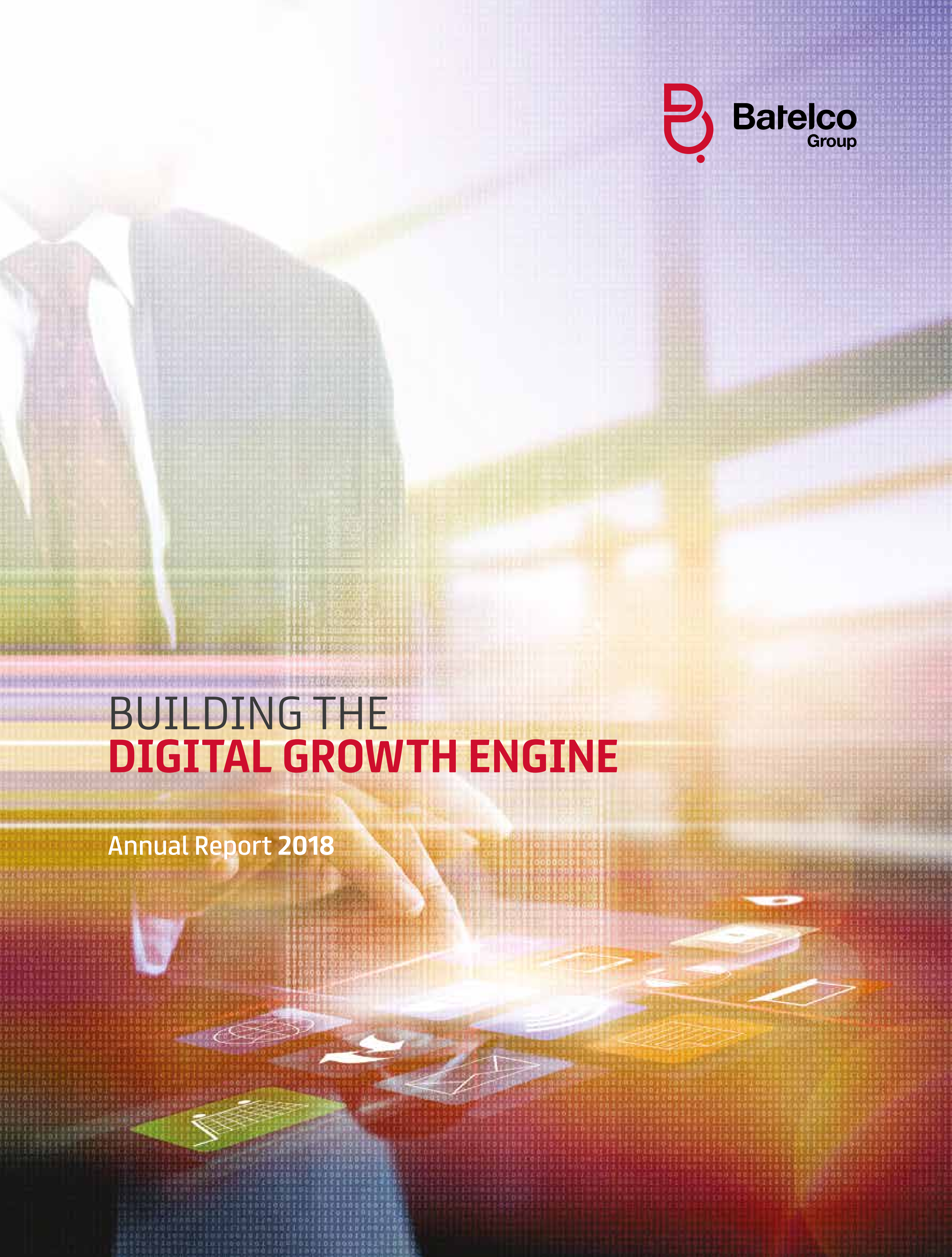

Batelco Group

BUILDING THE DIGITAL GROWTH ENGINE

Annual Report **2018**

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Scan the QR code to view 2018 report online

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His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

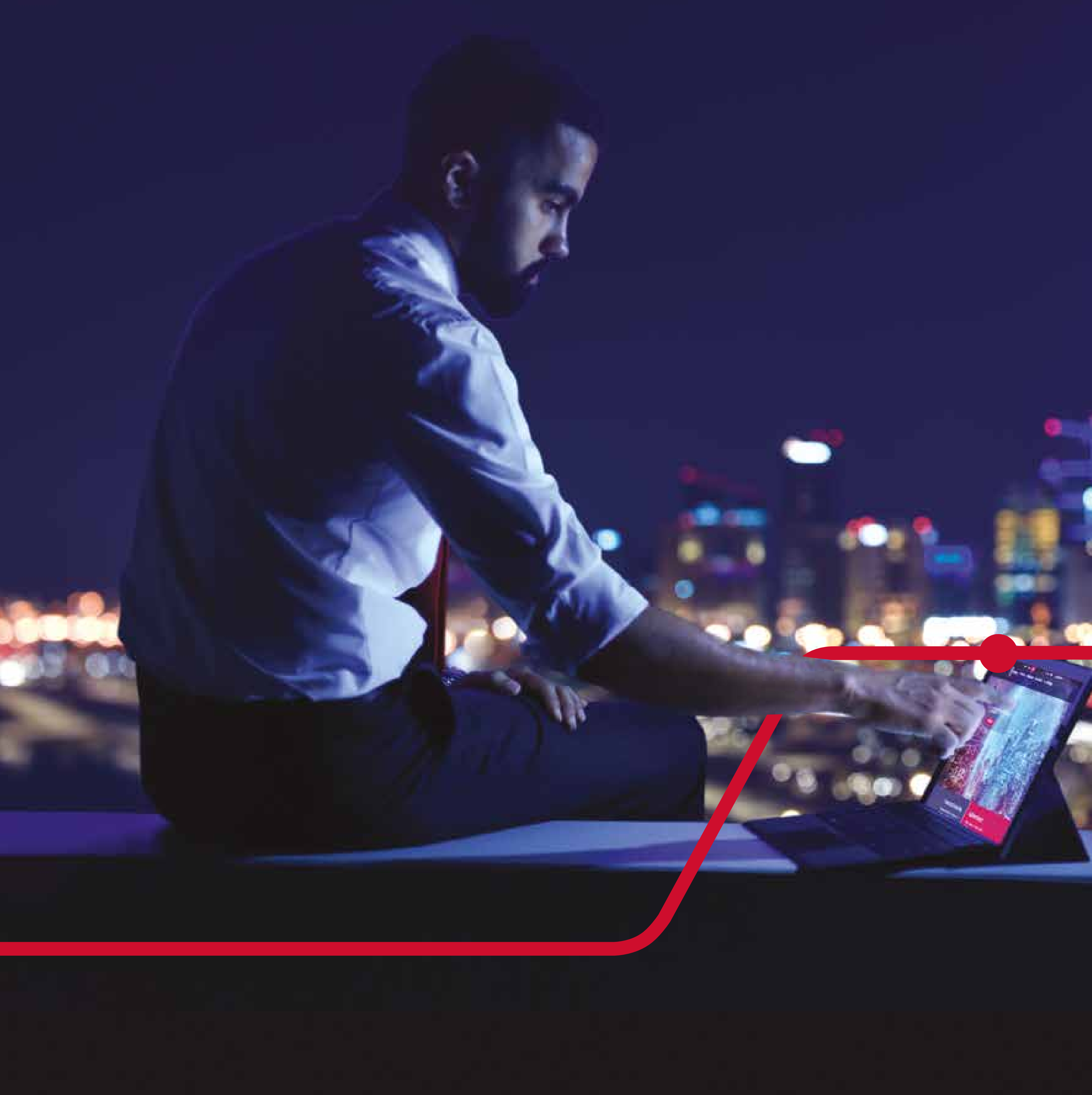
His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister of the Kingdom of Bahrain

Building the digital growth engine



Across the Batelco Group, there is a strong focus on the continuous evolution of digitisation and its dramatic impact on everyday life for businesses and consumers. We aspire to elevate our customers' communications standards, helping them to interact more effectively and perform a myriad of daily tasks that simplify and enhance their lifestyles.

Having access to fast and reliable connectivity is therefore crucial and in order to enable customers to manage their online activities, across all digital platforms, Batelco Group is making excellent progress in building the necessary digital infrastructure needed for today and for the future.

This is being achieved through investment and during 2018 we prioritised the advancement of our digital services. We are also supporting our efforts through investment in training. We understand that it is vital to invest in our people to ensure we have the relevant skills in place to address the changing landscape of the industry; accordingly, training programmes have been launched to upskill our employees' competencies in key areas, including the digital arena.

Our digitisation strategy is focussed on keeping us at the forefront of digital growth within the greater ecosystem of our key markets. We have established a powerful platform to build on in order to enhance our customers' experience, while sustaining long-term success for the Group and continuing to deliver strong value for our shareholders.

Vision, Mission & Values

Vision & Mission

Our vision

Batelco Group will be the leading integrator of digital solutions and services in its chosen markets.

Our mission

We deliver innovation and value to our customers in each market, through competitive solutions and people excellence.

Values

Everything we do is done with a focus on our six key values.

Annual Highlights

Batelco announced a 7% increase in gross revenues, reaching BD405.9M for the full year 2018, as compared to BD379.4 Million in 2017

BATELCO × New Tab ×

51%

of EBITDA generated from overseas operation

BATELCO ×

59%

of Revenues generated from overseas operation

The Group ended 2018 with strong fundamentals reporting consistent revenue growth and higher EBITDA throughout the year.

Financial Highlights

OPERATING PROFIT

BD72.7m

(2017: BD58.4m)

CONSOLIDATED NET PROFIT

BD50.1m

(2017: BD3.5m)

GROSS REVENUE

BD405.9m

2017: BD379.4m)

EBITDA

BD142.8m

(2017: BD124.7 m)

NET ASSETS

BD504.9m

(2017: BD502.5m)

CASH & BANK BALANCE

BD153.3m

(2017: BD158.7m)

EARNINGS PER SHARE

30.1 fils

(2017: 2.1 fils)

EBITDA MARGIN

35%

(2017: 33%)

Board of Directors

Shaikh Abdulla bin Khalifa Al Khalifa
Chairman

Mr. Abdulrahman Yusuf Fakhro
Deputy Chairman

Mr. Raed Abdulla Fakhri
Director

Mrs. Khulood Rashid Al Qattan
Director

Profiles of the Board of Directors are on pages 53-58 Corporate Governance.

Our Board remains focused on delivering better outcomes for our customers, our shareholders, our people and for Bahrain.

Mr. Arif Haider Rahimi
Director

Mr. Ahmed Ateyatalla Al Hujairy
Director

Mr. Oliver Finn McFall
Director

Mr. Jean Christophe Durand
Director

Rear Admiral Yousif Malallah AlSabt
Director

Shaikh Ali bin Khalifa Al Khalifa
Director

* Shaikh Mohamed bin Khalifa Al-Khalifa served as Chairman until 03 June 2018
* Dr. Ahmed Ebrahim Al Balooshi served as a Board Director until 03 June 2018

BUILDING BETTER CUSTOMER EXPERIENCE

34%

Growth for digital services across the Batelco Group.

CONNECTING CUSTOMERS TO INNOVATIVE SERVICES

We aspire to elevate our customers' communications standards, helping them to interact more effectively and perform a myriad of daily tasks that simplify and enhance their lifestyles.

Great network

Fiber-optics Communications

Broadband

Chairman's Statement

Digital Future ×

"We have the correct strategies in place, with particular attention given to building the digital infrastructures needed for our future success"

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

On behalf of the Board of Directors, it gives me great pleasure to present the 37th Annual Report of the Bahrain Telecommunications Company BSC and its subsidiaries and affiliates (The Batelco Group), for the year ended 31st December 2018.

The Group ended 2018 with strong fundamentals reporting consistent revenue growth and higher EBITDA throughout the year.

Batelco announced 7% increase in gross revenues, reaching BD405.9M (US$1,076.7M) for the full year 2018, compared to BD379.4M (US$1,006.4M) in 2017. Revenues have been positively bolstered by continued strong performance at Batelco Bahrain, Umniah in Jordan and Dhiraagu, the Group's operation in the Maldives. Furthermore, revenues were boosted by double digit year over year growth in fixed Broadband, up by 10%, Datacom up by 18%, and Digital services up by 34% across the Group's operations.

EBITDA for the year increased 15% over the corresponding period of 2017 from BD124.7M (US$330.8M) to BD142.8M (US$378.8M) with an EBITDA margin of 35%. The Group's operating expenses are down 2% year over year.

Operating profits have increased year over year by 25% from BD58.4M (US$154.9M) in 2017 to BD72.7M (US$192.8M) for 2018.

The Group ended the year with net profits attributable to equity holders of the company of BD50.1M (US$132.9M) up from BD3.5M (US$9.3M) for the corresponding period in 2017, an increase of 1,335%. The 2017 net profit was mainly impacted by impairment losses related to the Group's investments in Yemen and Jordan.

The Group's balance sheet continues to be strong with total assets of BD912.4M (US$2,420.2M) as of 31 December 2018 and net assets of BD504.9M (US$1,339.3M). The Group ended the year with substantial cash and bank balances of BD153.3M (US$406.6M) and a Net Debt to EBITDA ratio of 0.58, considerably lower than the regional and international industry average. Earnings per share for the full year in 2018 stood at 30.1 fils compared with 2.1 fils reported in 2017.

Proposed Appropriations

Based on the financial results, the Board of Directors has recommended for the approval of shareholders, the following appropriations for the year 2018.

BD millions	2018	2017
Final cash dividends proposed	29.11	24.95
Interim cash dividends paid	16.63	16.63
Donations at 2.5%	1.25	0.09
Transfer to statutory reserve	2.67	Nil

The Board of Directors has recommended a full year cash dividend of BD45.7M (US$121.2M), at a value of 27.5 fils per share to be agreed at the Group's Annual General Meeting, of which 10 fils per share was already paid during the third quarter of 2018 with the remaining 17.5 fils to be paid following the AGM in March 2019. Batelco is committed to delivering greater returns for its shareholders with its efforts leading to improved dividends.

Group Net profit

BD 50.1m

The Group ended the year with an increase of profit by 1,335% over last year.

Gross revenues

7%

Batelco announced a 7% increase in Gross Revenues

Chairman's Statement
(Continued)

The Board of Directors is very pleased with Batelco's strong financial and operational performance for the year. The results reflect the effectiveness of the Group's overall strategic initiatives and we are delighted to witness the strong year-on-year growth in digital, Datacom and fixed broadband services across the Group.

We have established a powerful platform to build on in order to sustain long-term success for the Group and continue to deliver strong value for our shareholders.

Auditors

The Board of Directors will recommend the re-appointment of KPMG Fakhro as Batelco's auditors for the financial year ending 31st December 2019.

Appreciation for Support

Batelco is fortunate to benefit from the unwavering support of the Kingdom's leadership and their commitment to the evolution of the communications sector is invaluable. Accordingly, on behalf of Batelco Board of Directors and all members of Batelco's teams, I extend appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier.

I extend appreciation to my predecessor Shaikh Mohamed bin Khalifa Al Khalifa, who served as Chairman until June 2018, for his contribution in supporting the implementation of the Group's plans.

I am very grateful to my colleagues on the Board, executive management and all employees across the Group's operations for the roles they have played in turning Batelco around and increasing shareholders return significantly.

Reaching out to the Community

In addition to its role as a major investor in world-class solutions and superior customer experience across its operations, Batelco continues to play a very important role in the communities in which it operates.

Corporate Social Responsibility has always been an integral part of Batelco's remit and we have renewed our commitment to reaching out to the communities around us, with a sharp focus on supporting initiatives in the Kingdom of Bahrain. Batelco's CSR activities are in line with the company's eagerness to strengthen its community partnership as part of its national duty.

Powerfull Platform ×

We have established a powerful platform to build on in order to sustain long-term success for the Group and continue to deliver strong value for our shareholders.

Looking Forward with Confidence

Boosted by this strong set of financial and operational results we have a sound platform to work from as we begin a new year for Batelco and its subsidiaries.

We believe we have the correct strategies in place, with particular attention given to building the digital infrastructures needed for our future success while maintaining a relentless focus on the experience of our customers.

We understand that it is also vital to invest in our people to ensure we have the relevant skills in place to address the changing landscape of the industry; accordingly, training programmes have been launched to upskill our employees' competencies in key areas including the digital arena.

Furthermore, we have confidence that the successful execution of our evolved strategy will serve the long-term interests of our stakeholders and drive sustainable growth in value for our shareholders.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

February 21st 2019

MAKING CONNECTING EASIER

10%

Fixed Broadband Growth year over year across our markets of operation.

DELIVERING THE NETWORK YOU NEED BEFORE YOU KNOW YOU NEED IT

Access to reliable connectivity is fundamental and helps people to build the knowledge crucial to the future of their communities. Making it easier to get online also helps businesses to spread prosperity where it is most needed.

Greater Connectivity

Business Mobility

Cyber Security

Group CEO Message

Diversified Revenues ×

"We diversified our revenue sources to address the relentless impact of competition in our markets, particularly focusing on the acceleration of fibre implementation and data penetration."

Ihab Hinnawi
Group Chief Executive

Digital Services

34%

In line with our digitisation initiatives, we continued to grow and evolve our adjacent services, with our efforts leading to 34% growth for digital services across the Group.

Gross Revenues

59%

59% of Revenues and 51% of EBITDA were attributable to operations outside of Bahrain

2018 was a turnaround year for the Batelco Group supported by the ongoing rollout of our transformation strategy and key investments in targeted services, leading to a significant increase in shareholder return.

We diversified our revenue sources to address the relentless impact of competition in our markets, particularly focusing on the acceleration of fibre implementation and data penetration, and we are pleased to report that Fixed Broadband is up by 10% and Datacom services are up by 18% across our markets of operation.

During 2018, in line with our digitisation initiatives, we prioritised the enhancement of our digital services and continued to grow and evolve our adjacent services, with our efforts leading to 34% growth for digital services across the Group.

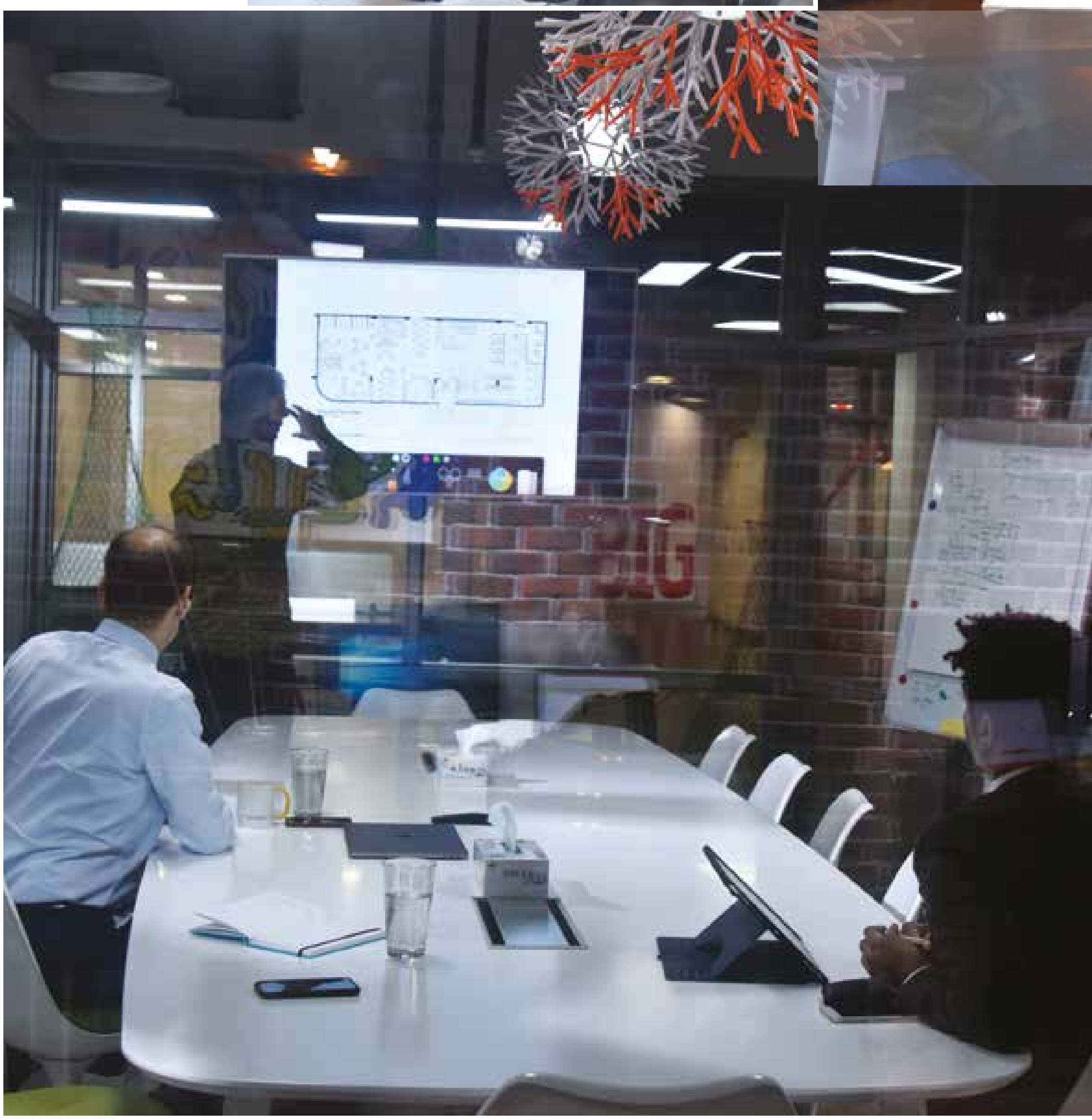
Throughout the year, we continued to manage our CAPEX aggressively, with our efforts resulting in substantial improvement in return on invested capital.

Joint Venture Overview

For the full year 2018, 59% of Revenues and 51% of EBITDA were attributable to operations outside of Bahrain, compared with 59% of Revenues and 56% of EBITDA in 2017. Across the Group, a number of operations delivered strong revenue growth and improved operational performance.

- Jordan (Umniah): Driven by its digital transformation strategy, Umniah continues to set new milestones in the Jordanian telecommunications market with the inauguration of the first information security academy in the Kingdom. The company also partnered with a cloud based security company to help its enterprise customers combat the ever growing threat of cyber attacks. Expanding further on its digital footprint, Umniah partnered with Booking.com for a loyalty points programme and with ArabiaWeather to become the sole and exclusive telecommunications partner for the weather platform. In 2018, Umniah achieved year-over-year revenue growth of 15% and fixed broadband subscribers increased by 39% year-over-year.
- Maldives (Dhiraagu): Dhiraagu is proud to be celebrating 30 years in connecting the Maldives through telecommunications. The company's FTTH network now covers 55 islands and reaches 74% of the population, making it by far the largest fibre network in the country. The FTTH network also supports Dhiraagu TV, which is now available in 50 islands. During the year, Dhiraagu completed 4G coverage to 100% of the population and became the first company in the Maldives to demonstrate 5G technology affirming its commitment to providing the best network in the country. Year-over-year fixed broadband subscribers have increased by 35%.

Group CEO Message
(Continued)



Digital Capability ✕

Our efforts in delivering enhanced customer experience along with greatly enhancing our digital capability and product portfolio is reflected in increased customer numbers and revenue growth for key products in a number of our operations.

- Channel Islands, Isle of Man, South Atlantic & Diego Garcia (Sure Group): Sure closed the year with an acceleration in market share gains and revenue growth, particularly driven by enterprise services, residential broadband and the Isle of Man expansion. Sure is now the most highly rated telecoms operator in the Channel Islands for security, having extended the international information security standard accreditation ISO27001. In the Isle of Man, Sure's highly competitive propositions and market leading network led to an acceleration in growth. Mobile and fixed broadband customers across the Sure Group increased by 3% year-over-year.
- Kuwait (Qualitynet): Qualitynet continues to diversify its product offering and deliver new solutions to the market. During the year the company successfully implemented various contact centre projects and security projects. In November 2018, Batelco announced that it had signed an initial agreement to sell its 90% shareholding in Qualitynet. The negotiations are in the final stages and a share purchase agreement is expected to be signed in due course.

Delivering unmatched customer experience is of utmost importance, and related programmes begun two years ago, have ensured we maintained market leadership and realised improvements in all customer experience metrics in key markets.

Our efforts in delivering enhanced customer experience along with greatly enhancing our digital capability and product portfolio is reflected in increased customer numbers and revenue growth for key products in a number of our operations. Our home market of Bahrain has continued to deliver very strong financial and operational performance based on dedicated efforts in key areas of fibre roll out, digitization and developing Data Centres.

Appreciation for our Teams and Stakeholders

On behalf of Batelco Group's management, I extend full appreciation to our Chairman Shaikh Abdulla bin Khalifa Al Khalifa and the Board of Directors for their leadership, vision and wise direction. I offer appreciation also to our shareholders for their confidence in our strategy and their continuous support.

Our management teams and our people across all Batelco group's operations have worked tirelessly throughout 2018 and contributed in a major way to boosting our performance resulting in the strong set of financial and distinguished operational results. I offer them my sincere gratitude for a job well done and look forward to their continued efforts during 2019 and beyond.

Our customers remain our priority and our biggest vote of thanks must go to them for continuing to choose Batelco and its sister operations as their service providers of choice.

Looking Forward

We will continue in 2019 to enhance the relationship with our customers and to use business intelligence and data analytics as key drivers to create more customer-centric operations.

Based on our successes and achievements for the past year we will continue to build on our strategic imperatives, aligning all areas of our business across the whole Group to build on the Group's synergy.

Ihab Hinnawi
Group Chief Executive

Group Executive Management

Ihab Hinnawi
Group Chief Executive Officer

Muna Al Hashemi
Group Deputy Chief Executive Officer

Faisal Qamhiyah
Group Chief Financial Officer

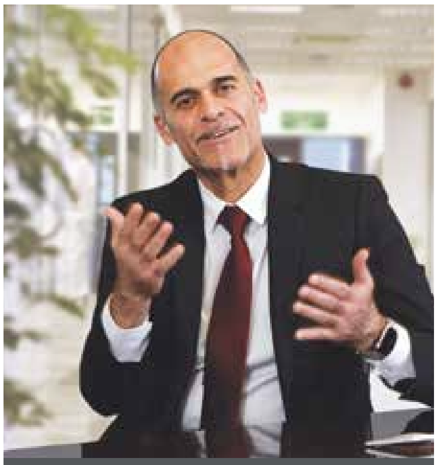
Shaikh Ahmed bin Khalifa Al Khalifa
Group General Manager, Human Resources & Development

Noora Sulaibeekh
Acting Group Board Secretary

We will continue to build on our strategic imperatives, aligning all areas of our business across the whole Group to build on the Group's synergy.

Miguel Angel Fuentes
Group Legal Counsel

Ali Sharif
Group Chief Internal Auditor



Dr. Ghassan Ali Murad
Group General Manager Mergers and Acqusitions

Karan Ponnudurai
Group Chief Digital Officer

Ahmed Abdellatif
Group Chief Wholesale Officer

Karl-Michael Henneking
Group Chief Strategy & Business Development Officer

* Ahmed Al Janahi served as Group Board Secretary & General Manager Corporate Affairs until 31st October, 2018

18%

Datacom services are up by 18% across our markets of operation.

THE FUTURE IS EXCITING

A WIRELESS WAY OF LIVING

Connectivity plays a very important role in our lives. Batelco is focused on using it to help customers create lasting memories and meaningful moments while supporting the business sector in delivering the solutions their customers depend on.

Accessing Innovation

Mobile video Streaming

Digital Marketing

Bahrain CEO Message

Data Centre ×

Batelco is focused on developing world class Data Centre facilities to meet the increasing demands from businesses that require sophisticated and cutting-edge services.

Mohamed Bubashait
Chief Executive Officer Bahrain

In line with Batelco's ongoing commitment to support Bahrain's transition to a digital and diversified economy, Batelco placed innovation, customer experience and the development of a strong digital infrastructure among its priorities during 2018.

Our successful investment strategy with a focus on crucial in-demand services has resulted in a significant improvement in performance over 2017 for Datacom and fixed Broadband services, with revenue growth up by 27% for Datacom and by 15% for fixed Broadband, fuelled by our fibre rollout.

Meeting the demand for faster internet services remains high on the agenda and the success of our fibre delivery has also attributed to a 13% increase in Broadband customers in the Kingdom of Bahrain.

Business Overview

As part of the strategy to provide smart digital solutions to the public and private sectors through an integrated system, that includes infrastructure for storing and managing data, a new Data Centre will be officially opened very soon, and plans are already in place to build a second Data Centre for Batelco at its Hamala headquarters.

Batelco is focused on developing world class Data Centre facilities to meet the increasing demands from businesses that require sophisticated and cutting-edge services. Our aim is to contribute significantly towards the development of the Kingdom's digital infrastructure through providing facilities that address future demands.

Additionally, with the demand for cloud computing services growing, Batelco has continued to develop its portfolio to enable the enterprise sector to take advantage of the various benefits delivered by this vital technology.

Batelco's plans for advanced infrastructure and innovative services are supported through its partnerships with world-class organisations, with all entities working hand in hand to achieve mutual strategic goals, while focusing on operational efficiency improvements, and striving to maintain the Kingdom of Bahrain's position as a leader in the region's industry and data economy.

Among our innovative services developed with partners is bwallet, a digital mobile wallet, launched at the beginning of 2018 in collaboration with Arab Financial Services (AFS) as part of our aspirations to provide FinTech solutions for customers. We are very pleased with the evolution of the services introduced since its launch, including the latest introductions of International Money Transfer and International Mobile Top Up.

Batelco continues to have a prominent presence at local and regional industry events, which provides us with strong platforms to highlight our growing portfolio and gives us the opportunity to network with other leading organisations; during 2018, we participated at MEET ICT & BITEX in Bahrain and at both Capacity Middle East and GITEX in the UAE.

Thank You to Our People

Our success would not have been possible without the dedicated support of all Batelco's teams. I extend my appreciation to the executive team and all Batelco employees in Bahrain for their professional commitment and dedication. I also offer appreciation to our Chairman Shaikh Abdulla bin Khalifa Al Khalifa and the Board of Directors; their confidence and support is invaluable and ensured we could push forward strongly with our strategic plans.

Most importantly, I would like to take the opportunity to thank our customers for their loyalty to Batelco's products and services. Everything we do is with their best interests foremost in mind and during 2019 we will remain committed in our efforts to remain their number one communications provider of choice.

Looking Forward

Looking ahead, we will continue to build on our plans with a sharp focus on strengthening customer experience, delivering innovation, diversifying revenue streams and building on our strategic partnerships.

We have a self-imposed commitment to deliver the products, services and solutions that are relevant for our diverse customer base. Additionally, in all our planning, we will remain committed to developing our portfolio to best support the evolving communications needs of the Kingdom of Bahrain.

Mohamed Bubashait
Chief Executive Officer Bahrain

Bahrain Management

Mohamed Bubashait
Chief Executive Officer

Baha Tuncer
Chief Financial Officer

Abderrahmane Mounir
Chief Marketing Officer

Adel Al-Daylami
Chief Global Business Officer

We remain committed to developing our portfolio to best support the evolving communications needs of the Kingdom of Bahrain.

Ebrahim Al Sayed
GM Customer Experience

Maha Abdulrahman
GM Consumer Division

Dr. Shaikh Khalid Duaij Al Khalifa
GM Cyber & Corporate Security

Faisal Al-Jalahma
GM Human Resources

Ebru Pilav
GM Talent Development and Culture

Batelco is providing superior customer experience in all locations to differentiate each operation from its local competitors.

BATELCO GROUP ×

The Batelco Group is headquartered in the Kingdom of Bahrain and listed on the Bahrain Bourse.

Batelco Group has evolved from being a regional Middle Eastern operation to become a major communications company with direct and indirect investments across 14 geographies, namely Bahrain, Jordan, Kuwait, Saudi Arabia, Yemen, Egypt, Guernsey, Jersey, Isle of Man, Maldives, Diego Garcia, St. Helena, Ascension Island and the Falkland Islands.

Batelco's overseas operations continue to add value to the Group and in 2018 contributed 59% of revenues and 51% of EDITDA.

www.batelcogroup.com

14
Worldwide Locations

8.6 million
Subscriber Base

HEADQUARTERS
Kingdom of Bahrain

UMNIAH
Jordan

SURE
Channel Islands & Isle of Man

ETIHAD ATHEEB TELECOM
Saudi Arabia

QUALITY NET
Kuwait

SURE
South Atlantic & Diego Garcia

DHIRAAGU
Maldives

BATELCO
Egypt

SABAFON
Yemen

Subsidiaries and Affiliates

Jordan
Umniah

Since its launch in June 2005 Umniah, a 96% owned subsidiary of Batelco Group, continues to enjoy a strong presence in the Jordanian telecom market, offering high-quality mobile, internet and enterprise solutions. Umniah acquired Batelco Jordan in 2008, which paved the way for the launch of the company's business solutions.

Since then, Umniah has continued to evolve its business model to adapt to the digital age, focusing on future-centric services like mobile payment, security and cloud computing.

In 2018, Umniah adopted a digital transformation driven by an all-encompassing strategy across the company. This necessitated updating data management tools, moving customer service processes to digital platforms and leveraging on "Mahfazti" to provide customers with payment solutions through mobile applications and Umniah's website.

Throughout the year, the company broadened its lineup of digital-centric services, which included a pilot project launched in collaboration with the Ministry of Education to digitize parts of the General Secondary Education Certificate Examination in Jordan, totaling approximately 27,000 students. The project followed the largest connectivity initiative previously launched by Umniah in partnership with the ministry, connecting 2,769 schools, 43 directorates, and 69 administrative buildings. Umniah also inaugurated the first information security academy in the Kingdom with training sessions and specialized workshops held in a number of Jordanian universities in cooperation with Fortinet, a global leader in the field of information security.

During the year, the company was named the Best Managed Security Service Provider (MSSP) by Fortinet and Umniah's Security Operation Center (SOC) was awarded the ISO 27001 certification for information security systems, underscoring that all operations and procedures are compliant with the highest international standards.

Moving forward, Umniah will continue to build on these achievements by maintaining its commitment to digital transformation and paving the way for Jordan's ICT sector to embrace new technologies and experiences. Umniah will continue to expand the reach and quality of its network, provide versatile digital channels to its customer base, and leverage its infrastructure to accelerate the digitization of Jordan's education, health and youth sectors.

01. **Ziad Shatara**
Chief Executive Officer

02. **Abdullah Tahboub**
Chief Financial Officer

03. **Lara El-Khateeb**
Director of Legal, Regulatory & Government Affairs

04. **Mahmoud Abu Zannad**
Director Commercial Enterprise & Home Broadband

05. **Sami Idbies**
Director of Engineering

06. **Sami Jarrar**
Director of HR & Corporate Affairs

07. **Amjad Frouqa**
Director of Quality, Business Continuity and Information Security

08. **Zaid Ibrahim**
Director Consumer Marketing

09. **Riyad Kurdi**
Director Information Technology

10. **Anas Sughayer**
A/Director of Distribution & Customer Care

11. **Ammar Qaffaf**
Director Digital Transformation

12. **Wajeeha Husseini**
Communications Director

The company applies a full range of different technologies, industry leading brands and solution offerings that allow customers the flexibility to meet their specific requirements.

Subsidiaries and Affiliates
(Continued)

Kuwait
Quality Net

01. **Mohammad Al-Nusif**
Chief Executive Officer

02. **Gareth Fooks**
Chief Financial Officer

03. **Essa Al-Kooheji**
Chief Commercial Officer

04. **Ali Al-Esmail**
Chief Customer & Information Services Officer

05. **Mustafa Al-Najjar**
Chief Technical Officer

Qualitynet is the market leader in the Fixed Data Communication and Internet Services and ICT industry in the State of Kuwait.

The company was established in 1998 and Batelco Group acquired 44% of the company in 1999, subsequently increasing its shareholding to 90% in 2014. The company applies a full range of different technologies, industry leading brands and solution offerings that allow customers the flexibility to meet their specific requirements. In terms of broadband, Qualitynet retained its market share as the #1 ISP in Kuwait despite tough competition from fixed and wireless service providers.

In November 2018 Batelco announced that it had signed an initial agreement with Kuwait Telecommunications Company (VIVA) to sell its 90% shareholding in Qualitynet. The shares will be transferred to VIVA Kuwait after signing the final definitive agreements and fulfilling the terms, conditions and covenants agreed between the parties and obtaining the necessary regulatory approvals in the State of Kuwait. The price consideration will be established on the completion of the full transfer of shares and fulfilment of the conditions agreed between the parties.

Subsidiaries and Affiliates
(Continued)

Maldives
Dhivehi Raajjeyge Gulhun Plc (DHIRAAGU)

dhiraagu

Dhivehi Raajjeyge Gulhun PLC (Dhiraagu), incorporated in the Maldives in 1988 and listed on the Maldives Stock Exchange, is the leading digital services and telecommunications provider in the Maldives. The company offers a comprehensive range of mobile, internet, data and fixed line, TV and other services throughout the country. Batelco Group acquired 52% shareholding of the company in 2013.

Dhiraagu is the first operator to link the Maldives from North to South through its 1,253 km long fibre-optic submarine cable, which supports high-speed internet and data services and the first operator to provide mobile broadband across the country. The company has the strongest broadband coverage in the Maldives, with nine strategically located operation centers and the largest distribution and retail network. Dhiraagu's superior customer services, through its 24/7 Customer Support channels including Dhiraagu Online Service platforms and mobile apps, remain a key strategic priority.

Dhiraagu has a structured Corporate Social Responsibility Programme through which it gives back to the community and is a signatory to the United Nations Global Compact. The company continued to support various NGOs working for children's rights as well as programmes designed to empower young people. Key highlights include the annual Dhiraagu Maldives Road Race, which has become a platform for local NGOs and the Dhiraagu Special Sports Festival; the only sports festival for children with disabilities. The Dhiraagu Apprenticeship Programme, another key CSR initiative that provides structured training and experience in a professional work environment, celebrated its 10th anniversary and enrolled 28 new apprentices.

With three decades of excellence, Dhiraagu continues to play an integral part in the social economic development of the Maldives, constantly innovating, bringing new technology and leading the market with new services.

01. **Ismail Rasheed**
Chief Executive Officer & Managing Director

02. **Robin Wall**
Chief Financial Officer

03. **Ahmed Maumoon**
Director Business Development & A/Chief Marketing Officer

04. **Ali Riyaz**
Director Customer Services and Sales

05. **Athifa Ali**
Director Corporate Services

06. **Musthag Ahmed Didi**
Director Customer Solutions

07. **Abdulla Firag**
Director Networks

08. **Ajwad Ali**
Director Human Resources

09. **Mohamed Hazmath Abdulla**
Director Property, Procurement & Administration

10. **Mohamed Abdul Gadir**
Director Information Systemst

11. **Mohamed Musad**
Director Digital Transformation

* Isabelle Hajri served as Chief Marketing Officer until 28 February, 2018

Subsidiaries and Affiliates
(Continued)

Sure Group
CIIM and SADG

The Sure Group comprises of a number of geographically diverse operations, which are wholly owned subsidiaries of Batelco Group, acquired in 2013. Head quartered in Guernsey, the Group provides telecommunications and related services across the Channel Islands, the Isle of Man and in the British Overseas Territories of the islands of Ascension, Falklands, Saint Helena and Diego Garcia.

In Guernsey, Sure is the leading full service operator with market-leading positions in fixed voice, mobile, broadband and Cloud services and the prime competitor in both Jersey and Isle of Man. In the British Overseas Territories, Sure operates under exclusive licenses with full feature networks delivering voice, broadband data services and in certain markets TV.

Sure's customers continued to enjoy the benefit of the fastest mobile networks in the Channel Islands and Isle of Man with more than a 45% increase in data usage. Sure's commitment and substantial ongoing investment in networks continued with an upgrade to 4G LTE in the Falklands which in turn resulted in high take up and increases in data usage as customers benefited from the faster speeds.

The Group continues to broaden its service offerings in all locations to support enterprise and government customers, including cloud platforms and a range of security services, which ensure confidence in data residency in the Channel Islands. Many companies now rely on Sure's superior offshore Cloud platform to run their business beyond Sure's footprint including a major UK motor insurer. To further emphasise its Enterprise credentials Sure expanded its ISO27001 security standard accreditation to become the strongest in this respect in the Channel Islands and attained ISO22301 for business continuity.

In Guernsey, Sure's multi-million pound annual investments in the fibre rich fixed network accelerated residential customer take up of superfast broadband services driving both revenue and a larger subscriber base. Sure's focus on excellence in customer experience was recognized by the independent Channel Islands Regulator as being market leading in both Guernsey and Jersey.

In Diego Garcia Sure renewed its exclusive communications service provider operating license for 11 years as of October 2018. Sure has committed to making significant improvements to services to the island, which include launching a 4G network and increases to data allowances.

01. **Ian Kelly**
Chief Executive Officer
Sure Group

Channel Islands & Isle of Man

02. **Alan Ibbotson**
Chief Financial Officer

03. **Alistair Beak**
Chief Marketing Officer

04. **Justin Bellinger**
Chief Digital Officer

05. **Charlotte Dunsterville**
Chief Customer Officer

06. **Lucienne de la Mare**
Human Resources
Director

07. **Chris Durnell**
Director Legal &
Regulatory Affairs

08. **Cyrille Joffre**
Chief Technical
Information Officer

09. **Graham Hughes**
Chief Executive
Sure Jersey

10. **Mike Phillips**
Chief Executive Isle of
Man

South Atlantic & Diego Garcia

11. **Mark Heron**
Chief Executive Diego
Garcia and CTO South
Atlantic & Diego Garcia

12. **Justin McPhee**
Chief Executive Falkland
Islands and A/CE
Ascension Island

13. **Christine Thomas**
Chief Executive Saint
Helena Island

Subsidiaries and Affiliates
(Continued)

Saudi Arabia
Etihad Atheeb Telecom

Etihad Atheeb Telecommunications Company (Atheeb) was established in 2008 and is a publically listed company in the Kingdom of Saudi Arabia, in which Batelco holds a 15% stake.

The company operates under the "GO" brand and has a broad portfolio of products and services for both business and retail customers including but not limited to VOIP communication solutions, high-speed data services, wireless broadband internet, fixed line telephony, hosting cloud solutions and enterprise connectivity services.

In 2017 and 2018, Atheeb decreased its share capital from SAR 1.6 billion to SAR 630 million and SAR 472.5 million respectively to restructure its capital and write off accumulated losses

Egypt
Batelco Egypt Communications (S.A.E.)

Batelco Egypt is wholly owned by Batelco Group. The company was established in 2003 with a focus on providing end-to-end worldwide data communication solutions to corporates, multinational customers and global telecommunication providers.

Over recent years' Batelco's global connectivity to Egypt has been upgraded significantly to accommodate the increasing demand to and from Egypt, allowing Batelco to secure several global contracts. Through partnerships and alliances with other leading providers, Batelco is gaining strength in Egypt's enterprise sector among local and multinational companies.

Batelco Egypt is contributing towards Batelco's strategy of building a cloud centric platform by introducing relevant services and enhancing its infrastructure. Such initiatives are serving to broaden the company's portfolio, boost its competitiveness and enrich its service offerings in and out of Egypt.

Yemen
Sabafon

Sabafon, in which Batelco Group has a minority shareholding of 26.94%, is a GSM operator in Yemen offering national coverage across the country. The company started its operations in 2001 with the vision to establish a strong, dynamic and flexible organization to serve and benefit the people of Yemen with the latest GSM technology and services.

Sabafon has been operating in a challenging environment due to the existing political instability. This instability along with expensive energy prices and the deteriorating Yemeni Riyal has increased the economic impact.

Nonetheless, Batelco continues to believe that Sabafon has solid business fundamentals, and will be in a leading position to seize opportunities, once the geopolitical position improves. In the meantime, Batelco will continue to closely monitor the situation in Yemen.

2018 was a turnaround year for the Batelco Group supported by the ongoing rollout of our transformation strategy and key investments in targeted services, leading to a significant increase in shareholder return.

Awards and Achievements

Awards and Achievements ×

During 2018 Batelco and its sister operations were presented with a number of international awards and accomplished key achievements to support its business initiatives.

Most Digitally Inclusive Telecom MENA 2018

Batelco Group was named as the Most Digitally Inclusive Telecom in MENA for 2018 for its efforts across its group of operations in the digital arena. The CFI.co judging panel noted that Batelco Group was an early adopter of both cloud-based services and the Internet-of-Things, in keeping with its role as a leading telecom pioneer.

bwallet Collects Award

bwallet, the Kingdom of Bahrain's first digital mobile wallet and payment solution, launched by Batelco in partnership with Arab Financial Services at the beginning of 2018, received recognition for its innovation and success at the Bahrain Smart Cities 2018 Conference, and took home the Smart Finance Solution Award, presented by the Minister of Works, Municipalities Affairs & Urban Planning, Eng. Essam bin Abdulla Khalaf.

Batelco Achieves ISO Certifications for its Business Units

Batelco Bahrain was presented with two ISO certifications during 2018. The Company received ISO 22301: 2013 in Information Security and ISO 22301:2012 in Business Continuity for a number of its business units.

Arabian Business Award for Qualitynet

Qualitynet was presented with the Best Telecommunications Provider Award for Kuwait, at the 2018 annual Arabian Business Achievements Awards.

Batelco Opens Startup Accelerator

Batelco teamed up with Brinc MENA, a hands-on Internet of Things (IoT) hardware accelerator, to launch the Brinc-Batelco IOT Hub. The IoT Hub offers programmes and services tailored for IoT hardware start-ups and entrepreneurs looking for speed, access and the know-how to build successful companies, with support for product design and development and exposure to investor and markets.

The Smart City Award for Batelco Bahrain

Qualitynet Receive CEM Middle East Award

Qualitynet was awarded with the Best Network Experience award for the Middle East region at the 7th Annual Customer Experience Management Summit in Telecoms, held in Dubai in May 2018.

Dhiraagu Recognised for its Social Responsibility & Environment Awareness

Dhiraagu was presented with the Social Responsibility & Environment Awareness Award at the Maldives Business and Customer Experience Awards 2018, for its wide ranging efforts to support initiatives for children, education and the environment including protecting the oceans which is of huge importance for the Maldivian islands.

The Happy Customer Award for Sure

Dhiraagu received 'Next Generation Employment Initiative Award'

Dhiraagu received the Maldives HR award in recognition of the company's initiative to increase employment opportunities for young people, through Dhiraagu Apprenticeship Programme. Dhiraagu has successfully run the programme, which targets young people who have completed their A Levels and lack work experience, for 10 consecutive years. The programme offers both on-the-job training and training in soft skills.

Dhiraagu Social Responsibility & Environment Awareness Award

Sure Wins 'Happiest Customers' Accolade

Sure was awarded with the accolade of Happiest Customers across Jersey and Guernsey by CICRA, which combines the Competition and Regulatory Authorities of Jersey and Guernsey. CICRA conduct annual industry surveys in the region.

Umniah Awarded with ISO Certification

Umniah's Security Operation Centre (SOC) was awarded with ISO 27001 certification for information security systems, underscoring that its operations and procedures are complaint with the highest international standards.

Umniah's The Tank Supporting Business Start-Ups

The Tank, Umniah's Business incubator for early stage startups benefitted over 3000 persons during the year, through its incubation programmes which offer a wide range of support for start-ups including Mentoring, Financial & Legal Consultation, Marketing and Networking.

Data Centre Achievements for Umniah

Umniah's Tier III Data Centre in Al-Rashid received two international awards, the Information Security Systems Management Standard (ISO27001) certification and the Tier III certification for the design, building and operation of data centres worldwide awarded by the Uptime Institute, the globally recognised data centre expert.

Corporate Social Responsibility

A culture of giving

A Culture of Giving ×

Batelco in line with its role as a good corporate citizen gives back to the community in the Kingdom of Bahrain through a well-established Corporate Social Responsibility programme that includes financial and in-kind support as well as the inclusion of volunteer support from Batelco's people.

Batelco's sister companies also support their local communities through a number of beneficial programmes developed to make a positive difference in their diverse communities.

During 2018 a large number of organisations in Bahrain received support from Batelco, including:-

- The Bahrain Schools & Childcare Expo
- Supreme Council for Women
- Rashid Equestrian and Horseracing Club
- Gravity Indoor Skydiving
- IronMan Bahrain
- Spring of Culture
- Bahrain Sustainable Smart Cities Forum & Exhibition 2018
- INJAZ Bahrain

Ramadan Vouchers

Batelco, in collaboration with the BDF Military Consumer & Economic Association, distributed over 2,000 vouchers to a number of the Kingdoms' charitable societies, who distributed the Vouchers to families in their communities to support them during the Holy Month of Ramadan.

Volunteer Support during Ramadan

During the holy month of Ramadan, a number of volunteer staff from Batelco distributed dates and refreshments at different mosques, traffic lights and roundabouts across the Kingdom of Bahrain. The light meals consisted of water, laban and dates, distributed before Iftar time.

Umniah Al-Khair Ramadan Campaign

Umniah supported 31 underprivileged families throughout Jordan by distributing a food package to each family once a month for an entire year, in addition to its usual activities of holding Iftars and distributing food packages and vouchers for unfortunate people throughout the holy month of Ramadan.

Al-Wehdat Sports Club & Al-Faisaly Sports Club - Jordan

Umniah continued its partnership with the first two most celebrated and loved football teams in Jordan, Al-Wehdat Sports Club & Al-Faisaly Sports Club, by offering financial and in-kind support for both clubs, in addition to launching a tailor made smart line for each club and its fans with special local minutes, internet bundles & SMS.

Education Ambassador in Cooperation with Umniah

In line with its support for education, Umniah continued its sponsorship of Caravan Razan, a fully equipped educational caravan which provides free afterschool tutoring through less traditional methods for English, Arabic and Maths, to underprivileged students around Amman.

QRun Kids Marathon

Qualitynet in Kuwait held its 2nd marathon organised especially for children, at Morouj. The event saw close to 600 children between the ages of 2 to 12 running in support of the Kuwait Down Syndrome Society.

Corporate Social Responsibility
(Continued)

ABS Spring Charity Event
Qualitynet sponsored the Spring Charity Carnival of American Baccalaureate School, supporting the Red Crescent of Kuwait. Qualitynet held a FIFA '18 Gaming Tournament among the students of the school, which was very popular and deemed a great success.

Dhiraagu Care for Children
Dhiraagu on an annual basis plays an important role in the community by supporting a number of programmes with children in mind. On Children's Day, Dhiraagu contributed resources to help establish a Children's Thalassemia Ward in Laamu Gan Regional Hospital, while on World Autism Awareness Day, the Company pledged to help establish a children's playgound at the Maldives Autism Association. Additionally, over 350 children participated in Dhiraagu Special Sports Festival 2018, an annual sports event organised to support children with disabilities in collaboration with 11 schools and four local NGO's.

Care for the Oceans

In line with its "For The Oceans" programme, Dhiraagu launched Rethink. Reduce. Reuse. to raise awareness against single-use plastic and additionally distributed new ocean themed reusable bags to all staff at their head office and regional operations centres, and the public in popular supermarkets, on the occasion of World Oceans Day.

Sure Student Business Challenge

Sure supported the Channel Islands Student Business Challenge, which involves providing start-up cash to teams of students aged 11 to 16 to help them kick-start an entrepreneurial venture.

Every Child Our Future

Sure continued its support for Every Child Our Future, which provides vital support to children who are falling behind their reading expectations. Volunteer staff from Sure go in to schools and listen to children read on a one to one basis. Many of the children receiving support are from disadvantaged families or students with English as an additional language.

Corporate Governance

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Corporate Governance

Corporate Governance in Batelco

As a Bahrain-based Company, Batelco is subject to the Corporate Governance standards of the Central Bank of Bahrain (CBB) and the Bahrain Commercial Companies Law; and in line with the Corporate Governance Code 2018 of the Ministry of Industry, Commerce and Tourism (MOICT). Batelco aspires to the highest standards of ethical conduct based on sound Corporate Governance. In accordance with its commitment to both meeting legal and regulatory requirements and adhering to international best practices, Batelco has put in place a comprehensive Corporate Governance Framework to maximize operational efficiency and protect shareholders' rights. Batelco regards the guiding principles of its Corporate Governance Framework to be fairness, transparency, accountability and responsibility.

Batelco' s Corporate Governance practices have been structured around the following ten principles:

- The Company shall be headed by an effective, qualified and expert Board
- The Directors and Executive Management shall have full loyalty to the Company
- The Board shall have rigorous controls for financial audit and reporting, internal control, and compliance with law
- The Company shall have effective procedures for appointment, training and evaluation of the Directors
- The Company shall remunerate directors fairly and responsibly
- The Board shall establish a clear and efficient management structure with defined job titles, powers, roles and responsibilities.
- The Company shall communicate with shareholders, encourage their participation, and respect their rights
- The Company shall disclose its Corporate Governance.
- The Board shall ensure the integrity of the financial statements submitted to shareholders by appointing External Auditors.
- The Company shall seek through social responsibility to exercise its role as a good citizen.

While placing the paramount importance to the code, the board has ensured that the governance framework adopted and implemented across all levels of the organization, exhibits the principles of fair dealings, honesty, environment of effective oversight and strong accountability.

To ensure the above, the Board has delegated some of its responsibilities to specialized committees with a definite mandate to make certain that all facets of good governance are implemented and monitored on an ongoing basis.

The Board of Directors and specialized committees of the Company together with its management undertook measures and ensured that for the year ended 31 December 2018 and to the date of the annual report, Batelco was compliant with the provisions of CBB's Corporate Governance requirements and in line with the Corporate Governance Code 2018 of the Ministry of Industry, Commerce and Tourism (MOICT).

The Board has resolved that it shall investigate any non-compliance or deviations from these Corporate Governance Guidelines.

The Corporate Governance Guidelines approved by the Board are available on the Company's website. Shareholders of the Company can obtain the copy of the Corporate Governance Guidelines of the Company from the Corporate Governance Officer.

Initiatives in 2018

In compliance with the recent changes in the law, the board have taken the responsibility to delegate the Remuneration, Nomination, Donation and Corporate Governance Committee to review the Corporate Governance Guidelines at least once every two years, or as and when required.

Additionally, the Board has made the decision to appoint Ms. Noor Bukamal as the Corporate Governance Officer to ensure continuous monitoring of Corporate Governance and in order to comply with the Code or any other relevant legislation in the Kingdom of Bahrain. Ms. Bukamal was appointed in December 2018 and has an MA in Human Resources Management.

Management Statement (Risk management)

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Company's approach to creating long-term shareholder value. In recognition of this, the Board authorized the executive committee to determine the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, along with ensuring effective internal controls and compliance which is handled by the Audit Committee. The Board responsibility is to oversee an annual assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management, including responsibility for the day to day design and implementation of the Company's risk management and internal control system. Management reports to the Specialized Committees who in turn report to the Board on the Company's key risks and the extent to which these risks are being adequately managed.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with identified risks. These include the following:

- Board approval of a strategic plan, which encompasses the Company's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

Please refer to note **4** of the Financial Statements for further details.

Corporate Governance
(Continued)

Communication with Investors and Shareholders

To encourage transparency and foster the culture of active communication, the Board strives to maintain an open communication channel with its investors and shareholders at all times.

The Board is committed to communicate its strategy and activities clearly to the stakeholders and, to that end, maintains an active dialogue with stakeholders through planned activities.

By policy, the Company is committed to publicly disclose to all its stakeholders fair, transparent, comprehensive and timely relevant information. To support this principle of transparency, Batelco's financial statements are maintained on its website at all times thus ensuring all material facts are made available to shareholders prior to any vote.

The principal communication with investors and shareholders is through the annual report of the Company and the AGM, an occasion which is attended by all directors and at which all shareholders present are given the opportunity to question the Board. Batelco appreciates the interaction with the shareholders and the overall responsibility for ensuring that there is effective communication with the investors and to understand the views of major shareholders on matters such as governance and strategy rests with the Board.

Group Board Secretary

The Board is supported by the Board Secretary who provides professional and legal support to the board and its committees. Batelco's Acting Group Board Secretary is Mrs. Noora Sulaibeekh who has taken on this role since October 2018. Mrs. Sulaibeekh joined Batelco in 2015; and has over 10 years of experience in providing legal services, also she is currently the Head of Legal and Regulatory in Batelco. Her qualifications include a Masters in International Law from Paris Sorborne University- Abu Dhabi.

Ownership Structure

Batelco's principle shareholders include institutional investors, Sovereign Wealth Fund Institutes (SWF's) and general public.

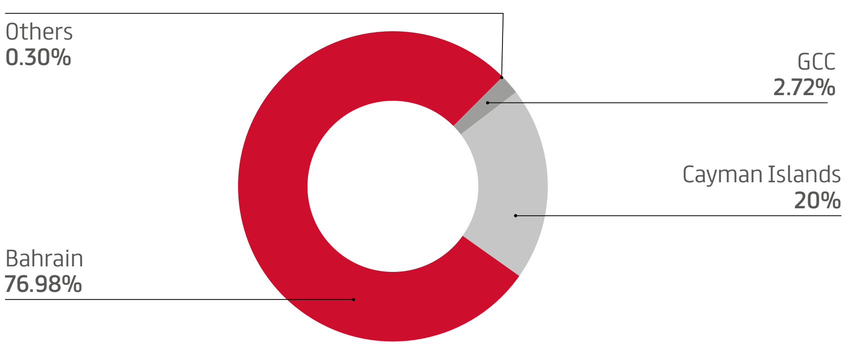
The unique and diversified ownership structure gives Batelco the edge whereby it can seek to pursue the Company's strategies objectively, independently and without bias and as a result aligns interests between Batelco and its shareholders. Below is a detailed statement of ownership as of 31 December 2018.

Ownership Structure by Nationality

The table and illustration shows the distribution of Ownership of Batelco shares by Nationality:

Nationality	Number of Shares	% of shares held
1 Bahrain	1,280,361,130	76.98%
2 Cayman Islands	332,640,000	20%
3 GCC	45,206,834	2.72%
4 Others	4,992,036	0.30%

Distribution of Shares by Nationality



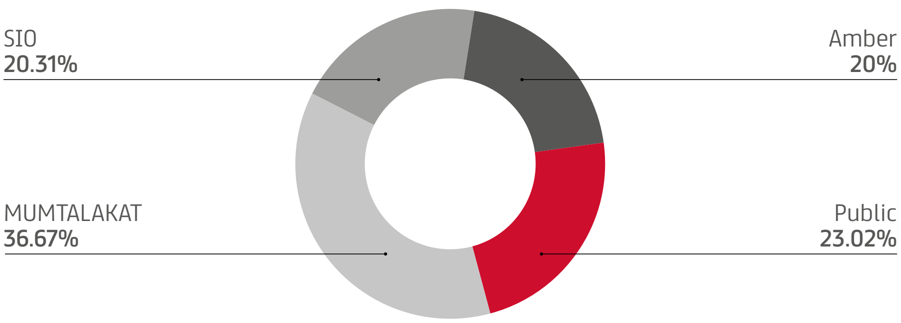
Corporate Governance
(Continued)

Ownership Structure by Size

The table and illustration shows the distribution of Ownership of Batelco shares by size (5% and above):

Owner	Number of Shares	% of shares held
1 Mumtalakat Holding Company	609,840,000	36.67%
2 Amber Holding Company	332,640,000	20%
3 Social Insurance Organization	337,835,705	20.31%
4 Public	382,884,295	23.02%

Distribution of Shares by Size



Ownership Structure by Size of Ownership

The table below shows the distribution of Ownership of Batelco shares by Size of Ownership:

Shareholding Amount	Number of Shareholders	Number of shares held	% of shares held
Less than 50,000	10002	31,928,312	1.92%
50,000 to 500,000	631	87,694,138	5.27 %
500,000 to 5,000,000	108	125,177,978	7.53 %
More than 5,000,000	10	1,418,399,572	85.28%

Corporate Governance
(Continued)

Ownership Structure by Category

The table below shows the distribution of Ownership of Batelco shares by the Government Entity (ies), Directors and Executive Management:

A. Government Entities

Government Entity(ies)	Number of Shares	% of shares held
1. Mumtalakat Holding Company	609,840,000	36.67%
2. Amber Holding Company	332,640,000	20%
3. Social Insurance Organization	337,835,705	20.31%

B. Directors

Directors	Number of Shares	% of shares held
Abdulrahman Yusuf Fakhro	220,752	0.013%
Ahmed Ateyatalla Al Hujairy	31,470	0.0019%
Arif Haider Rahimi	31,170	0.0019%
Khulood Rashid Al Qattan	30,010	0.0018%
Raed Abdulla Fakhri	3,710	0.0002%

C. Executive Management

Executive Management	Number of Shares	% of shares held
1. Dr. Ghassan Murad	103,950	0.0063%
2. Maha Khaled Yusuf Abdulrahman	115,500	0.0069%

Directors and Senior Management trading during the year 2018

Name	Date of Trading	Number of shares purchased
Abdulrahman Yusuf Fakhro	20 January 2018	50,000

Corporate Governance
(Continued)

Board Structure

The Board has the final responsibility for the overall conduct of the Company's business, providing direction by exercising objective judgment on all matters independent from executive management.

The Board of Directors of the Company is accountable to shareholders for the proper conduct of the business and also for ensuring the effectiveness of and reporting on the Corporate Governance Framework in place.

All Board Members Directorships in Committees or any of the Group Subsidiary Board's is reviewed on an annual basis by the Remuneration, Nomination, Donation and Corporate Governance Committee and all changes are approved at a board level. This is to ensure that all directors during their term of directorship are exposed to taking on different roles and responsibilities to which does not affect their independence ultimately.

The Board of the Company comprises of 10 Non Executive Directors, 9 of which are Independent, including the Chairman whose role and responsibilities are separate from the Chief Executive Officer.

The detailed information about the directors in the Board of Batelco is set out below:

	Shaikh Abdulla bin Khalifa Al Khalifa Chairman	Mr. Abdulrahman Yusuf Fakhro Deputy Chairman
Appointed by/ Status	**Mumtalakat / (Non – Executive Independent)**	**Social Insurance Organization/ (Non – Executive Independent)**
Committee membership	Chairman of the Remuneration, Nomination, Donation and Corporate Governance Committee	Chairman of the Executive Committee Remuneration, Nomination, Donation and Corporate Governance Committee
Qualifications and Experience	• Has been serving on Batelco Board since June 2018. He was appointed on the board on 3rd June 2018 as a non-executive Independent director until the end of the term. • Chief Executive Officer at Osool Asset Management • Started his career at the Arab Banking Corporation B.S.C • Served as Head of Wealth Management at Standard Chartered Bank, Bahrain. • Bachelor of Science in Business Administration from the George Washington University, USA.	• Has been serving on Batelco Board since April 2012. He was re-appointed at the AGM in 2017, as a non-executive Independent director for a period of 3 years. • University of Cairo, Faculty of Commerce.
Years of Experience	Over 20 years of experience.	Over 53 years in the investment and insurance sector.
Board Representation	• Chairman of National Broadband Network "NBNetco"(Bahrain) • Chairman of Sure Group Company (UK) • Chairman of SICO Investment Bank • Board Member of Bank of Bahrain and Kuwait • Board Member of Amanat Holding PJSC.	• Chairman of Umniah Mobile and Telephone Company (Jordan) • Deputy Chairman of Dhiraagu Telecommunications Company (Maldives) • Chairman of Bahrain Commercial Facilities Company (BSC) and Yusif bin Yusif Fakhro B.S.C. • Deputy Chairman of Social Insurance organization (SIO) • Deputy Chairman Osool Asset Management • Chairman of Bahrain Marina • Chairman of Amlak.

Corporate Governance
(Continued)

Board Structure (Continued)

	Mr. Raed Abdulla Fakhri Director	Mrs. Khulood Rashid Al Qattan Director
Appointed by/ Status	**Mumtalakat / (Non- Executive Independent)**	**(Non – Executive Independent)**
Committee membership	Executive Committee Deputy Chairman of Remuneration, Nomination, Donation and Corporate Governance Committee	Deputy Chair of Audit Committee
Qualifications and Experience	• Has been serving on Batelco Board since March 2014. He has been re-appointed by the shareholders in the AGM 2017, as a non-executive Independent director in the Board for a period of 3 Years. • Mumtalakat Vice President Investments since March 2013 • Co-founded BDI Partners in 2010 and headed the firm as a Managing Director. • Head of Investment Department in Capivest Investment Bank. • Batelco Senior Manager in New Business Development Unit. • Control Systems Engineer and Project Engineer in Gulf Petrochemical Industries Company (GPIC). • Holds an Executive MBA from the University of Bahrain, and Bachelor of Science in Electronics Engineering Technology from the University of Central Florida, Orlando, USA.	• Has been serving on Batelco Board since March 2014. She was re-elected by the shareholders at the AGM in 2017, as a non-executive Independent director in the Board for a period of 3 Years. • General Manager of Prime Advisory WLL. • She has experience in capital and money market instruments in the local, regional and international markets and also in portfolio management. • Head of Investment Department Bank of Bahrain & Kuwait • Has had experience with ADDax Investment Bank, Abu Dhabi Investment House and Evolvence Capital (Dubai). • Bachelor Degree in Accounting from Ayn Shams University, Cairo.
Years of Experience	Over 24 years of experience in business development and investments.	Over 26 years of experience in banking and investment.
Board Representation	• Board Member in National Broadband Network Company "NBNetco" (Bahrain) • Board member of Etihad Atheeb (Saudi Arabia) • Board member in Gulf Air Group • Board member in Investrade • Board member in BDI Partners • Board Member in Cranemere Group • Board Member in Bahrain Duty Free Company	• Board member and Chairperson of Audit Committee in Umniah Mobile and Telephone Company (Jordan) • Board member and Chairperson of the Audit Committee in Dhiraagu Telecommunication Company (Maldives) • Board member in SICO Financial Services Company (SFS) • Board Member in Bahrain Business Woman Society • Member of the Advisory Board for the Master of Accounting and Finance at Applied Science University.

Corporate Governance
(Continued)

Board Structure (Continued)

	Mr. Arif Haider Rahimi Director	Mr. Ahmed Ateyatalla Al Hujairy Director
Appointed by/ Status	(Non- Executive Independent)	(Non- Executive Independent)
Committee membership	Executive Committee	Audit Committee
Qualifications and Experience	• Has been serving on Batelco Board since March 2014. He was re-elected by the shareholders at the AGM in 2017, as a non-executive Independent director in the Board for a period of 3 Years. • Managing Partner for the Masar Group of Companies and Director for Venture Projects WLL. • Held the post of Managing Partner of BDO Jawad Habib Consulting, leading their corporate finance consulting division • A Certified Public Accountant, Board of Accountancy, Oregan, USA.	• Has been serving on Batelco Board since March 2014. He was re-elected by the shareholders at the AGM in 2017, as a non-executive Independent director in the Board for a period of 3 Years. • Founder and CEO of Gulf Future Business S.P.C. and group of companies. • He began his career with Riyadh Bank, Saudi Arabia • He attained the post of Director in the Health Information Directorate. • Held the role as Acting CEO, Advisor to the Bahrain Minister of Health on Health Economics at Salmaniya Medical Complex • Held the role of General Manager at Gateway Gulf B.S.C. • Senior Advisor to the Board of Bahrain Technology Companies Society. • Advisor and Founder of Bahrain Internet Society • Member of the Bahrain Society for Training and Development. • Vice Chairman, Technology Committee. Bahrain Chamber of Commerce and Industry • B.Sc. Electrical Engineering – Telecommunications Major. King Fahad University of Petroleum and Minerals. Dhahran. • He holds an executive MBA (Distinguished Honours) from DePaul University, Chicago, USA.
Years of Experience	Over 27 years of experience in financial services.	Over 35 years of experience in Information Technology and Communications, Business, and Management.
Board Representation	• Board member and Chairman of the Audit Committee of Quality Net Company (Kuwait) • Chairman of the Bahrain International Circuit (BIC) • Member in Bahrain Judicial Committee for Stalled Real Estate Projects.	• Deputy Chairman of Quality Net Company (Kuwait).

Corporate Governance
(Continued)

Board Structure (Continued)

	Mr. Oliver McFall Director	Mr. Jean Christophe Durand Director
Appointed by/ Status	**Mumtalakat/ (Non- Executive Dependent)**	**(Non – Executive Independent)**
Committee membership	Chairman of the Audit Committee	Deputy Chairman of the Executive Committee Remuneration, Nomination, Donation and Corporate Governance Committee
Qualifications and Experience	• Has been serving on Batelco Board since March 2014. He was re-appointed at the AGM in 2017 by the shareholders as a non-executive Dependent director in the Board for a period of 3 years. • Vice President of Roland Berger Strategy Consultants Middle East office • Senior Partner and member of the Executive Team with AT Kearney. • Senior Project Manager with McKinsey & Company. • Client base include major industrial corporations, telecom, energy and metals in Europe, Middle East and North America.	• He was elected by the shareholders at the AGM in 2017, as a non-executive Independent director in the Board and will hold the post for a period of 3 years. • Chief Executive Officer of National Bank of Bahrain • Previously Global Head of the BNP Paribas MEA (Middle East & Africa) region for Corporate and Institutional Banking and Asset Management for over 15 years • Spent 28 years in Bahrain working with Banque Indosuez and BNP Paribas • Established BNP as one of the key financial institutions in the region of GCC countries and Africa. • Graduated from ESSEC (Ecole Superieure des Sciences Economiques et Commerciales), French Business School in Paris
Years of Experience	More than 32 years of experience in International Management Consulting	More than 37 years of experience in Banking and Finance Sector.
Board Representation	• Board member and Chairman of the Audit committee of Sure Group Company (UK) • Board Member in Dhiraagu Telecommunication Company (Maldives) • Advisor to a number of SME's in Denmark	• Board member in Umniah Mobile and Telephone Company (Jordan) • Board member in Gulf Air • Board member in BIBF • Chairman of the French Chamber of Commerce and Industries in Bahrain (FCCIB)

Corporate Governance
(Continued)

Board Structure (Continued)

	R. Adm Yousif Ahmed Malalla AlSabt Director	Shaikh Ali Bin Khalifa AlKhalifa Director
Appointed by/ Status	Amber Holdings (Non-Executive Independent)	Amber Holdings/ (Non – Executive Independent)
Committee membership	Executive Committee	Audit Committee
Qualifications and Experience	• Has been serving on the Board since May 2017. He was appointed on the 15th May 2017 as a non-executive Independent director in the Board until the end of term. • Assistant Chief of Staff for Logistics & Supplies at the Bahrain Defence Force • Graduated from the Naval war college for Staff course at New Port, RI. USA in 1985. • He was appointed as Chief of the Royal Bahraini Naval Force until 2004 when he was appointed as Director of Planning, Organization and IT at the General Head Quarters. • Graduated from the Naval Academy in Egypt in 1978.	• Has been serving on Batelco Board since June 2018. He was appointed on the 3rd June 2018 as a non-executive Independent director in the Board until the end of term. • He joined the Bahrain Defense Force in June 1996 and currently holds the rank of Lieutenant Colonel. He has held various positions within the organization • President of Bahrain Football Association • Member of Asian Football Association Executive Committee • Member of the Bahrain Olympic Committee • President of Bahrain Cycling Association • Member of FIFA Competitions Committee. • Graduated with a Bachelor of Science in Mechanical Engineering from The George Washington University, D.C. • Holds a Master Degree in Business Administration from DePaul Graduate programme at the BIBF, Bahrain
Years of Experience	40 years of experience	Over 22 years of experience
Board Representation	• Board member and Audit committee member in Umniah Mobile and Telephone Company (Jordan) • Board member and Audit committee member in Quality net Company (Kuwait) • Board Member in National Broadband Network Company "NBNetco" (Bahrain) • Chairman of the Military Consumer and & Economic Association	• Chairman of Quality Net Company (Kuwait) • Deputy Chairman in National Broadband Network Company "NBNetco" (Bahrain) • Board Member in Sure Group Company (UK)

Corporate Governance
(Continued)

Board Structure (Continued)

Previous board members who served in 2018:

	Shaikh Mohamed bin Khalifa Al Khalifa Chairman	Dr. Ahmed Ebrahim Abdulqader Al Balooshi Director
Appointed by/ Status	**Mumtalakat / (Non – Executive Independent)**	**Amber Holdings/ (Non- Executive Independent)**
Previous Committee membership	Chairman of the Remuneration, Nomination and Donations Committee	Audit Committee
Qualifications and Experience	• Has been serving on Batelco Board since 28th December 2016. He was appointed by Mumtalakat until the end of the term. He was re-appointed at the AGM 2017 as a non-executive Independent director in the Board for a period of 3 years. He resigned from his position as Chairman of the Board in June 2018. • Obtained a Bachelor's degree in Business Administration from Arab University – Lebanon. • Used to serve as President of Customs Affairs at the Ministry of Interior. • Assistant Undersecretary for Financial, Administrative and Minor's Estate Affairs at the Ministry of Justice and Islamic Affairs. • A previous Board Member of Batelco and Gulf Air.	• Has been serving on Batelco Board since March 2014. He was re-appointed at the AGM in 2017 as a non-executive Independent director in the Board for a period of 3 years. He resigned from his position as a Board Member in June 2018. • Founder and CEO of Smarteam Consultancy. • Attained the role of Assistant Professor at the College of Business Administration, UOB in early 2014. • Held the post of Undersecretary, Regulatory and Performance Audit, National Audit Office, from 2005 to 2013. • He holds a Ph.D in Accounting from the University of Surrey UK, MBA and BSc. from University of Bahrain and is a Certified Public Accountant (CPA) - USA. • Used to hold a post of Senior Manager with Ernst and Young, Assistant Undersecretary at the National Audit Office and Director of Audit at the Ministry of Finance and Head of Computer Audit, Ministry of Finance.
Years of Experience	Over 47 years of experience.	29 years of experience

Mandate of the Board

The principle responsibilities of the Board, as set out in its Charter, are as follow:

- Represent the shareholder interests and optimizing long term financial returns.
- Establishing the Company's policies and strategy and regularly monitoring the performance of executive management against it.
- Oversight, performance evaluation and succession planning of executive management
- Preparation and fair presentation of the financial statements in accordance with the applicable financial reporting standards.
- Supervision of Risk recognition and assessment to ensure that the Company's operations, are measured, monitored and controlled by appropriate, effective and prudent risk management systems.
- Approve and monitor the progress of major capital expenditure, capital management, loans, and acquisitions, including the sale of movable and immovable property, granting permission for withdrawal of money and securities owned by Batelco
- Establishing policies to manage potential conflicts of interest including matters such as related party transactions.
- Establishing and disseminating to all employees and appointed representatives of the Company a corporate code of conduct

Corporate Governance
(Continued)

Board Meetings

As per the Charter of the Board, the directors are required to meet at least 4 times in a given financial year to discharge its responsibilities effectively.

During the year, the Board of Directors met **9** times on the following dates.

Board Meeting Attendance in 2018

Members	22 Feb	20 Mar	29 Mar	3 May	5 Jun	4 Jul	19 Jul	1 Nov	6 Dec
Sh. Abdulla Al Khalifa (Chairman)	-	-	-	-	✓	✓	✓	✓	✓
Mr. Abdulrahman Fakhro (Member)	✓	✓	✗	✓	✓	✓	✓	✓	✓
Mr. Raed Fakhri (Member)	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mrs. Khulood Al Qattan (Member)	✗	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Arif Rahimi (Member)	✓	✓	✓	✓	✓	✗	✗	✓	✓
Mr. Ahmed Al Hujairy (Member)	✓	✓	✓	✗	✓	✓	✓	✓	✓
Mr. Oliver McFall (Member)	✓	✓	✓	✓	✗	✓	✓	✓	✓
Mr. Jean Christophe Durand (Member)	✓	✓	✓	✓	✓	✓	✓	✓	✓
R. Adm Yousif Ahmed Al Sabt (Member)	✓	✓	✓	✓	✗	✓	✓	✓	✗
Sh. Ali Al Khalifa (Member)	-	-	-	-	✗	✓	✓	✓	✓
Sh. Mohamed Al Khalifa (Previous Member)	✓	✓	✓	✓	-	-	-	-	-
Dr. Ahmed AlBalooshi (Previous Member)	✓	✗	✓	✓	-	-	-	-	-

✓	Attended	✗	Did not attend

Appointment of New Board members 3 June 2018
Directorship changes were executed 19 July 2018

Corporate Governance
(Continued)

Major Issues discussed by the Board in 2018

Date	Subject
22 February 2018	• 2017 Year-end Financial Performance and Dividend Recommendation • ERP Additional Budget • Organizational Structural Changes • Call Center Additional Headcount • Data Center Additional Budget • Business continuity and information security policies • Global Business Growth Strategy • Approval of 2018 AGM agenda and Board Remuneration • 2017 Staff Bonus approval and 2018 KPI's • Batelco Treasury Shares • Authorized Bank Signatories • Al Waha EDB Fund • Board Travel and Expenses Policy
20 March 2018	• Review of Major Potential Projects
29 March 2018	• Batelco Treasury Shares • Board Directorship Changes
3 May 2018	• Q1 Financial Performance 2018 and Strategy Dashboard • Batelco Pearl Business Case • Licenses Renewal Business Case • Donations Budget Review • Grading Structure – Succession and Progression Planning Framework
5 June 2018	• Appointment of Chairman and Deputy Chairman • Batelco Bank Authorized Signatories List • Authorized Signatory
4 July 2018	• Review and Discussion of Strategy Proposal
19 July 2018	• June and YTD 2018 Performance /Dashboard and Interim Dividend • Kiosk Fraud Insurance claim • Umniah Management Fee discount • Sale of Thuraya shares • External Auditors 2018 fees • Whistleblowing Policy • Revision of Board Charter • Board Directorship Changes • Treasury Shares Offer • Treasury Policies Approval • 2018 KPI's

Corporate Governance
(Continued)

Date	Subject
1 November 2018	• Q3 financial Performance • Asset Disposal • Pearl Project final approval • Appointment of GM consumer Division • Appointment of Acting Board Secretary • Appointment of Compliance and Risk Management Officer • SIVA STel Settlement Offer • Umniah Jepco JV project • Project Oscar Kuwait • Excess Liquidity Options • Treasury Shares • Treasury Policy • Board of Directors Gift Policy • Corporate Governance Reporting Line
6 December 2018	• Batelco 2019 Budget and 5 year Business plan • Donation Financial Authority Matrix • BMIC Limited Directorship changes • Appointment of Corporate Governance Officer

Elections of Directors

There are formal, rigorous and transparent procedures for the appointment of new directors to the Board.

Candidates are identified and selected on merit against objective criteria and with due regard to the benefits of diversity on the Board, including gender.

The current directors of the Company are appointed by the General Shareholders Meeting from among candidates proposed by the Board and the Nomination from some major shareholders which is filtered through the Remuneration, Nomination, Donation, and Corporate Governance Committee.

Director Appointment Letter

As a member of the Board, each Director has signed a formal written appointment letter which covers among other things, the Director’s duties and responsibilities in serving on the Board, the terms and conditions of their directorship, the annual remuneration, and entitlement to reimbursement of expenses and access to independent professional advice when needed. The appointment letter also clarifies to the directors the importance of their loyalty and commitment to the organization as directors and their liability when it comes to making decision on behalf of the organization. All appointment letters are issued upon any director’s joining in the company and the allocation of his/her directorship within the committees or subsidiaries across the group.

Corporate Governance
(Continued)

Induction and Training of Directors

The Chairman in conjunction with the Nomination Committee is responsible for ensuring that induction and training programs are provided. The Board Secretary should also take full responsibility to ensuring that all directors are provided with a thorough induction and training upon joining the company and during their term of appointment.

Individual directors are also expected to take responsibility for identifying their training needs and to take steps to ensure that they are adequately informed about the Company and their responsibilities as a Director.

The Board is confident that all its members have the knowledge, ability and experience to perform the functions required of a director.

On appointment, individual Directors undergo an induction program covering, amongst other things:

- The business of the Company;
- Their legal and regulatory responsibilities as Directors;
- Briefings and presentations from senior executives; and
- Opportunities to visit business operations.

Throughout their period in office the Directors are continually updated on the Company's businesses and the regulatory and industry specific environments in which it operates.

These updates are by way of written briefings and meetings with senior executives and, where appropriate, external sources.

Termination of Directors

The membership of the Directors is terminated upon the expiry of the term upon which he/she needs to be subject to re-election.

The termination of directorship can also take effect if any Director is in breach of the applicable governing laws and requirements of the Articles of Association.

Performance Evaluation

Performance evaluation of the Board, Board Committees', Directors Individual performance and the performance of Executive Management takes place on an annual basis and is conducted within the terms of reference of the Remuneration and Nomination Committee with the aim of improving the effectiveness of the Board and its Committees, individual contributions and the Company's performance as a whole.

The evaluation is designed to determine whether the Board, its Committees, Individual Directors and Executive Management continue to be capable of providing the high level judgment required and are informed and up to date with the business and its goals and understand the context within which it operates.

All directors have effectively completed their performance evaluations and the next performance evaluation of the Board, its Committees, and the performance of the Directors and Executive Management performance is scheduled for 2019.

Board Committees Structure

In order to assist the Board in discharging its duties effectively and efficiently, the Board has established the following sub-committees:

The Board ensured that the Board Committees are provided with all necessary resources to enable them to undertake their duties in an effective manner. Each Board Committee has access to such information and advice, both from within the Company and externally, at the Company's cost as it deems necessary.

Corporate Governance
(Continued)

Executive Committee

The Executive Committee's primary duties and responsibilities are to:

- Review of Batelco's operational performance, at least once every financial quarter and direct management to develop and implement various initiatives to achieve the Annual Operating Plan
- Obtain reports at least once every financial quarter about the operating performance of joint ventures and associated companies and review the achievement of key financial targets and objectives
- Review of Batelco's 'Available For Sale' investment portfolio at least once every financial quarter
- Approve or recommend to the Board, all requests for the 'write-off' of an investment
- Approve or recommend to the Board any budgeted and unbudgeted capital expenditure
- Risk recognition and assessment to ensure that the Company's operations, are measured, monitored and controlled by appropriate, effective and prudent risk management systems.
- Assist the Board in the effective discharge of its responsibilities for business, financial, operational, and Batelco's compliance obligations.

Executive Committee Meetings

As per the Charter of the Executive Committee, the Directors are required to meet at least 4 times in a given financial year to discharge its responsibilities effectively.

During the year, the Executive Committee met on **6** occasions on the following dates and discussed the below mentioned significant items.

The summary of final decisions taken on significant items discussed during the meetings is also stated below:

- Discussion and approval of Monthly, Quarterly and YTD Financial Performance
- Discussion of Budget and Business Plan 2019-2023
- Discussion and approval of Key Projects
- Review and Discussion of Risk and Compliance Reports

Executive Committee Meeting Attendance in 2018

Members	4 Feb	19 Feb	17 May	25 Sep	31 Oct	5 Dec
Mr. Abdulrahman Fakhro (Chairman)	Attended	Attended	Attended	Attended	Attended	Attended
Mr. Jean Christophe Durand (Member)	Attended	Attended	Attended	Attended	Attended	Attended
Mr. Raed Fakhri (Member)	Attended	Attended	Did not attend	Attended	Attended	Attended
Mr. Arif Rahimi (Member)	Attended	Attended	Attended	Conference Call	Attended	Attended
R.Adm Yousif Ahmed Al Sabt (Member)	Attended	Attended	Attended	Did not attend	Attended	Attended

Attended | Did not attend | Conference Call

Appointment of New Board members 3 June 2018
Directorship changes were executed 19 July 2018

Audit Committee

The Company's internal audit function reports to the Audit Committee. The Audit Committee's primary duties and responsibilities are:

- The integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls;
- The annual independent audit of the Company's financial statements, the engagement of the external auditors and the evaluation of the external auditors' qualifications, remuneration, independence and performance;

Corporate Governance
(Continued)

Audit Committee (continued)

- The appointment of Head of Internal Audit and the regular review of the activities and performance of internal audit function; and
- Compliance by the Company with legal and regulatory requirements, including the Company's disclosure of controls and procedures.

Audit Committee Meetings

As per the Charter of the Audit Committee, the Directors are required to meet at least 4 times in a given financial year to discharge its responsibilities effectively. During the year, the Audit Committee met on **5** occasions on the following dates and discussed the below mentioned significant items.

The summary of final decisions taken on significant items discussed during the meetings is also stated below:

- Discussion and Approval of Quarterly and YTD Financial Performance
- Discussion and Approval of External Auditors Assessment of Quarterly and YTD Financial Performance
- Discussion and Approval of Annual Audit Plan and Quarterly updated Internal Audit Reports.

Audit Committee Meeting attendance in 2018

Members	18 Feb	2 May	18 July	3 Sep	30 Oct
Mr. Oliver McFall (Chairman)	Attended	Attended	Attended	Attended	Attended
Mrs. Khulood Al Qattan (Member)	Attended	Attended	Attended	Attended	Attended
Mr. Ahmed Al Hujairy (Member)	Conference Call	Did not attend	Attended	Attended	Attended
Sh. Ali Al Khalifa(Member)	-	-	-	Attended	Did not attend
Mr. Ahmed Al Balooshi(Previous Member)	Attended	Attended	-	-	-

Attended	Did not attend	Conference Call

Appointment of New Board members 3 June 2018
Directorship changes were executed 19 July 2018

Remuneration, Nomination, Donation, and Corporate Governance Committee

The Remuneration,Nomination ,Donation and Corporate Governance Committee is formed to handle the Nomination and Remuneration of Board of Directors and Senior Executives, Donation requests, and all responsibilities of Corporate Governance which has been recently added as part of the committee's responsibilities. The primary duties and responsibilities of this committee are as follows:

- Identify persons qualified to become members of the Board and executive management of the Company;
- Make recommendations to the Board regarding candidates for Board membership to be included by the Board of Directors on the agenda for the next AGM;
- Review the Company's remuneration policies for the Board and executive management, and submit for approval to shareholders;
- Remunerate Board members based on their attendance and performance.
- Administer the performance evaluation process for the Board and Board Committees and executive management.
- Examining Donations Committee's primary duties and responsibilities covers, examining donation requests made to Batelco from time to time; determining whether to approve the donation requests; assess the quantum of the approved donation requests and overseeing the administration of the funding allocated by the Board for such donations and,
- The Committee is also in charge of maintaining sound Corporate Governance across the organization and ensuring that the duties of the Corporate Governance Officer are met according to the standards and laws issued by the regulators i.e. (CBB and MOICT). The Corporate Governance Officer is responsible to report to the committee any non-compliance issues to the laws whilst adhering to disclose to the regulators any of those matters mentioned. And the role of the committee is to primarily supervise the duties of the Corporate Governance Officer and ensures that governance in the organization is applied accordingly.

Corporate Governance
(Continued)

Remuneration, Nomination, Donation, and Corporate Governance Committee Meetings

As per the Charter the Directors are required to meet at least 2 times in a given financial year to discharge its responsibilities effectively.

During the year, the Committee met on **8** occasions on the following dates and discussed the below mentioned significant items.

The summary of final decisions taken on significant items discussed during the meetings is also stated below:

- Approval and recruitment of Key Executives to the Bahrain and Group Operation
- Review and Discussion of the Career Development and Succession Planning plan across the Group
- Review and Approval of company performance of staff and executives bonus plan and KPI's across the Group
- Review and Approval of New Grading Structure
- Discussion of Management Remuneration and Retention Plan
- Review and Approval of Board Performance Evaluation and Self-Assessment Results and Board Remuneration
- Discussion and Approval of Board Directorship Changes
- Review and Approval of Board Travel and Expenses Policies.
- Review and Approval of Corporate Governance reporting line and appointment of Corporate Governance Officer
- Review of Batelco's Donation and CSR objectives and plan
- Discussion and Approval on Annual Committed Donations
- Discussion and Approval of Budget and Donation Requests.
- Review of Board Independence

Remuneration, Nomination, Donation, and Corporate Governance Committee Meeting Attendance in 2018

Members	16 Jan	13 Feb	15 Feb	5 Apr	12 Apr	8 Jul	23 Sep	2 Dec
Sh. Abdulla Al Khalifa (Chairman)	-	-	-	-	-	✓	✓	✓
Mr. Raed Fakhri (Member)	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Abdulrahman Fakhro (Member)	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Jean Christophe Durand (Member)	✓	✓	✓	✓	✓	✓	✓	✓
Sh. Mohamed Al Khalifa (Previous Member)	✓	✓	✓	✓	✓	-	-	-

✓	Attended	✗	Did not attend

Appointment of New Board members 3 June 2018

Directorship changes were executed 19 July 2018

Code of Conduct and Whistle Blowing Policy

The Board has adopted a formal code of conduct and whistle blowing policies that apply to the Directors and all employees of the Company to guide them in their conduct and promote ethical behavior, honesty and integrity in their normal daily activities in order to safeguard and uphold the reputation of the Company at all times. The code of conduct and whistle blowing policies developed and implemented are in accordance with the applicable regulations and leading industry practice.

Conflict of Interest

At all times, the Directors have a duty to avoid circumstances which may result in interests that conflict with those of the Company, unless that conflict is duly approved by the Board.

It is the obligation of the Board to assess, determine and authorize any such potential conflicts, taking into account all the circumstances.

This includes potential conflicts that may arise when a Director takes up a position with another company or when the Company enters into transactions or agreements in respect of which a Director or executive officer has a material interest.

Where the existing Director wishes to take up an external appointment, they are under an obligation to inform and obtain prior approval from the Board before doing so.

Each external appointment of the Director is considered by the Board individually, taking into account the expected time commitment and any relationships.

Corporate Governance
(Continued)

Conflict of Interest (Continued)

During the year, the below conflict of interests were declared by the Board members and they have abstained from voting on the below mentioned cases:

#	Date	Meeting	Conflict of Interest Matter	Declared by
1	13th Feb 2018	Remuneration, Nomination, Donation and Corporate Governance Committee Meeting	Donation Request from Mumtalakat	Mr. Raed Fakhri
2	3rd May 2018	Board Meeting	Distribution of Ramadhan vouchers	R. Adm. Yousif Al Sabt
3	17th May 2018	Executive Committee Meeting	Deposit Limits with Islamic Banks	Mr. Jean Christophe Durand
4	19th July 2018	Board Meeting	Fraud Insurance Claim	Sh. Abdulla Al Khalifa
5	19th July 2018	Board Meeting	Treasury Shares Offer	Sh. Abdulla Al Khalifa
6	25th Sep 2018	Executive Committee Meeting	TRA Guarantee	Mr. Jean Christophe Durand
7	1st Nov 2018	Board Meeting	Treasury Shares	Sh. Abdulla Al Khalifa Mr. Jean Christophe Durand Mrs. Khulood Al Qattan

Related Party Transactions and Directors Trading of Company Shares

It is the policy and practice of the Company that all related party and intra-group transactions are done on an arm's length basis in the ordinary course of business and are approved by the Executive Management of the Company.

By reason of being a listed Company, the Directors, executive management and the employees are eligible to trade in the shares of the Company and are monitored by relevant authority in the Company to ensure that no trade is made with the material information still not made public.

Please refer the note 30 (Transactions with Related Parties) of the financial statements for the details of related party transactions Directors trading of the Company shares during the year.

Key Persons Policy

As part of their policies to maintain a fair, orderly and transparent securities market, the Bahrain Bourse and the Central Bank of Bahrain (CBB) enforced the stipulation of "Key Persons' Dealing Policy".

The policy regulates the trading of securities by members of the Board of Directors, Management staff and others persons in the company. The Directors have access to sensitive information that if exposed to the market, may directly or indirectly effect the value or price of the securities.

Batelco insures to adhere to the Key Persons Policy and reports on a regular basis to the CBB and Bahrain Bourse on any irregular activities that may occur from a key person within the company.

Internal Controls

The Board has overall responsibility for ensuring that management maintains an effective system of internal control and for reviewing its effectiveness. A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There are clear processes for monitoring the system of internal control and reporting any significant control failings or weaknesses together with details of corrective action.

Management is required to apply judgment in evaluating the risks in achieving the objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks materializing, in identifying the ability to reduce the incidence and impact on the business of risks that do materialize and in ensuring that the costs of operating particular controls are proportionate to the benefit.

Throughout the year ended 31 December 2018, and to date, the Company has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations.

Processes are in place for identifying, evaluating and managing the significant risks facing the Company.

The Board regularly reviews these processes through its principal Board Committees. The effectiveness of controls is periodically reviewed within the business areas and regular reports are made to the Audit Committee by the Internal Audit Department.

Corporate Governance
(Continued)

Remuneration Policy for Directors

The Company follows a transparent process with regards to the remuneration policy pertaining to the Directors in the Board.

The remuneration for the services rendered in the capacity of Director of the Company is based on the amount approved in last AGM recommended by the Board.

Any subsequent revisions to the remuneration will be based on the approval obtained from the shareholders in the next AGM.

The remuneration for Directors is principally based on the attendance in Board meetings in the previous calendar year.

In addition to the above, the Company reimburses the Directors for all direct and indirect expenses, accommodation and travelling expenses, reasonably incurred during the term of their appointment.

Please refer the note 30 (Directors' Remunerations) of the financial statements for the details of Directors' Remuneration and Committees setting fees.

Remuneration Policy for Executive Management

The remuneration principles of the Company are based on the following principles:

- Attract and retain human resources with ability, talent, skill and knowledge to deliver quality
- Aligning the reward of employees with the returns of the shareholders
- Implement incentive framework which challenges employees to deliver sustained, high quality consistent performance at all times

The Remuneration Committee is responsible for devising the remuneration policy for the executive management of the Company with an objective to achieve a balance between offering market competitive remuneration to retain talent, and optimizing current and future shareholder returns.

The Remuneration Committee utilizes the analytical tools, qualitative and quantitative measures and comparative studies by experts to formulate remuneration and compensation packages for the management of the Company.

In addition to this, the Company has also a framework in place to monitor and evaluate the performance of the executive management and employees of the Company.

An equitable and transparent system of limits and performance metrics is in place which is used to reward the employees of the Company for their accomplishments during the year.

The executive management under the guidance of the Remuneration and Nomination Committee is responsible for administering the employee performance process.

Please refer the note 30 (Key Management Personnel Compensation) of the financial statements for the details of Executives Remunerations.

Stock Options and Performance linked incentives for executives

(Not Applicable to Batelco)

Auditors

The Audit Committee reviews the appointment of the external auditors, as well as their relationship with the Company, including monitoring the Company's use of the auditors for non-audit services and the balance of audit and non-audit fees paid to the auditors.

Details with regards to the audit and non-audit fees for the Parent Company Bahrain Telecommunications Company BSC as a legal entity are stated here below:

Audit Fees for 2018	BHD 88,825
Non-Audit Services Fees for 2018	BHD 46,503

KPMG Fakhro has been the Company's auditors since 1993. Having reviewed the independence and effectiveness of the external auditors, the Audit Committee has not considered it necessary to change the external auditors.

The Audit Committee has recommended to the Board that the existing auditors, KPMG Fakhro, be reappointed. The Partner In charge of auditing Batelco's Accounts is Mr. Mahesh Balasubramanian, and he has been serving as partner for Batelco for the past 5 years.

KPMG Fakhro have signified their willingness to continue in office and ordinary resolutions reappointing them as auditors and authorizing the Directors to set their remuneration will be proposed in next AGM.

Corporate Governance
(Continued)

Key Management Personnel

Ihab Hinnawi Group Chief Executive Officer	**Feb 2015**
Joined Batelco	2007
Previous roles/Experience	Batelco Bahrain Enterprise Division General Manager Batelco Jordan CEO Umniah Operations Director (2004-2007) Umniah Chief Executive Officer (2009-2015)
Qualifications/Achievements	BA Business Administration

Faisal Qamhiyah Group Chief Financial Officer	**2013**
Joined Batelco	2012
Previous roles/Experience	Chief Financial Officer Umniah and Batelco Bahrain Chief Operating Officer – Zain Jordan Investments Director – Ern Capital Finance Director / CFO – Zain Jordan Group Internal Auditor – EDGO Group
Qualifications/Achievements	BA in Economics, CPA, EDP from Kellogg School of Management, USA.

Muna Al Hashemi Deputy Group Chief Executive Officer	**Oct 2017**
Joined Batelco	1990
Previous roles/Experience	Chief Executive Bahrain – Batelco Board Member- Umniah General Manager Consumer Division- Batelco Senior Manager, Mobile Product Marketing and Development- Batelco Senior Manager, Marketing & Branding and Segmentation- Batelco
Qualifications/Achievements	Msc. (Eng.) in Electronics & Communication BSc. (Honours) in Electrical & Electronic Engineering Associated Diploma in Electrical & Electronic Engineering

Corporate Governance
(Continued)

Key Management Personnel (Continued)

Mohamed Bubashait Batelco Bahrain Chief Executive Officer	October 2017
Joined Batelco	1999
Previous roles/Experience	• General Director, Bahrain Telecommunication Regulatory Authority (TRA) • General Manager Products and Services, Bahrain Telecommunications Company (Batelco) • General Manager Networks and IT Strategy, Bahrain Telecommunications Company (Batelco)
Qualifications/Achievements	• Executive Diploma from Darden Graduate School of Business Administration University of Virginia, USA. • Post Graduate degree, MSc. Information & Communication Technology from Glasgow University. • BSc. MATH & COMPUTER SCIENCE from University of Bahrain. • Certified PRINCE 2, British standard for project management and competent PMP Program Manager.

Baha Tuncer Batelco Bahrain Chief Financial Officer	September 2017
Joined Batelco	2017
Previous roles/Experience	CFO at Vodafone Portugal Head of Finance at Vodafone Group in the UK Head of Finance at Vodafone Turkey CFO at Lifecell Ukraine Director of Corporate Finance Financial Audit for Siemens North America
Qualifications/Achievements	Bachelor Degree in Business Administration from Bosphorus University, Turkey Financial Executives Programme by Marshall School of Business at University of Southern California Certified Public Accountant (California, USA) and a Chartered Global Management Accountant.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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CHAIRMAN'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

On behalf of the Board of Directors, it gives me great pleasure to present the 37th Annual Report of the Bahrain Telecommunications Company BSC and its subsidiaries and affiliates (The Batelco Group), for the year ended 31st December 2018.

The Group ended 2018 with strong fundamentals reporting consistent revenue growth and higher EBITDA throughout the year.

For the full year of 2018, revenues have increased by 7% from BD379.4M (US$1,006.4M) in 2017 to BD405.9M (US$1,076.7M) in 2018. Revenues have been positively bolstered by continued strong performance at Batelco Bahrain, Umniah in Jordan and Dhiraagu, the Group's operation in the Maldives. Furthermore, revenues were boosted by double digit year over year growth in fixed Broadband, up by 10%, Datacom up by 18%, and Digital services up by 34% across the Group's operations.

EBITDA for the year increased 15% over the corresponding period of 2017 from BD124.7M (US$330.8M) to BD142.8M (US$378.8M) with an EBITDA margin of 35%. The Group's operating expenses are down 2% year over year.

Operating profits have increased year over year by 25% from BD58.4M (US$154.9M) in 2017 to BD72.7M (US$192.8M) for 2018.

The Group ended the year with net profits attributable to equity holders of the company of BD50.1M (US$132.9M) up from BD3.5M (US$9.3M) for the corresponding period in 2017, an increase of 1,335%. The 2017 net profit was mainly impacted by impairment losses related to the Group's investments in Yemen and Jordan.

The Group's balance sheet continues to be strong with total assets of BD912.4M (US$2,420.2M) as of 31 December 2018 and net assets of BD504.9M (US$1,339.3M). The Group ended the year with substantial cash and bank balances of BD153.3M (US$406.6M) and a Net Debt to EBITDA ratio of 0.58, considerably lower than the regional and international industry average. Earnings per share for the full year in 2018 stood at 30.1 fils compared with 2.1 fils reported in 2017.

Proposed Appropriations

Based on the financial results, the Board of Directors has recommended for the approval of shareholders, the following appropriations for the year 2018.

BD millions	2018	2017
Final cash dividends proposed	29.11	24.95
Interim cash dividends paid	16.63	16.63
Donations at 2.5%	1.25	0.09
Transfer to statutory reserve	2.67	Nil

The Board of Directors has recommended a full year cash dividend of BD45.7M (US$121.2M), at a value of 27.5 fils per share, to be agreed at the Group's Annual General Meeting (AGM), of which 10 fils per share was already paid during the third quarter of 2018 with the remaining 17.5 fils to be paid following the AGM, in March 2019. Batelco is committed to delivering greater returns for its shareholders with its efforts leading to improved dividends.

The Board of Directors is very pleased with Batelco's strong financial and operational performance for the year. The results reflect the effectiveness of the Group's overall strategic initiatives and we are delighted to witness the strong year-on-year growth in digital, Datacom and fixed broadband services across the Group.

We have established a powerful platform to build on in order to sustain long-term success for the Group and continue to deliver strong value for our shareholders.

Auditors

The Board of Directors will recommend the re-appointment of KPMG Fakhro as Batelco's auditors for the financial year ending 31st December 2019.

CHAIRMAN'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

Appreciation for Support

Batelco is fortunate to benefit from the unwavering support of the Kingdom's leadership and their commitment to the evolution of the communications sector is invaluable. Accordingly, on behalf of Batelco Board of Directors and all members of Batelco teams, I extend appreciation to His Majesty King Hamad bin Isa Al Khalifa, King of Bahrain, His Royal Highness Prince Khalifa bin Salman Al Khalifa, the Prime Minister and His Royal Highness Prince Salman bin Hamad Al Khalifa, Crown Prince, Deputy Supreme Commander and First Deputy Premier.

I extend appreciation to my predecessor Shaikh Mohamed bin Khalifa Al Khalifa, who served as Chairman until June 2018, for his contribution in supporting the implementation of the Group's plans. I am very grateful to my colleagues on the Board, executive management and all employees across the Group's operations for the roles they have played in turning Batelco around and increasing shareholders return significantly.

Well Being of the Community Important

In addition to its role as a major investor in world-class solutions and superior customer experience across its operations, Batelco continues to play a very important role in the communities in which it operates.

Corporate Social Responsibility has always been an integral part of Batelco's remit and we have renewed our commitment to reaching out to the communities around us, with a sharp focus on supporting initiatives in the Kingdom of Bahrain. Batelco's CSR activities are in line with the company's eagerness to strengthen its community partnership as part of its national duty.

Looking Forward with Confidence

Boosted by this strong set of financial and operational results we have a sound platform to work from as we begin a new year for Batelco and its subsidiaries.

We believe we have the correct strategies in place, with particular attention given to building the digital infrastructures needed for our future success while maintaining a relentless focus on the experience of our customers.

We understand that it is also vital to invest in our people to ensure we have the relevant skills in place to address the changing landscape of the industry; accordingly, training programmes have been launched to upskill our employees' competencies in key areas including the digital arena.

Furthermore, we have confidence that the successful execution of our evolved strategy will serve the long-term interests of our stakeholder and drive sustainable growth in value for our shareholders.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board
Bahrain Telecommunications Company BSC
21 February 2019

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

BAHRAIN TELECOMMUNICATIONS COMPANY BSC
P.O. BOX 14, MANAMA, KINGDOM OF BAHRAIN

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Bahrain Telecommunication Company BSC (the "Company") and its subsidiaries (together the 'Group'), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended 31 December 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

(refer to the accounting policies in note 3 c) and disclosure in note 21 of the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: – There is an inherent risk around the accuracy of revenue recorded given the complexity of systems and the impact of changing pricing models to revenue recognition (tariff structures, incentive arrangements, discounts etc.). – The Group has adopted IFRS 15 Revenue from Contracts with Customers as at 1 January 2018, using the cumulative effect method. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The application of this accounting standard is complex and has resulted in: • change in accounting policies for revenue from contract with customers including the need for making complex estimates and judgment over both timing and recognition of revenue; • transition adjustments on 1 January 2018, being the date of adoption in retained earnings amounting to BD 1.4 million; • significant change in processes, data and control that have not been subject to testing previously; and • complex disclosure requirements regarding impact of initial application of IFRS 15 and disclosures of key components of revenue.	Our audit approach included controls testing and substantive procedures covering, in particular: – testing the IT environment in which billing, rating and other relevant support systems reside, including the change control procedures in place around systems that bill material revenue streams; – testing the controls and governance processes over reconciliation from business support systems to billing and rating systems to the general ledger; – performing tests on the accuracy of customer bill generation on a sample basis and testing of a sample of the credits and discounts applied to customer bills; – performing tests on allocation of revenue for bundled contracts and recognition of revenue on multi-period contracts; – performing tests on reasonableness of allocation and utilisation of deferred revenue representing undelivered service obligations; and – Assessing the adequacy of the consolidated financial statements disclosures relating to the transition impact from first time application of IFRS 15, new accounting policies, use of significant estimates and judgments and revenue composition by reference to the requirements of relevant accounting standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

BAHRAIN TELECOMMUNICATIONS COMPANY BSC
P.O. BOX 14, MANAMA, KINGDOM OF BAHRAIN

Carrying value of goodwill

(refer to the use of estimate and management judgement in note 6 and impairment policy in note 3 m(ii) of the consolidated financial statements)

Description	How the matter was addressed in our audit
As at 31 December 2018, the Group's consolidated financial statements includes recognised goodwill of BD135.4 million which arose from the acquisition of subsidiaries. An assessment is required annually to establish whether this goodwill should continue to be recognised, or if any impairment is required. The impairment assessment relies on determining the recoverable amount of the investment in the subsidiary using valuation techniques such as discounted cash flows. The estimation of future cash flows and the rate at which they are discounted is inherently uncertain and requires significant judgment and hence has been identified as a key area of audit focus.	Our audit procedures, amongst others, included: — understanding of the Group's budgeting process upon which the forecasts are based; — we involved our own valuation specialists to assist us in: • evaluating the appropriateness of the methodology used by the Group to assess impairment of goodwill; and • evaluating key inputs and assumptions in cash flow projections used by the Group in comparison to externally derived data as well as our own assessments of investee specific circumstances and experience in the related industry, in particular its derivation of discount rates, long term growth rates, revenue and EBITDA margins and comparing progress against stated business plans. — assessed whether the consolidated financial statements disclosures relating to key inputs and assumptions for goodwill impairment were appropriate.

Carrying value of investment in associate

(refer to the use of estimate and management judgement in note 8 and impairment policy in note 3 m(ii) and 4 a(ii) of the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this area because: — The Group's investment in associate amounting to BD 27.9 million is situated in a geographical location which is currently considered unstable and high risk; — The impairment assessment is subjective and involves management judgement and estimates, in particular relating to the future prospects of the investee, the continuing operations and expected benefits from the business; and	Our audit procedures, amongst others, included: — evaluating the Group's basis of developing forecasts for an investee under stress; — we involved our own valuation specialists to assist us in: • evaluating the appropriateness of the methodology used by the Group to assess impairment of carrying value of investments in associate; and • evaluating key inputs and assumptions in cash flow projections used by the Group as well as our own assessments of investee specific circumstances and experience in the related geography, in particular its derivation of revenues, margins, discount rates and expected long term growth rates. — assessed whether the consolidated financial statements disclosures relating to key inputs and assumptions for impairment of investment in associate were appropriate.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

BAHRAIN TELECOMMUNICATIONS COMPANY BSC
P.O. BOX 14, MANAMA, KINGDOM OF BAHRAIN

Capitalisation and useful lives of property and equipment and other intangible assets
(refer to accounting policy in notes 3 d) and 3 h) and disclosures in note 5 and 7 of the consolidated financial statements)

Description	How the matter was addressed in our audit
We focused on this area because there are a number of areas where management judgement impacts the carrying value of property and equipment and other intangible assets and their respective depreciation/ amortisation profiles. These include: – The decision to capitalise or expense costs; – The annual asset life review including the impact of changes in the Group's strategy; and – The timeliness of the transfer from assets in the course of construction/ deployment.	Our audit procedures, amongst others, included: – we tested controls in place over the fixed asset cycle, and acquisition of other intangible assets, evaluated the appropriateness of capitalisation policies and assessed the timeliness of the transfer of assets in the course of construction; – we assessed the nature of costs incurred in capital projects through testing of amounts recorded and assessing whether the description of the expenditure met capitalisation criteria; – we tested the controls over the annual review of useful life of assets. In addition, we tested whether the Group's decisions on useful life of asset are appropriate by considering our knowledge of the business and practice in the wider telecoms industry; and – assessed whether the consolidated financial statements disclosures relating to capitalisation and useful life of property and equipment and other intangible assets were appropriate.

Other information

The board of directors is responsible for the other information. The other information comprises information in the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of our auditor's report, we obtained the report of the board of directors which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (CONTINUED)

BAHRAIN TELECOMMUNICATIONS COMPANY BSC
P.O. BOX 14, MANAMA, KINGDOM OF BAHRAIN

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended 31 December 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements

As required by the Commercial Companies Law, we report that:

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

The engagement partner on the audit resulting in this independent auditors' report is Mahesh Balasubramanian.

KPMG

KPMG Fakhro

Partner registration number 137

21 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

BD'000

	Note	2018	2017*
ASSETS			
Non-current assets			
Property and equipment	5	257,310	274,764
Goodwill	6	135,367	136,602
Other intangible assets	7	118,594	134,469
Investment in associate	8	27,860	34,836
Deferred tax assets	16	9,639	7,534
Post-employment benefit assets	26	4,749	3,597
Other investments	9	45,257	41,592
Total non-current assets		**598,776**	633,394
Current assets			
Inventories		6,659	7,895
Trade and other receivables	10	124,525	132,509
Other investments	9	12,839	-
Cash and bank balances	11	142,763	158,703
Asset held-for-sale	12	26,814	-
Total current assets		**313,600**	299,107
Total assets		**912,376**	932,501
LIABILITIES			
Non-current liabilities			
Trade and other payables	13	4,171	6,110
Loans and borrowings	15	211,902	221,254
Deferred tax liabilities	16	10,302	13,837
Total non-current liabilities		**226,375**	241,201
Current liabilities			
Trade and other payables	13	136,612	171,892
Loans and borrowings	15	24,878	16,941
Liabilities directly associated with asset held-for-sale	12	19,631	-
Total current liabilities		**181,121**	188,833
Total liabilities		**407,496**	430,034
Net assets		**504,880**	502,467
EQUITY			
Share capital	17	166,320	166,320
Statutory reserve	18	83,160	84,116
General reserve	18	44,000	45,890
Foreign currency translation reserve		(18,254)	(13,223)
Investment fair value reserve		(29,838)	(26,767)
Post-employment benefit actuarial reserve	26	(4,328)	(5,665)
Retained earnings		224,188	211,212
Total equity attributable to equity holders of the Company		**465,248**	461,883
Non-controlling interest		38,914	40,584
Non-controlling interest associated with asset held-for-sale	12	718	-
Total non-controlling interest		**39,632**	40,584
Total equity (Page 80)		**504,880**	502,467

*December 2018 results reflect the adoption of IFRS 15. Prior periods have not been restated. Refer note 3(c) for further details.

The consolidated financial statements, which consist of pages 77 to 120 were approved by the Board of Directors on 21 February 2019 and signed on its behalf by:

Abdulla bin Khalifa Al Khalifa
Chairman

Rear Admiral Yousif Malallah AlSabt
Deputy Chairman

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

	Note	2018	2017*
REVENUE	21	**405,853**	379,446
EXPENSES			
Network operating expenses	22	(160,178)	(147,699)
Staff costs		(56,286)	(58,461)
Voluntary employee retirement program cost	14	-	(8,050)
Depreciation, amortization and tangible assets impairment	5,7	(70,097)	(66,319)
Impairment loss on trade receivables and contract assets	10	(5,311)	(1,979)
Other operating expenses	23	(41,239)	(38,549)
Total expenses		**(333,111)**	(321,057)
Results from operating activities		**72,742**	58,389
Finance income		6,014	5,062
Finance expenses		(13,158)	(12,172)
Other income, net	24	3,362	19,889
Loss on investments	25	-	(51,249)
Share of loss from associate, net	8	(6,976)	(3,970)
Profit before taxation		**61,984**	15,949
Income tax expense	16	(1,769)	(2,709)
Profit for the year		**60,215**	13,240
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences – foreign operations		(5,053)	8,220
Fair value changes (debt securities)		80	145
		(4,973)	8,365
Items that will never be reclassified to profit or loss			
Fair value changes (equity securities)		(3,151)	(42)
Remeasurement of defined benefit asset including related tax	26	1,337	(266)
		(1,814)	(308)
Other comprehensive income, net of tax		**(6,787)**	8,057
Total comprehensive income for the year		**53,428**	21,297
Profit for the year attributable to:			
Equity holders of the Company		50,108	3,491
Non-controlling interest		10,107	9,749
		60,215	13,240
Total comprehensive income for the year attributable to:			
Equity holders of the Company		43,324	11,543
Non-controlling interest		10,104	9,754
		53,428	21,297
Basic and diluted earnings per share (Fils)	27	**30.1**	2.10

*December 2018 results reflect the adoption of IFRS 15. Prior periods have not been restated. Refer note 3(c) for further details.

The consolidated financial statements, which consist of pages 77 to 120 were approved by the Board of Directors on 21 February 2019 and signed on its behalf by:

Abdulla bin Khalifa Al Khalifa
Chairman

Rear Admiral Yousif Malallah AlSabt
Deputy Chairman

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

	Note	2018	2017*
OPERATING ACTIVITIES			
Profit for the year		60,215	13,240
Adjustment for:			
Non-operating items, including tax		12,527	45,149
Depreciation amortization and tangible assets impairment		70,097	66,319
Impairment loss on trade receivables and contract assets		5,311	1,979
		148,150	126,687
Working capital changes:			
Increase in trade and other receivables		(15,996)	(13,139)
Decrease / (increase) in inventories		995	(3,463)
Decrease in trade and other payables		(10,240)	(5,368)
Cash generated from operating activities		**122,909**	104,717
Taxes paid		(6,102)	(5,809)
Payment to charities		(2,790)	(2,087)
Net cash from operating activities		**114,017**	96,821
INVESTING ACTIVITIES			
Acquisition of property, equipment and intangibles		(48,286)	(54,193)
Net cash for purchase of other investments		(6,830)	(4,430)
Interest and investment income received		7,380	5,563
Net cash used in investing activities		**(47,736)**	(53,060)
FINANCING ACTIVITIES			
Dividend paid		(52,509)	(54,858)
Interest paid		(11,920)	(10,890)
Borrowings, net		(1,818)	3,699
Net cash used in financing activities		**(66,247)**	(62,049)
Increase / (decrease) in cash and cash equivalents		**34**	(18,288)
Cash and cash equivalents at 1 January		96,323	114,611
Cash and cash equivalents at 31 December	11	**96,357**	96,323

* December 2018 results reflect the adoption of IFRS 15. Prior periods have not been restated. Refer note 3(c) for further details.

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

		Equity attributable to equity holders of the Company									
2018	Note	**Share capital**	**Statutory reserve**	**General reserve**	**Foreign currency translation reserve**	**Investment fair value reserve**	**Post-employment benefit actuarial reserve**	**Retained earnings**	**Total**	**Non - controlling interest**	**Total equity**
At 1 January 2018 (previously reported)		166,320	84,116	45,890	(13,223)	(26,767)	(5,665)	211,212	461,883	40,584	502,467
Impact of First time adoption of IFRS 15	3(c)	**-**	**-**	**-**	**-**	**-**	**-**	**1,479**	**1,479**	**111**	**1,590**
Balance at 1 January 2018 as restated		166,320	84,116	45,890	(13,223)	(26,767)	(5,665)	212,691	463,362	40,695	504,057
Profit for the year		-	-	-	-	-	-	**50,108**	**50,108**	**10,107**	**60,215**
Other comprehensive income											
Foreign currency translation differences		-	-	-	(5,049)	-	-	(1)	(5,050)	(3)	(5,053)
Investment fair value changes		-	-	-	-	(3,071)	-	-	(3,071)	-	(3,071)
Remeasurement of defined benefit liability including related tax	26	-	-	-	-	-	1,337	-	1,337	-	1,337
Total other comprehensive income		**-**	**-**	**-**	**(5,049)**	**(3,071)**	**1,337**	**(1)**	**(6,784)**	**(3)**	**(6,787)**
Total comprehensive income for the year		**-**	**-**	**-**	**(5,049)**	**(3,071)**	**1,337**	**50,107**	**43,324**	**10,104**	**53,428**
Contributions and distributions											
Final dividends declared for 2017	19	-	-	-	-	-	-	(24,948)	(24,948)	-	(24,948)
Donations declared for 2017		-	-	-	-	-	-	(87)	(87)	-	(87)
Transfer from statutory reserve	18	-	(956)	-	15	-	-	1,091	150	(150)	-
Transfer from general reserve	18	-	-	(1,890)	3	-	-	1,966	79	(79)	-
Interim dividends declared for 2018	19	-	-	-	-	-	-	(16,632)	(16,632)	-	(16,632)
Dividends to non-controlling interest		-	-	-	-	-	-	-	-	(10,938)	(10,938)
Total contributions and distributions		**-**	**(956)**	**(1,890)**	**18**	**-**	**-**	**(38,610)**	**(41,438)**	**(11,167)**	**(52,605)**
At 31 December 2018		**166,320**	**83,160**	**44,000**	**(18,254)**	**(29,838)**	**(4,328)**	**224,188**	**465,248**	**39,632**	**504,880**

		Equity attributable to equity holders of the Company									
2017	Note	Share capital	Statutory reserve	General reserve	Foreign currency translation reserve	Investment fair value reserve	Post-employment benefit actuarial reserve	Retained earnings	Total	Non - controlling interest	Total equity
At 1 January 2017		166,320	84,116	45,890	(21,437)	(26,870)	(5,399)	250,241	492,861	44,107	536,968
Profit for the year		-	-	-	-	-	-	3,491	3,491	9,749	13,240
Other comprehensive income											
Foreign currency translation differences		-	-	-	8,214	-	-	1	8,215	5	8,220
Investment fair value changes		-	-	-	-	103	-	-	103	-	103
Remeasurement of defined benefit liability including related tax	26	-	-	-	-	-	(266)	-	(266)	-	(266)
Total other comprehensive income		-	-	-	8,214	103	(266)	1	8,052	5	8,057
Total comprehensive income for the year		-	-	-	8,214	103	(266)	3,492	11,543	9,754	21,297
Contributions and distributions											
Final dividends declared for 2016	19	-	-	-	-	-	-	(24,948)	(24,948)	-	(24,948)
Donations declared for 2016		-	-	-	-	-	-	(941)	(941)	-	(941)
Interim dividends declared for 2017	19	-	-	-	-	-	-	(16,632)	(16,632)	-	(16,632)
Dividends to non-controlling interest		-	-	-	-	-	-	-	-	(13,277)	(13,277)
Total contributions and distributions		-	-	-	-	-	-	(42,521)	(42,521)	(13,277)	(55,798)
At 31 December 2017		166,320	84,116	45,890	(13,223)	(26,767)	(5,665)	211,212	461,883	40,584	502,467

The accompanying notes 1 to 33 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

1. REPORTING ENTITY

Bahrain Telecommunications Company BSC ("the Company", "the Parent") is a public shareholding company registered under commercial registration number 11700 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 2018 comprise the financial statements of the Company, and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associate. The registered office of the Company is P.O. Box 14, Manama, Kingdom of Bahrain. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. The country of incorporation or registration is also their principal place of business. The subsidiaries and associate of the Group included in these consolidated financial statements are as follows:

Company	Country of incorporation	Principal activity	Share Holding (%)
Subsidiaries			
Batelco Middle East Holding Co. BSC (c)	Kingdom of Bahrain	Holding Company	100
NBNETCO B.S.C.(c)	Kingdom of Bahrain	Telecommunication services	100
Batelco International Company BSC (c)	Kingdom of Bahrain	Holding Company	100
Batelco Middle East Jordan LLC	Kingdom of Jordan	Holding Company	100
Umniah Mobile Company PSC	Kingdom of Jordan	Telecommunication services	96
Batelco Jordan PSC	Kingdom of Jordan	Telecommunication services	96
Urcell Telecom & Technologies Services LLC	Kingdom of Jordan	Telecommunication services	96
Umniah for Renewable energy	Kingdom of Jordan	Renewable energy	96
QualityNet General Trading and Contracting Company WLL	State of Kuwait	Telecommunication services	90
Dhivehi Raajjeyge Gulhun Plc (Dhiraagu)	Maldives	Telecommunication services	52
Sure (Guernsey) Limited	Guernsey	Telecommunication services	100
Sure (Jersey) Limited	Bailiwick of Jersey	Telecommunication services	100
Foreshore Limited	Bailiwick of Jersey	Telecommunication services	100
Sure (Isle of Man) Limited	Isle of Man	Telecommunication services	100
Sure (Diego Garcia) Limited	Bermuda	Telecommunication services	100
Sure South Atlantic Limited	Falklands	Telecommunication services	100
BMIC Limited	Mauritius	Holding Company	100
Batelco Egypt Communications (S.A.E.)	Arab Republic of Egypt	Telecommunication services	100
Batelco International Group Holding Limited	Bailiwick of Jersey	Holding Company	100
Batelco International Finance No1 Limited	Cayman Islands	Holding Company	100
BTC Islands Limited	United Kingdom	Holding Company	100
BTC Sure Group Limited (formerly BTC South Atlantic Limited)	United Kingdom	Holding Company	100
Associate			
Yemen Company for Mobile Telephony Y.S.C ("Sabafon")	Republic of Yemen	Telecommunication services	26.94

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

2. BASIS OF PREPARATION

a) Statement of compliance

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

This is the first set of the Group's consolidated financial statements in which IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 3 (c).

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for measurement of certain investment securities that are stated at their fair values.

c) Functional and presentation currency

These consolidated financial statements are presented in Bahraini Dinars ("BD"), which is the Company's functional currency. All amounts have been rounded to the nearest thousand (BD '000), unless otherwise indicated.

d) Use of estimates and judgments

The preparation of consolidated 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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

• Note 3 c)	Revenue recognition including allocation of revenue from bundled contracts
• Note 3 m) (i) & 4 a) (i)	Impairment test for trade receivables and contract assets: key assumptions underlying expected credit losses
• Note 3 p) & 16	Recognition of deferred tax assets: availability of future taxable profits against which carry forward tax losses can be used
• Note 3 m) (ii) 6 & 8	Impairment of non-financial assets: measurement of the recoverable amounts of cash- generating units and investment in associates
• Note 3 n) (iii) & 26	Measurement of defined benefit obligations: key actuarial assumptions
• Note 3 d), 3 h), 5 & 7	Capitalisation and useful lives of property, plant and equipment and other intangible assets

e) Amendments and interpretations effective from 1 January 2018

The following standards, amendments and interpretations, which became effective as of 1 January 2018, are relevant to the Group:

i. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The amendments are effective for annual periods beginning on or after 1 January 2018.

To satisfy the new disclosure requirements, the Group has presented the impact of transition to IFRS 15 (Refer Note 3 (c) and Note 21).

ii. IFRS 9 Financial Instruments

The Group has early adopted IFRS 9 with a date of initial application of 1 January 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

2. BASIS OF PREPARATION (Continued)

e) Amendments and interpretations effective from 1 January 2018 (Continued)

iii. Annual Improvements to IFRSs 2014–2016 Cycle – various standards

The annual improvements to IFRSs 2014-2016 cycles include certain amendments to various IFRSs. Earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The adoption of these amendments had no significant impact on the consolidated financial statements.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2018 are earlier application is permitted, however, the Group has not early adopt the new or amended standards in preparing these consolidated financial statements.

i. IFRS 16 Leases

IFRS 16 Leases introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Group will recognise new assets and liabilities for its operating leases of telecom sites, retail shops and other rented premises and equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities and a corresponding right of use of asset of BD 40,239 as at 1 January 2019. The management is currently assessing the full impact of changes in its accounting policy, nature and type of leases that would be recognised under IFRS 16. The volatility on the consolidated statement of comprehensive income is not expected to be significant.

No significant impact is expected for leases in which the Group is a lessor.

ii. Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations) or an asset.

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interest in the associate or joint venture.

The effective date for these changes has now been postponed until the completion of a broader review – which the IASB hopes will result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group is currently assessing the potential impact on its consolidated financial statements resulting from the amendment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by the Group's entities, except for changes arising from the adoption of IFRS 15 as set out in note 3 (c).

a) Basis of consolidation

i. Business combinations

The Group accounts for its business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in acquisition is measured at its fair value, as are the identifiable net assets acquired.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated profit or loss.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated profit or loss.

Transaction costs are expensed as incurred, except where these relate to the issue of debt or equity securities. Any contingent consideration payable is measured at fair value at the date of acquisition. If contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in profit or loss.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control effectively ceases.

iii. Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

v. Investment 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 - 50% 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 income and expenses and equity movements of the associates from the date that significant influence commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term financing interests) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Basis of consolidation (Continued)

vi. Transactions eliminated on consolidation

All material intragroup balances and any unrealised gains or losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Foreign currency

i. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency of the Group's entities at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Exchange differences arising on the settlement of monetary items and on retranslation are recognised in profit or loss.

ii. Financial statements of foreign operations

The assets and liabilities including goodwill and fair value adjustments arising on acquisition of the Group's subsidiaries and associates based outside the Kingdom of Bahrain ("foreign operations") are translated into Bahraini Dinars at the exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated into Bahraini Dinars at average exchange rates prevailing during the year. Exchange differences arising on translation of foreign operations are recognised in the other comprehensive income and presented in equity as a foreign currency translation reserve. Foreign currency differences are accumulated into foreign currency translation reserve in owners' equity, except to the extent the translation difference is allocated to NCI.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated profit or loss as part of the gain or loss on disposal.

c) Revenue

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e.1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings and Non-Controlling Interest (NCI) at 1 January 2018.

	Previously reported	Adjustments due to adoption of IFRS 15	Adjusted opening balance at 1 January 2018
Retained earnings	211,212	1,479	212,691
Non-controlling interest	40,584	111	40,695

The primary differences arose from allocation of Standalone Selling Price's (SSP) to components of bundled contracts and recognition of contract cost assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Revenue (Continued)

The following tables summarise the impacts of adopting IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of comprehensive income for the year then ended for each of the line items affected. There was no material impact on the Group's consolidated statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated statement of financial position.

As at 31 December 2018	As reported	Adjustments	Amounts without adoption of IFRS 15
Non-current assets	**598,776**	**65**	**598,841**
Current assets			
Inventories	6,659	-	6,659
Trade and other receivables	124,525	(4,645)	119,880
Other investments	12,839	-	12,839
Cash and bank balances	142,763	-	142,763
Asset held-for-sale	26,814	-	26,814
Total current assets	**313,600**	**(4,645)**	**308,955**
Total non-current liabilities	**226,375**	**-**	**226,375**
Current liabilities			
Trade and other payables	136,612	(1,084)	135,528
Loans and borrowings	24,878	-	24,878
Liabilities directly associated with asset held-for-sale	19,631	-	19,631
Total current liabilities	**181,121**	**(1,084)**	**180,037**
Net assets	**504,880**	**(3,496)**	**501,384**
Equity			
Share capital	166,320	-	166,320
Retained earnings and other reserves	298,928	(3,115)	295,813
Total equity attributable to equity holders of the Company	**465,248**	**(3,115)**	**462,133**
Total non-controlling interest	39,632	(381)	39,251
Total equity	**504,880**	**(3,496)**	**501,384**

Impact on the consolidated statement of Comprehensive Income

For the year ended 31 December 2018	As reported	Adjustments	Amounts without adoption of IFRS 15
Revenue	405,853	(377)	405,476
Total expenses	(333,111)	(1,812)	(334,923)
Results from operating activities	**72,742**	**(2,189)**	**70,553**
Non-operating items	(12,527)	293	(12,234)
Profit for the year	**60,215**	**(1,896)**	**58,319**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Revenue (Continued)

Nature of goods and service

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Type of product /service	New revenue recognition policy (Nature and timing of satisfaction of performance obligation)	Change from previous accounting policy
Sale of Equipment	Revenue from handset and other equipment sales is recognised when the product is delivered, and on transfer of control to the customer. If revenue arrangements from bundled contracts include more than one Performance Obligation (PO), the arrangement consideration is allocated to each performance obligation based on their relative standalone selling price (SSP). For equipment sold with the right of return after the control has been passed onto the customer, the Group defers revenue based on the expected returns per the historical return data for the last 24 months. Such revenue will need to be recognized only when the related return period expires.	Under IAS-18, consideration for revenue arrangements from bundled contracts including more than one deliverable was allocated to each deliverable based on their relative fair values. Adoption of IFRS 15 resulted in a change of allocation which is now based on SSP. This gave rise to a change in value of contract assets recognised on Group's Balance Sheet (note 10).
Provision of Network Services	Revenue for access charges, airtime usage and messaging by contract customers is recognised as services are performed, with unbilled revenue resulting from services already provided accrued at the end of each period and unearned revenue from services to be provided in future periods deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires. Deferred revenue related to unused airtime is recognised when utilised by the customer. Upon termination of the customer contract, all deferred revenue for unused airtime is recognised in the profit or loss. Revenue from interconnect fees is recognised at the time the services are performed. Revenue from data services is recognised when the Group has performed the related service and, depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.	IFRS 15 did not have a significant impact on the Group's accounting policies in respect of provision of services.
Contract Costs	Contract costs that are incremental in obtaining a contract with a customer are capitalized and amortised over the period of related revenues. Applying the practical expedient per IFRS15, the Group recognises incremental cost of obtaining a contract as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.	Previously all contract costs were expensed as incurred. Adoption of IFRS 15 resulted in recognition of contract assets and subsequent amortisation in respect of these costs within the Group's Balance Sheet. (note 21).

i. Contract assets

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

ii. Contract liabilities

The contract liabilities primarily relate to the advance consideration received from customers for which revenue is recognised over time as the related performance obligations are fulfilled.

iii. Customer loyalty

The customer loyalty points will be recognised as revenue when the points are redeemed by customers, which is expected to occur over the next years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Property and equipment

i. Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost includes expenditures that are directly attributable to the acquisition cost of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing an asset to its working condition for their intended use;
- when the Group has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they were located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

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

ii. Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. On-going repair and maintenance are expensed as incurred.

iii. Impairment

Where there has been an indication of impairment in value such that the recoverable amount of an asset falls below its net book value, provision is made for such impairment. Wherever possible, individual assets are tested for impairment. However, impairment can often be tested only for groups of assets because the cash flows upon which the calculation is based do not arise from the use of a single asset. In these cases, impairment is measured for the smallest group of assets (the cash generating unit) that produces a largely independent income stream, subject to constraints of practicality and materiality.

iv. Depreciation

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

Asset class	Estimated useful life (Years)
Buildings	5 - 40
Network assets & telecom equipment	2 - 25
Motor vehicles, furniture, fittings & office equipment	2 - 10

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

e) Investment property

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Depreciation on capitalised leased assets is charged to the consolidated profit or loss in line with the depreciation policy for similar assets. The corresponding leasing commitments are shown as finance lease obligations within liabilities. Minimum lease payments are apportioned between finance charge and the reduction of the outstanding liability. The finance charge is calculated using the effective interest method.

ii. Operating leases

All other leases are considered as operating leases and the annual rentals are charged to the consolidated profit or loss on a straight-line basis over the lease term.

g) Goodwill

Subsequent to initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but tested for impairment annually at the balance sheet date.

h) Other intangible assets

Other intangible assets comprise license fees, trade name, customer relationships and associated assets, non-network software and Indefeasible Rights of Use (IRUs).

i. Recognition and measurement

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

ii. Amortisation

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

Asset class	**Estimated useful life (Years)**
License fees	7 – 20
Trade name, customer relationships,non-network software and IRUs	3 – 20

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

i) Financial assets and financial liabilities

i. Recognition and initial measurement

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group receives or delivers the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial assets and financial liabilities (Continued)

ii. Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). A financial asset (which is not an equity instrument) is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI, at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All other financial assets are classified as measured at FVTPL.

The Group currently classified all its receivables and financial liabilities at amortised cost except for contingent consideration payable which is measured at FVTPL and other investments (debt and equity) which are carried at either FVTPL or FVOCI.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial assets and financial liabilities (Continued)

ii Classification (Continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Write-off

A financial asset is written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the obligor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Financial assets and financial liabilities (Continued)

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

The Group currently has certain debt securities measured at FVOCI and equity investment designated as at FVOCI. For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest expense using the effective interest method;
- Expected Credit Losses (ECL) and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

j) 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. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

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. Inventories comprise of mobile handsets, cable and wires and other inventories.

l) Provisions

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

m) Impairment

i. Financial assets

The Group measures loss allowances for its trade and other receivables arising from its revenue generating activities at an amount equal to lifetime Expected Credit Loss (ECL) using the simplified approach permitted under IFRS 9. For other financial instruments, the Group applies the general approach, where if credit risk has not increased significantly since their initial recognition, impairment is measured as 12-month ECL and for all other instances lifetime ECL is recognised.

Under the general approach, the Group applies three-stage approach to measuring ECL on financial assets carried at amortised cost (including long term loans included within the carrying value of investment in associates) and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Impairment (Continued)

a) Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

b) Stage Classification: General approach

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

ii. Non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

n) Employee benefits

i. Local employees

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

ii. Expatriate employees

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Employee benefits (Continued)

iii. Defined benefit scheme

The Group's net obligation of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when settlement occurs.

iv. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

v. Employee savings scheme

The Company has a voluntary employees saving scheme. The employees and employers contribute monthly on a fixed-percentage-of-salaries-basis to the scheme. The scheme is a defined contribution plan.

vi. Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

o) Borrowing cost

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs are directly attributable to the construction of an asset that takes a substantial period to get ready for its intended use or sale, in which case borrowing costs are capitalised as part of that asset.

p) Tax

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

i. Current tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Tax (Continued)

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

q) 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. The diluted earnings per share is the same as the basic earnings per share as the Group does not have any dilutive instruments in issue.

r) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed by the Group's Board of Directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (refer to note 32).

s) Fair value measurement for financial instrument

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

t) Asset held-for-sale

i. Classification

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

ii. Measurement

Non-current assets classified as held-for-sale are measured at the lower of its carrying amount and fair value less costs to sell.

If the criteria for classification as held-for-sale are no longer met, the Group ceases to classify the asset as held-for-sale and measures the asset at the lower of its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group, through its various committees, 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 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 Group has established an Audit Committee which is assisted 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 Group 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 by the Group's Board of Directors. The Group's accounting function provides regular reports of the treasury activity to the Board of Directors. The Group's internal auditors review the internal control environment regularly. There has been no significant change during the financial year, or since the end of the year, to the types of financial risks faced by the Group or the Group's approach to the management of those risks.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally and materially from the Group's trade receivables, contract assets, other receivables, long term financing to associates, debt investment securities and cash at bank.

i. Trade receivables and contract assets

The Group's trade receivables are monitored based on its customer 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 net trade receivables are due for payment within 90 days and largely comprise amounts receivable from consumers and business customers. The Group obtains deposits for providing services to some residential customers.

The Group establishes an allowance for impairment that represents its estimate of life time expected losses in respect of trade receivables and contract assets. 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 aggregated based on customer segment and days past due. For receivables from telecom operators and government accounts in the customer segment, the net position after considering payables is assessed based on a variety of data that are determined to be predictive of the risk of loss (including external credit ratings, financial statements and available external information) and applying experienced credit judgement. For receivables and contract assets from customers, accounts are segmented by type of exposure such as consumer, enterprise, and others accounts and collective life-time ECL allowance is determined based on historical flow rates, data on payment statistics, actual credit loss experience and management estimates of recoveries based on current status of negotiations and settlement with the customers. The historic loss experience is adjusted to reflect differences between economic conditions during the period over which historic data has been collected, current conditions and the Group's view of economic conditions over the remaining life-time of the receivables. Management believes there is no further credit risk provision required in excess of the normal impairment on receivables and contract assets (refer to note 10).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

ii. Other receivables and long term financing to an associate

Other receivables primarily include receivables on sale of certain investments and financial assets representing contractual rights and claims by the Group. The Group evaluates the recoverable amount of each receivable and recognizes a provision where the expected present value of the cash flow from the financial asset is below the carrying value of the financial asset. Long-term financing to associate forms part of the carrying value of the investment in that associate.

iii. Debt Investments and cash and bank balances

The Group manages credit risk on its debt investments and cash and bank balances by ensuring that these are made only after credit evaluation of the issuer. Term deposits are placed with commercial banks after credit evaluation of those banks and considering their external credit ratings. The Group limits its exposure to credit risk by investing in liquid securities, which offers low risk returns.

The calculated expected credit loss of cash and bank balances is not material for recognition purposes.

iv. Exposure to credit risk and credit quality

The carrying amount of financial assets (excluding equity investments) represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2018	2017
Trade receivables – customer accounts	34,449	33,674
Contract assets – customer accounts	26,788	24,785
Total trade receivables and contract assets – customer accounts	**61,237**	58,459
Trade receivables – telecom operators	14,562	16,075
Other receivables	41,966	49,579
Other investments (debt securities)	46,801	34,527
Cash at bank	142,344	158,703
	306,910	317,343

	2018		2017	
Trade receivables– telecom operators	**Gross carrying amount**	**Specific Life-time ECL, credit impaired**	Gross carrying amount	Specific Life-time ECL, credit impaired
Externally rated				
Low risk (BBB- to AAA)	7,495	(289)	6,283	(235)
Medium risk (B- to BB+)	7,712	(1,795)	5,922	(462)
Higher risk (below C)	389	(93)	-	-
Unrated	1,150	(7)	6,156	(1,589)
	16,746	**(2,184)**	18,361	(2,286)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

iv. Exposure to credit risk and credit quality (Continued)

Movement in impairment allowance in respect of trade receivables and contract assets during the year are as follows:

	2018			2017		
	Collective life-time ECL,	**Specific life-time ECL, credit impaired**	**Total**	Collective life-time ECL,	Specific life-time ECL, credit impaired	Total
At 1 January	2,209	22,972	25,181	1,385	23,318	24,703
Written off during the year	-	(1,091)	(1,091)	-	(1,418)	(1,418)
Impairment loss recognised during the year	246	5,065	5,311	824	1,155	1,979
Provision related to held-for-sale asset	(14)	(4,380)	(4,394)	-	-	-
Effect of movements in exchange rates	10	108	118	-	(83)	(83)
Balance at 31 December	**2,451**	**22,674**	**25,125**	2,209	22,972	25,181

Receivables from government, telecom operators and other receivables beyond 365 days, 180 days and 90 days past due respectively are considered triggers for credit impairment and are specifically assessed for establishing ECL.

v. Customer accounts including contract assets

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

	2018	2017
Operating segment		
Bahrain	38,814	36,163
Jordan	11,999	8,335
Maldives	8,592	6,423
Sure	1,760	2,934
Other countries	72	4,604
	61,237	58,459

The maximum exposure to credit risk classified by customer segments sharing common economic characteristics (except government accounts) with respect to credit risk is as follows:

	2018	2017
Customer segment		
Consumer	25,008	26,388
Enterprise	22,836	21,170
Others	5,407	3,804
	53,251	51,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

v. Customer accounts including contract assets (Continued)

Customer accounts (except government)	2018			2017		
	Gross exposure	Life-time ECL	Credit Impaired	Gross exposure	Life-time ECL	Credit Impaired
Current (0 – 30 days)	37,372	(356)	No	36,239	(406)	No
31 – 90 days	11,252	(1,388)	No	9,258	(1,048)	No
91 – 365 days	8,711	(5,090)	Yes	8,329	(3,396)	Yes
More than 1 year	17,200	(14,450)	Yes	18,641	(16,255)	Yes
Balance as at 31 December	**74,535**	**(21,284)**		72,467	(21,105)	

Consumer, enterprise and other receivables balances that are past due for more than 90 days are considered to be in default and credit impaired. Government accounts are provided for based on specific assessment and are net of expected credit losses provision of BD 1,658 thousand (2017: BD 1,790 thousand).

vi. Amounts due from telecom operators including contract assets

The maximum exposure to credit risk (net of ECL provisions) for amounts due from telecommunications operators by type of customer is as follows:

	2018	2017
Telecom operators		
International operators	8,888	12,168
Local operators	5,674	3,907
	14,562	16,075

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. 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 remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and exclude the impact of netting agreements:

Non-derivative financial liabilities at 31 December 2018	Carrying amount	Contractual cash flows	Within one year	1-2 Years	More than two years
Trade payables	35,295	35,295	35,295	-	-
Accrued expenses, contract liabilities and other payables	58,141	58,141	58,141	-	-
Amount due to telecommunications operators	10,087	10,087	10,087	-	-
Loans and borrowings	236,780	247,368	32,456	190,565	24,347
	340,303	**350,891**	**135,979**	**190,565**	**24,347**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

BD'000

4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Non-derivative financial liabilities at 31 December 2017	Carrying amount	Contractual cash flows	Within one year	1-2 Years	More than two years
Trade payables	38,655	38,655	38,655	-	-
Accrued expenses and other payables	77,335	77,335	77,335	-	-
Amount due to telecommunications operators	14,067	14,067	14,067	-	-
Loans and borrowings	238,195	257,968	24,519	17,307	216,142
	368,252	388,025	154,576	17,307	216,142

c) Market risk

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

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Bahraini Dinar, Jordanian Dinar, Maldivian Rufiyaa (which are pegged to the US Dollar), Kuwaiti Dinar and British Pounds. The Group's exposures to currency risk is limited as the majority of its investments, due to and from international operators are denominated in US Dollar or denominated in currencies which are pegged to US Dollar.

The Group seeks to manage currency risk by continually monitoring exchange rates and by maintaining an adequate level of foreign currencies to cover its expected commitment to international telecommunication operators. These amounts are placed significantly in short-term fixed deposit accounts. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group's investment in its subsidiaries is not hedged as those currency positions are considered to be long-term in nature. 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.

ii. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Under the Group's interest rate management policy, interest rates on monetary assets and liabilities denominated in Bahraini Dinars, Jordanian Dinars, and Kuwaiti Dinars are maintained on a floating rate basis. The average interest rate yield from bank deposits and debt securities during 2018 was 3.57% (2017: 3.02%).

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

	2018	2017
Fixed rate instruments		
Financial assets	50,426	43,684
Financial liabilities	177,817	177,472
Variable rate instruments		
Financial assets	115,632	117,440
Financial liabilities	58,963	60,723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

C) Market risk (Continued)

ii. Interest rate risk (Continued)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by BD 567 (2017: BD 567). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

iii. Other price risk

The primary goal of the Group's investment strategy is to ensure risk free returns and invest surplus fund available with the Group in risk free securities. Market price risk arises from investments held by the Group (refer Note 9). The Group Treasury Function monitors its investment portfolio based on market expectations and credit worthiness of the underlying investees. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Group's Board of Directors.

d) Capital management

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

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

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt. There were no significant changes in the Group's approach to capital management during the year.

e) Accounting classification of financial instruments

Classification of financial assets and financial liabilities, together with the carrying amounts as disclosed in the consolidated statement of financial position.

31 December 2018	At amortised cost	Fair value through OCI	Fair value through profit or loss	Total carrying amount
Financial assets				
Other investments at fair value	-	50,996	103	51,099
Trade receivables and contract assets – net	75,799	-	-	75,799
Other receivables	41,966	-	-	41,966
Cash and bank balances	142,763	-	-	142,763
	260,528	**50,996**	**103**	**311,627**
Financial liabilities				
Trade payables	35,295	-	-	35,295
Accrued expenses, contract liabilities and other payables	58,141	-	-	58,141
Amounts due to telecommunications operators	10,087	-	-	10,087
Loans and borrowings	236,780	-	-	236,780
	340,303	**-**	**-**	**340,303**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

e) Accounting classification of financial instruments (Continued)

31 December 2017	At amortised cost	Fair value through OCI	Fair value through profit or loss	Total carrying amount
Financial assets				
Other investments at fair value	-	41,488	104	41,592
Trade receivables and contract assets– net	74,534	-	-	74,534
Other receivables	49,579	-	-	49,579
Cash and bank balances	158,703	-	-	158,703
	282,816	41,488	104	324,408
Financial liabilities				
Trade payables	38,655	-	-	38,655
Accrued expenses and other payables	75,208	-	2,127	77,335
Amounts due to telecommunications operators	14,067	-	-	14,067
Loans and borrowings	238,195	-	-	238,195
	366,125	-	2,127	368,252

f) Measurement of fair values

The Group's financial assets and financial liabilities are measured at amortised cost except for certain investments (refer note 3 (i)) which are carried at fair value. Fair values measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

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.

Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using; quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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4. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (Continued)

The table below analyses financial instruments, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Fair value				
31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
Financial assets at fair value through Profit and Loss (FVTPL)					
Other investments – equity securities	-	-	103	103	103
Financial assets at fair value through OCI					
Other investments – debt and equity securities	37,773		13,223	50,996	50,996
Financial liabilities not measured at fair value					
Loans and borrowings	174,734	-	58,963	233,697	236,780

	Fair value				
31 December 2017	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
Financial assets at fair value through Profit and Loss (FVTPL)					
Other investments	-	-	104	104	104
Financial assets at fair value through OCI					
Other investments	41,488	-	-	41,488	41,488
Financial liabilities not measured at fair value					
Loans and borrowings	175,849	-	60,724	236,573	238,195
Financial liabilities measured at fair value					
Contingent consideration (Other Payables)	-	-	2,127	2,127	2,127

There were no transfers between the level 1 and level 2 during the year. The Group has not disclosed the fair value for financial instruments such as short term trade and other receivables, trade and other payables and cash and bank balances, because their carrying amounts are a reasonable approximation of fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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5. PROPERTY AND EQUIPMENT

31 December 2018	Land and buildings	Network assets & telecom equipment	Motor vehicles, furniture, fittings & office equipment	Assets under construction	Total 2018
Cost					
At 1 January	83,302	544,815	44,231	55,648	727,996
Additions	-	2,704	873	33,472	37,049
Projects completed	629	36,286	1,960	(38,875)	-
Disposals	(6,489)	(17,193)	(1,105)	(364)	(25,151)
Transfer to asset held-for-sale	-	(10,492)	(1,120)	(633)	(12,245)
Impairment *	-	-	-	(1,300)	(1,300)
Effect of movements in exchange rates	(322)	(2,399)	(1,442)	(277)	(4,440)
At 31 December	**77,120**	**553,721**	**43,397**	**47,671**	**721,909**
Depreciation					
At 1 January	54,720	368,129	30,383	-	453,232
Charge for the year	1,306	39,759	3,931	-	44,996
Disposals	(1,849)	(16,999)	(1,105)	-	(19,953)
Transfer to asset held-for-sale	-	(9,815)	(978)	-	(10,793)
Effect of movements in exchange rates	(149)	(1,583)	(1,151)	-	(2,883)
At 31 December	**54,028**	**379,491**	**31,080**	**-**	**464,599**
Net book value at 31 December 2018	**23,092**	**174,230**	**12,317**	**47,671**	**257,310**

* During 2018, the Group reassessed carrying value of an asset under construction, based on the estimated recoverable value. This resulted in an impairment charge of BD 1,300 which was recongised during the year.

For a list of properties owned and rented by the Company, please refer to note 33.

31 December 2017	Land and buildings	Network assets & telecom equipment	Motor vehicles, furniture, fittings & office equipment	Assets under construction	Total 2018
Cost					
At 1 January	82,642	518,309	43,328	38,062	682,341
Additions	1	11,960	502	43,053	55,516
Projects completed	274	22,549	2,862	(25,685)	-
Disposals	(113)	(11,083)	(4,564)	(50)	(15,810)
Effect of movements in exchange rates	498	3,080	2,103	268	5,949
At 31 December	83,302	544,815	44,231	55,648	727,996
Depreciation					
At 1 January	53,293	335,302	28,919	-	417,514
Charge for the year	1,290	41,629	4,371	-	47,290
Disposals	(52)	(10,616)	(4,393)	-	(15,061)
Effect of movements in exchange rates	189	1,814	1,486	-	3,489
At 31 December	54,720	368,129	30,383	-	453,232
Net book value at 31 December 2017	28,582	176,686	13,848	55,648	274,764

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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6. GOODWILL

	2018	2017
At 1 January	136,602	155,053
Exchange rate adjustments	(1,235)	1,549
Impairment charge for the year	-	(20,000)
At 31 December	**135,367**	136,602

a) Analysis of Goodwill

Goodwill has been allocated to the following operating segments / cash generating units (CGUs):

	2018	2017
Jordan	91,318	91,200
Maldives	21,871	21,871
Sure	22,143	23,494
Others	35	37
	135,367	136,602

b) Impairment of goodwill

(i) The Group tests for impairment of goodwill annually or more frequently if there are any indications that impairment may have arisen. The recoverable amount of a Cash Generating Unit has been determined based on fair values less costs to sell. Fair values less costs to sell are estimated by using a combination of the capitalised earnings approach and a market approach comparing the same with those of other telecom companies within the region.

(ii) The key assumptions for the fair values less costs to sell calculations are those relating to discount rates, the long term growth rates, penetration and market share assumptions, average revenues per user, earnings before interest, taxation, depreciation and amortisation ("EBITDA") and capital expenditure to sales ratio. These calculations use cash flow projections based on financial budgets approved by management, covering the period of the validity of the telecom license (typically 5 years). Cash flows are extrapolated using the estimated growth rates (range between 1% to 3%). The weighted average growth rates are consistent with forecasts. The post-tax discount rates used for the calculations range between 8.5% to 12.1%.

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

- An increase / decrease in the discount rate and the long term growth rates used
- A change in market share
- A decrease in future planned revenues and EBITDA margins
- An increase in capex to sales ratio forecasts

The results of the sensitivity testing revealed that the fair values less costs to sell calculations is sensitive to changes in the above variables, and any adverse change in key assumptions could result in a materially significant change in the carrying value of the goodwill and related assets. In case of the Jordan CGU, the recoverable amount of the CGU was more than its carrying value and accordingly no impairment loss has been recognised in 2018 (2017: BD 20 million impairment charge) in respect of goodwill allocated to Jordan CGU. For Maldives, Sure and other locations, recoverable amounts exceed the carrying value by a comfortable range. Refer note on segment reporting (note 32) for details of net assets (including goodwill and intangibles) attributable to each CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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7. OTHER INTANGIBLE ASSETS

31 December 2018	**Licenses**	**Others**	**Total**
Cost			
At 1 January	166,696	103,891	270,587
Additions during the year	526	9,757	10,283
Reclassification	4,026	(4,026)	-
Disposals during the year	-	(266)	(266)
Transfer to asset held-for-sale	(3,605)	(2,400)	(6,005)
Effect of movements in exchange rates	(2,049)	(1,617)	(3,666)
At 31 December	**165,594**	**105,339**	**270,933**
Amortisation			
At 1 January	67,132	68,986	136,118
Charge for the year	12,655	11,146	23,801
Reclassification	1,378	(1,378)	-
Disposals during the year	-	(265)	(265)
Transfer to asset held-for-sale	(3,605)	(1,662)	(5,267)
Effect of movements in exchange rates	(808)	(1,240)	(2,048)
At 31 December	**76,752**	**75,587**	**152,339**
Net book value at 31 December 2018	**88,842**	**29,752**	**118,594**

31 December 2017	Licenses	Others	Total
Cost			
At 1 January	163,975	93,897	257,872
Additions during the year	1,361	8,825	10,186
Disposals during the year	(1,436)	(988)	(2,424)
Effect of movements in exchange rates	2,796	2,157	4,953
At 31 December	166,696	103,891	270,587
Amortisation			
At 1 January	56,574	60,812	117,386
Charge for the year	11,136	7,893	19,029
Disposals during the year	(1,436)	(988)	(2,424)
Effect of movements in exchange rates	858	1,269	2,127
At 31 December	67,132	68,986	136,118
Net book value at 31 December 2017	99,564	34,905	134,469

Others includes trade name, customer relationship and associated assets, non-network software's and Indefeasible right to use (IRU) including those recognised as part of acquisition accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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8. INVESTMENT IN ASSOCIATE

The Group has a 26.943% interest in Yemen Company for Mobile Telephony Y.S.C ("Sabafon"). The principal activities of the Company are to develop, install and operate GSM cellular telephone network and to sell cellular telephone services and accessories in Yemen. The Group has determined that it has significant influence because it has representation on Sabafon's Board of Directors.

The following table analyses the carrying amount and share of loss during the year:

	2018	2017
At 1 January	34,836	68,806
Share of loss of associate (net)	(6,976)	(3,970)
Impairment	-	(30,000)
At 31 December	**27,860**	34,836

The summarised aggregate financial information of the associate (unaudited and as of 30 November 2018; 2017: unaudited and as of 30 November 2017) is as follows:

	2018	2017
Non-current assets	67,810	74,973
Current assets	59,474	70,177
Non-current liabilities	(55,257)	(61,776)
Current liabilities	(70,500)	(61,024)
Revenues	51,262	61,223
Net loss for the period	(13,568)	(859)

During 2018, the Group assessed impairment of the associate due to the uncertainty associated with the on-going situation in Yemen. The recoverable amount has been assessed at higher of fair value less cost of disposal and value-in-use basis. The assessment was made based on time required for the business and economy to stabilize and projected future business plans for a period of 5 years assuming normalized operations around its historical level. The post-tax discount rates used for the calculation is 14% taking into consideration the uncertainty over amount and timing of future cash flows, uncertainty inherent in the asset, illiquidity and other factors reflected in valuing the expected future cash flows. The Group also considered the business potential, market conditions, sustainable margins and future cash flows that the Company would be able to generate in the projection period.

The impairment assessment indicated that the recoverable amount would exceed the current carrying value at 31 December 2018 and hence no additional impairment has been considered in these consolidated financial statements (2017: impairment loss BD 30M) in respect of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

9. OTHER INVESTMENTS

		2018	2017
a. At Fair Value Through Other Comprehensive Income (FVOCI)			
- Debt securities	(i)	46,801	34,527
- Equity securities	(ii)	4,195	6,961
b. At Fair Value Through Profit and Loss (FVTPL)			
- Equity securities		103	104
		51,099	41,592
Investment properties	(iii)	6,997	-
		58,096	41,592

Other investments are classified as follows:

	2018	2017
Current assets	12,839	-
Non-current assets	45,257	41,592
	58,096	41,592

i. Debt securities comprise Group's investment in:

- Bahrain Sovereign Bonds amounting BD 34.0 million (2017: BD 34.5 million). These bonds have maturity dates ranging from 2020 to 2023, carry a fixed semi-annual coupon interest ranging from 5.5% to 6.125% per annum on the face value; and
- Kingdom of Bahrain treasury bills amounting BD 12.8 million (2017: nil). These bills have maturity dates ranging from 3 to 6 months and carry interest ranging from 4.248% to 4.402% per annum on the face value. At 31 December 2018, all of these bills were classified under current assets as maturing within the next 12 months.

ii. Equity securities at FVOCI include:

- BD 3.8 million (2017: BD 6.9 million) representing market value of equity investment in Etihad Atheeb Telecommunications Company ("the investee"), a company listed on Saudi Stock Exchange. In 2018, the market value of the investment declined by BD 3.2 million and was recognised in consolidated statement of other comprehensive income.
- BD 0.4 million (2017: nil) representing Group's investment in Al Waha Venture Capital Fund of Funds, which is closed ended Bahrain domiciled PIU managed by Bahrain Development Bank.

iii. Investment properties comprise Group's investment in certain land plots in an overseas territory that were acquired during 2018 as part of an exchange transaction. The fair value of the properties at 31 December 2018 was estimated at BD 11.8 million based on a valuation by qualified independent valuers and classified as level 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

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10. TRADE AND OTHER RECEIVABLES

	2018	2017
Trade receivables	74,136	74,930
Contract assets (unbilled revenue)	26,788	24,785
Less impairment allowance	(25,125)	(25,181)
	75,799	74,534
Prepaid expenses	6,760	8,396
Other receivables	41,966	49,579
	124,525	132,509

The Group recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance at 1 January 2018 (refer note 3 (c)).

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counterparty was as follows:

	2018	2017
Customer accounts	34,449	33,674
Telecom operators	14,562	16,075
Contract assets (unbilled revenue)	26,788	24,785
	75,799	74,534

The movement on the allowance for impairment was as follows:

	2018	2017
At 1 January	25,181	24,703
Impairment loss recognised for the year	5,311	1,979
Provision related to asset held-for-sale	(4,394)	-
Effect of movements in exchange rates	118	(83)
Written off during the year	(1,091)	(1,418)
At 31 December	**25,125**	25,181

The impairment allowances as at 31 December 2017 and 2018 represent life-time ECL on trade receivables and contracts assets (refer to note 4(a)).

11. CASH AND BANK

	2018	2017
Cash in hand	419	2,591
Cash at bank	142,344	156,112
	142,763	158,703

Cash and bank include BD 56,976 (2017: BD 62,380) on account of short-term deposits with maturities exceeding three months and unclaimed dividends, which have been excluded for the purposes of consolidated statement of cash flows. Further, BD 10,570 (refer to note 12) associated with asset held-for-sale is included as cash and cash equivalent for the purposes of consolidated statement of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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12. ASSET HELD-FOR-SALE

In September 2018, the Group committed to a plan to sell its Kuwait operations segment. Accordingly, these operations are presented as a disposal group held-for-sale. Efforts to sell the disposal group have started and a sale is expected to conclude within next twelve months. No impairment losses are expected as a result of this transaction.

The assets, liabilities, comprehensive income and cash flows of the disposal group are as below:

ASSETS	31 December 2018
Property and equipment	1,452
Other intangible assets	738
Inventories	190
Trade and other receivables	13,864
Cash and bank balances	10,570
Total assets	**26,814**
LIABILITIES	
Trade and other payables – current	17,263
Trade and other payables - non-current	2,368
Total liabilities	**19,631**
Net assets	**7,183**
Non-controlling interest	718

Comprehensive income	2018
Revenue (external customers)	20,225
Inter segment revenue	5,927
Total revenue	**26,152**
Expenses	(24,155)
Results from operating activities	**1,997**
Non-operating Items	1,140
Profit for the year	**3,137**
Other comprehensive income	(47)
Total comprehensive income for the year	**3,090**

Cash Flows	2018
Net cash used in operating activities	(3,290)
Net cash from investing activities	5,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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13. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	35,295	38,655
Amounts due to telecommunications operators	10,087	14,067
Provisions, accrued expenses and other payables (note 14)	61,913	92,278
Contract liability	3,091	-
Customer deposits and billings in advance	26,937	30,227
Current tax liability	3,460	2,775
	140,783	178,002

Trade and other payables are classified as follows:

	2018	2017
Current liabilities	136,612	171,892
Non-current liabilities	4,171	6,110
	140,783	178,002

Significant changes in the contract liabilities balances during the year are as follows.

	2018
At 1 January	3,055
Cash received during the year	28,144
Transferred to revenue during the year	(28,077)
Effect of movements in exchange rates	(31)
At 31 December	**3,091**

14. PROVISIONS

Included within provisions, accrued expenses and other payables are amounts provided for voluntary employee retirement program and asset retirement obligation. The movement in provisions is as follows:

	Voluntary employee retirement program provision		Asset retirement obligation	
	2018	2017	2018	2017
At 1 January	2,352	-	3,922	3,781
Amounts provided during the year	-	8,050	292	141
Amounts paid during the year	(2,352)	(5,698)	-	-
Amounts written back during the year	-	-	(43)	-
At 31 December	-	2,352	**4,171**	3,922

15. LOANS AND BORROWINGS

		2018	2017
a) Current			
Term financing from a bank	(i)	9,739	9,730
Vendor financing		-	1,055
Overdraft liabilities	(ii)	15,139	6,156
		24,878	16,941
b) Non-current			
Term financing from a bank	(i)	34,085	43,782
Bonds	(iii)	177,817	177,472
		211,902	221,254
		236,780	238,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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15. LOANS AND BORROWINGS (CONTINUED)

(i) Long term loan facility with a total available amount of BD 58.4 million (of which BD 43.8 million outstanding as of 31 December 2018) which has been utilised by a group company to fund the company's working capital and license fees. The facility bears an interest rate of PLR – 3.35% per annum and is due to be settled by 2023. As at 31 December 2018, BD 9.7 million of the outstanding amount was classified under current liabilities being due within the next 12 months;

(ii) A Group company has obtained over draft facilities to support its working capital needs. The interest rates on these facilities range from 6.13% to 6.40% p.a. and the amount drawn at the balance sheet date amounted to BD 15.1 million (2017: BD 6.2 million).

The undrawn overdraft limits as at 31 December 2018 amounted to BD nil (2017: BD 2.9 million); and

(iii) Long term bonds have a face value of BD 178.3 million. The bonds are listed for trading on the Irish Stock Exchange. The bonds have a tenor of 7 years maturing in 2020, unsecured and were priced at 325 points over 7 years US Treasuries, for a yield of 4.342% and coupon of 4.250% payable semi-annually.

16. INCOME TAXES

Amounts recognised in profit or loss for the year

	2018	2017
Current tax expense	6,961	5,775
Deferred tax expense	(5,192)	(3,066)
Tax expense for the year	**1,769**	2,709

Corporate income tax is not levied in the Kingdom of Bahrain for telecommunication companies and accordingly the effective tax rate for the Corporation is 0% (2017: 0%). The table below reconciles the difference between the expected tax expense of nil (2017: nil) (based on the Kingdom of Bahrain effective tax rate) and the Group's tax charge for the year. Subsidiaries are taxed at the combination of various tax rates ranging from 15% to 27%.

Reconciliation of actual to expected tax charge

	2018	2017
Profit before tax	**61,984**	15,949
Corporation tax rate of 0% in Bahrain (2017: 0%)	-	-
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,769	2,709
Tax expense for the year	**1,769**	2,709
Profit after tax for the year	**60,215**	13,240

The following represent the deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting period:

	2018	2017
At 1 January	13,837	14,867
Credit to the consolidated profit or loss	(3,087)	(1,850)
Exchange differences	(448)	820
At 31 December	**10,302**	13,837

The recognised deferred tax asset of BD 9,639 (2017: BD 7,534) is attributable to the temporary differences related to Group's operations in Jordan, Maldives and Channel Islands jurisdictions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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17. SHARE CAPITAL

	2018	2017
a) Authorised		
2,000 (2017: 2,000) million shares of 100 fils each	**200,000**	200,000
b) Issued and fully paid:		
1,663 (2017: 1,663) million shares of 100 fils each	**166,320**	166,320

- 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 are as follows:

Name	Nationality	Number of shares (thousands)	% of share holding
Bahrain Mumtalakat Holding Company BSC (c)	Bahrain	609,840	37
Amber Holdings Limited	Cayman Islands	332,640	20
Social Insurance Organisation	Bahrain	337,836	20

- Distribution schedule of equity shares:

Categories	Number of shares (thousands)	Number of shareholders	% of total outstanding shares
Less than 1%	284,912	10,745	17
1% up to less than 5%	97,972	3	6
5% up to less than 10%	-	-	-
10% up to less than 20%	-	-	-
20% up to less than 50%	1,280,316	3	77
	1,663,200	**10,751**	**100**

18. STATUTORY AND GENERAL RESERVE

a) Statutory reserve

The Bahrain Commercial Companies Law 2001 (as amended) 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 paid-up capital. 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 included as part of Group statutory reserve. The reserve is not available for distribution, except in the circumstances stipulated in the applicable law of each country.

The shareholders of Umniah in their meeting held on 12 July 2018 approved transfer from statutory reserve of BD 3,765 of which Group's share was BD 3,630. Further, for the year ended 31 December 2018, a transfer to statutory reserves of BD 2,674 was proposed by the Board of Directors and is to be put forward for approval at the Annual General Meeting on 27 March 2019. These consolidated financial statements reflect the effect of this proposed transfer.

b) General reserve

The general reserve is distributable only upon a resolution of the shareholders at the Annual General Meeting. No transfer was made during the year 2018 by the shareholders of the Company. However, the shareholders of Umniah in their meeting held on 12 July 2018 approved transfer from general reserve of BD 1,966 of which Group's share was BD 1,890.

19. DIVIDENDS

The dividends paid in 2018 and 2017 were BD 41.6 million (25 Fils per share). The dividends paid in 2018 include an amount of BD 24.9 million relating to the final dividend for the year ended 31 December 2017 and interim dividend (subject to AGM ratification) of BD 16.6 million for the year 2018. The total dividend in respect of the year ended 31 December 2018 of 27.5 Fils per share, amounting to BD 45.7 million (including final dividend of BD 29.1 million) was proposed by the Board of Directors and is to be put forward for approval at the Annual General Meeting on 27 March 2019. These consolidated financial statements do not reflect the final dividend payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

20. RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

	Liabilities		Equity			
2018	**Bank overdrafts used for cash management purposes**	**Other loans and borrowings**	**Share capital**	**Retained earnings and other reserves**	**NCI**	**Total**
Balance at 1 January 2018	6,156	232,039	166,320	295,563	40,584	740,662
Changes from financing cash flows						
Borrowings (net)	8,980	(10,798)	-	-	-	(1,818)
Dividend paid	-	-	-	(41,571)	(10,938)	(52,509)
Total changes from financing cash flows	**8,980**	**(10,798)**	**-**	**(41,571)**	**(10,938)**	**(54,327)**
Effect of changes in foreign exchange rates	3	56	-	(5,059)	(3)	(5,003)
Liability-related other changes	-	344	-	-	-	344
Equity-related changes	-	-	-	49,995	9,989	59,984
Balance at 31 December 2018	**15,139**	**221,641**	**166,320**	**298,928**	**39,632**	**741,660**

	Liabilities		Equity			
2017	Bank overdrafts used for cash management purposes	Other loans and borrowings	Share capital	Retained earnings and other reserves	NCI	Total
Balance at 1 January 2017	1,597	232,759	166,320	326,541	44,107	771,324
Changes from financing cash flows						
Borrowings (net)	4,573	(874)	-	-	-	3,699
Dividend paid	-	-	-	(41,581)	(13,277)	(54,858)
Total changes from financing cash flows	4,573	(874)	-	(41,581)	(13,277)	(51,159)
Effect of changes in foreign exchange rates	(14)	(175)	-	8,215	5	8,031
Liability-related other changes	-	329	-	1	-	330
Equity-related changes	-	-	-	2,387	9,749	12,136
Balance at 31 December 2017	6,156	232,039	166,320	295,563	40,584	740,662

21. REVENUE

a) Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by major products/service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's four strategic divisions, which are its operating segments (refer to note 32).

	Reportable segments							
2018	**Bahrain**	**Jordan**	**Maldives**	**SURE Group**	**Total reportable segments**	**All other segments**	**Elimination**	**Total**
Major products/ service lines								
Mobile Telecommunication Services	69,555	67,739	43,437	20,220	200,951	-	(32)	200,919
Data Communication Circuits	41,667	5,217	9,534	6,873	63,291	15,947	(6,073)	73,165
Fixed Broadband	23,384	13,596	6,813	9,335	53,128	7,072	-	60,200
Fixed Line Telecommunication Services	13,958	-	3,084	8,003	25,045	-	-	25,045
Wholesale Services	12,548	2,632	616	3,031	18,827	-	(191)	18,636
Adjacent Services	8,683	4,472	4,056	7,807	25,018	3,134	(264)	27,888
	169,795	**93,656**	**67,540**	**55,269**	**386,260**	**26,153**	**(6,560)**	**405,853**
Timing of recognition								
Products transferred at a point in time (Equipment revenue)	19,477	6,767	3,778	5,286	35,308	2,438	-	37,746
Products and services transferred over time (Revenue from provision of network services)	150,318	86,889	63,762	49,983	350,952	23,715	(6,560)	368,107
	169,795	93,656	67,540	55,269	386,260	26,153	(6,560)	405,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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21. REVENUE (CONTINUED)

a) Disaggregation of revenue from contracts with customers (Continued)

2017	Reportable segments Bahrain	Jordan	Maldives	SURE group	Total reportable segments	All other segments	Elimination	Total
Major products/ service lines								
Mobile Telecommunication Services	69,624	64,503	43,173	20,810	198,110	-	(45)	198,065
Data Communication Circuits	32,752	4,211	8,592	6,587	52,142	13,190	(3,481)	61,851
Fixed Broadband	20,306	9,425	5,454	8,455	43,640	11,215	-	54,855
Fixed Line Telecommunication Services	14,573	-	3,444	7,819	25,836	-	-	25,836
Wholesale Services	11,860	2,414	473	3,163	17,910	-	(1,058)	16,852
Adjacent Services	7,673	1,003	2,928	7,370	18,974	3,183	(170)	21,987
	156,788	81,556	64,064	54,204	356,612	27,588	(4,754)	379,446
Timing of recognition								
Products transferred at a point in time (Equipment revenue)	22,402	4,228	2,190	5,172	33,992	2,461	-	36,453
Products and services transferred over time (Revenue from provision of network services)	134,386	77,328	61,874	49,032	322,620	25,127	(4,754)	342,993
	156,788	81,556	64,064	54,204	356,612	27,588	(4,754)	379,446

* The Group applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See Note 3 (c)

b) Contract Costs

During 2018, the Group capitalized incremental commission fees paid to intermediaries as a result of obtaining contracts as contract costs amounting BD 6,715. Such capitalized commission fees are amortized when the related revenues are recognized, which amortisation amounted to BD 2,975 in 2018. In the comparative period, all commission fees were recognized as selling expenses when incurred.

22. NETWORK OPERATING EXPENSES

	2018	2017
Outpayments to telecommunications operators	61,314	50,004
Cost of sales of equipment and services	57,688	56,993
Repair, maintenance & other direct cost	22,563	22,347
License fee	6,400	6,899
Operating lease rentals	12,213	11,456
	160,178	147,699

23. OTHER OPERATING EXPENSES

	2018	2017
Marketing, advertising and publicity	16,673	14,693
IT operations and maintenance	6,399	5,948
Professional fees	3,672	2,583
Office rental and utilities	6,815	6,580
Other expenses	7,680	8,745
	41,239	38,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

24. OTHER INCOME, (NET)

	2018	2017
Other non-operating income*	2,046	23,992
Foreign exchange loss	(4)	(860)
Gain on disposal of assets	1,209	249
Other non-operating expenses	(352)	(4,000)
Rental income	463	508
	3,362	19,889

* During 2017, the Group swapped one of its existing land plots classified as "Property and Equipment" with a government agency in consideration of land plots with value similar to the market price of the land given up. Accordingly, the Group recognised the asset at the fair value of the land given up and a gain of BD 23.7 million was included under "other non-operating income" in 2017.

25. LOSS ON INVESTMENTS

		2018	2017
Impairment loss on goodwill related to a subsidiary	6	-	(20,000)
Impairment loss on investment in associate	8	-	(30,000)
Impairment loss on other investments (debt investment at FVOCI)		-	(567)
Fair value changes (equity investment at FVTPL)		-	(682)
		-	(51,249)

26. POST-EMPLOYMENT BENEFIT ASSETS

a) Defined benefit scheme

At 31 December 2018, the Group operates a defined benefit pension plan (the Scheme) in Sure (Guernsey) Ltd for the employees of that company. Under the Scheme, the retirement benefits are based on the employee's pensionable pay and length of service. The assets of the Scheme are held in a separate trustee administered fund. The Scheme was closed to new entrants from 1 April 2005 and was closed to future accrual by current members on 31 July 2014.

The following table shows reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components.

	2018			2017		
	Defined benefit obligation	**Fair value of plan assets**	**Net defined benefit liability/ (asset)**	Defined benefit obligation	Fair value of plan assets	Net defined benefit liability/ (asset)
At 1 January	16,574	20,171	(3,597)	15,009	18,541	(3,532)
Included in profit or loss						
Interest costs/ (income)	385	470	(85)	405	501	(96)
Expense costs	-	(54)	54	-	(139)	139
Settlement credit	-	-	-	(69)	(32)	(37)
	385	**416**	**(31)**	336	330	6
Included in OCI						
Actuarial changes arising from:						
- demographic assumptions	(460)	-	(460)	(276)	-	(276)
- financial assumptions	(1,142)	-	(1,142)	597	-	597
- experience adjustments	(112)	-	(112)	5	-	5
Return on plan assets excluding interest income	-	(377)	377	-	60	(60)
Movements in exchange rates	(982)	(1,198)	216	1,405	1,739	(334)
	(2,696)	**(1,575)**	**(1,121)**	1,731	1,799	(68)
Other						
Contributions paid by employer	-	-	-	-	3	(3)
Benefits paid	(537)	(537)	-	(502)	(502)	-
At 31 December	13,726	18,475	(4,749)	16,574	20,171	(3,597)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

26. POST-EMPLOYMENT BENEFIT ASSETS (CONTINUED)

a) Defined benefit scheme (continued)

The following tables summarise the components of net benefit (credit)/expense recognised in the consolidated statement of comprehensive income and the funded status and amounts recognised in the consolidated statement of financial position for the respective plans:

	2018	2017
Interest income on benefit obligation	(85)	(96)
Expense cost	54	139
Settlement credit	-	(37)
	(31)	6

The major categories of plan assets of the fair value of the total plan assets are, as follows:

	2018	2017
Bonds	3,591	3,912
Others	14,884	16,259
	18,475	20,171

The following table sets out the principle actuarial assumptions used for the Scheme:

Assumptions	2018	2017
Price inflation	**3.50%**	3.45%
Discount rate	**2.90%**	2.40%
Pension increases	**3.50%**	3.45%
Life expectancy of male aged 60 in 2018 (2017:2017)	**27.5**	28.1
Life expectancy of male aged 60 in 2038 (2017: 2037)	**29.4**	30.4

b) Defined contribution plan

The provision for leaving indemnity in respect of employees amounted to BD 4.4 million (2017: BD 4.4 million) and is included under provisions and accrued expenses. The Group has recognised BD 0.9 million (2017: BD 0.7 million) as an expense for leaving indemnity in respect of employees. The Group's contributions in respect of local employees against their pension rights and other social benefits amounted to BD 5.2 million (2017: BD 5.1 million).

27. EARNINGS PER SHARE ("EPS")

	2018	2017
Profit for the year attributable to equity holders of the Company	**50,108**	3,491
Weighted average number of shares outstanding during the year (in million)	**1,663**	1,663
Basic earnings per share (Fils)	**30.1**	2.10

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

28. COMMITMENTS AND CONTINGENCIES

a) Capital commitments

The Group has capital commitments at 31 December 2018 amounting to BD 31.6 million (2017: BD 17.9 million).

b) Contingent liabilities

The Group is involved in certain matters relating to notifications from regulatory authorities and government tax departments of claims and other notices amounting to BD 1.5 million (2017: BD 1.5 million). The Group is of the view that there are no legitimate legal grounds for such claims and notices, and all necessary legal steps to respond to and defend its position are being taken.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018 BD'000

28. COMMITMENTS AND CONTINGENCIES (CONTINUED)

c) Guarantees

(i) As at 31 December 2018, the Group's banks have issued guarantees, amounting to BD 12.3 million (2017: BD 4.8 million) and letters of credit amounting to BD 14.6 million (2017: 7.3 million).

(ii) The Company has furnished a comfort letter for BD 1.9 million (2017: BD 1.9 million) to Telecommunications Regulatory Commission, Jordan for providing a financial guarantee for the subsidiary companies operating in Jordan.

(iii) The Group has furnished guarantees amounting to BD 2.2 million (Dec 2017: BD 3.0 million) to a bank for extending credit facilities to an investee company in the Kingdom of Saudi Arabia.

d) Operating leases

The Group enters in to cancellable and non-cancellable operating lease agreements in the normal course of business, which are principally in respect of property and equipment. Non-cancellable operating lease commitments are as follows:

	2018	2017
Future minimum lease payments		
Within one year	8,289	2,794
After one year but not more than five years	21,284	6,425
More than five years	14,170	6,415
	43,743	15,634

e) Staff housing loans

The Company offers loan assistance 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 Company. The policy of providing staff housing loan guarantees was discontinued in 2007. The Company bears 75% (2017: 75%) of the loan interest. At 31 December 2018, the Company has an outstanding guarantee of BD 0.7 million (2017: BD 0.8 million) towards housing loans to staff.

29. NON-CONTROLLING INTEREST (NCI)

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests before any intra-group eliminations:

	2018		2017	
Entity	**QualityNet**	**Dhiraagu**	QualityNet	Dhiraagu
NCI Share	**10%**	**48%**	10%	48%
Non-current assets (excluding goodwill)	2,190	77,985	7,180	77,465
Current assets	24,624	24,119	23,443	27,411
Non-current liabilities	(17,263)	(16,089)	(2,188)	(7,883)
Current liabilities	(2,368)	(7,904)	(20,292)	(17,716)
Net assets	**7,183**	**78,111**	8,143	79,277
Carrying amount of NCI	718	37,493	814	38,053
Revenue	26,152	67,540	27,578	64,064
Profit & total comprehensive income	**3,137**	**20,605**	3,370	20,090
Profit allocated to NCI	314	9,890	337	9,643
Cash (used in)/ from operating activities	(3,290)	28,576	3,282	24,589
Cash from/ (used in) investing activities	5,044	(12,412)	(772)	(8,145)
Cash used in financing activities, before dividends to NCI	(3,652)	(12,277)	(3,832)	(14,384)
Cash used in financing activities - cash dividends to NCI	(406)	(10,533)	(426)	(12,851)
Net decrease in cash and cash equivalents	**(2,304)**	**(6,646)**	(1,748)	(10,791)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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30. TRANSACTIONS WITH RELATED PARTIES

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

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

The key management personnel compensation is as follows:

	2018	2017
Short-term employee benefits	2,335	2,279
Post-employment benefits	49	165
Total key management personnel compensation	**2,384**	2,444

	2018	2017
Post-employment benefits outstanding	**291**	275
Directors remuneration (including sitting fees)	**595**	642

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

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

	2018	2017
Total number of shares held by Directors	317,112	324,682
As a percentage of the total number of shares issued	0.02%	0.02%

(v) Executive management interests in the shares of the Company at the end of the year were as follows:

	2018	2017
Total number of shares held by executive management	219,450	103,950
As a percentage of the total number of shares issued	0.02%	0.01%

31. COMPARATIVES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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32. SEGMENT INFORMATION

Operating segments

The Group's operations are segregated between Bahrain, Jordan, Maldives, Sure Group and Others. Others include Kuwait, Yemen and other group operations. Segment information disclosed for the year ended 31 December 2018 is as follows:

	Year ended 31 December 2018							Year ended 31 December 2017						
Segment revenue & profit	**Bahrain**	**Jordan**	**Maldives**	**Sure Group**	**Others**	**Inter-segment elimination**	**Total**	Bahrain	Jordan	Maldives	Sure Group	Others	Inter-segment elimination	Total
Revenue (external customers)	169,509	93,309	67,540	55,269	20,226	-	405,853	156,200	80,661	64,064	54,204	24,317	-	379,446
Inter segment revenues	286	347	-	-	5,927	(6,560)	-	588	895	-	-	3,271	(4,754)	-
Depreciation, amortization and tangible assets impairment	(23,244)	(21,397)	(9,548)	(14,830)	(1,078)	-	(70,097)	(22,583)	(21,440)	(9,774)	(11,247)	(1,275)	-	(66,319)
Finance income	6,210	9	181	63	74	(523)	6,014	5,205	8	243	139	84	(617)	5,062
Finance expenses	(8,571)	(3,948)	(1,169)	-	-	530	(13,158)	(8,552)	(3,339)	(766)	(130)	-	615	(12,172)
Other income (net)	3,495	127	38	80	1,068	(1,446)	3,362	27,271	51	463	(88)	-	(7,808)	19,889
Impairment of goodwill and other investments	-	-	-	-	-	-	-	(1,249)	(20,000)	-	-	(30,000)	-	(51,249)
Share of loss from associate (net)	-	-	-	-	(6,976)	-	(6,976)	-	-	-	-	(3,970)	-	(3,970)
Profit for the year	**43,517**	**(2,347)**	**20,605**	**2,400**	**(3,920)**	**(40)**	**60,215**	50,396	(25,714)	20,090	2,563	(34,072)	(23)	13,240

Segment assets & liabilities	**Bahrain**	**Jordan**	**Maldives**	**Sure Group**	**Others**	**Inter-segment elimination**	**Total**	Bahrain	Jordan	Maldives	Sure Group	Others	Inter-segment elimination	Total
Non-current assets	173,738	219,795	99,855	88,385	34,857	(17,854)	598,776	179,926	230,427	99,336	107,263	42,016	(25,574)	633,394
Current assets	229,727	26,300	24,119	29,648	26,959	(23,153)	313,600	208,087	21,564	27,411	27,896	32,454	(18,305)	299,107
Total assets	**403,465**	**246,095**	**123,974**	**118,033**	**61,816**	**(41,007)**	**912,376**	388,013	251,991	126,747	135,159	74,470	(43,879)	932,501
Current liabilities	82,785	65,320	16,089	11,162	18,661	(12,896)	181,121	143,550	59,074	17,716	10,684	21,110	(63,301)	188,833
Non-current liabilities	181,682	50,131	7,904	6,571	-	(19,913)	226,375	188,979	60,648	7,883	9,043	2,187	(27,539)	241,201
Total liabilities	**264,467**	**115,451**	**23,993**	**17,733**	**18,661**	**(32,809)**	**407,496**	332,529	119,722	25,599	19,727	23,297	(90,840)	430,034

33. LIST OF PROPERTIES OWNED AND RENTED BY THE COMPANY IN BAHRAIN

Description	**Usage**	**Owned/ Rented**
Hamala Headquarter	Offices	Owned
Diplomat Building	Offices & Telecoms	Owned
Telephone House	Offices & Telecoms	Owned
Telegraph House	Offices & Telecoms	Owned
Batelco Commercial Centre	Offices & Exchanges	Owned
Earth Station	Satellite Station	Owned
Hamala Transmitters	Transmission Station	Owned
Abul Land Car Park	Car Park	Owned
Sales Site (in BCC)	Customer Service Centre & Offices	Owned
16 Sales Site	Customer Service Centre	Rented
56 different sites used for GSM base stations and exchanges	GSM & fixed telephone network	Owned
370 different sites used for locating Remote Line Units (RLUs) Plus MNE Sites.	GSM & fixed telephone network	Rented