

**Bahrain Telecommunications
Company BSC**

**CONSOLIDATED FINANCIAL
STATEMENTS**

31 DECEMBER 2010

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010**

CONTENTS	Page
Chairman's report	1-2
Independent auditors' report to the shareholders	3
Consolidated financial statements	
Consolidated statement of financial position	4
Consolidated statement of comprehensive income	5
Consolidated statement of cash flows	6
Consolidated statement of changes in equity	7-8
Notes to the consolidated financial statements	9-45

CHAIRMAN'S REPORT for the year ended 31 December 2010

On behalf of the Board of Directors, it gives me great pleasure to present the 29th Annual Report of the Bahrain Telecommunications Company BSC and its subsidiaries and affiliates (The Batelco Group), for the year ended 31st December 2010.

We are pleased to have delivered steady year on year gross revenues of BD 340.3 million (\$ 902.7 million) in spite of the continuing impact of declining market share in Bahrain caused by increased competition and regulatory decisions which limit Batelco's growth in a heavily saturated market.

Net profit for the year 2010 is BD 86.8 million (\$ 230.2 million), a decline of 17.4 % over 2009. In addition to the reduced market share, Batelco Group's annual financial results were affected by its share of expected losses for its start-up operation S Tel (India), which completed its first full year of operation in 2010.

Our strategy to grow and diversify the group through our expansion programme continues to be successful and resulted in a 67 % increase in Batelco's customer base, which reached an impressive 9.2 million across the Group's seven operating markets by the end of 2010.

Proposed Appropriations

The net profit of the Batelco Group before appropriations amounted to BD 86.8 million. Based on these financial results, the Board of Directors has recommended for the approval of shareholders, the following appropriations and Directors' remuneration for the year 2010.

BD millions	2010	2009
<i>Appropriations</i>		
Final dividends proposed	36.0	43.2
Interim dividends paid	28.8	28.8
Donations at 2.5%	2.2	2.6
Transfer to general reserve	15.0	-
<i>Directors' remuneration</i>		
Directors' remuneration	0.4	0.4

Auditors

The Board of Directors will recommend the re-appointment of KPMG Fakhro as Batelco's auditors for the financial year ending 31st December 2011.

We are fortunate to benefit from the ongoing support of the Kingdom of Bahrain's leadership. On behalf of Batelco Board of Directors, management and all staff, I extend my great appreciation to His Majesty King Hamad Bin Isa Al Khalifa, King of Bahrain, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, The Prime Minister, and His Royal Highness Prince Salman Bin Hamad Al Khalifa, Crown Prince & Deputy Supreme Commander.

Batelco is committed to principle-based, value-driven corporate governance. Our commitment is reflected in our approach which embraces the governance principles led by the Ministry of Industry and Commerce and developed by the Central Bank of Bahrain (CBB).

In preparation for the introduction of mandatory Corporate Governance Compliance in the Kingdom of Bahrain from January 1st 2012, Batelco is taking all the necessary steps during 2011, to ensure that we remain fully compliant and meet all the applicable requirements of the new Corporate Governance code.

Commitment to Our Customers and Employees

Customers turn to trusted brands they can rely on. Accordingly, we strive every day to be first for reliability, innovation and value for money and we are proud that we retain the position as Bahrain's leading integrated communications services provider. We are also pleased that our customers have recognised the value and reliability of our Group's leading brands such as Umniah, Qualitynet and Sabafon. I am very grateful to our

loyal customers for choosing Batelco products and services in a marketplace that offers an overwhelming range of options. I assure our customers that it is Batelco's number one priority to keep their needs in focus during 2011 and beyond.

Batelco's employees at all levels operate as one family, working cooperatively every day with an unwavering commitment to deliver on the Company's strategies. It is this dedication and loyalty that keeps us in our leading position and helps us to win new customers each day. Such support also helps us to build on our brand's strength which is of key importance as we expand into new locations in the region and further afield. I offer sincere thanks to the entire Batelco Group workforce for their ongoing efforts.

I extend much appreciation also to Batelco's Shareholders for their continued confidence and support. Our aim is to drive shareholder value by making Batelco a stronger business with solid returns in the future.

Our Supportive Role in the Community

In committing over BD3 million in sponsorships and donations to a diverse range of causes in 2010, Batelco upheld its responsibility to give back to the people of the Kingdom of Bahrain. Our Corporate Social Responsibility programme supports health, education, sports and cultural initiatives and positively impacts on the lives of residents in all areas of Bahrain.

Among the recipients in our CSR programme in 2010 were the Shaikh Mohammed Bin Khalifa Bin Salman Al Khalifa Cardiac Centre with a donation of BD600,000 to purchase specialised equipment and Al Manar Centre and Muharraq Social Welfare Centre with contributions of BD10,000 each, to support elderly members of the community. As part of our annual Ramadan support, Batelco delivered 25,000 Ramadan baskets to the Kingdom's charitable organisations for distribution to needy families.

Looking Forward

I and my colleagues on the Board of Directors extend our appreciation to the Executive Management teams across the operations. I also welcome Rashid Abdulla as Batelco Bahrain's new Chief Executive and wish him every success as he tackles a tough challenge in taking Batelco Bahrain forward, in the face of ongoing competition and stringent regulation.

For 2011, we renew our resolve to enhance the lives of residents of the Kingdom of Bahrain everyday by delivering an unmatched basket of products and services that more than meets all their communication requirements. We also reaffirm our commitment to strengthening the Batelco name and brand across all markets in which we operate and look forward to reaching and surpassing the 10 million customer mark.

Hamad bin Abdulla Al-Khalifa
Chairman of the Board
Bahrain Telecommunications Company BSC

26 January 2011

Independent auditors' report to the shareholders

Bahrain Telecommunications Company BSC
Manama, Kingdom of Bahrain

26 January 2011

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 statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the board of directors for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 2010, 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 regulatory requirements

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

BD'000

ASSETS	Note	2010	2009
Non-current assets			
Property and equipment	5	191,474	196,019
Goodwill	6	125,129	125,129
Intangible assets	7	28,404	31,793
Investment in associates	8	130,124	148,388
Available-for-sale investments	9	28,403	29,608
Total non-current assets		503,534	530,937
Current assets			
Inventories		2,015	2,519
Available-for-sale investments	9	-	5,136
Trade and other receivables	10	66,105	58,084
Cash and cash equivalents		86,817	76,400
Total current assets		154,937	142,139
Total assets		658,471	673,076
EQUITY AND LIABILITIES			
Equity			
Share capital	14	144,000	144,000
Statutory reserve	15	76,428	75,364
General reserve	15	15,000	15,000
Foreign currency translation reserve		1,376	168
Investments fair value reserve		8,210	9,457
Retained earnings		259,977	249,334
Total equity attributable to equity holders of the parent Company		504,991	493,323
Non-controlling interest		11,824	10,731
Total equity (Page 7)		516,815	504,054
Non-current liabilities			
Trade and other payables	11	7,795	8,913
Total non-current liabilities		7,795	8,913
Current liabilities			
Trade and other payables	11	133,861	123,540
Current portion of bank borrowings		-	36,569
Total current liabilities		133,861	160,109
Total liabilities		141,656	169,022
Total equity and liabilities		658,471	673,076

The consolidated financial statements, which consist of pages 4 to 45 were approved by the Board of Directors on 26 January 2011 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 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

BD'000

	Note	2010	2009
REVENUE	17	340,252	346,940
Finance and other income	18	1,293	2,966
Total income		341,545	349,906
EXPENSES			
Network operating expenses	19	(108,116)	(104,658)
Staff costs		(46,453)	(46,145)
Employee redundancy costs		(3,332)	(1,325)
Depreciation and amortisation		(39,704)	(41,344)
Other operating expenses	20	(36,188)	(44,482)
Finance expenses		(346)	(1,383)
Total expenses		(234,139)	(239,337)
Results from operating activities		107,406	110,569
Share of (loss) / profit of associates (net)	8	(13,199)	1,185
Profit before income tax		94,207	111,754
Income tax expense		(3,574)	(2,936)
Profit for the year		90,633	108,818
Other comprehensive income			
Foreign currency translation differences for foreign operations		1,406	697
Investments fair value changes		(1,247)	9,169
Other comprehensive income for the year		159	9,866
Total comprehensive income for the year		90,792	118,684
Profit for the year attributable to:			
Equity holders of the parent company		86,773	105,041
Non-controlling interest		3,860	3,777
		90,633	108,818
Total comprehensive income attributable to:			
Equity holders of the parent company		86,734	115,252
Non-controlling interest		4,058	3,432
		90,792	118,684
Basic earnings per share (Fils)	21	60.3	72.9

The consolidated financial statements, which consist of pages 4 to 45 were approved by the Board of Directors on 26 January 2011 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 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2010

BD'000

	2010	2009
OPERATING ACTIVITIES		
Cash receipts from customers	316,423	313,710
Net cash paid to suppliers	(129,677)	(103,806)
Cash paid to and on behalf of employees	(48,855)	(45,197)
Cash flows from operating activities	137,891	164,707
INVESTING ACTIVITIES		
Acquisition of property and equipment	(28,846)	(37,003)
Investment in associate	-	(66,459)
Dividend received from associate	6,094	6,381
Refund of investment advance	-	1,990
Net proceeds from sale and maturity of investments	5,096	6,884
Interest and investment income received	1,604	4,008
Cash flows from investing activities	(16,052)	(84,199)
FINANCING ACTIVITIES		
Dividend paid	(73,212)	(74,931)
Interest paid	(50)	(2,529)
Borrowing repaid	(36,569)	(76,908)
Payments to charities	(1,591)	(3,280)
Cash flows from financing activities	(111,422)	(157,648)
Increase/(decrease) in cash and cash equivalents	10,417	(77,140)
Cash and cash equivalents at 1 January	76,400	153,540
Cash and cash equivalents at 31 December	86,817	76,400

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

BD'000

	Equity attributable to equity holders of the parent Company						Non - controlling interest	Total equity	
	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Investment fair value reserve	Retained earnings			Total
2010									
At 1 January 2010	144,000	75,364	15,000	168	9,457	249,334	493,323	10,731	504,054
Profit for the year	-	-	-	-	-	86,773	86,773	3,860	90,633
Other comprehensive income									
Foreign currency translation differences	-	-	-	1,208	-	-	1,208	198	1,406
Net changes in fair value of investments	-	-	-	-	(1,247)	-	(1,247)	-	(1,247)
Total other comprehensive income	-	-	-	1,208	(1,247)	-	(39)	198	159
Total comprehensive income for the year	-	-	-	1,208	(1,247)	86,773	86,734	4,058	90,792
Final dividends declared for 2009	-	-	-	-	-	(43,200)	(43,200)	-	(43,200)
Donations declared for 2009	-	-	-	-	-	(2,626)	(2,626)	-	(2,626)
Directors' remuneration declared for 2009	-	-	-	-	-	(440)	(440)	-	(440)
Transfer to statutory reserve 2010	-	1,064	-	-	-	(1,064)	-	-	-
Interim dividends declared for 2010	-	-	-	-	-	(28,800)	(28,800)	-	(28,800)
Dividends to non-controlling interest	-	-	-	-	-	-	-	(2,965)	(2,965)
	-	1,064	-	-	-	(76,130)	(75,066)	(2,965)	(78,031)
At 31 December 2010	144,000	76,428	15,000	1,376	8,210	259,977	504,991	11,824	516,815

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

BD'000

	Equity attributable to equity holders of the parent Company						Non - controlling interest	Total equity	
	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Investment fair value reserve	Retained earnings			Total
2009									
At 1 January 2009	144,000	74,208	15,000	(884)	288	219,653	452,265	10,648	462,913
Profit for the year	-	-	-	-	-	105,041	105,041	3,777	108,818
Other comprehensive income									
Foreign currency translation differences	-	-	-	1,042	-	-	1,042	(345)	697
Net changes in fair value of investments	-	-	-	-	9,169	-	9,169	-	9,169
Total other comprehensive income	-	-	-	1,042	9,169	-	10,211	(345)	9,866
Total comprehensive income for the year	-	-	-	1,042	9,169	105,041	115,252	3,432	118,684
Final dividends declared for 2008	-	-	-	-	-	(43,200)	(43,200)	-	(43,200)
Donations declared for 2008	-	-	-	-	-	(2,605)	(2,605)	-	(2,605)
Directors' remuneration declared for 2008	-	-	-	-	-	(385)	(385)	-	(385)
Transfer to statutory reserve 2009	-	1,146	-	-	-	(1,146)	-	-	-
Interim dividends declared for 2009	-	-	-	-	-	(28,800)	(28,800)	-	(28,800)
Regrouping of balances	-	10	-	10	-	776	796	(796)	-
Dividends to non-controlling interest	-	-	-	-	-	-	-	(2,553)	(2,553)
	-	1,156	-	10	-	(75,360)	(74,194)	(3,349)	(77,543)
At 31 December 2009	144,000	75,364	15,000	168	9,457	249,334	493,323	10,731	504,054

The accompanying notes 1 to 28 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

1 BACKGROUND AND ACTIVITIES

Bahrain Telecommunications Company BSC ("the Company") is a public shareholding company registered under commercial registration number 11700-1 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 2010 comprise the financial statements of the Company, and its subsidiaries and its associates (collectively "the Group"). The registered office of the Company is P.O. Box 14, in Manama, Kingdom of Bahrain. The subsidiaries and associates of the Group included in these consolidated financial statements are as follows:

Company	Country of incorporation	Shareholding (%)
<i>Subsidiaries</i>		
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 (held by Umniah Mobile Company 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
BMIC Limited	Mauritius	100
<i>Associates</i>		
Yemen Company for Mobile Telephony Y.S.C	Republic of Yemen	26.94
STEL Private Limited	India	42.7

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 requirements of the Bahrain Commercial Company Law 2001 and Central Bank of Bahrain's Disclosure Standards. The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by the Group's entities other than the changes as stated below.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****2 BASIS OF PREPARATION (continued)***(i) New Standards, amendments and interpretations that are effective on or after 1 January 2010*

The following standards, amendments and interpretations, which became effective in 2010, are relevant to the Group:

▪ *IFRS 3 – Business Combinations*

Revised IFRS 3 incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

The revised standard is effective prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after 1 July 2009. The revised standard did not have any significant impact on the Group. However, in the future, this guidance will tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

▪ *IAS 27 Consolidated and Separate Financial Statements*

The revised standard (amended 2008) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied IAS 27 (revised) prospectively from 1 January 2010 and this had no impact on the financial statements.

▪ *IFRIC 17 Distribution of non-cash assets to owners*

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognised when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****2 BASIS OF PREPARATION (continued)****▪ Improvements to IFRS**

Improvements to IFRS issued in April 2009 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2010 with earlier adoption permitted. There were no material changes to the current accounting policies of the Group as a result of these amendments.

(ii) New Standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the Group but not yet effective for the year ended 31 December 2010:

▪ IAS 24 Related Party Disclosures (revised)

It was issued in November 2009 and is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard will be applied, the Group and the parent will need to disclose transactions between its subsidiaries and its associates.

▪ IFRS 9 Financial instruments

IFRS 9 (November 2009) "Financial Instruments" is the first standard issued as part of a wider project to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

IFRS 9 (October 2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives".

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012.

The Group is yet to assess IFRS 9's full impact. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****2 BASIS OF PREPARATION (continued)****▪ Improvements to IFRS**

Improvements to IFRS issued in 2010 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. The amendments are effective for the Group's 2011 annual financial statements with earlier adoption permitted. No material changes to accounting policies are expected as a result of these amendments.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is not expected to have a significant impact on the Group's financial statements.

▪ Early adoption of standards

The Group did not early adopt new or amended standards in 2010.

There were no other changes to the accounting policies and risk management framework as set out in the consolidated financial statements for the year ended 31 December 2009.

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 assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and critical judgements in applying accounting policies on the amounts recognised in the financial statements are described in the following notes:

- Note 3 i) – valuation of investments
- Note 3 n) – provisions
- Note 3 o) – impairment
- Note 3 s) – utilization of tax losses
- Note 6 – measurement of the recoverable amounts of cash-generating units
- Note 9 – fair valuation of certain available-for-sale investments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES**a) Basis of consolidation***(i) Subsidiaries*

Subsidiaries are those entities 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.

(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 associates 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 of entities under common control

Business combinations arising from transfer of interest in an entity that is 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's 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****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' 000) 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. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Exchange differences arising on the settlement of monetary items and on retranslation are recognised in profit or loss.

(iii) Financial statements of foreign operations

The assets and liabilities including goodwill and fair value adjustments arising on acquisition 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 reporting 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 in the other comprehensive income and presented in equity as a foreign currency translation reserve.

c) Property 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 and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Subsequent expenditure

The cost of replacing a component of an item of property 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 and equipment will flow to the Group. All other expenditures are recognised in the profit or loss as expenses as incurred.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of a property 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 period are as follows:

Asset class	Estimated useful life
Buildings	25 years
Network assets & telecom equipment	3 to 25 years
Motor vehicles, furniture, fittings & office equipment	2 to 10 years

Depreciation methods, useful lives and residual values, are reassessed and adjusted, if appropriate, at the year end.

d) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both and that is not occupied by the Group for use in rendering of its services or for administrative purposes. Investment property is measured at cost (using the cost model), including related transaction costs and borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying investment property, less accumulated depreciation and impairment losses, if any. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably.

e) 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 profit or loss. 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 profit or loss over the lease period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

f) 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 non controlling interests

Goodwill arising on the acquisition of a non controlling 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.

g) Intangible assets

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

(i) Recognition and measurement

License fees, trade name & 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 profit or loss as incurred.

(ii) Amortisation

Amortisation is recognized in the profit or loss 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:

Asset class	Estimated useful life
License fees	7 to 13 years
Trade name & associated assets and non-network software	3 to 13 years

Amortisation methods, useful lives and residual values, are reassessed and adjusted, if appropriate, at the year end.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010**

3 SIGNIFICANT ACCOUNTING POLICIES (continued)**h) Financial instruments***(i) Financial instruments*

Financial instruments comprise available-for-sale investments, trade receivables, unbilled revenue, amounts due from telecommunications operators, cash and cash equivalents, bank borrowings, amounts due to telecommunications operators and trade payable. Financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

The Group initially recognises financial assets and financial liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

(ii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

3 SIGNIFICANT ACCOUNTING POLICIES (continued)
(iii) Classification of financial instruments

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

31 December 2010	Loans and receivables	Available-for-sale	Others at amortised cost	Total carrying amount
Available-for-sale investments	-	28,403	-	28,403
Trade receivables	38,550	-	-	38,550
Unbilled revenue	4,129	-	-	4,129
Amounts due from telecommunications operators	7,515	-	-	7,515
Cash and cash equivalents	86,817	-	-	86,817
	137,011	28,403	-	165,414
Finance lease liabilities	167	-	-	167
Bank borrowings	-	-	-	-
Trade payable	-	-	26,230	26,230
Amounts due to telecommunications operators	-	-	14,853	14,853
Current tax liability	-	-	4,920	4,920
	167	-	46,003	46,170
31 December 2009				
Available-for-sale investments	-	34,744	-	34,744
Trade receivables	37,466	-	-	37,466
Unbilled revenue	4,402	-	-	4,402
Amounts due from telecommunications operators	6,959	-	-	6,959
Cash and cash equivalents	76,400	-	-	76,400
	125,227	34,744	-	159,971
Finance lease liabilities	306	-	-	306
Bank borrowings	-	-	36,569	36,569
Trade payable	-	-	22,910	22,910
Amounts due to telecommunications operators	-	-	13,455	13,455
Current tax liability	-	-	4,130	4,130
	306	-	77,064	77,370

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****i) 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(o)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. The fair value of AFS investments is their quoted bid price at the reporting 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.

j) 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 and equipment.

k) 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 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.

l) Cash and cash equivalents

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

m) 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.

n) 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 year end and are discounted to present value where the effect is material.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****o) 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.

All impairment losses are recognised in the profit or loss. Any cumulative loss in respect of an available-for-sale financial asset are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. 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 profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

(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 profit or loss. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****p) Employee benefits***(i) 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.

(ii) 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 reporting date.

(iii) 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.

q) 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 profit or loss over the period of borrowings.

r) 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 profit or loss, using the effective interest method.

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

s) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised in equity or other comprehensive income. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010****3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred tax is recognised in respect of 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.

t) 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 profit or loss. 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 and other equipment sales is recognised when the product is delivered to the customer.

u) 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.

v) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 25).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(i) 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 10).

(ii) 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.

(iii) 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:

	2010	2009
Available-for-sale investments	4,430	9,566
Trade receivables	38,550	37,466
Unbilled revenue	4,129	4,402
Amounts due from telecommunications operators	7,515	6,959
Cash and cash equivalents	86,817	76,400
	141,441	134,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(iv) Trade receivables

The maximum exposure to credit risk at 31 December 2010 classified by operating segment sharing common economic characteristics with respect to credit risk is as follows:

Operating segment	2010	2009
Bahrain	26,383	26,036
Jordan	1,496	2,669
Other countries	10,671	8,761
	38,550	37,466

(v) Amounts due from telecommunications operators

The maximum exposure to credit risk for amount due from telecommunications operators at 31 December 2010 by type of customer was:

Customer segment	2010	2009
International operators	2,598	1,974
Local operators	4,917	4,985
	7,515	6,959

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Non-derivative financial liabilities at 31 December 2010	Carrying amount	Contractual cash flows	Within one year	1-2 years	2-5 years
Finance lease liabilities	167	168	135	33	-
Bank borrowings	-	-	-	-	-
Trade payable	26,230	26,230	23,200	739	2,291
Amount due to telecommunications operators	14,853	14,853	14,853	-	-
Current tax liability	4,920	4,920	4,920	-	-
	46,170	46,171	43,108	772	2,291

Non-derivative financial liabilities at 31 December 2009	Carrying amount	Contractual cash flows	Within one year	1-2 years	2-5 years
Finance lease liabilities	306	311	143	146	22
Bank borrowings	36,569	36,625	36,625	-	-
Trade payable	22,910	22,910	19,471	860	2,579
Amount due to telecommunications operators	13,455	13,455	13,455	-	-
Current tax liability	4,130	4,130	4,130	-	-
	77,370	77,431	73,824	1,006	2,601

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.

(i) 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. 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 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 and purchases 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 (which is pegged to the US Dollar).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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. These amounts are placed significantly 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 2010 was as follows based on notional amounts:

	2010		2009	
	KWD	JOD	KWD	JOD
Assets	38,928	79,096	33,851	89,192
Liabilities	(22,341)	(62,974)	(18,373)	(52,488)
Net exposure	16,587	16,122	15,478	36,704

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
BD				
1 KWD	1.3120	1.3047	1.3378	1.3130
1 JOD	0.5317	0.5316	0.5321	0.5321

Sensitivity analysis

A 10% 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 2009. A 10% 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 below, on the basis that all other variables remain constant.

31 December 2010

KWD
JOD

31 December 2009

KWD
JOD

	Equity	Profit or loss
	(1,659)	-
	(1,197)	-
	(1,548)	-
	(3,670)	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

4 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(ii) 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. 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. The average interest rate yield from bank deposits and available-for-sale investments during 2010 was 0.99% (2009: 1.53%).

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

	2010	2009
Fixed rate instruments		
Financial liabilities	167	306
Variable rate instruments		
Financial assets	68,487	62,567
Financial liabilities	-	36,569

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 profit or loss. Therefore a change in interest rates at the reporting date would not affect the profit or loss. Increase or decrease in equity resulting from variation in interest rates will be insignificant.

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 profit or loss by BD 697 (2009: BD 244). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

(iii) 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.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measures:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

4 *FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)*

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at the end of 31 December 2010, by the level in the fair value hierarchy into which the fair value measurement is categorized:

	2010	2009
Available-for-sale investments		
Investment securities fair valued at level 1	23,291	24,995

(iv) *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 (i) for accounting policies on valuation of AFS investments and note 3 (o)(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

5 PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Network assets & telecom equipment	Motor vehicles, furniture, fittings & office equipment	Projects in progress	Total 2010	Total 2009
Cost							
At 1 January	18,828	52,481	416,727	38,280	11,903	538,219	527,269
Additions	198	-	5,336	1,133	20,613	27,280	26,355
Projects completed	-	(322)	15,794	(2,622)	(8,633)	4,217	(558)
Disposals	-	(155)	(44,876)	(1,842)	(207)	(47,080)	(14,847)
At 31 December	19,026	52,004	392,981	34,949	23,676	522,636	538,219
Depreciation							
At 1 January	-	45,013	267,950	29,237	-	342,200	320,583
Charge for the year	-	913	30,642	3,404	-	34,959	36,557
Disposals	-	(155)	(39,961)	(5,881)	-	(45,997)	(14,940)
At 31 December	-	45,771	258,631	26,760	-	331,162	342,200
Net book value							
At 31 December 2010	19,026	6,233	134,350	8,189	23,676	191,474	196,019
At 31 December 2009	18,828	7,468	148,777	9,043	11,903	196,019	

Free hold land includes certain property at Hamala with a carrying value of BD 44 (2009: BD 44) held as investment property for earning rentals or capital appreciation. The fair value of the property as at 31 December 2010 was BD 9,600 (2009: BD 9,600). The fair value of the property was determined by a registered independent appraiser having an appropriate recognised professional qualification and experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties as the Group's property.

For a list of properties owned and rented by the Company, please refer to note 28.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

6 GOODWILL

	2010	2009
Cost		
At 1 January	125,129	125,317
Less: adjustment on account of exchange rate fluctuations	-	(188)
At 31 December	125,129	125,129

- (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) On 29 July 2008, Umniah Mobile Company acquired 100% of the equity of Batelco Jordan ("BJ") from Batelco Middle East Company (BMEC), a wholly owned subsidiary company of Batelco holding 80% of the equity in BJ and minority shareholders of BJ for a total consideration of BD 2.2 million. The acquisition from minority shareholders was accounted for by applying the purchase method. The excess of the purchase consideration paid over the fair values of the net assets acquired on 29 July 2008 resulted in recognition of goodwill (BD 0.9 million).
- (iii) The Group tests for impairment of goodwill annually, 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 telecom companies within the region.
- (iv) The key assumptions for the value-in-use calculations are those relating to discount rates, the long term growth rates, penetration and market share assumptions, average revenues per user ("ARPU"), earnings before interest, taxation, depreciation and amortization ("EBITDA") and capital expenditure to sales ratio. 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 2010 (2009: BD Nil).
- (v) The above estimates were tested by the Group for sensitivity in the following areas:
- An increase / decrease in the discount rate and the long term growth rates used
 - A change in market share
 - A decrease in future planned revenues and EBITDA margins
 - An increase in capex to sales ratio forecasts

The results of the sensitivity testing revealed that the value in use calculations is sensitive to the above changes, although these did not result in a materially significant change in the carrying value of the goodwill and related assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

7 INTANGIBLE ASSETS

	2010	2009
Cost		
At 1 January	64,772	63,711
Additions during the year	1,457	1,147
Disposals during the year	(1,843)	(86)
At 31 December	64,386	64,772
Amortisation		
At 1 January	32,979	28,272
Charge for the year	4,745	4,787
Disposals during the year	(1,742)	(80)
At 31 December	35,982	32,979
Net book value at 31 December	28,404	31,793

8 INVESTMENT IN ASSOCIATES

	2010	2009
At 1 January	148,388	85,583
Consideration paid	-	65,783
Expenses related to the acquisition	-	676
Dividend received	(6,094)	(6,381)
Share of (loss) / profit (net)	(13,199)	1,185
Share of currency translation gains	1,029	1,542
At 31 December	130,124	148,388

The summarized aggregate financial information of the associates is as follows:

	2010	2009
Assets	246,460	247,231
Liabilities	165,678	124,654
Revenues	82,796	80,841
(Loss) / profit	(17,818)	22,371

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

9 AVAILABLE-FOR-SALE INVESTMENTS*(i) Non-current investments*

Debt securities
Equity securities
Less: impairment allowance

	2010	2009
	6,409	6,409
	26,020	27,225
	(4,026)	(4,026)
	28,403	29,608
<i>(ii) Current investments</i>		
Debt securities	-	5,136
	-	5,136
	28,403	34,744

Non-current investments include BD 23,291 (2009 BD 24,497) representing market value of an equity investment in Etihad Atheeb Telecommunications Company as at 31 December 2010 on which there is a five year lock in period starting from April 2009.

10 TRADE AND OTHER RECEIVABLES

Gross customers' accounts
Less: Impairment allowance

Customers' accounts, net

Amounts due from telecommunications operators
Less: Impairment allowance

Amounts due from telecommunications operators, net

Unbilled revenue
Prepaid expenses and other receivables

	2010	2009
	53,926	52,744
	(15,376)	(15,278)
	38,550	37,466
	8,258	7,702
	(743)	(743)
	7,515	6,959
	4,129	4,402
	15,911	9,257
	20,040	13,659
	66,105	58,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

10 TRADE AND OTHER RECEIVABLES (continued)

a) Customers' accounts

The allowance accounts in respect of customers' accounts are used to record impairment losses unless the Group is satisfied that no recovery of the amount owed 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:

	2010	2009
At 1 January	15,278	15,314
Charge for the year	2,743	2,887
Written off during the year	(2,645)	(2,923)
At 31 December	15,376	15,278

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 30 days from the billing date. The aging of past due trade receivables at the reporting date was as follows:

	Past due but not impaired 2010	Impaired 2010	Past due but not impaired 2009	Impaired 2009
Past due 0-90 days	16,217	1,236	14,838	832
Past due 91-180 days	4,166	1,518	3,411	1,045
Past due more than 180 days	8,363	12,622	6,977	13,401
	28,746	15,376	25,226	15,278

b) Amounts due from telecommunications operators

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 owed 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:

	2010	2009
At 1 January	743	926
Utilization during the year	-	(183)
At 31 December	743	743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

10 TRADE AND OTHER RECEIVABLES (continued)

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

	Past due but not impaired 2010	Impaired 2010	Past due but not impaired 2009	Impaired 2009
Past due 0-180 days	284	-	253	28
Past due more than 180 days	-	743	731	715
	284	743	984	743

11 TRADE AND OTHER PAYABLES*(i) Current*

Trade payable	23,334	19,610
Amounts due to telecommunications operators	14,853	13,455
Other provisions and accrued expenses (note 12)	62,443	57,992
Customer deposits and billings in advance	28,311	28,353
Current tax liability	4,920	4,130

2010	2009
133,861	123,540

(ii) Non-current

Trade payable	3,063	3,606
Deferred tax liability (note 13)	4,732	5,307

7,795	8,913
141,656	132,453

12 PROVISIONS

Included within other provisions and accrued expenses are amounts provided for employee redundancy programme benefits and donations. The movement in provisions are as follows:

	Provision for employee redundancy benefits		Provision for donations	
	2010	2009	2010	2009
At 1 January	2,061	3,760	1,318	1,993
Amounts provided during the year	3,332	1,325	2,626	2,605
Amounts paid during the year	(3,293)	(3,024)	(1,591)	(3,280)
At 31 December	2,100	2,061	2,353	1,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

13 DEFERRED INCOME TAX ASSET AND LIABILITY

Deferred income tax assets are grouped under other receivables and deferred income tax liabilities grouped under trade and other payables. The deferred tax assets and liabilities are attributable to the following items relating to Jordan:

	2010 Assets	2010 Liabilities	2009 Assets	2009 Liabilities
Intangible assets	-	4,732	-	5,307
Aggregate deductible temporary differences	1,271	-	644	-
Total	1,271	4,732	644	5,307

14 SHARE CAPITAL

Authorised: 2,000 (2009: 2,000) million shares of 100 fils each

Issued and fully paid: 1,440 (2009: 1,440)
million shares of 100 fils each

2010	2009
200,000	200,000
144,000	144,000

- a) The Company has only one class of equity shares and the holders of these shares have equal voting rights.
- b) 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 (thousands)	Share holding (%)
Bahrain Mumtalakat Holding Company BSC (c)	Bahrain	528,000	37
Amber Holdings Limited	Cayman Islands	288,000	20
Social Insurance Organisation	Bahrain	295,966	21

- c) Distribution schedule of equity shares:

Categories	Number of shares (thousands)	Number of shareholders	% of total Outstanding shares
Less than 1 %	232,699	11,076	16
1 % up to less than 5 %	95,335	9	6
5 % up to less than 10 %	-	-	-
10 % up to less than 20 %	-	-	-
20 % up to less than 50 %	1,111,966	3	78
	1,440,000	11,088	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

15 STATUTORY AND GENERAL RESERVE

a) **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.

b) **General reserve**

The general reserve is distributable only upon a resolution of the shareholders at the Annual General Meeting. No transfer has been made during the year 2010 (2009: Nil).

16 PROPOSED APPROPRIATIONS AND DIRECTORS' REMUNERATION

The Board of Directors propose the following appropriations and Directors' remuneration for the approval of the shareholders at the Annual General Meeting:

	2010	2009
<i>Proposed Appropriations</i>		
Final cash dividends proposed	36,000	43,200
Interim cash dividends paid	28,800	28,800
Donations	2,169	2,626
Transfer to general reserve	15,000	-
<i>Directors' remuneration</i>		
Directors' remuneration	396	440

17 REVENUE

	2010	2009
Mobile telecommunications services	161,809	163,186
Fixed line telecommunication services	34,037	39,074
Internet	37,873	38,385
Data communication circuits	52,971	53,146
Wholesale	39,831	38,063
Others	13,731	15,086
	340,252	346,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

18 FINANCE AND OTHER INCOME

	2010	2009
Rental income	738	616
Interest income	586	1,771
Others	(31)	579
	1,293	2,966

19 NETWORK OPERATING EXPENSES

	2010	2009
Outpayments to telecommunications operators	50,009	45,546
Telecom facility operating lease rentals	22,987	20,613
Cost of sales of equipment and services	22,672	24,666
Licence fee	6,569	6,393
Repair and maintenance	5,879	7,440
	108,116	104,658

20 OTHER OPERATING EXPENSES

	2010	2009
Marketing, advertising and publicity	13,228	15,588
Other expenses	20,217	23,322
Impairment allowances	2,743	5,572
	36,188	44,482

21 EARNINGS PER SHARE ("EPS")

	2010	2009
Profit for the year attributable to shareholders	86,773	105,041
Weighted average number of shares outstanding during the year (in thousands)	1,440,000	1,440,000
Basic earnings per share (BIS)	60.3	72.9

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010**

BD'000

22 COMMITMENTS AND CONTINGENCIES**a) Guarantees**

- (i) The Group has furnished a guarantee for BD 36.9 (2009: BD 36.9) million to a bank for extending credit facilities to an investee company in Kingdom of Saudi Arabia.
- (ii) The Group has furnished guarantees amounting to BD 2.5 (2009: BD 4.2) million to suppliers on behalf of an investee company in Kingdom of Saudi Arabia relating to the equipment supply contracts.
- (iii) As at 31 December 2010, the Group's banks have issued guarantees, amounting to BD 8.5 (2009: BD 8.7) million and letters of credit amounting to BD 1.9 (2009: BD 0.4) million.
- (iv) The Group has furnished a comfort letter for BD 1.9 (2009: BD Nil) million to Telecommunications Regulatory Commission, Jordan for providing a financial guarantee for the subsidiary companies operating in Jordan.

b) Operating leases

The Group enters in to 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.

c) 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 % (2009: 75 %) of the loan interest. At 31 December 2010, the Group has guaranteed BD 3.1 (2009: BD 3.8) million towards housing loans to staff.

d) Foreign currency facilities

The Group currently has foreign currency facilities from commercial banks totalling approximately BD 11.7 (2009: BD 11.7) million. At 31 December 2010, the Group has utilised BD Nil (2009: BD Nil) of the foreign currency facilities.

e) Commitments

- (i) The Group has capital commitments at 31 December 2010 amounting to BD 15.5 (2009: BD 8.0) million.
- (ii) The Company has commitments to contribute BD 9.0 (2009: BD Nil) million to the equity of an investee company as a part of the proposed rights issue of the investee company.

f) Contingent liabilities

The Group is involved in legal and other matters relating to notifications from regulatory authorities and government tax departments of potential claims and other notices amounting to BD 5.5 (2009: BD Nil) million. The Group is of the view that there are no legitimate legal grounds for such potential claims and notices, and all necessary legal steps to defend its position on these matters shall be taken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

22 COMMITMENTS AND CONTINGENCIES (continued)

g) Claims against STEL Private Limited (“STEL”)

Recent claims have been made against STEL by certain government authorities in India including litigation commenced in the Supreme Court of India in January 2011 (the “claims”) that S Tel was ineligible to be granted Unified Access Services (“UAS”) licenses in 2008, due to its alleged non-compliance of certain UAS License guidelines. The Group is of the view that such claims are not sustainable in law as there has been no failure by STEL to comply with the UAS license guidelines, as alleged, and all necessary legal steps are being taken to strenuously defend its position.

23 EMPLOYEE BENEFITS

The Group’s contributions in respect of local employees against their pension rights and other social benefits amounted to BD 3.8 (2009: BD 3.6) million. The provision for leaving indemnity in respect of expatriate employees amounted to BD 2.4 (2009: BD 2.0) million and is included under other provisions and accrued expenses.

24 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.

- (i) 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.
- (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:

	2010	2009
Short-term employee benefits	2,163	2,402
Post-employment benefits	28	29
Total key management personnel compensation	2,191	2,431

	2010	2009
Post employment benefits due	118	90
Directors remuneration (including sitting fees)	597	623

- (iii) Transactions with associates are disclosed under note 8.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010**

BD'000

24 TRANSACTIONS WITH RELATED PARTIES (continued)

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

	2010	2009
Total number of shares held by Directors	3,166,401	3,386,376
As a percentage of the total number of shares issued	0.22 %	0.24 %

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

25 SEGMENT INFORMATION*Operating segments*

The Group's operations are segregated between Bahrain, Jordan and Other countries. Other countries include Kuwait, Yemen, Egypt and India. Segment information disclosed for the year ended 31 December 2010 is as follows:

	Year ended 31 December 2010					Year ended 31 December 2009				
	Bahrain	Jordan	Other countries	Inter - segment elimination	Total	Bahrain	Jordan	Other countries	Inter - segment elimination	Total
Segment revenue & profit										
Revenue (external customers)	222,653	87,593	30,006	-	340,252	238,941	79,467	28,532	-	346,940
Inter-segment revenues	8,793	11,379	1,242	(21,414)	-	7,045	9,701	1,127	(17,873)	-
Finance and other income	3,747	130	110	(2,694)	1,293	5,862	306	149	(3,351)	2,966
Depreciation and amortization	25,335	12,531	1,838	-	39,704	25,979	13,433	1,932	-	41,344
Interest expense	50	296	-	-	346	762	621	-	-	1,383
Share of (loss) / profit of associates (net)	-	-	(13,199)	-	(13,199)	-	-	1,185	-	1,185
Profit / (loss)	86,044	11,795	(7,206)	-	90,633	94,316	7,085	7,417	-	108,818
Segment assets & liabilities										
Non-current assets	155,207	203,190	145,137	-	503,534	161,113	206,677	163,147	-	530,937
Current assets	115,400	19,251	24,097	(3,811)	154,937	122,111	29,502	19,242	(28,716)	142,139
Total assets	270,607	222,441	169,234	(3,811)	658,471	283,224	236,179	182,389	(28,716)	673,076
Current liabilities	83,394	28,367	22,476	(376)	133,861	114,072	52,825	18,418	(25,206)	160,109
Non-current liabilities	3,513	7,795	-	(3,513)	7,795	3,528	8,898	-	(3,513)	8,913
Total liabilities	86,907	36,162	22,476	(3,889)	141,656	117,600	61,723	18,418	(28,719)	169,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

**26 SUMMARISED SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY,
BAHRAIN TELECOMMUNICATIONS COMPANY BSC**

a) Statement of financial position

ASSETS	2010	2009
Non-current assets		
Property and equipment	123,355	127,632
Intangible assets	3,437	3,836
Investment in subsidiaries	231,900	231,825
Investment in associates	67,605	73,699
Available-for-sale investments	28,403	29,608
Total non-current assets	454,700	466,600
Current assets		
Inventories	577	1,077
Available-for-sale investments	-	5,136
Trade and other receivables	43,633	44,211
Loan to subsidiary companies	-	7,661
Cash and cash equivalents	68,884	55,652
Total current assets	113,094	113,737
Total assets	567,794	580,337
EQUITY AND LIABILITIES		
Equity		
Share capital	144,000	144,000
Statutory reserve	72,000	72,000
General reserve	15,000	15,000
Investments fair value reserve	8,210	9,457
Retained earnings	236,864	225,887
Total equity	476,074	466,344
Current liabilities		
Trade and other payables	91,720	77,424
Current portion of bank borrowings	-	36,569
Total current liabilities	91,720	113,993
Total liabilities	91,720	113,993
Total equity and liabilities	567,794	580,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

BD'000

26 *SUMMARISED SEPARATE FINANCIAL STATEMENTS OF THE PARENT COMPANY,*
BAHRAIN TELECOMMUNICATIONS COMPANY BSC (continued)

b) Statement of comprehensive income

	2010	2009
REVENUE	231,446	245,527
Finance and other income	3,718	5,600
Total income	235,164	251,127
EXPENSES		
Network operating expenses	(66,831)	(66,511)
Staff costs	(35,505)	(35,720)
Employee redundancy costs	(3,332)	(1,325)
Depreciation and amortisation	(25,308)	(25,916)
Other operating expenses	(18,095)	(28,587)
Finance expenses	(50)	(762)
Total expenses	(149,121)	(158,821)
Profit for the year	86,043	92,306
Other comprehensive income		
Investments fair value changes	(1,247)	9,169
Other comprehensive income for the year	(1,247)	9,169
Total comprehensive income for the year	84,796	101,475
Profit for the year attributable to:		
Equity holders of the parent company	86,043	92,306
Total comprehensive income attributable to:		
Equity holders of the parent company	84,796	101,475
Basic earnings per share (Fils)	59.8	64.1

27 COMPARATIVES

The comparative figures for the previous year has been regrouped, where necessary, in order to conform to the current year's presentation. Such regrouping does not affect the previously reported profit, comprehensive income or equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2010

28 LIST OF PROPERTIES OWNED AND RENTED BY THE COMPANY

Description	Use	Owned/Rented
Hamala Headquarters	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 Centre & Offices	Owned
20 Sales Sites	Customer Service Centre	Rented
58 different sites used for GSM base stations and exchanges	GSM & fixed telephone network	Owned
213 different sites used for locating Remote Line Units (RLUs)	GSM & fixed telephone network	Rented