

Bahrain Telecommunications

Company BSC

INTERIM FINANCIAL INFORMATION

30 June 2011

Bahrain Telecommunications Company BSC

INTERIM FINANCIAL INFORMATION for the six months ended 30 June 2011

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**FINANCIAL HIGHLIGHTS (presented for information purposes only)
for the six months ended 30 June 2011**

Six months ended 30 June	2011 BD million	2010 BD million	Variation %
Gross revenue	163.2	170.7	(4)
Net revenue	127.2	131.7	(3)
Expenses	117.3	116.8	-
Profit attributable to Batelco shareholders	38.8	46.7	(17)
Return on net worth	14.9 %	17.4 %	(14)
Weighted average number of shares outstanding for the period	1,440	1,440	-
Basic Earnings per share for the period	26.9	32.4	(17)

Independent auditors' report on review of interim financial information

The Board of Directors
Bahrain Telecommunications Company BSC
Manama, Kingdom of Bahrain

20 July 2011

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Bahrain Telecommunications Company BSC ("the Company") and its subsidiaries (together the "Group") as at 30 June 2011, and the related condensed consolidated statements of comprehensive income, cash flows and changes in equity for the six months period then ended ("the interim financial information"). The Board of Directors of the Company is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 - *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 - *Interim Financial Reporting*.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 30 June 2011

BD'000

	Note	30 June 2011 (reviewed)	31 December 2010 (audited)
ASSETS			
Non-current assets			
Property and equipment		182,433	191,474
Goodwill		125,035	125,129
Intangible assets		26,409	28,404
Investment in associates		79,369	130,124
Investment in associate classified as held for sale	3	46,473	-
Deferred tax assets		1,975	1,271
Available - for - sale investments	4	16,714	28,403
Total non-current assets		478,408	504,805
Current assets			
Inventories		2,278	2,015
Trade and other receivables		72,586	64,834
Cash and bank balances	5	87,079	86,817
Total current assets		161,943	153,666
Total assets		640,351	658,471
EQUITY AND LIABILITIES			
Equity			
Share capital		144,000	144,000
Statutory reserve		76,717	76,428
General reserve		30,000	15,000
Foreign currency translation reserve		1,398	1,376
Investments fair value reserve		(3,397)	8,210
Retained earnings		245,272	259,977
Total equity attributable to equity holders of the parent Company		493,990	504,991
Non-controlling interest		13,772	11,824
Total equity		507,762	516,815
Non-current liabilities			
Trade payable		2,802	3,063
Deferred tax liability		4,471	4,732
Total non-current liabilities		7,273	7,795
Current liabilities			
Trade and other payables		125,316	133,861
Total current liabilities		125,316	133,861
Total liabilities		132,589	141,656
Total equity and liabilities		640,351	658,471

The interim financial information which consists of pages 3 to 13 was approved by the Board of Directors on 20 July 2011 and signed on its behalf by:

Sh. Hamad Bin Abdulla Al Khalifa
Chairman

Sh. Mohamed Bin Isa Al Khalifa
Deputy Chairman

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the six months ended 30 June 2011

BD'000

	Note	Six months ended 30 June		Three months ended 30 June	
		2011 (reviewed)	2010 (reviewed)	2011 (reviewed)	2010 (reviewed)
REVENUE	6	163,180	170,733	82,366	84,799
Finance and other income		520	717	288	324
Total income		163,700	171,450	82,654	85,123
EXPENSES					
Network operating expenses		54,860	54,075	27,911	27,700
Staff costs		25,733	23,962	13,213	11,849
Depreciation and amortisation		18,714	20,138	9,364	9,895
Other operating expenses		17,900	18,436	9,170	9,059
Finance expenses		132	201	66	80
Total expenses		117,339	116,812	59,724	58,583
Results from operating activities		46,361	54,638	22,930	26,540
Share of (loss)/profit of associates (net)		(4,265)	(4,644)	4	(2,543)
Profit before income tax		42,096	49,994	22,934	23,997
Income tax expense		(1,621)	(1,746)	(626)	(812)
Profit for the period		40,475	48,248	22,308	23,185
Other comprehensive income					
Foreign currency translation differences for foreign operations		248	(504)	178	(1,471)
Investments fair value changes		(11,607)	(2,264)	1,433	(3,882)
Other comprehensive income for the period		(11,359)	(2,768)	1,611	(5,353)
Total comprehensive income for the period		29,116	45,480	23,919	17,832
Profit for the period attributable to:					
Equity holders of the parent Company		38,753	46,687	21,297	22,347
Non-controlling interest		1,722	1,561	1,011	838
		40,475	48,248	22,308	23,185
Total comprehensive income attributable to:					
Equity holders of the parent Company		27,168	44,067	22,797	17,105
Non-controlling interest		1,948	1,413	1,122	727
		29,116	45,480	23,919	17,832
Basic earnings per share for the period					
(Fils)	7	26.9	32.4	14.8	15.5

The interim financial information which consists of pages 3 to 13 was approved by the Board of Directors on 20 July 2011 and signed on its behalf by:

Sh. Hamad Bin Abdulla Al Khalifa
Chairman

Sh. Mohamed Bin Isa Al Khalifa
Deputy Chairman

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
for the six months ended 30 June 2011

BD'000

	Six months ended 30 June 2011 (reviewed)	Six months ended 30 June 2010 (reviewed)
OPERATING ACTIVITIES		
Cash receipts from customers	151,377	155,632
Net cash paid to suppliers	(66,116)	(68,410)
Cash paid to and on behalf of employees	(31,655)	(26,886)
Cash flows from operating activities	53,606	60,336
INVESTING ACTIVITIES		
Acquisition of property and equipment	(15,053)	(16,838)
Dividend received from associate	-	2,031
Net proceeds from sale and maturity of investments	4,378	3,279
Interest and investment income received	614	886
Cash flows from investing activities	(10,061)	(10,642)
FINANCING ACTIVITIES		
Dividend paid	(37,939)	(43,351)
Interest paid	-	(50)
Borrowing repaid	-	(36,569)
Payments to charities	(1,108)	(1,005)
Cash flows from financing activities	(39,047)	(80,975)
Increase/(decrease) in cash and cash equivalents	4,498	(31,281)
Cash and cash equivalents at 1 January	80,436	70,230
Cash and cash equivalents at 30 June	84,934	38,949

The interim financial information consists of pages 3 to 13.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2011

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
2011 (reviewed)									
At 1 January 2011	144,000	76,428	15,000	1,376	8,210	259,977	504,991	11,824	516,815
Profit for the period	-	-	-	-	-	38,753	38,753	1,722	40,475
Other comprehensive income									
Foreign currency translation differences	-	-	-	22	-	-	22	226	248
Net changes in fair value of investments	-	-	-	-	(11,607)	-	(11,607)	-	(11,607)
Total other comprehensive income	-	-	-	22	(11,607)	-	(11,585)	226	(11,359)
Total comprehensive income for the period	-	-	-	22	(11,607)	38,753	27,168	1,948	29,116
Final dividends declared for 2010	-	-	-	-	-	(36,000)	(36,000)	-	(36,000)
Donations declared for 2010	-	-	-	-	-	(2,169)	(2,169)	-	(2,169)
Transfer to statutory reserve	-	289	-	-	-	(289)	-	-	-
Transfer to general reserve	-	-	15,000	-	-	(15,000)	-	-	-
	-	289	15,000	-	-	(53,458)	(38,169)	-	(38,169)
At 30 June 2011	144,000	76,717	30,000	1,398	(3,397)	245,272	493,990	13,772	507,762

The interim financial information consists of pages 3 to 13.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2011

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 (reviewed)									
At 1 January 2010	144,000	75,364	15,000	168	9,457	249,334	493,323	10,731	504,054
Profit for the period	-	-	-	-	-	46,687	46,687	1,561	48,248
Other comprehensive income									
Foreign currency translation differences	-	-	-	(356)	-	-	(356)	(148)	(504)
Net changes in fair value of investments	-	-	-	-	(2,264)	-	(2,264)	-	(2,264)
Total other comprehensive income	-	-	-	(356)	(2,264)	-	(2,620)	(148)	(2,768)
Total comprehensive income for the period	-	-	-	(356)	(2,264)	46,687	44,067	1,413	45,480
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	-	261	-	-	-	(261)	-	-	-
	-	261	-	-	-	(46,527)	(46,266)	-	(46,266)
At 30 June 2010	144,000	75,625	15,000	(188)	7,193	249,494	491,124	12,144	503,268

The interim financial information consists of pages 3 to 13.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

BD'000

1 Background

The interim financial information as at and for the six months period ended 30 June 2011 comprise the interim financial information of Bahrain Telecommunications Company BSC ("Batelco" / "the Company") and its subsidiaries (collectively "the Group"). It does not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2010. The Group is principally engaged in the provision of public telecommunications and associated products and services.

2 Basis of preparation**a) Statement of compliance**

The interim financial information has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, which permits the interim financial statements to be in summarized form and do not include all of the information required for full annual financial statements.

b) Significant accounting policies

Except as described below, the accounting policies and risk management framework applied by the Group in the preparation of the interim financial information are consistent with those applied in the preparation of the audited consolidated financial statements for the year ended 31 December 2010.

*(i) Asset held-for-sale**Classification*

The Group classifies non-current assets as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable in accordance with IFRS 5 "Non-current Assets Held-for-Sale and Discontinued Operations".

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset as held for sale and shall measure the asset at the lower of its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization, revaluations or share of profits or losses that would have been recognised had the asset not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Measurement

Non-current assets classified as held-for-sale, other than financial instruments measured under International Accounting Standard IAS-39 'Financial Instruments-Recognition and Measurement, are measured at the lower of its carrying amount and fair value less costs to sell.

(ii) During the period, the Group has adopted Revised International Accounting Standards ("IAS") 24-Related Party Disclosures on its required application date 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.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

BD'000

2 *Basis of preparation (continued)*

The adoption of revised IAS 24 did not have a significant impact on the related party disclosures as already set out in consolidated financial statements for the year ended 31 December 2010 (refer to note 9)

- c) The interim financial information is not audited but has been reviewed by KPMG Fakhro. The comparatives for the condensed consolidated statement of financial position have been extracted from the audited consolidated financial statements for the year ended 31 December 2010 and the comparatives for the condensed consolidated statements of comprehensive income, cash flows and changes in equity have been extracted from the reviewed interim financial information for the six months ended 30 June 2010.
- d) Due to the effect of seasonal variations, the results reported in the interim financial information may not represent a proportionate share of the overall annual income.

3 Investment in associate classified as held-for-sale

As at 30 June 2011, the Group's investment in S-Tel Private Limited is presented as asset held-for-sale following the Board of Directors' decision in April 2011, to actively pursue the sale of the investment whilst identifying other opportunities for the Group to remain active in Indian telecom market.

As result of classification of the investment in S-Tel as held-for-sale, effective 1 April 2011, the Group has discontinued recognising its share of loss from associate company. The unrecognised share of loss from associate company amounted to BD 4,881 as at 30 June 2011.

4 Available-for-sale investments

Available-for-sale investments of BD 16,714 include BD 11,684 representing an equity investment in Etihad Atheeb Telecommunications Company ("the investee"). There is a five year lock in period starting from April 2009.

The investment has been written down from its original cost of BD 15,081 to the current carrying value based on the latest available share price before suspension of its trading on the Saudi Stock Exchange. The decrease in original cost and carrying value is recognised in other comprehensive income and presented within equity in the Investments fair value reserve.

The investee company has continued to incur losses and as at 30 June 2011, its accumulated losses have exceeded the share capital. The Capital Markets Authority ("CMA") suspended the trading of investee company's shares on the Saudi Stock Exchange from 25 May 2011 until the Investee rectifies the deficit in Equity. The Group had committed to contribute BD 9.0 million as part of the initial proposed rights issue of BD 60.3 million (SAR 600 million). As per the terms of a revised plan under consideration by the investee, the rights issue has been increased to BD 118.1 million (SAR 1,175 million). The Group's share of revised rights issue is BD 17.7 million. As part of the rights issue, the investee company proposed to reduce the share capital by BD 60.3 million (SAR 600 million) corresponding to a 60 % reduction. The reduction was approved by CMA and is now subject to approval by shareholders in an Extra-Ordinary General Meeting. The investee expects to complete the rights issue by 31 December 2011.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**
4 Available-for-sale investments (continued)

In the interim, the investee is dependent on interim funding committed from its founding shareholders to meet operational cash requirements. The Group's share of such interim funding commitment is BD 9.0 million and is valid for a one year period commencing 17 April 2011. The commitment will be applied against the Group's share of the rights issue, once the rights issue is completed.

5 Cash and bank balances

Cash and bank balances include BD 2,145 (2010: BD 6,381) on account of unclaimed dividends and short-term deposits with maturities exceeding three months. These have been excluded for the purposes of statement of cash flows.

6 Revenue

	Six months ended 30 June		Three months ended 30 June	
	2011 BD '000	2010 BD '000	2011 BD '000	2010 BD '000
Mobile telecommunications services	76,792	80,905	38,336	40,443
Fixed line telecommunication services	14,800	18,307	7,382	8,901
Internet	18,644	18,836	9,250	9,360
Data communication circuits	28,048	25,999	14,163	13,626
Wholesale	17,802	21,132	9,156	9,740
Others	7,094	5,554	4,079	2,729
	163,180	170,733	82,366	84,799

7 Earnings per share

The earnings per share ("EPS") have been computed and presented in accordance with International Financial Reporting Standards. The calculation of EPS is based on the profit attributable to owners of the Company for the six months ended 30 June 2011 of BD 38.75 million (30 June 2010: BD 46.69 million), attributable to the weighted average number of shares outstanding for the period 1,440 million (2010: 1,440 million) ordinary shares.

8 Commitments and contingencies
a) Guarantees

- (i) The Group has furnished a guarantee for BD 36.9 million (2010: 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 2.3 million (2010: BD 2.5 million) to suppliers on behalf of an investee company in Kingdom of Saudi Arabia relating to the equipment supply contracts.
- (iii) As at 30 June 2011, the Group's banks have issued guarantees, amounting to BD 8.0 million (2010: BD 8.5 million) and letters of credit amounting to BD 0.9 million (2010: BD 1.9 million).

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

BD'000

8 *Commitments and contingencies (continued)*

(iv) The Group has furnished a comfort letter for BD 1.9 million (2010: BD 1.9 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 % (2010: 75 %) of the loan interest. At 30 June 2011, the Group has guaranteed BD 2.6 million (2010: BD 3.1 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 million (2010: BD 11.7 million). At 30 June 2011, the Group has utilised BD Nil (2010: BD Nil) of the foreign currency facilities.

e) Commitments

(i) The Group has capital commitments at 30 June 2011 amounting to BD 21.4 million (2010: BD 15.5 million).

(ii) The Group has commitments to contribute BD 17.7 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 million (2010: BD 5.5 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.

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. STEL 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. The Group is continuing to closely monitor the situation.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011**

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9 Related parties

a) Transactions with related parties

The Company qualifies as a government related entity under the definitions provided in the Revised IAS 24. The Group provides telecommunication services to various Government and semi government organisation and companies in the Kingdom of Bahrain. The Group also avails various services from Government and semi government organisation and companies in the Kingdom of Bahrain. Such transactions are in the normal course of business and are not considered to be material.

b) Transactions with key management personnel

Key management personnel comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. During the period, the Group paid the following compensation to the key management personnel.

	30 June 2011	30 June 2010
Short-term employee benefits	1,191	1,307
Post-employment benefits	43	92
Total key management personnel compensation	1,234	1,399
Directors remuneration (including sitting fees)	285	280

10 Appropriations

The shareholders in their meeting held on 23 February 2011 to approve the 2010 accounts approved final dividend of BD 36,000, donations of BD 2,169 and transfer to general reserve of BD 15,000.

11 Comparatives

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

NOTES TO THE INTERIM FINANCIAL INFORMATION
for the six months ended 30 June 2011

BD'000

12 Segment information*Operating segments*

For reporting purposes 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 six months ended 30 June 2011 is as follows:

	30 June 2011 (reviewed)					30 June 2010 (reviewed)				
	Bahrain	Jordan	Other countries	Inter-segment elimination	Total	Bahrain	Jordan	Other countries	Inter-segment elimination	Total
Segment revenue and profit										
Revenue (external customers)	102,438	43,392	17,350	-	163,180	114,394	42,198	14,141	-	170,733
Inter-segment revenues	4,103	5,605	630	(10,338)	-	4,064	5,100	542	(9,706)	-
Profit/(loss)	36,169	6,142	(1,836)	-	40,475	45,399	5,096	(2,247)	-	48,248

	30 June 2011 (reviewed)					31 December 2010 (audited)				
	Bahrain	Jordan	Other countries	Inter-segment elimination	Total	Bahrain	Jordan	Other countries	Inter-segment elimination	Total
Segment assets and liabilities										
Non-current assets	136,678	201,159	140,571	-	478,408	155,207	204,461	145,137	-	504,805
Current assets	113,546	33,624	27,336	(12,563)	161,943	115,400	25,732	24,097	(11,563)	153,666
Total assets	250,224	234,783	167,907	(12,563)	640,351	270,607	230,193	169,234	(11,563)	658,471
Current liabilities	76,808	35,228	22,596	(9,316)	125,316	83,394	36,119	22,476	(8,128)	133,861
Non-current liabilities	3,513	7,273	-	(3,513)	7,273	3,513	7,795	-	(3,513)	7,795
Total liabilities	80,321	42,501	22,596	(12,829)	132,589	86,907	43,914	22,476	(11,641)	141,656