CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2007

/35. Independent Auditors' Report /36. Consolidated Balance Sheet
/37. Consolidated Income Statement /38. Consolidated Statement of Cash Flows /39. Consolidated Statement of Changes in Equity /41. Notes to the Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

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

30 January 2008

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 2007, 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 33,408,000 (2006: BD 24,706,000) and total revenues of BD 86,159,000 (2006: BD 39,255,000) for the year ended 31 December 2007. The financial statements of these subsidiaries 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 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

KPMG

CONSOLIDATED BALANCE SHEET
as at 31 December 2007

ASSETS	Note	BD'000 2007	2006
Non-current assets			
Property, plant and equipment	6	214,636	203,038
Goodwill	7	124,380	124,380
Intangible assets	8	33,758	32,181
Investment in associate	9	62,446	-
Other investments	10	22,255	27,074
Total non-current assets		**457,475**	**386,673**
Current assets			
Inventories		4,474	1,213
Other investments	10	4,524	754
Trade and other receivables	12	49,468	42,775
Amounts due from telecommunications operators	13	4,926	3,527
Cash and cash equivalents		213,657	45,756
Total current assets		**277,049**	**94,025**
Total assets		**734,524**	**480,698**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the parent company			
Share capital	18	120,000	120,000
Statutory reserve	19	68,434	60,000
General reserve	19	15,000	15,000
Foreign currency translation		558	113
Fair value reserve	10	1,595	-
Retained earnings		200,942	167,563
		406,529	**362,676**
Minority interest		**10,277**	**8,488**
Total equity (Page 39)		**416,806**	**371,164**
Non-current liabilities			
Trade and other payables	14	10,177	10,741
Non current portion of borrowings	16	113,709	6,342
Deferred tax liabilities	17	6,456	7,033
Total non current liabilities		**130,342**	**24,116**
Current liabilities			
Trade and other payables	14	104,533	78,143
Amounts due to telecommunications operators		4,073	3,616
Current tax liabilities		1,350	-
Current portion of borrowings	16	77,420	3,659
Total current liabilities		**187,376**	**85,418**
Total liabilities		**317,718**	**109,534**
Total equity and liabilities		**734,524**	**480,698**

The consolidated financial statements, which consist of pages 36 to 66 were approved by the Board of Directors on 30 January 2008 and signed on its behalf by:

Sh. Hamad bin Abdulla Al Khalifa
Chairman

Sh. Mohamed bin Isa Al Khalifa
Deputy Chairman

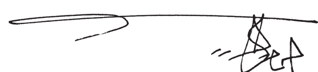
The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	Note	BD'000	
		2007	2006
Revenue	21	293,079	234,445
Other income	22	10,815	2,837
		303,894	**237,282**
Network operating expense	23	(85,904)	(61,016)
Employee benefits expense		(45,439)	(34,917)
Depreciation and amortization		(37,875)	(29,922)
General and administrative expense	24	(29,837)	(24,177)
Results from operating activities		**104,839**	**87,250**
Finance income	25	5,038	4,030
Finance costs	25	(6,430)	(445)
Share of profit of associate (net of income tax)	9	1,911	-
Profit before income tax		**105,358**	**90,835**
Income tax expense		(1,259)	-
Profit for the year (Pages 39 and 40)		**104,099**	**90,835**
Attributable to:			
Equity shareholders of the parent company		101,493	89,335
Minority interest		2,606	1,500
		104,099	**90,835**
Earnings per share	26		
No. of issued shares in millions		1,200	1,200
Basic earnings per share for the year		84.6 Fils	74.4 Fils

The consolidated financial statements, which consist of pages 36 to 66 were approved by the Board of Directors on 30 January 2008 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 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2007

	BD'000	
	2007	2006
Operating activities		
Cash receipts from customers	275,911	231,897
Cash paid to suppliers	(76,390)	(59,413)
Cash paid to and on behalf of employees	(37,978)	(33,984)
Cash paid to telecommunications operators	(12,952)	(11,537)
Cash flows from operating activities	**148,591**	**126,963**
Investing activities		
Acquisition of plant and equipment	(42,772)	(39,526)
Consideration paid for acquisition of Umniah	-	(156,849)
Consideration paid for acquisition of Sabafon shares	(60,535)	-
Acquisition of other investments	-	(7,027)
Proceeds from sale and maturity of investments	2,639	13,372
Interest and investment income received	7,505	8,341
Cash flows from investing activities	**(93,163)**	**(181,689)**
Financing activities		
Dividend paid	(58,664)	(60,779)
Interest paid	(5,070)	-
Proceeds received from borrowings	184,446	-
Repayment of borrowings	(3,676)	-
Payments to charities	(4,563)	(1,485)
Cash flows from financing activities	**112,473**	**(62,264)**
Increase / (decrease) in cash and cash equivalents	**167,901**	**(116,990)**
Cash and cash equivalents at 1 January	45,756	162,746
Cash and cash equivalents at 31 December	**213,657**	**45,756**

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

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

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT.)

for the year ended 31 December 2007

2006	Total equity attributable to shareholders of the parent Company								
BD'000	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Fair value reserve on investments	Retained earnings	Total	Minority interest	Total equity
At 1 January 2006	100,000	51,746	15,000	66	-	157,514	324,326	6,511	330,837
Fair value changes	-	-	-	-	-	-	-	-	-
Foreign currency translation differences for foreign operations	-	-	-	47	-	-	47	64	111
Total recognised income and expense directly in equity	-	-	-	47	-	-	47	64	111
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 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	-	-	-	-	-	-	-	1,353	1,353
At 31 December 2006	**120,000**	**60,000**	**15,000**	**113**	**-**	**167,563**	**362,676**	**8,488**	**371,164**

The accompanying notes 1 to 32 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 2007 comprise the financial statements of the Company, and its subsidiaries and its associate (collectively "the Group"). The registered office of the Company is PO Box 14, in Manama, Kingdom of Bahrain.

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

Company	Country of incorporation	Shareholding percentage
Subsidiaries		
Batelco Middle East Company SPC	Kingdom of Bahrain	100%
Arabian Network Information Services WLL	Kingdom of Bahrain	100%
Umniah Mobile Company PSC	Kingdom of Jordan	96%
Batelco Jordan PSC	Kingdom of Jordan	80%
Batelco Egypt Communications (S.A.E.)	Arab Republic of Egypt	100%
Qualitynet General Trading and Contracting Company WLL	State of Kuwait	44%
Associate		
Yemen Company for Mobile Telephony Y.S.C (effective 21 April 2007, refer to note 9)	Republic of Yemen	20%

2. Basis of preparation

a. Statement of compliance

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

b. Use of estimates and judgments

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

- Note 3 (e) (iii) – Estimates of useful lives;
- Note 3 (j) – Valuation of investments;
- Note 3 (o) – Provisions;
- Note 3 (p) – Impairment;
- Note 3 (t) and note 17– utilization of tax losses; and
- Note 7 – measurement of the recoverable amounts of cash-generating units.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by the Group's entities. The Company has adopted applicable accounting standards during the year namely, IAS 1 Presentation of Financial Statements (amended), IFRS 7 Financial Instruments: Disclosures, IAS 28 Investments in Associates and IFRIC 10 Interim Financial Reporting and Impairment, in the preparation and presentation of these financial statements.

3. Significant accounting policies (continued)

a. 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.

b. 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.

c. Investments in associates

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

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

d. Foreign currency translation

i) Functional and presentation currency

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

ii) Foreign currency transactions

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

iii) Financial statements of foreign operations

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

3. Significant accounting policies (continued)

e. Property, plant and equipment

i) Recognition and initial measurement

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

ii) Subsequent expenditure

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

iii) Depreciation

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

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

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

f. Leased assets

i) Finance leases:

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

ii) Operating leases

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

g. 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.

3. Significant accounting policies (continued)

g. Goodwill (continued)

ii) 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.

h. Intangible assets

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

i) Recognition and measurement

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

ii) Amortization

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

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

i. Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the consolidated income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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.

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 as 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.

3. Significant accounting policies (continued)

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. In the event of sale, disposal, or impairment, the cumulative gains and losses recognised in equity are transferred to the income statement.

c. The fair value of HTM and AFS investments is their quoted bid price at the balance sheet date. AFS investments where there is no quoted market price or other appropriate methods from which to derive reliable fair values, are carried at cost less impairment.

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. Trade and other receivables

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

m. Cash and cash equivalents

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

n. 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.

o. Provisions

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

3. Significant accounting policies (continued)

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

ii) Non-financial assets

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

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

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

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

q. 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 are considered as a defined contribution scheme. The employees and employers contribute monthly to the scheme on a fixed-percentage-of-salaries basis.

3. Significant accounting policies (continued)

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.

r. Interest bearing borrowings

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

s. 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 consolidated income statement, using the effective interest method.

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

t. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be 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.

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.

3. Significant accounting policies (continued)

u. Revenue

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

v. 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.

w. 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 21 and 30 respectively.

4. Financial instruments and risk management

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

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

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

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

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

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.

4. Financial instruments and risk management (continued)

a. Credit risk

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

Trade and other receivables

The Group's trade and other 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 and other 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 provision for bad and doubtful receivables (refer to note 12).

Investments

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

Exposure to credit risk

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

	BD'000	
	2007	2006
Available-for-sale investments	26,779	2,894
Held-to-maturity investments	-	24,934
Trade and other receivables	49,468	42,775
Amounts due from telecommunications operators	4,926	3,527
Cash and cash equivalents	213,657	45,756
	294,830	**119,886**

Trade receivables

The maximum exposure to credit risk at 31 December 2007 classified by geographical region sharing common economic characteristics with respect to credit risk is as follows:

	BD'000	
Geographical segment	**2007**	2006
Bahrain	30,142	26,417
MENA	19,326	16,358
	49,468	**42,775**

4. Financial instruments and risk management (continued)

Amounts due from telecommunications operators

The maximum exposure to credit risk for amount due from telecommunications operators at 31 December 2007 by type of customer was:

Customer segment	BD'000 2007	2006
International operators	1,437	2,654
Local operators	3,489	873
	4,926	3,527

b. Liquidity risk

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

Non derivative financial liabilities at 31 December 2007 BD'000	Carrying amount	Contractual cash flows	Within one year	1-2 years	2-5 years
Finance lease liabilities	302	302	113	189	-
Unsecured bank facilities	190,827	190,827	77,307	74,089	39,431
Trade and other payables	116,060	116,060	105,883	10,177	-
Amount due to telecommunications operators	4,073	4,073	4,073	-	-
	311,262	**311,262**	**187,376**	**84,455**	**39,431**

Non derivative financial liabilities at 31 December 2006 BD'000	Carrying amount	Contractual cash flows	Within one year	1-2 years	2-5 years
Unsecured bank facilities	10,001	10,001	3,659	4,169	2,173
Trade and other payables	88,884	88,884	78,143	564	10,177
Amount due to telecommunications operators	3,616	3,616	3,616	-	-
	102,501	**102,501**	**85,418**	**4,733**	**12,350**

4. Financial instruments and risk management (continued)

c. Market risk

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

Currency risk

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

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

The Group seeks to manage currency risk by continually monitoring exchange rates and by maintaining an adequate level of foreign currencies to cover its expected commitment to international telecommunication operators and repayment of loan. These amounts are placed in short-term fixed deposit accounts. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. The Group's investment in its subsidiaries is not hedged as those currency positions are considered to be long-term in nature. The Bahraini Dinar and Jordanian Dinar are pegged to the US Dollar, thus currency risks occur only in respect of other currencies. As the net exposure to other currencies is insignificant the Group believes that foreign currency risk 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 following are the significant foreign currency denominated net exposures as of 31 December:

	BD'000	
	2007	2006
US Dollars	(153,165)	28,420
Jordanian Dinars	(16,974)	(10,413)
Kuwaiti Dinars	299	(2,100)
Special Drawings Rights (SDR)	(789)	(1,944)

4. Financial instruments and risk management (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk on its fixed deposits and its borrowings. Under the Group's interest rate management policy, interest rates on monetary assets and liabilities denominated in Bahraini Dinars, Jordanian Dinars, and Kuwaiti Dinars are maintained on a floating rate basis. Where assets and liabilities are denominated in other currencies, interest rates may also be fixed. In addition, fixing is undertaken for longer periods when interest rates are statistically low.

The average interest rate yield from short-term bank deposits during 2007 was 5.28 % (2006: 4.61%). The weighted average effective interest rate at balance sheet date for the Group's borrowings for 2007 was 5.52 % (2006: 7%).

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 2007 was 6.49% and that for 2006 was 6%.

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

	BD'000	
	2007	2006
Fixed rate instruments		
Financial assets	446	446
Variable rate instruments		
Financial assets	23,444	24,488
Financial liabilities	191,129	10,001

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and income statement by BD 1,025 (2006: BD 27). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

Other market price risk

The primary goal of the Group's investment strategy is to ensure risk free returns and invest excess 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. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Company's Board of Directors.

Other price risk

Other investments include AFS investments. These investments carried at cost are exposed to risk of changes in market values. Refer to note 3 (j) (iii) for accounting policies on valuation of AFS investments and note 3 (p) (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 a quarterly basis and is reported to the Board of Directors.

4. Financial instruments and risk management (continued)

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 shareholders' equity and the level of dividends to shareholders. The Group's objectives for managing capital are:

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

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

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

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

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

* Annual periods commencing on or after 1 January 2009

** Annual periods commencing on or after 1 July 2008

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

6. Property, plant and equipment

BD'000	Freehold land	Buildings	Plant and equipment	Motor vehicles, furniture fittings & office equipment	Projects in progress	Total 2007	Total 2006
Cost							
At 1 January	18,944	52,240	327,962	54,617	31,402	**485,165**	422,293
Additions on business combination	-	-	-	-	-	**-**	27,977
Additions	720	7	15,723	1,195	24,997	**42,642**	54,870
Projects completed	-	249	25,822	4,490	(30,561)	**-**	-
Disposals	-	(348)	(3,137)	(2,799)	(39)	**(6,323)**	(19,975)
At 31 December	19,664	52,148	366,370	57,503	25,799	**521,484**	485,165
Depreciation							
At 1 January	-	42,769	195,165	44,193	-	**282,127**	271,069
Charge for the year	-	984	28,802	4,571	-	**34,357**	28,804
Reversal of impairment loss	-	-	(3,637)	-	-	**(3,637)**	-
Disposals	-	(326)	(2,925)	(2,748)	-	**(5,999)**	(17,746)
At 31 December	-	43,427	217,405	46,016	-	**306,848**	282,127
Net book value							
At 31 December 2007	**19,664**	**8,721**	**148,965**	**11,487**	**25,799**	**214,636**	**203,038**
At 31 December 2006	18,944	9,471	132,797	10,424	31,402	203,038	

The Group reassessed the impairment loss of BD 3,637 recognised in the year 2005 for its access network. Based on this reassessment, the Group has reversed the previously recorded impairment loss amounting to BD 3,637 during the year. The reversal of impairment loss is included in the other income for the period and has been adjusted in the net book value of property, plant and equipment.

7. Goodwill

Cost	**BD'000 2007**	2006
At 1 January	124,380	-
Add: Acquisitions through business combination (Note 11)	-	124,380
At 31 December	**124,380**	**124,380**

a. 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 2007 (2006: Nil).

7. Goodwill (continued)

b. The above estimates were tested by the Group for sensitivity in the following areas:
- An increase of 1 percentage point in the discount rate used;
- A 10 % decrease in future planned revenues;
- A 5% increase in operating cost and corresponding decrease in EBITDA margins; and
- A decrease in capex to sales ratio forecasts.

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

8. Intangible assets

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

	BD'000	
	2007	2006
Cost		
At 1 January	36,889	3,590
Additions during the year	5,095	-
Add: Acquisitions through business combinations (Note 11)	-	33,299
At 31 December	**41,984**	**36,889**
Amortisation		
At 1 January	4,708	3,590
Charge for the year	3,518	1,118
At 31 December	**8,226**	**4,708**
Net book value at 31 December	**33,758**	**32,181**

9. Investment in associate

On 21 April 2007, the Company acquired a 20% equity stake in Yemen Company For Mobile Telephony Y.S.C ("Sabafon"), for a consideration of US$ 158 million (BD 59.57 million). Details of the acquisition and the accounting for the associate's share of profits are as follows:

	BD'000
	2007
Consideration	59,566
Expenses related to the acquisition	969
Cost of acquisition	**60,535**
Share of post acquisition profit (net of income tax) based on un-audited financial statements as at and for the year ended 31 December 2007.	1,911
Carrying value of investment	**62,446**

The summarized financial information of Sabafon, based on un-audited financial statements as at and for the year ended 31 December 2007 is as follows:

	BD'000
	2007
Assets	154,076
Liabilities	44,513
Post acquisition revenue	41,907
Post acquisition profit	9,555

10. Other investments

	BD'000	
	2007	2006
Non current investments		
Held-to-maturity		
Debt securities	-	24,180
Available-for-sale		
Debt securities	19,366	-
Equity securities	2,889	2,894
	22,255	**27,074**
Current investments		
Held-to-maturity		
Debt securities	-	754
Available-for-sale		
Debt securities	4,524	-
	26,779	**27,828**

During the year, the Group sold certain Held to Maturity ("HTM") investments prior to its maturity date. In accordance with IAS 39-Financial Instruments: Recognition and Measurement, the Group has reclassified its HTM investments as available-for-sale investments ("AFS") and has created a fair value reserve of BD 1.595 million in the Consolidated Statement of Changes in Equity as at 31 December 2007. Interest-bearing available-for-sale financial assets, with a carrying amount of BD 4.524 million (2006: BD 0.754 million), mature within one year.

11. Acquisition of Umniah Mobile Company PSC

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 in the consolidated financial statements for the year ended 31 December 2006.

12. Trade and other receivables

	BD'000	
	2007	2006
Gross customers' accounts	46,660	42,017
Less: Impairment allowances	(11,753)	(11,603)
Customers' accounts, net	**34,907**	**30,414**
Unbilled revenue	5,312	3,627
Prepaid expenses and other receivables	9,249	8,734
	49,468	**42,775**

12. Trade and other receivables (continued)

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

	BD'000	
	2007	2006
At 1 January	11,603	9,734
Charge for the year, net	2,113	3,283
Written off during the year	(1,963)	(1,414)
At 31 December	**11,753**	**11,603**

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

	2007		2006	
BD'000	**Past due but not impaired**	**Impaired**	Past due but not impaired	Impaired
Past due 0-90 days	5,336	273	4,587	-
Past due 91-180 days	2,075	902	2,786	209
Past due more than 180 days	5,851	10,578	5,209	11,394
	13,262	**11,753**	**12,582**	**11,603**

13. Amounts due from telecommunications operators

	BD'000	
	2007	2006
Amounts due	6,428	4,546
Less: Impairment allowances	(1,502)	(1,019)
	4,926	**3,527**

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

	BD'000	
	2007	2006
At 1 January	1,019	322
Charge for the year, net	549	697
Written off during the year	(66)	-
At 31 December	**1,502**	**1,019**

13. Amounts due from telecommunications operators (continued)

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

BD'000	**2007**		2006	
	Past due but not impaired	**Impaired**	Past due but not impaired	Impaired
Past due 0-180 days	448	101	754	-
Past due over 181 days	-	1,401	16	1,019
	448	**1,502**	**770**	**1,019**

14. Trade and other payables

	BD'000	
Current	**2007**	2006
Trade accounts payable	24,004	14,475
Other provisions and accrued expenses (note 15)	54,960	38,246
Customer deposits and billings in advance	25,569	25,205
Due to related parties	-	217
	104,533	**78,143**
Non current		
Trade accounts payable	10,177	10,741
	114,710	**88,884**

15. Provisions

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

	Provision for employee redeployment benefits		**Provision for donations and others**	
BD'000	**2007**	2006	**2007**	2006
At 1 January	1,000	1,859	5,082	4,731
Amounts provided during the year	3,221	1,000	1,750	1,757
Amounts paid during the year	(678)	(1,859)	(4,563)	(1,406)
At 31 December	**3,543**	**1,000**	**2,269**	**5,082**

16. Borrowings

At 31 December 2007, Group's borrowings amount to BD 191.1 million (31 December 2006: BD 10.0 million). These borrowings are unsecured and are as follows:

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

16. Borrowings (continued)

b. Umniah has availed bank loans in Jordanian Dinars from banks in Kingdom of Jordan to fund its working capital requirements. The borrowings have been granted against guarantees given to the banks by Umniah.

Borrowings availed of by the Group are interest-bearing and are measured at amortized cost.

	BD'000	
	2007	2006
Non-current liabilities	113,709	6,342
Current liabilities	77,420	3,659
	191,129	**10,001**

The average effective interest rate is approximately 5.52% per annum (31 December 2006: 7%). The outstanding loans were as follows:

	2007		2006	
BD'000	**Face value**	**Carrying amount**	Face value	Carrying amount
Unsecured bank borrowings in:				
Jordanian Dinars	8,284	8,284	10,001	10,001
US Dollars	182,845	182,845	-	-
	191,129	**191,129**	**10,001**	**10,001**

17. Deferred income tax asset and liability

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

	2007		2006	
BD'000	**Assets**	**Liabilities**	Assets	Liabilities
Intangible assets	-	6,456	-	7,033
Tax loss carry-forwards	104	-	595	-
Total	**104**	**6,456**	**595**	**7,033**

18. Share capital

	BD'000	
	2007	2006
Authorised: 2,000 (2006: 2,000) million shares of 100 fils each	200,000	200,000
Issued and fully paid: 1,200 (2006: 1,200) million shares of 100 fils each	**120,000**	**120,000**

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**	**No of shares (in thousands)**	**Holding Percentage**
Bahrain Mumtalakat Holding Company BSC (c)	Bahrain	440,000	37
Amber Holdings Limited	Cayman Islands	240,000	20
General Organisation for Social Insurance	Bahrain	122,926	10
Pension Fund Commission (Civil)	Bahrain	60,805	5

18. Share capital (continued)

c. Distribution schedule of equity shares:

Categories	No of shares (in thousands)	No. of shareholders	% of total Outstanding shares
Less than 1%	195,406	7,909	16
1% up to less than 5%	140,863	5	12
5% up to less than 10%	60,805	1	5
10% up to less than 20%	122,926	1	10
20% up to less than 50%	680,000	2	57
	1,200,000	**7,918**	**100**

19. 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 for the year (2006: Nil).

20. Proposed appropriations

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

	BD'000	
	2007	2006
Final dividends proposed	24,000	33,600
Interim dividends paid	24,000	24,000
Donations	2,537	1,750
Directors' remuneration	385	330
Transfer to statutory reserve	4,108	8,254
Bonus shares in the ratio of one bonus share for every five shares held of the paid-up capital by capitalising reserves	24,000	-

21. Revenue

	BD'000	
	2007	2006
Mobile telecommunications services	149,118	108,072
Fixed line telecommunication services	39,202	41,997
Internet	36,910	33,589
Data communication circuits	34,147	29,297
Wholesale	31,663	19,551
Other	2,039	1,939
	293,079	**234,445**

Geographical segments are set out in Note 30.

22. Other income

	BD'000	
	2007	2006
Reversal of previously recognised impairment loss (note 6)	3,637	-
Recovery of impaired deposit	1,043	-
Settlement received against disputed traffic	2,262	-
Net loss on disposal of equipment	(80)	(849)
Others	3,953	3,686
	10,815	**2,837**

23. Network operating expenses

	BD'000	
	2007	2006
Outpayments to telecommunications operators	38,679	29,511
Telecom facility operating lease rentals	15,254	12,859
Cost of sales of equipment	19,648	10,844
Repair and maintenance	5,937	4,509
Licence fee	6,386	3,293
	85,904	**61,016**

24. General and administrative

	BD'000	
	2007	2006
Marketing, advertising and publicity	11,784	9,207
Other expenses	15,940	11,687
Impairment allowances	2,113	3,283
	29,837	**24,177**

25. Finance income and finance costs

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

	BD'000	
	2007	2006
Finance income recognised		
Interest income on bank deposits	5,038	4,030
Finance costs recognised		
Interest expense on financial liabilities measured at amortised cost	(6,430)	(445)
Net finance (costs) / income	**(1,392)**	**3,585**

26. Earnings per share ("EPS")

	2007	2006
Profit for the year attributable to shareholders (BD'000)	101,493	89,335
Weighted average number of shares outstanding during the year (thousand)	1,200,000	1,200,000
Basic earnings per share (fils)	84.6	74.4

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

27. Commitments and contingencies

a. The Group has signed a Memorandum of Understanding ("MOU") with Atheeb Trading Company ("Atheeb") forming a consortium and bid for a License as a Facilities Based Provider for Fixed Services in the Kingdom of Saudi Arabia. As per the terms of the MOU, the Group has issued counter guarantees in favour of Atheeb for SR 122 million (BD 12.24 million) towards its share of the Spectrum Fee and Project Upfront License Fee, in the consortium.

b. Operating leases
The Group enters in to cancellable operating lease agreements in the normal course of business, which are principally in respect of buildings and equipment. These lease agreements are cancellable with one to three months notice.

c. Foreign currency facilities
The Group currently has foreign currency facilities from commercial banks totalling approximately BD 3.77 million (2006: BD 5 million). At 31 December 2007, the Group has utilised BD Nil (2006: BD Nil) of the foreign currency facilities.

d. 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% (2006: 75%) of the loan interest. At 31 December 2007, the Group has guaranteed BD 5.4 million towards housing loans to staff (2006: BD 5.2million).

e. As at 31 December 2007, the Group's banks have issued guarantees, amounting to BD 3.32 million (31 December 2006: BD 0.65 million) and letters of credit amounting to BD Nil (31 December 2006: BD 0.11 million).

f. The Group has capital commitments at 31 December 2007 amounting to BD 12.46 million (31 December 2006: BD 15.08 million).

28. Employee benefits

The Group employed 2,579 employees as at 31 December 2007 (2006: 2,486). The Group's contributions in respect of local employees against their pension rights and other social benefits amounted to BD 3.000 million (2006: BD 2.387 million). The provision for leaving indemnity in respect of expatriate employees amounted to BD 0.94 million (2006: BD 0.73 million) and is included under accounts payables and accruals.

29. Transactions with related parties

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

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

	BD'000	
Liabilities	**2007**	2006
Amounts due to telecommunication operators	-	1,016
Others	-	217

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

	BD'000	
Income	**2007**	2006
Revenue from telecommunications operators	-	285
Expenses		
Payments for telecommunications operators	-	1,319
Others	-	606

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

	BD'000	
	2007	2006
Short-term employee benefits	1,145	844
Post-employment benefits	85	170
Total key management personnel compensation paid	**1,230**	**1,014**
Directors remuneration (including sitting fees)	353	298

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

	2007	2006
Total number of shares held by Directors	2,549,912	2,549,912
As a percentage of the total number of shares issued	0.21%	0.21%

30. Segment information

Geographic segments

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

	Year ended 31 December 2007			**Year ended 31 December 2006**		
BD'000	**Bahrain**	**Other MENA countries**	**Total**	**Bahrain**	**Other MENA countries**	**Total**
Segment revenue and profit						
Revenue	204,527	88,552	**293,079**	194,327	40,118	**234,445**
Other income	10,854	(39)	**10,815**	2,444	393	**2,837**
Profit	**90,579**	**13,520**	**104,099**	**87,477**	**3,358**	**90,835**
Capital expenditure	**23,828**	**18,814**	**42,642**	**33,721**	**21,149**	**54,870**
Segment assets and liabilities						
Non current assets	233,285	224,190	**457,475**	174,897	211,776	**386,673**
Current assets	241,001	36,048	**277,049**	71,451	22,574	**94,025**
Total assets	**474,286**	**260,238**	**734,524**	**246,348**	**234,350**	**480,698**
Current liabilities	127,313	60,063	**187,376**	50,505	34,913	**85,418**
Non-current liabilities	109,707	20,635	**130,342**	-	24,116	**24,116**
Total liabilities	**237,020**	**80,698**	**317,718**	**50,505**	**59,029**	**109,534**

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

Balance sheet

	BD'000	
	2007	2006
ASSETS		
Non-current assets		
Property, plant and equipment	148,009	146,992
Investments in subsidiaries, at cost less impairment allowances	165,362	165,362
Investment in associate, at cost less impairment allowances	60,535	-
Other investments	22,095	26,914
Total non-current assets	**396,001**	**339,268**
Current assets		
Inventories	898	646
Other investments	4,524	754
Trade and other receivables	34,284	32,316
Amounts due from telecommunications operators	5,466	3,246
Cash and cash equivalents	197,860	39,378
Total current assets	**243,032**	**76,340**
Total assets	**639,033**	**415,608**
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the parent company		
Share capital	120,000	120,000
Statutory reserve	67,892	59,638
General reserve	15,000	15,000
Fair value reserve	1,595	-
Retained earnings	198,247	171,145
Total equity	**402,734**	**365,783**
Non-current liabilities		
Non current portion of borrowings	109,707	-
Total non current liabilities	**109,707**	**-**
Current liabilities		
Trade and other payables	50,090	46,237
Amounts due to telecommunications operators	3,364	3,588
Current portion of borrowings	73,138	-
Total current liabilities	**126,592**	**49,825**
Total liabilities	**236,299**	**49,825**
Total equity and liabilities	**639,033**	**415,608**

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

Income statement

	BD'000	
	2007	2006
Revenue	206,298	192,090
Other income	13,056	2,837
	219,354	**194,927**
Network operating expense	(46,405)	(41,387)
Employee benefits expense	(35,254)	(28,266)
Depreciation and amortization	(27,258)	(23,055)
General and administrative	(15,287)	(18,647)
Results from operating activities	**95,150**	**83,572**
Finance income	5,602	4,073
Finance costs	(5,716)	-
Profit for the year	**95,036**	**87,645**

32. 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 profit, net assets or equity.

The Group acquired Umniah Mobile Company PSC ("Umniah"), which offers mobile phone services in the Kingdom of Jordan, with effect from 28 June 2006. On 21 April 2007, the Group acquired a 20% equity stake in Yemen Company For Mobile Telephony Y.S.C ("Sabafon"), for a consideration of US$ 158 million (BD 59.57 million).

These consolidated financial statements include the results of Umniah for the year ended 31 December 2007, and its related assets and liabilities as at 31 December 2007, as compared to results of Umniah consolidated effective 28 June 2006 in the previous year. These consolidated financial statements include share of profit from Sabafon for the period from 21 April 2007 to 31 December 2007, and share of net assets of Umniah as at 31 December 2007.

Hence, the comparative figures presented for the corresponding year ended 31 December 2006 are not strictly comparable with those of 31 December 2007.

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
2 different sites used as car parks	Car Park	Rented
2 sales sites	Customer Service Center & Offices	Owned
14 sales sites	Customer Service Center	Rented
47 different sites used for GSM Base stations and exchanges	GSM & Fixed Telephone Network	Owned
108 different sites used for locating Remote Line Unit (RLUs)	GSM & Fixed Telephony Network	Rented