-	64	12,407	1,546	(14,017)	-	-
Disposals	(704)	(364)	(5,091)	(1,871)	(342)	(8,372)	(6,323)
At 31 December	19,240	52,571	403,464	61,451	15,844	552,570	521,484
Depreciation							
At 1 January	-	43,427	217,405	46,016	-	306,848	282,127
Charge for the year	-	970	35,413	4,881	-	41,264	34,357
Reversal of impairment loss	-	-	-	-	-	-	(3,637)
Disposals	-	(231)	(3,841)	(2,851)	-	(6,923)	(5,999)
At 31 December	-	44,166	248,977	48,046	-	341,189	306,848
Net book value							
At 31 December 2008	**19,240**	**8,405**	**154,487**	**13,405**	**15,844**	**211,381**	214,636
At 31 December 2007	19,664	8,721	148,965	11,487	25,799	214,636	

In 2007, the Group reassessed the impairment loss of BD 3,637,000 recognised in the year 2005 for its access network and based on this reassessment, the Group reversed the previously recorded impairment loss amounting to BD 3,637,000 in that year. The reversal of impairment loss is included in the other income for the year ended 31 December 2007 and adjusted in the net book value of property, plant and equipment for the year ended 31 December 2007.

7. Goodwill

	BD'000 2008	2007
Cost		
At 1 January	124,380	124,380
Add: Acquisitions through business combination (Note iv)	937	-
At 31 December	**125,317**	124,380

i) In 2006, the Company acquired a 96% stake in Umniah Mobile Company PSC ("Umniah") which offers mobile phone services in the Kingdom of Jordan. In accordance with IFRS 3, 'Business Combinations', the acquisition was accounted for by applying the purchase method. The excess of the purchase consideration paid over the fair values of net assets acquired on 28 June 2006 resulted in recognition of goodwill (BD 124.3 million) and intangible assets (BD 33.3 million) relating to the acquisition.

ii) The Group tests for impairment of goodwill annually, using the services of an independent valuer, or more frequently if there are any indications that impairment may have arisen. The recoverable amount of a Cash Generating Unit ("CGU") is determined based on the higher of fair values less costs to sell and value-in-use calculations. Fair values less costs to sell are estimated by using the capitalised earnings approach and comparing the same with those of other quoted telecom companies within the Middle East and Africa. The key assumptions for the value-in-use calculations are those regarding discount rates and the long term growth rates. The discount rate is based on the weighted average cost of capital, while growth rates are based on management's experience and expectations and do not exceed the long term average growth rate for the region in which the CGU operates. These calculations use cash flow projections based on financial budgets approved by management, covering the period of the validity of the telecom license. Cash flows are extrapolated using the estimated growth rates. The weighted average growth rates are consistent with forecasts. No impairment losses were recognised in 2008 (2007: Nil).

7. Goodwill (continued)

iii) The above estimates were tested by the Group for sensitivity in the following areas:

- An increase of 0.5 percentage point in the discount rate used;
- A change in market share;
- A decrease in future planned revenues and EBITDA margins; and
- An increase in capex to sales ratio forecasts and net working capital assumptions.

The results of the sensitivity testing did not result in a materially significant change in the carrying amount of the goodwill and its related value-in-use.

iv) Acquisition of minority shares in Batelco Jordan:

As at 1 January 2008, Batelco Middle East Company (BMEC), a wholly owned subsidiary of the Company held 80% of the equity of Batelco Jordan (“BJ”). On 29 July 2008, Umniah Mobile Company, another subsidiary of the Company, acquired 100% of the equity of BJ for a total consideration of BD 2.234 million including the consideration paid to the minority shareholders of BJ. The purchase method has been applied to account for the acquisition of the minority interest in BJ. BJ’s business contributed net revenues of BD 3.924 million and loss of BD 0.617 million to the Group for the year ended 31 December 2008. Details of provisional fair values of the net assets acquired and provisional goodwill arising on the acquisition of the minority interest in BJ are as follows:

Particulars	**BD’000**
Purchase consideration relating to the acquisition of the minority interest	1,130
Provisional fair value of net assets acquired relating to the minority interest	(193)
Goodwill	**937**

8. Intangible assets

These comprise license fees, trade name and associated assets and non-network software, as follows:

	BD’000	
	2008	2007
Cost		
At 1 January	41,984	36,889
Additions during the year	14	5,095
At 31 December	**41,998**	41,984
Amortisation		
At 1 January	8,226	4,708
Charge for the year	3,028	3,518
At 31 December	**11,254**	8,226
Net book value at 31 December	**30,744**	33,758

9. Investment in associate

On 21 April 2007, the Company acquired a 20% equity stake in Yemen Company For Mobile Telephony Y.S.C (“Sabafon”), for a consideration of US$ 158 million (BD 59.57 million). Further, in May 2008, the Company acquired an additional 6.942% equity stake in Sabafon for a total consideration of US$ 57.54 million (BD 21.69 million). Details of the acquisition and the accounting for the associate’s share of profits are as follows:

	BD’000	
	2008	2007
As at 1 January	62,446	59,566
Consideration paid for additional interest	21,691	-
Expenses related to the acquisition	-	969
Cost of acquisition	**84,137**	60,535
Dividend received	(2,146)	-
Share of post acquisition profit (net of income tax) based on un-audited financial statements	3,592	1,911
Carrying value of investment	**85,583**	62,446

9. Investment in associate (continued)

The summarized financial information of Sabafon, based on un-audited financial statements as at and for the year ended 31 December 2008 is as follows:

		2008	2007
Ownership share	%	26.942	20
Assets	BD'000	117,690	107,770
Liabilities	BD'000	55,618	64,291
Revenues	BD'000	71,450	41,907
Profit	BD'000	24,248	9,555

10. Investments

	BD'000	
	2008	2007
Non current investments		
Available-for-sale:		
Debt securities	15,110	19,366
Equity securities	17,969	2,889
Less: impairment allowance	(682)	-
	32,397	22,255
Current investments		
Available-for-sale:		
Debt securities	3,326	4,524
Less: impairment allowance	(660)	-
	2,666	4,524
	35,063	26,779

i) Investments include an amount of BD 15,081,000 paid by the Company in May 2008 towards its subscription for the share capital in Etihad Atheeb Telecommunications Company ("Atheeb") which is under formation. The initial public offering of Atheeb is expected to open in the Kingdom of Saudi Arabia in February 2009.

ii) During 2007, in accordance with IAS 39-Financial Instruments: Recognition and Measurement, the Group has reclassified its HTM investments as AFS investments and had created a fair value reserve of BD 1,595,000 in its equity as at 31 December 2007. Interest-bearing AFS financial assets, with a carrying amount of BD 2,666,000 (2007: BD 4,524,000), mature within one year.

11. Trade and other receivables

	BD'000	
	2008	2007
Gross customers' accounts	52,021	49,076
Less: Impairment allowances	(15,093)	(14,169)
Customers' accounts, net	**36,928**	34,907
Unbilled revenue	8,836	5,312
Amount due from a related party	2,148	1,966
Prepaid expenses and other receivables	6,491	7,283
	54,403	49,468

11. Trade and other receivables (continued)

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the amounts are considered irrecoverable and are written off against the financial asset directly. The movement in the allowance for impairment is as follows:

	BD'000	
	2008	2007
At 1 January	14,169	13,293
Charge for the year, net	4,433	1,896
Written off during the year	(3,509)	(1,020)
At 31 December	**15,093**	14,169

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due. Trade receivables are considered past due when they are aged over 90 days from the billing date. The aging of past due trade receivables at the reporting date was as follows:

	2008		2007	
BD'000	**Past due but not impaired**	**Impaired**	Past due but not impaired	Impaired
Past due 0-90 days	8,376	202	8,416	273
Past due 91-180 days	2,805	197	3,647	902
Past due more than 180 days	6,870	14,694	10,085	12,994
	18,051	**15,093**	22,148	14,169

12. Amounts due from telecommunications operators

	BD'000	
	2008	2007
Amounts due	16,571	6,428
Less: Impairment allowances	(926)	(1,502)
	15,645	4,926

The allowance accounts in respect of dues from telecommunications operators are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point, the amounts are considered irrecoverable and are written off against the financial asset directly. The movement in the allowance for impairment is as follows:

	BD'000	
	2008	2007
At 1 January	1,502	1,019
Charge for the year, net	-	549
Utilization during the year	(576)	(66)
At 31 December	**926**	1,502

The aging of past due amounts due from telecommunications operators at the reporting date is as follows:

	2008		2007	
BD'000	**Past due but not impaired**	**Impaired**	Past due but not impaired	Impaired
Past due 0-180 days	164	91	448	101
Past due over 181 days	1,932	835	-	1,401
	2,096	**926**	448	1,502

13. Trade and other payables

	BD'000 2008	BD'000 2007
Current		
Trade accounts payable	38,537	24,004
Other provisions and accrued expenses (note 14)	42,134	54,960
Customer deposits and billings in advance	23,502	25,569
	104,173	104,533
Non current		
Trade accounts payable	6,085	10,177
	110,258	114,710

14. Provisions

Included within other provisions and accrued expenses are amounts provided for employee redeployment programme benefits and donations. The Company offers various redeployment programmes to its employees from time to time. The Company maintains a provision to meet the costs of such programmes. The movements in provisions are as follows:

BD'000	Provision for employee redeployment benefits 2008	2007	Provision for donations and others 2008	2007
At 1 January	3,543	1,000	2,269	5,082
Amounts provided during the year	4,400	3,221	2,537	1,750
Amounts paid during the year	(4,183)	(678)	(2,812)	(4,563)
At 31 December	**3,760**	3,543	**1,994**	2,269

15. Bank borrowings

At 31 December 2008, Group's bank borrowings amounting to BD 113.4 million (31 December 2007: BD 191.1 million). These borrowings are unsecured and are as follows:

i) On 10 April 2007, the Company concluded a loan facility agreement for BD 182.8 million (US$ 485 million) with a syndicate of banks. As at 31 December 2008 the facility is fully utilized by the Company. The loan bears interest at 25 basis points above LIBOR and is repayable in five equal instalments commencing 12 months from the date of the agreement.

ii) Umniah has availed bank loans in Jordanian Dinars from banks in the Kingdom of Jordan to fund its working capital requirements. The borrowings have been granted against guarantees given to the banks by Umniah. Borrowings availed of by the Group are interest-bearing and are measured at amortized cost.

	BD'000 2008	BD'000 2007
Non-current liabilities	38,671	113,709
Current liabilities	74,757	77,420
	113,428	191,129

The average effective interest rate is approximately 3.97 % per annum (31 December 2007: 5.52%). The outstanding loans were as follows:

BD'000	2008 Face value	2008 Carrying amount	2007 Face value	2007 Carrying amount
Unsecured bank borrowings in:				
Jordanian Dinars	3,722	3,722	8,284	8,284
US Dollars	109,706	109,706	182,845	182,845
	113,428	**113,428**	191,129	191,129

16. Deferred income tax asset and liability

Deferred income tax assets and liabilities are attributable to the following items relating to Umniah:

	2008		2007	
BD'000	**Assets**	**Liabilities**	Assets	Liabilities
Intangible assets	-	5,879	-	6,456
Temporary differences	262	-	104	-
Total	**262**	**5,879**	104	6,456

17. Share capital

	BD'000	
	2008	2007
Authorised: 2,000 (2007: 2,000) million shares of 100 fils each	200,000	200,000
Issued and fully paid: 1,440 (2007: 1,200) million shares of 100 fils each	**144,000**	120,000

a. The Company has only one class of equity shares and the holders of these shares have equal voting rights.

b. In the Annual General Meeting held on 27 February 2008, the shareholders of the Company approved issue of bonus shares in the ratio of one bonus share for every five shares held by capitalising retained earnings for BD 24,000, resulting into increase in the number of shares from 1,200 million shares to 1,440 million shares.

c. Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares:

Name	**Nationality**	**Number of shares (in thousands)**	**Holding percentage**
Bahrain Mumtalakat Holding Company BSC (c)	Bahrain	528,000	37
Amber Holdings Limited	Cayman Islands	288,000	20
General Organisation for Social Insurance	Bahrain	153,142	11
The Pension Fund Commission (Civil and Military)	Bahrain	142,069	10

d. Distribution schedule of equity shares:

Categories	**Number of shares (in thousands)**	**Number of shareholders**	**% of total Outstanding shares**
Less than 1%	228,574	11,035	15
1% up to less than 5%	100,215	3	7
5% up to less than 10%	142,069	1	10
10% up to less than 20%	153,142	1	11
20% up to less than 50%	816,000	2	57
	1,440,000	**11,042**	**100**

18. Statutory and general reserve

i) Statutory reserve:

The Bahrain Commercial Companies Law 2001 requires all companies incorporated in Bahrain to transfer 10% of net profit for the year to a statutory reserve, until such reserve reaches a minimum of 50% of the issued share capital. The reserve is not available for distribution, except in the circumstances stipulated in the Bahrain Commercial Companies Law 2001. Transfer to statutory reserve, effected by the subsidiaries in accordance with the applicable law of the country of incorporation, is retained in the subsidiary concerned, and is not available for distribution except in circumstances stipulated by the law in the respective country of incorporation.

ii) General reserve:

The general reserve is distributable only upon a resolution of the shareholders at the Annual General Meeting. No transfer has been made for the year 2008 (2007: Nil).

19. Proposed appropriations

The Board of Directors propose the following appropriations for the approval of the shareholders at the annual general meeting:

	BD'000	
	2008	2007
Final cash dividends proposed	43,200	24,000
Interim cash dividends paid	28,800	24,000
Donations	2,605	2,537
Directors' remuneration	385	385
Transfer to statutory reserve	-	4,108
Bonus shares in the ratio of one bonus share for every five shares held of the paid-up capital by capitalising reserves	-	24,000

20. Revenue

	BD'000	
	2008	2007
Mobile telecommunications services	163,209	149,118
Fixed line telecommunication services	38,833	39,202
Internet	40,285	36,910
Data communication circuits	45,619	34,147
Wholesale	27,063	31,663
Other	4,067	2,039
	319,076	293,079

Geographical segments are set out in Note 29.

21. Finance and other income

	BD'000	
	2008	2007
Gain on sale of land	6,716	-
Reversal of previously recognised impairment loss (note 6)	-	3,637
Recovery of impaired deposit	-	1,043
Settlement received against disputed traffic	-	2,262
Net loss on disposal of plant and equipment	(131)	(80)
Interest income	5,479	5,038
Others	1,719	3,953
	13,783	15,853

22. Network operating expenses

	BD'000	
	2008	2007
Outpayments to telecommunications operators	39,692	38,679
Telecom facility operating lease rentals	18,725	15,254
Cost of sales of equipment	20,926	19,648
Repair and maintenance	6,585	5,937
Licence fee	7,085	6,386
	93,013	85,904

23. General and administrative expenses

	BD'000	
	2008	2007
Marketing, advertising and publicity	13,189	11,784
Other expenses	15,414	15,608
Impairment allowances	5,775	2,445
	34,378	29,837

24. Finance expenses

Finance expenses include the following in respect of assets (liabilities) not at fair value through income statement:

	BD'000	
	2008	2007
Interest expense on financial liabilities measured at amortised cost	**6,040**	6,430

25. Earnings per share ("EPS")

		2008	2007
Profit for the year attributable to shareholders	BD'000	104,207	101,493
Weighted average number of shares outstanding during the year (in thousands)		1,440,000	1,440,000
Basic earnings per share (fils)		72.4	70.5

Diluted earning per share has not been presented as the Group has no commitments that would dilute earnings per share.

26. Commitments and contingencies

i) The Group has signed a Memorandum of Understanding ("MOU") with Atheeb Trading Company to form a consortium under the name of Etihad Atheeb Telecommunications Company ("EATC") to jointly bid for an award of a License as a Facilities Based Provider for Fixed Services in the Kingdom of Saudi Arabia. As per the terms of the MOU, the Group has issued counter guarantees in favour of EATC for BD 12.245 million (equivalent of SR 121.840 million) (2007: BD Nil) towards its share of the Spectrum Fee and Project Upfront License Fee in Atheeb.

ii) The Group has furnished a guarantee for BD 36.9 million (equivalent of SR 367.2 million) (2007: BD Nil) to Banque Saudi Fransi for extending credit facilities to Atheeb.

iii) The Group has furnished guarantees amounting to BD 7.77 million (2007: BD Nil) to suppliers on behalf of Atheeb relating to the equipment supply contracts.

iv) **Operating leases**

The Group enters into cancellable operating lease agreements in the normal course of business, which are principally in respect of property and equipment. These lease agreements are cancellable with a notice period ranging from one to three months.

v) **Foreign currency facilities**

The Group currently has foreign currency facilities from commercial banks totalling approximately BD 3.77 million (2007: BD 3.77 million). At 31 December 2008, the Group has utilised BD Nil (2007: BD Nil) of the foreign currency facilities.

vi) **Staff housing loans**

The Group provides loans to its Bahraini employees for the acquisition of residential properties. The loans are funded through a local commercial bank and secured by a guarantee issued by the Group. The Group bears 75% (2007: 75%) of the loan interest. At 31 December 2008, the Group has guaranteed BD 4.6 million towards housing loans to staff (2007: BD 5.4 million).

vii) As at 31 December 2008, the Group's banks have issued guarantees, amounting to BD 3.95 million (31 December 2007: BD 3.32 million) and letters of credit amounting to BD 0.43 million (31 December 2007: BD Nil).

viii) The Group has capital commitments at 31 December 2008 amounting to BD 11.19 million (31 December 2007: BD 12.46 million).

26. Commitments and contingencies (continued)

ix) On 18 January 2009, a Batelco led consortium has agreed to purchase a 49% shareholding in S Tel Limited (S Tel), a recently established Indian mobile operation for US$ 225 million. In the consortium, Batelco has partnered with Millennium Private Equity, a Dubai Financial Services Authority regulated entity, to form Batelco Millennium India Company Limited to invest in S Tel. Batelco will invest an amount of US$ 175 million.

27. Employee benefits

The Group employed 2,428 employees as at 31 December 2008 (2007: 2,579). The Group's contributions in respect of local employees against their pension rights and other social benefits amounted to BD 3.6 million (2007: BD 3 million). The provision for leaving indemnity in respect of expatriate employees amounted to BD 0.83 million (2007: BD 0.94 million) and is included under accounts payables and accruals.

28. Transactions with related parties

Parties are considered to be related if one party, directly or indirectly through one or more intermediaries, has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group. The Company provides telecommunication services to various Government and semi government organisations and companies in the Kingdom of Bahrain. The Company also avails of various services from Government and semi government organisations and companies in the Kingdom of Bahrain.

i) The non-governmental related party balances included in these consolidated financial statements are as follows:

	BD'000	
	2008	2007
Assets		
Amounts due from a related party	2,148	1,966

ii) Transactions with key management personnel: Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation is as follows:

	BD'000	
	2008	2007
Short-term employee benefits	1,252	1,145
Post-employment benefits	135	85
Total key management personnel compensation paid	**1,387**	1,230
Directors remuneration (including sitting fees)	**306**	353

iii) Directors' interests in the shares of the company at the end of the year were as follows:

	2008	2007
Total number of shares held by Directors	2,622,127	2,549,912
As a percentage of the total number of shares issued	0.18%	0.21%

29. Segment information

Geographic segments

Segment information disclosed after elimination of inter company transactions is as follows:

BD'000	Year ended 31 December 2008			Year ended 31 December 2007		
Segment revenue and profit	**Bahrain**	**Other MENA countries**	**Total**	Bahrain	Other MENA countries	Total
Revenue	223,915	95,161	**319,076**	204,527	88,552	293,079
Other income	13,649	134	**13,783**	15,815	38	15,853
Profit	93,186	14,715	**107,901**	90,579	13,520	104,099
Capital expenditure	24,019	15,439	**39,458**	23,828	18,814	42,642
Segment assets and liabilities						
Non current assets	259,453	225,969	**485,422**	233,285	224,190	457,475
Current assets	183,355	46,014	**229,369**	241,001	36,048	277,049
Total assets	442,808	271,983	**714,791**	474,286	260,238	734,524
Current liabilities	135,370	65,873	**201,243**	127,313	60,063	187,376
Non-current liabilities	36,569	14,066	**50,635**	109,707	20,635	130,342
Total liabilities	171,939	79,939	**251,878**	237,020	80,698	317,718

30. Summarised financial statements of the parent company, Bahrain Telecommunications Company BSC

Balance sheet

ASSETS	BD'000	
	2008	2007
Non-current assets		
Property, plant and equipment	141,374	148,009
Investments in subsidiaries	165,362	165,362
Investment in associate	80,080	60,535
Other investments	32,237	22,095
Total non-current assets	**419,053**	396,001
Current assets		
Inventories	1,125	898
Other investments	2,666	4,524
Trade and other receivables	37,421	32,005
Loan to subsidiary companies	9,814	2,279
Amounts due from telecommunications operators	11,980	5,466
Cash and cash equivalents	127,864	197,860
Total current assets	**190,870**	243,032
Total assets	**609,923**	639,033
EQUITY AND LIABILITIES		
Equity		
Share capital	144,000	120,000
Statutory reserve	72,000	67,892
General reserve	15,000	15,000
Fair value reserve on investments	288	1,595
Retained earnings	208,571	198,247
Total equity	**439,859**	402,734
Non-current liabilities		
Non current portion of bank borrowings	36,569	109,707
Total non-current liabilities	**36,569**	109,707
Current liabilities		
Trade and other payables	53,764	50,090
Amounts due to telecommunications operators	6,593	3,364
Current portion of bank borrowings	73,138	73,138
Total current liabilities	**133,495**	126,592
Total liabilities	**170,064**	236,299
Total equity and liabilities	**609,923**	639,033

30. Summarised balance sheet and income statement of the parent company, Bahrain Telecommunications Company BSC (continued)

Income statement

	BD'000	
	2008	2007
Revenue	228,839	206,298
Finance and other income	16,284	18,658
Total income	**245,123**	224,956
Network operating expense	(58,511)	(46,405)
Staff costs	(37,611)	(35,254)
Depreciation and amortization	(29,641)	(27,258)
General and administrative expenses	(19,536)	(15,287)
Finance expenses	(5,670)	(5,716)
Total expenses	**(150,969)**	(129,920)
Profit for the year	**94,154**	95,036

31. Comparatives

The comparative figures have been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications do not affect the previously reported profit or equity.

DETAILS OF PROPERTIES

Description	Use	Owned / Rented
Hamala Headquarter	Offices	Owned
Diplomat Building	Offices & Telecoms	Owned
Telephone House	Offices & Telecoms	Owned
Telegraph House	Offices & Telecoms	Owned
Batelco Commercial Centre	Offices & Exchanges	Owned
Earth Station	Satellite Station	Owned
Hamala Transmitters	Transmission Station	Owned
Abul Land Car Park	Car Park	Owned
Eid Mosque Car Park	Car Park	Rented
Salmaniya Car Park (Telephone House)	Car Park	Rented
Sales Site (in BCC)	Customer Service Center & Offices	Owned
18 sales sites	Customer Service Center	Rented
67 different sites used for GSM base stations and exchanges	GSM & Fixed Telephone Network	Owned
120 different sites used for GSM base stations and locating Remote Line Unit (RLUs)	GSM & Fixed Telephony Network	Rented