Financial Statements

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

To the Shareholders
Bahrain Telecommunications Company BSC
Manama, Kingdom of Bahrain

23 January 2007

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Bahrain Telecommunications Company BSC ("the Company") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect net assets of BD 15,810,000 (2005: BD 8,285,000) and total revenues of BD 36,170,000 (2005: BD 16,708,000) for the year ended 31 December 2006. These financial statements have been audited by other auditors whose reports are unqualified and have been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiaries, is based solely on the report of the other auditors.

Responsibility of the directors for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

In addition, in our opinion, the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith. We have reviewed the accompanying report of the Chairman and confirm that the information contained therein is consistent with the consolidated financial statements. We are not aware of any violations of the Bahrain Commercial Companies Law 2001 or the terms of the Company's memorandum and articles of association having occurred during the year that might have had a material effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

23 January 2007

CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	Note	2006	2005 (restated)
			BD'000
Property, plant and equipment	4	203,038	151,224
Goodwill	5	124,380	-
Intangible assets	6	32,181	-
Investments	7	27,828	35,039
TOTAL NON-CURRENT ASSETS		**387,427**	**186,263**
Inventories		1,213	873
Accounts receivable and prepayments	9	43,056	34,176
Amounts due from telecommunications operators		3,732	3,025
Cash and cash equivalents		45,756	162,747
Total current assets		**93,757**	**200,821**
Accounts payable and accruals	10	78,172	51,400
Amounts due to telecommunications operators		4,073	4,847
Current portion of bank loans	11	3,659	-
Total current liabilities		**85,904**	**56,247**
NET CURRENT ASSETS		**7,853**	**144,574**
Accounts payable and accruals		10,741	-
Non current portion of bank loans	11	6,342	-
Deferred income tax liabilities	12	7,033	-
TOTAL NON-CURRENT LIABILITIES		**24,116**	**-**
NET ASSETS		**371,164**	**330,837**
EQUITY			
Share capital	13	120,000	100,000
Statutory reserve	14	60,000	51,746
General reserve	14	15,000	15,000
Foreign currency translation		113	66
Retained earnings		167,563	157,514
Total equity attributable to shareholders of the parent company		**362,676**	**324,326**
Minority interest		8,488	6,511
TOTAL EQUITY (Page 39)		**371,164**	**330,837**

The consolidated financial statements, which consist of pages 36 to 55 were approved by the Board of Directors on 23 January 2007 and signed on its behalf by:

Sh. Hamad bin Abdulla bin Hamad Al Khalifa
Chairman

Sh. Mohamed bin Isa Al Khalifa
First Deputy Chairman

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	2006	2005 (restated)
		BD'000	
Revenue	16	234,990	211,616
Other income	17	5,877	9,571
		240,867	**221,187**
Expenses			
General and administrative	18	106,384	93,994
Other operating expenses	19	43,648	40,277
		150,032	**134,271**
NET PROFIT FOR THE YEAR (Page 39)		**90,835**	**86,916**
Attributable to:			
Shareholders of the parent company		89,335	85,601
Minority interest		1,500	1,315
		90,835	**86,916**
Basic earnings per share	20	**74 Fils**	**71 Fils**

Sh. Hamad bin Abdulla bin Hamad Al Khalifa
Chairman

Sh. Mohamed bin Isa Al Khalifa
First Deputy Chairman

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2006

	Note	2006	2005 (restated)
		BD'000	BD'000
Operating activities			
Cash receipts from customers		226,833	194,530
Cash paid to suppliers		(54,429)	(38,079)
Cash paid to and on behalf of employees		(33,984)	(31,052)
Cash paid to telecommunications operators		(11,537)	(15,898)
Cash flows from operating activities		**126,883**	**109,501**
Investing activities			
Acquisition of plant and equipment		(39,526)	(26,351)
Consideration paid for acquisition of Umniah	8	(156,849)	-
Acquisition of investments		(7,027)	(16,146)
Proceeds from sale and maturity of investments		13,372	6,534
Interest and investment income received		8,341	5,067
Cash flows from investing activities		**(181,689)**	**(30,896)**
Financing activities			
Dividends paid		(60,779)	(51,075)
Payments to charities		(1,406)	(1,152)
Cash flows from financing activities		**(62,185)**	**(52,227)**
(Decrease) / Increase in cash and cash equivalents		**(116,991)**	**26,378**
Cash and cash equivalents at 1 January		162,747	136,369
Cash and cash equivalents at 31 December		**45,756**	**162,747**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

2006	Total equity attributable to shareholders of the parent company						Minority	Total
BD'000	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total	interest	equity
At 1 January 2006 (restated)	100,000	51,746	15,000	66	157,514	324,326	6,511	330,837
Foreign currency translation	-	-	-	47	-	47	64	111
Total recognised income and expense directly in equity	-	-	-	47	-	47	64	111
Net profit for the year	-	-	-	-	89,335	89,335	1,500	90,835
Total recognised income and expense for the year	**-**	**-**	**-**	**47**	**89,335**	**89,382**	**1,564**	**90,946**
Final dividends (2005)	-	-	-	-	(25,000)	(25,000)	-	(25,000)
Bonus shares issue (2005)	20,000	-	-	-	(20,000)	-	-	-
Donations (2005)	-	-	-	-	(1,757)	(1,757)	-	(1,757)
Directors' remuneration (2005)	-	-	-	-	(275)	(275)	-	(275)
Transfer to statutory reserve (2005)	-	8,254	-	-	(8,254)	-	-	-
Interim dividend (2006)	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Dividends to minority shareholders	-	-	-	-	-	-	(940)	(940)
Minority interest arising on acquisition (Note 8)	-	-	-	-	-	-	1,353	1,353
At 31 December 2006	**120,000**	**60,000**	**15,000**	**113**	**167,563**	**362,676**	**8,488**	**371,164**

2005 (restated)	Total equity attributable to shareholders of the parent company						Minority	Total
BD'000	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Retained earnings	Total	interest	equity
At 1 January 2005 (as previously reported)	100,000	43,518	15,000	70	141,251	299,839	6,087	305,926
Prior year adjustments (note 21)	-	-	-	-	(9,298)	(9,298)	-	(9,298)
At 1 January 2005 (restated)	**100,000**	**43,518**	**15,000**	**70**	**131,953**	**290,541**	**6,087**	**296,628**
Foreign currency translation	-	-	-	(4)	-	(4)	-	(4)
Total recognised income and expense directly in equity	-	-	-	(4)	-	(4)	-	(4)
Net profit for the year	-	-	-	-	85,601	85,601	1,315	86,916
Total recognised income and expense for the year	**-**	**-**	**-**	**(4)**	**85,601**	**85,597**	**1,315**	**86,912**
Final dividends (2004)	-	-	-	-	(30,000)	(30,000)	-	(30,000)
Donations (2004)	-	-	-	-	(1,653)	(1,653)	-	(1,653)
Directors' remuneration (2004)	-	-	-	-	(159)	(159)	-	(159)
Transfer to statutory reserve (2004)	-	8,228	-	-	(8,228)	-	-	-
Interim dividend (2005)	-	-	-	-	(20,000)	(20,000)	-	(20,000)
Dividends to minority shareholders	-	-	-	-	-	-	(891)	(891)
At 31 December 2005 (restated)	**100,000**	**51,746**	**15,000**	**66**	**157,514**	**324,326**	**6,511**	**330,837**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

1. BACKGROUND AND ACTIVITIES

Bahrain Telecommunications Company BSC ("the Company") is a public shareholding company registered in the Kingdom of Bahrain in the year 1981 and is engaged in the provision of public telecommunications and associated products and services. The consolidated financial statements for the year ended 31 December 2006 comprise the financial statements of the Company and its subsidiaries (collectively "the Group"). The registered office of the Company is PO Box 14, in Manama, Kingdom of Bahrain. The subsidiaries of the Group included in these consolidated financial statements are as follows:

Company	Country of incorporation	shareholding %
Batelco Middle East Company EC	Kingdom of Bahrain	100%
Arabian Network Information Services WLL	Kingdom of Bahrain	100%
Umniah Mobile Company PSC (effective 28 June 2006)	Kingdom of Jordan	96%
Batelco Jordan	Kingdom of Jordan	80%
Batelco Egypt Communications (S.A.E.)	Arab Republic of Egypt	100%
Qualitynet General Trading and Contracting Company WLL	State of Kuwait	44%

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

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

b. Basis of preparation

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. The accounting policies have been consistently applied by the Company and its subsidiaries.

c. Use of estimates and judgments

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

- Note 2 f (iii) and note 2 i (ii) – Estimates of useful lives;
- Note 2 n – Impairment;
- Note 2 j – Valuation of investments; and
- Note 5 – measurement of the recoverable amounts of cash-generating units.

d. Basis of consolidation

i) Subsidiaries

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

ii) Transactions eliminated on consolidation

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

e. Foreign currency translation

i) Functional and presentation currency

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

ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective currencies of Group entities at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency of

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

iii) *Financial statements of foreign operations*

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

f. Property, plant and equipment

i) *Recognition and initial measurement*

Items of property, plant 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. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. When an item of property, plant and equipment is sold or discarded, the respective cost and accumulated depreciation relating thereto are eliminated from the balance sheet, the resulting gain or loss being recognized in the consolidated income statement.

ii) *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditures are recognised in the income statement as expenses as incurred.

iii) *Depreciation*

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

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

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

g. Leased assets

Leases for which substantially all the risks and rewards of ownership are assumed, are classified as finance lease. All other leases are considered as operating leases. Assets acquired under finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses, if any. Lease liabilities are reduced by the repayment of principal amount while the finance charge component of the lease payment is charged directly to the income statement. Lease payments are allocated between lease finance cost and capital repayments using the effective interest method.

h. Goodwill

i) *Recognition and initial measurement*

Goodwill arises on acquisition of subsidiaries and other entities controlled by the Group. 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) *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses, if any.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Intangible assets

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

i) Recognition and measurement

License costs and other assets acquired or incurred by the Group have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses, if any.

ii) Amortization

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

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

j. Investments

i) Classification

a. Held-to-maturity ("HTM") investments are financial assets with fixed or determinable payments and fixed maturity which the Group will hold to maturity. These include certain debt securities and investments in managed funds.
b. Available-for-sale ("AFS") investments are financial assets that are not classified as financial assets at fair value through the income statement or held-to-maturity investments. These comprise unquoted equity investments.

ii) Recognition

a. Purchase and sale of AFS and HTM investments are accounted for on the trade date.
b. HTM and AFS investments are initially recorded at cost, being the fair value of the consideration given including transaction charges associated with the investment.

iii) Subsequent measurement

a. HTM investments are stated at their amortised cost less impairment losses.
b. AFS investments are stated at their fair value, with any resultant gain or loss transferred to an investments fair value reserve. Unrealised gains and losses arising from changes in the fair values of AFS securities are recognised in a reserve as a separate component of equity. In the event of sale, disposal, or impairment, the cumulative gains and losses recognised in equity are transferred to the income statement.
The fair value of HTM and AFS investments is their quoted bid price at the balance sheet date. AFS investment,s where there is no quoted market price or other appropriate methods from which to derive reliable fair values, are carried at cost less impairment.

k. 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 shown under property, plant and equipment.

l. Accounts receivable

Accounts receivables are stated at the fair value of services rendered, less impairment allowances.

m. Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks and time deposits which are maturing within three months.

n. Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is an indication of an impairment loss. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Impairment (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. A provision is made when the carrying amount of the asset exceeds the present value of the estimated future cash flows and the provision is recognised in the income statement.

o. Employees 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, which is a "defined contribution scheme" in nature. 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 balance sheet 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.

p. Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

q. Interest bearing borrowings

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

r. Deferred taxation

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

s. 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 income. Revenue from data services and information provision is recognised when the Group has performed the related service and, depending on the nature of the service, is recognized either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service. Revenue from handset sales is recognised when the product is delivered.

t. 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.

u. Segment reporting

The Group's operations are considered to fall into one broad class of business, telecommunication and information services and hence, segmental analysis of assets and liabilities by business segment is not considered meaningful. Segment revenue analysis and geographical segments are as set out in Notes 16 and 26 respectively.

3. NEW STANDARDS AND INTERPRETATIONS

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

- IFRS 7 Financial instruments: Disclosures
- IAS 1 Presentation of Financial Statements (amended)
- IFRIC 10 Interim Financial Reporting and Impairment

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

4. PROPERTY, PLANT AND EQUIPMENT

BD'000	Freehold land	Buildings	Plant and equipment	Motor vehicles, furniture, fittings & office equipment	Projects in progress	**Total 2006**
Cost						
At 1 January 2006	7,989	52,174	273,507	47,556	35,218	**416,444**
Addition on business combination	4,530	-	18,917	4,530	-	**27,977**
Additions	6,425	533	12,533	1,347	34,032	**54,870**
Projects completed	-	3	25,325	2,719	(28,047)	**-**
Disposals	-	(306)	(14,096)	(5,528)	(45)	**(19,975)**
At 31 December 2006	**18,944**	**52,404**	**316,186**	**50,624**	**41,158**	**479,316**
Depreciation						
At 1 January 2006	-	44,825	175,606	44,789	-	**265,220**
Charge for the year	-	810	23,157	4,837	-	**28,804**
Disposals	-	(292)	(11,814)	(5,640)	-	**(17,746)**
At 31 December 2006	**-**	**45,343**	**186,949**	**43,986**	**-**	**276,278**
Net book value At 31 December 2006	**18,944**	**7,061**	**129,237**	**6,638**	**41,158**	**203,038**
Net book value at 31 December 2005	7,989	7,349	97,901	2,767	35,218	151,224

5. GOODWILL

	2006 BD'000	2005 BD'000
Cost		
At 1 January	-	-
Add: Acquisitions through business combination (Note 8)	124,380	-
At 31 December	**124,380**	-

The Group tests for impairment of goodwill, using the services of an independent valuer, at the end of every reporting period, 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 value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding discount rates and the long term growth rates. The discount rate is based on the weighted average cost of capital, while growth rates are based on management's experience and expectations and do not exceed the long term average growth rate for the region in which the CGU operates. These calculations use cash flow projections based on financial budgets approved by management, covering a ten-year period. Cash flows are extrapolated using the estimated growth rates. The weighted average growth rates are consistent with forecasts. No impairment losses were recognised in 2006 (2005: BD Nil).

6. INTANGIBLE ASSETS

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

	2006 BD'000	2005 BD'000
Cost		
At 1 January	3,590	3,590
Add: Acquisitions through business combinations (Note 8)	33,299	-
At 31 December	**36,889**	3,590
Amortisation		
At 1 January	3,590	2,967
Charge for the year	1,118	623
At 31 December	4,708	3,590
Net book value at 31 December	**32,181**	-

7. INVESTMENTS

	2006 BD'000	2005 BD'000
Held-to-maturity	24,934	33,428
Available-for-sale	2,894	1,611
	27,828	35,039

8. ACQUISITION OF UMNIAH MOBILE COMPANY PSC

On 28 June 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 has been accounted for by applying the purchase method.

	BD'000
Purchase consideration:	
– Cash paid	155,792
– Direct costs relating to the acquisition	1,057
Total purchase consideration	156,849
Fair value of net assets acquired	(32,469)
Goodwill	**124,380**

The goodwill is attributable to the growth prospects of the acquired business and the significant synergies that are expected to arise after Batelco's acquisition of Umniah.

Umniah's business contributed revenues of BD 18,823,000 and profit of BD 1,145,000 to the Group for the period from the acquisition date to 31 December 2006. Had the acquisition occurred on 1 January 2006, Batelco's consolidated revenue would have been BD 244,969,000 and consolidated profit would have been BD 89,556,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2006.

8. ACQUISITION OF UMNIAH MOBILE COMPANY PSC (Continued)

Details of net assets acquired and goodwill arising on the acquisition are as follows:

	Pre-acquisition carrying amounts BD'000	Fair value adjustments BD'000	Recognised values on acquisition BD'000
Current assets	9,658	-	9,658
Property, plant and equipment	26,325	1,652	27,977
Intangible assets	4,228	29,071	33,299
Deferred income tax asset	-	1,067	1,067
Payables	(20,839)	-	(20,839)
Borrowings	(10,019)	-	(10,019)
Deferred income tax liabilities	-	(7,321)	(7,321)
Net assets	**9,353**	**24,469**	**33,822**
Less: Minority interests (4%)			(1,353)
Fair value of net assets acquired			**32,469**

9. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2006 BD'000	2005 BD'000
Gross customers' accounts	42,298	37,820
Less: impairment allowances	(11,603)	(9,734)
Customers' accounts, net	30,695	28,086
Unbilled revenue	3,627	2,894
Prepaid expenses and other receivables	8,734	3,196
	43,056	34,176

The movement on impairment allowances on receivables during the year was as follows:

	2006 BD'000	2005 BD'000
At 1 January	9,734	5,496
Charge for the year	3,283	5,408
Written off during the year	(1,414)	(1,170)
At 31 December	**11,603**	9,734

10. ACCOUNTS PAYABLE AND ACCRUALS

	2006 BD'000	2005 BD'000
Trade accounts payable	14,504	6,903
Other provisions and accrued expenses	38,246	28,016
Customer deposits and Billings in advance	25,205	14,469
Due to related parties	217	2,012
	78,172	51,400

Other provisions and accrued expenses include provisions for termination benefits and donations, the movement of which is disclosed as follows:

	Provision for termination benefits		**Provision for donations**	
	2006 BD'000	2005 BD'000	**2006 BD'000**	2005 BD'000
At 1 January	1,859	4,000	4,731	4,230
Amounts provided during the year	1,000	-	1,757	1,653
Amounts paid during the year	(1,859)	(2,141)	(1,406)	(1,152)
At 31 December	**1,000**	1,859	**5,082**	4,731

11. BANK LOANS

At 31 December 2006, Group's borrowings amounting to BD 10,001,000 (2005: BD Nil) represents bank loan and other facilities availed of by Umniah in Jordanian Dinars from banks in the Kingdom of Jordan.

	2006 BD'000	2005 BD'000
Current portion – payable within one year	3,659	-
Non current portion – payable within two to five years	6,342	-
	10,001	-

The above borrowings have been granted against guarantees given to the banks by Umniah. The average effective interest rate is approximately 7% per annum (2005: Nil).

12. DEFERRED INCOME TAX ASSET AND LIABILITY

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

	2006 Assets BD'000	**2006 Liabilities BD'000**	2005 Assets BD'000	2005 Liabilities BD'000
Intangible assets	-	7,033	-	-
Tax loss carry-forwards	595	-	-	-
Total	**595**	**7,033**	-	-

13. SHARE CAPITAL

	2006 BD'000	2005 BD'000
Authorised: 2,000 (2005: 1,000) million shares of 100 fils each	200,000	100,000
Issued and fully paid: 1,200 (2005: 1,000) million shares of 100 fils each	120,000	100,000

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

(ii) During the year, the Company issued one bonus share for every five shares held, as approved in its annual general meeting.

(iii) Names and nationalities of the major shareholders and the number of equity shares held, who have an interest of 5% or more of outstanding shares of the Company as at 31 December 2006:

Name	Nationality	No. of shares held (in thousands)	Holding %
The Government of Bahrain	Bahrain	440,000	36.67
Amber Holdings Ltd.	British	240,000	20.00
General Organization for Social Insurance	Bahrain	122,133	10.18
General Organization for Pension Fund	Bahrain	96,983	8.08

(iv) Distribution schedule of equity shares:

Categories	No of shares (in thousands)	No. of shareholders	% of total Outstanding shares
Less than 1%	193,543	11,160	16.13
1% to less than 5%	107,341	4	8.94
5% to less than 10%	96,983	1	8.08
10% to less than 20%	122,133	1	10.18
20% to less than 50%	680,000	2	56.67
Total	**1,200,000**	**11,168**	**100.00**

14. STATUTORY AND GENERAL RESERVE

i) Statutory reserve

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

ii) General reserve

The general reserve is distributable only upon a resolution of the shareholders at the Annual General Meeting. No transfer has been made for the year (2005: nil).

15. PROPOSED APPROPRIATIONS

The board of directors proposes the following appropriations for the approval of the shareholders at the annual general meeting:

	2006 BD'000	2005 BD'000
Final dividends proposed	33,600	25,000
Interim dividends paid	24,000	20,000
Bonus shares issue (20%)	-	20,000
Donations	1,750	1,757
Directors' remuneration	330	275
Transfer to statutory reserve	8,254	8,254

16. REVENUE

	2006 BD'000	2005 BD'000
Mobile telecommunications services	113,815	98,172
Fixed line telecommunication services	44,382	52,708
Internet	34,557	28,579
Data communication circuits	30,268	27,508
Wholesale	11,423	4,191
Other	545	458
	234,990	211,616

Geographical segments are set out in Note 26.

17. OTHER INCOME

	2006 BD'000	2005 BD'000
Investment income	1,578	1,740
Interest income	3,586	4,134
Gain on sale of investments	-	1,764
Net (loss) on disposal of property, plant and equipment	(849)	(3,833)
Others	1,562	5,766
	5,877	9,571

18. GENERAL AND ADMINISTRATIVE

	2006 BD'000	2005 BD'000
Staff costs	34,918	29,814
Depreciation	28,803	25,091
Amortisation of intangible assets	1,118	623
Repairs and maintenance	7,105	8,627
Telecom facility operating lease rentals	12,185	9,012
Marketing, advertising and publicity	7,793	4,960
Other expenses	11,179	10,459
Impairment of receivables	3,283	5,408
	106,384	93,994

19. OTHER OPERATING EXPENSES

	2006 **BD'000**	2005 BD'000
Outpayments to telecommunications operators	32,800	32,146
Cost of sales of equipment	7,555	6,298
Licence fee	3,293	1,833
	43,648	40,277

20. EARNINGS PER SHARE (EPS)

	2006	2005
Profit for the year attributable to shareholders of the parent company (BD'000)	89,335	85,601
Weighted average number of shares outstanding during the year (thousand)	1,200,000	1,200,000
Basic earnings per share (fils)	74	71

During the period, the parent company issued one bonus share for every five shares held, as approved in its annual general meeting. The earnings per share for the comparable prior periods have been recomputed and presented on the basis of the revised weighted average number of shares in accordance with international financial reporting standards. Diluted earning per share has not been presented as the Group has no commitments that would dilute earnings per share.

21. PRIOR YEAR ADJUSTMENTS

During the year, the Group has identified certain expenses and income relating to prior year which resulted in an overstatement of equity by BD 11,147,000 in prior years. This has now been rectified by reducing the retained earnings as at 1 January 2005 by BD 9,298,000 being earliest reported period, reducing the related income statement items of 2005 by BD 1,769,000 and by restating the related balance sheet items and equity statement items.

22. COMMITMENTS

i) Capital commitments

The Group has commitments at 31 December 2006 in respect of capital projects of BD 15,075,000 (2005: BD 27,250,000).

ii) Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2006 **BD'000**	2005 BD'000
Within one year	4,483	4,741
Between one to five years	1,414	1,357
Above five years	494	439
	6,391	6,537

iii) Foreign currency facilities

The Group currently has foreign currency facilities from commercial banks totalling approximately BD 5 million (2005: BD 41 million). At 31 December 2006, the Group has utilised BD NIL (2005: BD Nil) of the foreign currency facilities.

iv) 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% (2005: 75%) of the loan interest. At 31 December 2006, the Group has guaranteed BD 5.2 million towards housing loans to staff (2005: BD 5.1million).

23. EMPLOYEE BENEFITS

The Group employed 2,486 employees as at 31 December 2006 (2005: 1,997). The Group's contributions in respect of local employees against their pension rights and other social benefits amounted to BD 2,150,000 (2005: BD 1,980,000). The provision for leaving indemnity in respect of expatriate employees amounted to BD 732,000 (2005: BD 605,000) and is included under accounts payables and accruals.

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 related party balances included in these consolidated financial statements are as follows:

	2006 BD'000	2005 BD'000
Liabilities		
Amounts due to telecommunication operators	1,016	225
Others	217	2,012

ii) During the year, the Group had the following transactions with related parties at terms agreed by the Board of the Directors.

	2006 BD'000	2005 BD'000
Income		
Revenue from telecommunications services	285	215
Expenses		
Payments for telecommunications services	1,319	1,094
Others	606	890

iii) Key management personnel compensation

	2006 BD'000	2005 BD'000
Short-term employee benefits	844	798
Post-employment benefits	170	391
Total key management personnel compensation paid	**1,014**	1,189
Directors' remuneration	275	159

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

	2006	2005
Total number of shares held by Directors	2,549,912	2,429,529
As a percentage of the total number of shares issued	0.21%	0.24%

25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Financial instruments

Financial instruments of the Group include cash and cash equivalents, accounts receivable and investments. Financial liabilities of the Group include accounts payable and bank loans.

b. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's financial assets, which include accounts receivable from local customers and international telecommunication operators, investments, cash and cash equivalents, do not represent a significant concentration of credit risk.

Accounts receivable are widely spread among customer segmentation and geographical areas. Strict credit control is maintained as both credit period and credit limits are continuously monitored. Further, an adequate level of provision for doubtful receivables is maintained. The Group manages credit risk on its investments by ensuring that investments are made only after careful credit evaluation of the issuer. The fixed deposits are placed with commercial banks after careful credit evaluation of those banks.

c. 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. In addition, the Group 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 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 in short-term fixed deposit accounts.

d. 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. The Group's exposure to interest rate risk is limited due to the short-term nature of these balances. The average interest rate yield from short-term bank fixed deposits during 2006 was 4.61% (2005: 3.30%). The Group also bears 75% of the interest on Bahraini staff housing loans. The total loans should not exceed BD 10 million at any time and the agreed interest rate applicable is 1 year-BIBOR plus 1% on the loan balance. The BIBOR rate for the whole year is fixed on the first working day in January every year. The agreed interest rate for 2006 was 6% and that for 2005 was 4.22%.

e. Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk that an enterprise will encounter difficulty in raising funds to meet commitments. 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 liquidity requirements. A subsidiary of the Company has borrowed funds from the banks to meet its liquidity requirements in the normal course of business.

f. Fair values

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. Available for sale - investments are recorded at fair values. The fair values of other financial instruments are not materially different from their carrying amounts.

26. SEGMENT INFORMATION

Geographic segments

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

BD'000	Year ended 31 December 2006			Year ended 31 December 2005		
	Bahrain	**Other MENA countries**	**Total**	Bahrain	Other MENA countries	Total
SEGMENT REVENUE AND NET PROFIT						
Revenue	194,872	40,118	**234,990**	193,376	18,240	211,616
Other income	5,922	(45)	**5,877**	8,663	908	9,571
Net profit	87,478	3,357	**90,835**	84,778	2,138	86,916
SEGMENT CAPITAL EXPENDITURE	33,721	21,149	**54,870**	22,677	8,219	30,896
SEGMENT ASSETS AND LIABILITIES						
Non current assets	175,651	211,776	**387,427**	175,613	10,650	186,263
Current assets	71,183	22,574	**93,757**	186,736	14,085	200,821
Total assets	**246,834**	**234,350**	**481,184**	362,349	24,735	387,084
Current liabilities	50,991	34,913	**85,904**	44,050	12,197	56,247
Non-current liabilities	-	24,116	**24,116**	-	-	-
Total liabilities	**50,991**	**59,029**	**110,020**	44,050	12,197	56,247

27. SUMMARISED FINANCIAL STATEMENTS OF THE PARENT COMPANY, BAHRAIN TELECOMMUNICATIONS COMPANY BSC

BALANCE SHEET

	2006 BD'000	2005 BD'000
Property, plant and equipment	146,992	140,327
Investments in subsidiaries, at cost	165,362	8,503
Other investments	27,668	34,687
TOTAL NON-CURRENT ASSETS	**340,022**	**183,517**
Inventories	646	859
Accounts receivable and prepayments	32,316	29,826
Amounts due from telecommunications operators	3,731	3,025
Cash and cash equivalents	39,378	155,449
Total current assets	**76,071**	**189,159**
Accounts payable and accruals	46,237	38,659
Amounts due to telecommunications operators	4,073	4,847
Total current liabilities	**50,310**	**43,506**
NET CURRENT ASSETS	**25,761**	**145,653**
NET ASSETS	**365,783**	**329,170**
EQUITY		
Share capital	120,000	100,000
Statutory reserve	59,638	51,131
General reserve	15,000	15,000
Retained earnings	171,145	163,039
TOTAL EQUITY	**365,783**	**329,170**

INCOME STATEMENT

	2006 BD'000	2005 BD'000
Revenue	192,909	192,263
Other income	6,089	8,664
	198,998	**200,927**
Expenses		
General and administrative expenses	77,954	78,456
Other operating expenses	33,399	37,871
	111,353	**116,327**
Profit for the year	**87,645**	**84,600**

28. CONTINGENT LIABILITIES

Letters of credit and guarantees

As at 31 December 2006, the Group's banks have issued guarantees amounting to BD 653,000 (2005: BD 17,000) and letters of credit amounting to BD 107,000 (2005: BD NIL).

29. COMPARATIVES

The comparative figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications do not affect the previously reported net profit, net assets or equity. Certain figures have been restated as a result of the prior period adjustment stated in note 21.

DETAILS OF PROPERTIES

DESCRIPTION	USE	OWNED / RENTED
Hamala Headquarter	Offices	Owned
Diplomat Building	Offices & Telecoms	Owned
Telephone House	Offices & Telecoms	Owned
Telegraph House	Offices & Telecoms	Owned
Batelco Commercial Centre	Offices & Exchange	Owned
Isa Town Old College	Offices	Owned
Earth Station	Satellite Station	Owned
Hamala Transmitters	Transmission Station	Owned
Abul Land Car Park	Car Park	Owned
Eid Mosque Car Parks	Car Park	Rented
Golden Tulip Car Parks	Car Park	Rented
3 sales sites	Customer Service Center & Offices	Owned
16 sales sites	Customer Service Center	Rented
36 different sites used for GSM Base stations and exchanges	GSM & Fixed Telephony Network	Owned
69 different sites used for locating Remote Line Unit (RLUs)	GSM & Fixed Telephony Network	Rented