SERIAL NO:

STRICTLY PRIVATE AND CONFIDENTIAL

BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c)

(Incorporated in Bahrain under Commercial Registration Number: 61579)

INFORMATION MEMORANDUM

In relation to a RM 3,000,000,000
(or its equivalent in foreign currency) programme
(the "**Sukuk Murabahah Programme**") for the
Issuance of Islamic securities
("**Sukuk Murabahah**")

Lead Arranger and Principal Adviser

Standard Chartered Saadiq Berhad
(Company No. 823437-K)

Lead Managers
(in relation to the first series of Sukuk Murabahah)

CIMB Investment Bank Berhad
(Company No. 18417-M)

Standard Chartered Saadiq Berhad
(Company No. 823437-K)

This Information Memorandum is dated 27 July 2012

IMPORTANT NOTICE

RESPONSIBILITY STATEMENT

This Information Memorandum has been approved by the directors of Bahrain Mumtalakat Holding Company B.S.C. (c), a company incorporated in Bahrain (under Commercial Registration Number 61579) (the "**Issuer**" or "**Mumtalakat**"). The Issuer accepts responsibility for the accuracy of the information contained in this Information Memorandum. The Issuer confirms to the best of its knowledge and belief after having made all reasonable enquiries under the circumstances, that this Information Memorandum contains as of its date all information with respect to the Issuer and its subsidiaries taken as a whole ("**Group**") which is material in the context of the issuance of Sukuk Murabahah pursuant to the Sukuk Murabahah Programme.

The opinions and the intentions expressed in this Information Memorandum, as of its date, are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions after having made reasonable enquiries under the circumstances and there is no false or misleading statement in relation to the Issuer or the Group or the Sukuk Murabahah Programme in, and there is no omission of information from, this Information Memorandum, as of its date, which is material in the context of the offering, sale and issue of Sukuk Murabahah and all reasonable enquiries under the circumstances have been made by the Issuer to verify the accuracy and completeness of all such information and statements.

Information contained in this Information Memorandum relating to Bahrain (which may include estimates and approximations) has been derived from official data published by Bahraini governmental agencies. The sources of such information have been identified in the relevant sections in this Information Memorandum where such information appears. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by such governmental agencies, no facts have been omitted which would render the reproduced information inaccurate or misleading.

GENERAL STATEMENTS OF DISCLAIMER

Information contained in this Information Memorandum relating to portfolio companies of the Issuer in which the Issuer holds a less than 51% ownership interest has been obtained primarily from publicly available information. The sources of such information have been identified in the relevant sections in this Information Memorandum where such information appears. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading.

To the fullest extent permitted by law, none of Standard Chartered Saadiq Berhad (Company No. 823437-K) in its capacity as lead arranger (the "**Lead Arranger**") of the Sukuk Murabahah Programme, or any of Standard Chartered Saadiq Berhad, and CIMB Investment Bank Berhad (Company No. 18417-M), in their respective capacities as lead managers with respect to the first series of Sukuk Murabahah pursuant to the Sukuk Murabahah Programme, or any additional or alternative managers to be appointed for any subsequent series of Sukuk Murabahah (together, the "**Lead Managers**") accepts any responsibility for the contents of this Information Memorandum or for any other statement, made or purported to be made by the Lead Arranger or the Lead Managers or on their behalf in connection with the Issuer, the Group, the Sukuk Murabahah Programme or the issue and offering of Sukuk Murabahah. The Lead Arranger and the Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise which any of them might otherwise have in respect of this Information Memorandum or any such statement.

This Information Memorandum may not be, in whole or in part, reproduced or used for any other purpose, or shown, given, copied to or filed with any other person except as required under Malaysian laws, regulations or guidelines or with the prior written consent of the Issuer**.**

No person is authorised to give any information or data or to make any representation or warranty other than as contained in this Information Memorandum and, if given or made, any such information, data, representation or warranty must not be relied upon as having been authorised by any of the Issuer, the Group, the Lead Arranger, the Lead Managers or any other person.

This Information Memorandum may not and will not be made to comply with the laws of any jurisdiction other than Malaysia ("**Foreign Jurisdiction**"), and has not been and will not be filed, registered or approved by any regulatory authorities of any Foreign Jurisdiction and it does not constitute an issue, offer or sale of, or an invitation to subscribe or purchase Sukuk Murabahah or any other securities of any kind in any Foreign Jurisdiction.

This Information Memorandum is not and is not intended to be a prospectus under Malaysian law.

Sukuk Murabahah have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the US. Subject to certain exceptions, Sukuk Murabahah may not be offered or sold within the US or to, or for the account or for the benefit of, US Persons (as defined in the Regulation S under the Securities Act ("**Regulation S**")).

Sukuk Murabahah are being offered and sold outside the US in reliance on Regulation S.

Sukuk Murabahah have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of Sukuk Murabahah or the accuracy or adequacy of this Information Memorandum. Any representation to the contrary is a criminal offence in the US.

For a description of these and certain further restrictions on offers, sales and transfers of Sukuk Murabahah and distribution of this Information Memorandum, see "*Selling Restrictions*".

The distribution of this Information Memorandum and the offer, sale or issue of Sukuk Murabahah may be restricted by law in certain jurisdictions other than Malaysia. The Issuer, the Lead Arranger and the Lead Managers do not represent that this Information Memorandum may be lawfully distributed, or that Sukuk Murabahah may be offered, sold or issued in any such jurisdiction, or pursuant to an available exemption, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Lead Arranger or the Lead Managers which is intended to permit a public offering of Sukuk Murabahah or the distribution of this Information Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Sukuk Murabahah may be offered or sold, directly or indirectly, in any jurisdiction other than Malaysia. Further, neither this Information Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction other than Malaysia.

By accepting delivery of this Information Memorandum, each recipient agrees to the terms upon which this Information Memorandum is provided to such recipient as set out in this Information Memorandum, and further agrees and confirms that (a) it will keep confidential all of such information and data, (b) it is lawful for the recipient to subscribe for or purchase Sukuk Murabahah under any jurisdiction to which the recipient is subject, (c) the recipient has complied or will comply with all applicable laws in connection with any subscription or purchase of Sukuk Murabahah, (d) the Issuer, the Lead Arranger, the Lead Managers and their respective directors, officers, employees and professional advisers are not and will not be in breach of the laws of any jurisdiction to which the recipient is subject as a result of any subscription or purchase of Sukuk Murabahah, and none of them shall have any responsibility or liability in the event that such subscription or purchase of Sukuk Murabahah is or shall become unlawful, unenforceable, voidable or void, (e) it is aware that Sukuk Murabahah can only be offered, sold, transferred or otherwise disposed of directly or indirectly in accordance with the relevant selling restrictions and all applicable laws, (f) it has sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of subscribing or purchasing Sukuk Murabahah, and is able and is prepared to bear the economic and financial risks of investing in or holding Sukuk Murabahah, (g) it is subscribing for Sukuk Murabahah for its own account, and (h) it is a person to whom an issue, offer or invitation to subscribe or purchase Sukuk Murabahah would constitute persons falling within any one or more of the categories of persons specified in Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b) read together with Schedule 9 or Section 257(3) of the CMSA at issuance and Schedule 6 or Section 229(1)(b) read together with Schedule 9 or Section 257(3) of the CMSA thereafter.

Eligible persons into whose possession this Information Memorandum or any Sukuk Murabahah may come must inform themselves about, and observe, all restrictions for the distribution of this Information Memorandum and the offering and sale of Sukuk Murabahah. For the avoidance of doubt, this Information Memorandum shall not constitute an offer or invitation to subscribe or purchase Sukuk Murabahah in relation to any recipient who does not fall within item (h) above.

Neither this Information Memorandum nor any document delivered under or in relation to the issue, offer and sale of Sukuk Murabahah is intended to be construed as a recommendation of any kind by the Issuer, the Lead Arranger and the Lead Managers to subscribe or purchase Sukuk Murabahah.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF SUKUK MURABAHAH. IN PARTICULAR, PROSPECTIVE INVESTORS SHOULD DETERMINE WHETHER AND TO WHAT EXTENT (A) SUKUK MURABAHAH ARE LEGAL INVESTMENTS FOR THEM, (B) SUKUK MURABAHAH CAN BE USED AS COLLATERAL FOR VARIOUS TYPES OF BORROWING AND (C) OTHER RESTRICTIONS THAT APPLY TO THEIR PURCHASE OR PLEDGE OF SUKUK MURABAHAH. FINANCIAL INSTITUTIONS SHOULD CONSULT THEIR LEGAL ADVISERS OR THE APPROPRIATE REGULATORS TO DETERMINE THE APPROPRIATE TREATMENT OF SUKUK MURABAHAH UNDER ANY APPLICABLE RISK-BASED CAPITAL OR SIMILAR RULES.

Sukuk Murabahah will be offered, sold and issued on the terms set out in the Principal Terms and Conditions of Sukuk Murabahah in Section 3 as well as a Pricing Supplement (if any) in respect of a series of Sukuk Murabahah to be delivered to prospective investors of that series in connection with any such offer, sale or issue. One or more series of Sukuk Murabahah may be offered, sold or issued under this Information Memorandum.

Neither the delivery of this Information Memorandum nor the offer, sale or issue of any Sukuk Murabahah shall, under any circumstances, constitute a representation by the Issuer or create any implication that (a) the information contained in this Information Memorandum is true, accurate and complete as of any date subsequent to the date stated on the cover page of this Information Memorandum or, (b) in the case of an amendment or supplement to this Information Memorandum, that the information is true, accurate and complete as of any date subsequent to the date of such amended or supplemented information memorandum or (c) that there has been no material adverse change, or any event reasonably likely to involve any material adverse change, in the financial condition or prospects of the Issuer or the Group since such dates.

The Lead Arranger and the Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Group during the tenor of Sukuk Murabahah or to advise any prospective investor of Sukuk Murabahah of any information coming to its attention.

ACKNOWLEDGEMENT

The Issuer hereby acknowledges that it has authorised the Lead Arranger and/or the Lead Managers to circulate or distribute this Information Memorandum on its behalf in respect of or in connection with the proposed offer or invitation to subscribe for and issue of, Sukuk Murabahah to prospective eligible investors.

STATEMENTS OF DISCLAIMER BY THE SECURITIES COMMISSION OF MALAYSIA

In accordance with the CMSA, a copy of this Information Memorandum will be deposited with the Securities Commission of Malaysia (the "**SC**"), which takes no responsibility for its contents.

The issue, offer, sale or invitation to subscribe or purchase in relation to Sukuk Murabahah in this Information Memorandum is subject to the fulfilment of various conditions precedent including receipt of applicable approval from the SC.

The issue, offer, sale or invitation to subscribe or purchase in relation to Sukuk Murabahah and the Sukuk Murabahah Programme will be deemed approved by the SC upon the submission of this Information Memorandum to the SC.

Please note that the approval of the SC shall not be taken to indicate that the SC recommends the subscription or purchase of Sukuk Murabahah.

The SC shall not be liable for any non-disclosure on the part of the Issuer and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Information Memorandum.

THE KINGDOM OF BAHRAIN NOTICE

No invitation may be made to any member of the public of Bahrain to subscribe for Sukuk Murabahah and this Information Memorandum shall not be construed as an invitation to any member of the public of Bahrain to subscribe for Sukuk Murabahah.

THIS INFORMATION MEMORANDUM HAS NOT BEEN REVIEWED BY THE CENTRAL BANK OF BAHRAIN ("CBB"). THIS INFORMATION MEMORANDUM MAY NOT BE CIRCULATED WITHIN BAHRAIN NOR MAY ANY INTERESTS IN SUKUK MURABAHAH BE OFFERED FOR SUBSCRIPTION OR SOLD, DIRECTLY OR INDIRECTLY, NOR MAY ANY INVITATION OR OFFER TO SUBSCRIBE FOR ANY INTERESTS IN SUKUK MURABAHAH BE MADE TO PERSONS IN BAHRAIN. THE CBB IS NOT RESPONSIBLE FOR THE PERFORMANCE OFSUKUK MURABAHAH OR THE ISSUER.

THE CBB ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS DOCUMENT AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS DOCUMENT. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE BOARD OF DIRECTORS AND THE MANAGEMENT OF THE ISSUER, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS DOCUMENT IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE RELIABILITY OF SUCH INFORMATION.

THIS INFORMATION MEMORANDUM DOES NOT CONSTITUTE, AND MAY NOT BE USED IN CONNECTION WITH, AN OFFER OR SOLICITATION IN BAHRAIN. NO ACTION HAS BEEN OR WILL BE TAKEN IN BAHRAIN BY THE LEAD ARRANGER, LEAD MANAGERS OR THE ISSUER THAT WOULD OR IS INTENDED TO, PERMIT A PUBLIC OFFERING OF SUKUK MURABAHAH, OR POSSESSION OR DISTRIBUTION OF THE INFORMATION MEMORANDUM (IN PRELIMINARY, PROOF OR FINAL FORM) OR ANY OTHER OFFERING OR PUBLICITY MATERIAL RELATING TO SUKUK MURABAHAH, IN BAHRAIN.

UNDER NO CIRCUMSTANCES SHALL THIS INFORMATION MEMORANDUM CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF SUKUK MURABAHAH IN BAHRAIN AS SUCH AN OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL.

PRESENTATION OF FINANCIAL INFORMATION

The consolidated financial statements of Mumtalakat contained in this Information Memorandum have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”). Certain amounts (including percentages) included in this Information Memorandum may have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures to which they relate.

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FORWARD-LOOKING STATEMENTS

This Information Memorandum and any supplement to this Information Memorandum may include, "forward-looking statements" (that is, statements related to future, not past, events). Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue", "seek" or similar terminology. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For the Issuer, particular uncertainties that could adversely affect its future results include: the behaviour of financial markets, including fluctuations in interest and exchange rates, commodity and equity prices and the value of financial assets; continued volatility and/or deterioration of the capital markets; the commercial and consumer credit environment; the impact of regulation and regulatory, investigative and legal actions; the strategic direction and its implementation, as well as availability of funding for Gulf Air; strategic actions, including acquisitions and dispositions; future integration of acquired businesses; and future financial performance of major industries in which the Issuer invests. These uncertainties may cause the Issuer's actual future results to be materially different than those expressed in its forward-looking statements.

The forward-looking statements in this Information Memorandum speak only as at the date of this Information Memorandum. Additional factors that could cause actual results, performance or achievements to differ materially include those discussed under "Investment Considerations". Without prejudice to any requirements under applicable laws and regulations, the Issuer expressly disclaims any obligation or undertaking to disseminate after the date of this Information Memorandum any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any forward-looking statement is based.

INFORMATION INCORPORATED BY REFERENCE

The audited annual consolidated financial statements and, if any, the interim consolidated financial statements of Mumtalakat, in each case as published or issued by Mumtalakat from time to time after the date hereof, shall be deemed to be incorporated in, and to form part of, this Information Memorandum. Any such financial statement shall be deemed to be modified or superseded for the purpose of this Information Memorandum by any subsequent financial statements which are also deemed to be incorporated in, and to form part of, this Information Memorandum.

CONFIDENTIALITY

To the recipient of this Information Memorandum

This Information Memorandum is strictly confidential and is given to the recipient strictly on the basis that the recipient shall ensure the same remains confidential. Accordingly, this Information Memorandum must be held in complete confidence.

For the avoidance of doubt, this confidentiality undertaking also applies to the recipient's professional advisers, directors, employees, agents and any other persons who may receive this Information Memorandum (or any part of it) from the recipient.

SHARIAH ADVISER

The transaction structure relating to Sukuk Murabahah has been approved by Standard Chartered Saadiq Berhad Shariah Committee, as Shariah Adviser. Prospective holders of Sukuk Murabahah should not rely on the approval referred to above in deciding whether to make an investment in Sukuk Murabahah and should consult their own Shariah advisers as to whether the proposed transaction described in the approval referred to above is in compliance with Shariah principles.

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GLOSSARY OF DEFINITIONS & ABBREVIATIONS

The following definitions and abbreviations shall apply throughout this Information Memorandum unless otherwise expressly noted herein or where the context otherwise requires:

"**BAFIA**"	:	means the Banking and Financial Institutions Act 1989 of Malaysia (as amended from time to time).
"**Bahrain**"	:	means the Kingdom of Bahrain.
"**BD**"	:	means Bahraini Dinar(s), the lawful currency of Bahrain.
"**BNM**"	:	means Bank Negara Malaysia (Central Bank of Malaysia).
"**Business Day**"	:	means a day (other than Saturday, Sunday and public holidays) on which Financial Institutions are open for business in Kuala Lumpur.
"**CMSA**"	:	means the Capital Markets and Services Act 2007 of Malaysia (as amended from time to time).
"**Commodities**"	:	has the meaning provided in section 3 (Principal Terms and Conditions of Sukuk Murabahah).
"**Deferred Sale Price**"	:	has the meaning provided in section 3 (Principal Terms and Conditions of Sukuk Murabahah).
"**Financial Institutions**"	:	means commercial banks and investment banks licensed under BAFIA and/or such other financial institutions regulated by BNM and Islamic banks licensed under the IBA.
"**GBP**"	:	means Great British Pound(s), the lawful currency of the United Kingdom.
"**GCC**"	:	means the Gulf Cooperation Council.
"**Government**"	:	means the Government of Bahrain.
"**IBA**"	:	means the Islamic Banking Act 1983 of Malaysia (as amended from time to time).
"**MyClear**"	:	means **Malaysian Electronic Clearing Corporation Sdn Bhd** (MyClear), a wholly owned subsidiary of BNM incorporated in October 2008.
"**Negative Pledge**"	:	has the meaning provided in section 3 (Principal Terms and Conditions of Sukuk Murabahah).
"**Operational Procedures**"	:	means the OPSS and the Operational Procedures for RENTAS collectively.
"**Operational Procedures for RENTAS**"	:	means the Operational Procedures for RENTAS issued by MyClear and as modified or revised or substituted from time to time by MyClear.
"**OPSS**"	:	means Operational Procedures for Securities Services issued by MyClear and as modified or revised or substituted from time to time by MyClear.

"**Paying Agent**"	:	means Bank Negara Malaysia.
"**Pricing Supplement**"	:	means a pricing supplement that sets forth the final terms of a particular series of Sukuk Murabahah and such other information or disclosures as the Issuer considers necessary.
"**RENTAS**"	:	means the scripless book-entries securities trading and funds transfer system known as Real Time Electronic Transfer of Funds and Securities operated by BNM as varied, upgraded or substituted from time to time.
"**Ringgit**" and "**RM**"	:	means Ringgit, the lawful currency of Malaysia.
"**SC**"	:	means Securities Commission of Malaysia established under the Securities Commission Act 1993 of Malaysia or any successor in such capacity.
"**Standard Chartered Saadiq**"	:	means **Standard Chartered Saadiq Berhad (Company No. 823437-K)**.
"**Shariah Adviser**"	:	means the Shariah Committee of Standard Chartered Saadiq.
"**Sukuk Guidelines**"	:	means Islamic Securities Guidelines (Sukuk Guidelines) issued by the SC dated 12 July 2011.
"**Sukukholders**"	:	means the holders of Sukuk Murabahah.
"**Sukuk Murabahah**"	:	means Sukuk Murabahah in one or more series under the Sukuk Murabahah Programme.
"**Sukuk Murabahah Programme**"	:	means the Islamic securities programme of Mumtalakat with an aggregate nominal value outstanding at any time of RM3.0 billion (or its equivalent in foreign currency) issued or to be issued by Mumtalakat pursuant to the Trust Deed based on the Shariah principle of Murabahah (via a Tawarruq arrangement).
"**Trustee**"	:	means **Deutsche Trustees Malaysia Berhad (Company No. 763590-H)**, a company incorporated in Malaysia and having its registered office at Level 20, Menara IMC, No. 8, Jalan Sultan Ismail, 50250 Kuala Lumpur in its capacity as trustee for the Sukukholders and includes its successors in title and assigns any successors in such capacity and any other trustee for the time being appointed in this capacity.
"**Transaction Documents**"	:	means collectively the following: • Trust Deed; • Commodity Murabahah Master Agreement; • Service Agency Agreement; • Issue Agency Agreement; • Facility Agency Agreement; • Securities Lodgement Form (as defined in the Central Securities Depository and Paying Agency Rules issued by MyClear);

		and in relation to Sukuk Murabahah of each such series : • Purchase Order for such series; • CTP Purchase Agreement for such series; • Sale and Purchase Agreement for such series; • CTP Sale Agreement for such series; • global certificate (or, if applicable definitive certificate(s)) of Sukuk Murabahah for such series; and any other documents designated as Transaction Documents by the Issuer and the Trustee.
"**Trust Deed**"	:	means the trust deed to be entered into between Mumtalakat and the Trustee in relation to the Sukuk Murabahah Programme.
"**Trust Deed Guidelines**"	:	means Trust Deeds Guidelines issued by the SC dated 12 July 2011.
"**US**"	:	means the United States of America.
"**USD**" or "**U.S.$**"	:	means United States Dollar(s), the lawful currency of the United States of America.

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1. EXECUTIVE SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by reference to, and must be read in conjunction with, the more detailed information, the audited financial statements and notes thereto appearing elsewhere in this Information Memorandum. Prospective investors should read the full text of this Information Memorandum and the Pricing Supplement (if any) before deciding whether or not to invest in Sukuk Murabahah.

1.1 BRIEF BACKGROUND OF THE ISSUER

Mumtalakat was incorporated by the Royal Decree No. 64/2006 dated 26 June 2006 as an independent holding company for the Government of Bahrain's stakes in non-oil and gas related assets. Mumtalakat owns stakes in strategic non-oil and gas assets of Bahrain, which are significant contributors to the Bahraini economy and directly and indirectly support many other businesses in the country and the region. Mumtalakat's portfolio of companies spans a variety of sectors, including aluminium production, financial services, telecommunications, real estate, aviation, tourism, and food production. Mumtalakat was created to align and implement the execution of the Government's initiatives to improve governance and transparency, pursue value-enhancing opportunities, and help achieve operational excellence for its state-owned non-oil and gas related assets.

1.2 BRIEF SUMMARY OF THE STRUCTURE OF THE SUKUK MURABAHAH PROGRAMME

The tenure of the Sukuk Murabahah Programme shall be twenty (20) years from the date of issue of the first series of Sukuk Murabahah. The first series is expected to be issued within two (2) years from the date of the SC's approval or such other later date as may be approved by the SC.

The tenure of each series of Sukuk Murabahah shall be more than one (1) year as the Issuer may determine, provided, however each series of Sukuk Murabahah shall mature prior to the expiry of the Sukuk Murabahah Programme.

Sukuk Murabahah shall be issued at par, at a premium or at a discount to nominal value and the issue price shall be calculated in accordance with the OPSS.

The issue price and other terms of Sukuk Murabahah shall be determined prior to each issuance of Sukuk Murabahah.

The Sukuk Murabahah Programme falls under Schedule 8 of the CMSA. Pursuant to Section 257(1) of the CMSA, the provisions of Subdivision 1 of Division 4 of Part VI and Section 283 of Subdivision 2 of Division 4 of Part VI of the CMSA shall not apply to any issue of, offer for subscription or purchase of, or invitation to subscribe for or purchase, debentures specified in Schedule 8. The Sukuk Murabahah Programme and Sukuk Murabahah are not required to comply with, amongst others, the Trust Deed Guidelines prescribed by the SC.

Sukuk Murabahah of any series represents (a) an undivided beneficial ownership interest in the Commodities purchased in respect of that series, and (b) upon the sale of the Commodities to Mumtalakat as the purchaser, the entitlement to receive the Deferred Sale Price for that series, subject to the terms of the Transaction Documents.

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Sukuk Murabahah of the each series shall constitute direct, unconditional and, subject to the Negative Pledge, unsecured and unsubordinated obligations of the Issuer and, subject to the Negative Pledge, rank and will rank pari passu, without any preference among themselves with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

There shall be no guarantee on return of capital or profit in respect of Sukuk Murabahah.

1.3 USE OF PROCEEDS

The proceeds raised from the issuance of Sukuk Murabahah of each series under the Sukuk Murabahah Programme will be used for Mumtalakat's general corporate purposes provided always that any such utilisation shall be in compliance with the Shariah principles as in effect from time to time.

The net proceeds of Sukuk Murabahah are to be repatriated abroad. If Sukuk Murabahah are issued in Ringgit, the net proceeds will be first swapped into foreign currency prior to repatriation abroad.

1.4 RATING

Fitch Ratings Ltd. ("**Fitch**") has assigned an expected rating of BBB to the Sukuk Murabahah Programme and RAM Rating Services Berhad ("**RAM Ratings**") has assigned an indicative rating of AA_2 to the Sukuk Murabahah Programme.

1.5 MALAYSIAN REGULATORY APPROVALS / REQUIREMENTS

Approval for the Sukuk Murabahah Programme was granted by BNM (as the Controller of Foreign Exchange) through its approval letter dated 30 March 2011.

The issue, offer or invitation to investors in relation to Sukuk Murabahah and the Sukuk Murabahah Programme will be deemed approved by the SC upon the submission of this Information Memorandum to the SC.

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2. SELLING RESTRICTIONS

(a) General

No action has been taken by the Issuer, the Lead Arranger or any of the Lead Managers that would or is intended to permit a public offer of Sukuk Murabahah in any country or jurisdiction where any such action for that purpose is required.

Purchasers of Sukuk Murabahah are recommended to consult their professional advisers if they are in any doubt as to the regulatory implications of subscribing for, purchasing, holding, disposing of or otherwise dealing in Sukuk Murabahah.

(b) Malaysia

Except otherwise permitted by laws of Malaysia:-

(i) At the issuance of Sukuk Murabahah

Sukuk Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to subscribe Sukuk Murabahah may be made and to whom Sukuk Murabahah are issued would fall within Schedule 6 or Section 229(1)(b) of the CMSA or Schedule 7 or Section 230(1)(b) of the CMSA read together with Schedule 9 or Section 257(3) of the CMSA.

(ii) Selling Restrictions Thereafter

Sukuk Murabahah may only be offered, sold, transferred or otherwise disposed directly or indirectly to a person to whom an offer or invitation to purchase Sukuk Murabahah would fall within Schedule 6 or Section 229(1)(b) of the CMSA read together with Schedule 9 or Section 257(3) of the CMSA.

(c) Bahrain

Each Lead Manager and the Lead Arranger will have represented and agreed that it has not offered, and will not offer, any Sukuk Murabahah to the Public (as set out in Article 81 of Legislative Decree No. 64/2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law (the "CBB Law") and as determined by the laws and regulations of the CBB from time to time) in Bahrain.

(d) United States of America

Sukuk Murabahah have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the US or to, or for the account or for the benefit of, US Persons, except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

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Each Lead Manager appointed under the Sukuk Murabahah Programme will be required to agree that, except as permitted by the Commodity Murabahah Master Agreement, it will not offer or sell Sukuk Murabahah (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable series of which such Sukuk Murabahah are a part, as determined and certified to the Paying Agent by such Lead Manager (or, in the case of an identifiable series of Sukuk Murabahah sold to or through more than one Lead Manager, by each of such Lead Managers with respect to Sukuk Murabahah of an identifiable series purchased by or through it, in which case the Paying Agent shall notify such Lead Manager when all such Lead Managers have so certified), within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each Lead Manager to which it sells Sukuk Murabahah during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Sukuk Murabahah within the United States or to, or for the account or benefit of, U.S. persons. Terms used in the preceding sentence have the meanings given to them by Regulation S.

Sukuk Murabahah are being offered and sold outside the US in reliance on Regulation S.

In addition, until forty (40) days after the commencement of the offering of any identifiable series of Sukuk Murabahah, an offer or sale of Sukuk Murabahah within the US by any manager (whether or not participating in the offering of such series of Sukuk Murabahah) may violate the registration requirements of the Securities Act.

This Information Memorandum has been prepared by the Issuer for use in connection with the offer and sale of Sukuk Murabahah outside the US. The Issuer, the Lead Arranger and each Lead Manager reserve the right to reject any offer to purchase Sukuk Murabahah, in whole or in part, for any reason. This Information Memorandum does not constitute an offer to any person in the US. Distribution of this Information Memorandum by any non-US person outside the US to any US person or to any other person within the US, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such US person or other person within the US is prohibited.

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3. PRINCIPAL TERMS AND CONDITIONS OF THE SUKUK MURABAHAH

This section contains the principal terms and conditions of the Sukuk Murabahah Programme and Sukuk Murabahah. The complete set of the terms and conditions are set out in the Transaction Documents and the Pricing Supplement (if any) for the relevant series of Sukuk Murabahah. Prospective investors of Sukuk Murabahah of any series should carefully read this section together with the Pricing Supplement (if any) for such series to understand the terms and conditions applicable to that series, which may be different, including in material respects, from any previous series issued or series to be issued in future.

Words and expressions used and defined in this section shall, in the event of an inconsistency with the definitions section of this Information Memorandum, only be applicable for this section.

a. Names of parties involved in the proposed transaction (where applicable)

(i)	**Principal Adviser**	:	Standard Chartered Saadiq Berhad ("**SCSB**").
(ii)	**Lead Arranger**	:	SCSB.
(iii)	**Co-arranger**	:	Not applicable.
(iv)	**Solicitors**	:	Messrs. Zul Rafique & Partners (legal counsel to the Issuer in respect of the laws of Malaysia). Messrs. Adnan Sundra & Low (legal counsel to the Principal Adviser/Lead Arranger ("**PA/LA**") in respect of the laws of Malaysia). Linklaters LLP (Issuer's International legal counsel). Haya Rashed Al Khalifa (legal counsel to the PA/LA in respect of the laws of the Kingdom of Bahrain).
(v)	**Financial adviser**	:	Not applicable.
(vi)	**Technical adviser**	:	Not applicable.
(vii)	**Trustee**	:	Deutsche Trustees Malaysia Berhad.
(viii)	**Guarantor**	:	Not applicable.
(ix)	**Valuer**	:	Not applicable.
(x)	**Facility Agent**	:	SCSB.
(xi)	**Primary Subscriber(s) (under a bought-deal arrangement) and amount subscribed**	:	To be determined prior to issuance of a series of Islamic securities (in the event of bought-deal arrangement).
(xii)	**Underwriter(s) and amount underwritten**	:	Not applicable.
(xiii)	**Shariah Adviser**	:	SCSB.
(xiv)	**Central depository**	:	Bank Negara Malaysia ("**BNM**").
(xv)	**Paying agent**	:	BNM.

(xvi)	**Reporting accountant**	:	Not applicable.
(wvii)	**Calculation Agent**	:	Not applicable.
(xviii)	**Others (please specify)**	:	Lead Manager SCSB and/or such other financial institutions to be appointed prior to each issuance under the Sukuk Murabahah Programme (as defined below). Issue Agent SCSB Independent Auditor Ernst & Young Process Agent Deutsche Trustees Malaysia Berhad or such other party as may be appointed by Mumtalakat from time to time

b. **Facility Description (including the description of Islamic principle)** :

The issuance of sukuk of one or more series during the tenure of the programme (the "**Sukuk Murabahah Programme**") shall be based on the Shariah principle of Murabahah (via a Tawarruq arrangement) involving selected Shariah compliant commodities.

Each series of sukuk issued under the Sukuk Murabahah Programme shall be known as "**Sukuk Murabahah**". In these Principal Terms and Conditions, a reference to "**Sukukholder**" refers to the holders of a series of Sukuk Murabahah.

Sukuk Murabahah

The issuance of each series of Sukuk Murabahah from time to time under the Sukuk Murabahah Programme shall be effected as follows:

(1) The Trustee (on behalf of the Sukukholders of each series of Sukuk Murabahah) and Mumtalakat shall enter into a Service Agency Agreement, pursuant to which Mumtalakat (Mumtalakat in such capacity, the "**Primary Purchasing Agent**") is appointed as the agent of Sukukholders for each such series for the purchase and sale of Shariah compliant commodities ("**Commodities**"). The Primary Purchasing Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as its sub-agent (the Facility Agent in such capacity, the "**Secondary Purchasing Agent**") for the purchase and sale of Commodities under the Sukuk Murabahah Programme.

(2) Pursuant to a Commodity Murabahah Master Agreement, prior to the date on which a series of Sukuk Murabahah is issued, Mumtalakat (acting as purchaser for itself) issues a purchase order (the "**Purchase Order**") in relation to that series to both the Primary Purchasing Agent and the Secondary Purchasing Agent. In such Purchase Order, Mumtalakat (acting as purchaser for itself) requests the Primary Purchasing Agent and the Secondary Purchasing Agent to purchase the Commodities and irrevocably undertakes to purchase the Commodities from the Sukukholders of that series via the Secondary Purchasing Agent.

(3) Based on the Purchase Order, the Secondary Purchasing Agent (pursuant to a CTP Purchase Agreement entered into between the Secondary Purchasing Agent and the Commodity Trading Participant ("**CTP**") for that series), will purchase on a spot basis the Commodities from commodity vendor(s) in the Bursa Suq Al-Sila' commodity market (through a CTP) at a certain purchase price ("**Purchase Price**"). The Purchase Price will be in accordance with the Asset Pricing requirements under the Sukuk Guidelines.

(4) Mumtalakat (acting as the Issuer) shall then issue Sukuk Murabahah to the Sukukholders of that series, the proceeds of which are equal to, and used to fund, the Purchase Price of the Commodities. The Sukuk Murabahah shall evidence amongst other things, the Sukukholders' ownership of the Commodities and (subsequently, once the Commodities are sold to Mumtalakat (as the Purchaser for itself)) the entitlement to receive the Deferred Sale Price (equivalent to the Purchase Price and a mark-up profit).

(5) Thereafter, pursuant to the sale and purchase agreement entered into between the Secondary Purchasing Agent and Mumtalakat for that series, the Secondary Purchasing Agent (acting on behalf of the Primary Purchasing Agent) shall sell the Commodities to Mumtalakat (acting as Purchaser for itself) at the Deferred Sale Price (the "**Sale and Purchase Agreement**").

(6) Upon completion of such purchase, Mumtalakat (pursuant to the CTP Sale Agreement entered into between Mumtalakat (acting as Purchaser for itself) and the CTP for that series) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn. Bhd. (through the CTP) on a spot basis for an amount equal to the Purchase Price. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities to Bursa Malaysia Islamic Services Sdn Bhd upon notice by the Secondary Purchasing Agent that the Sale and Purchase Agreement has been completed and executed.

(7) During the tenure of Sukuk Murabahah of any series, the Issuer shall make periodic payments to the Sukukholders of each such series. On the date of maturity of Sukuk Murabahah of any series, the Issuer shall pay all amounts outstanding in respect of the Deferred Sale Price to the Sukukholders of that series, upon which the Sukuk Murabahah of that series shall be cancelled.

Note:
During the tenure of Sukuk Murabahah, the Issuer shall ensure that the total Shariah compliant portfolio value will not be less than the aggregate outstanding nominal amount of Sukuk Murabahah.

The transaction structure is set out in the Annexure.

c.	**Issue/programme size**	:	The aggregate nominal value of sukuk of one or more series outstanding at any time under the Sukuk Murabahah Programme shall not exceed RM3.0 billion (or its equivalent thereof in foreign currency).
d.	**Tenure of issue/the sukuk programme (or facility)**	:	The tenure of the Sukuk Murabahah Programme shall be twenty (20) years from the date of issue of the first series of Sukuk Murabahah. The issue of the first series of Sukuk Murabahah shall be made within two (2) years from the date of the Securities Commission's ("**SC**") approval or such other later date as may be approved by the SC. The tenure of Sukuk Murabahah of each series shall be more than one (1) year as the Issuer may determine. Sukuk Murabahah of each series shall mature prior to the expiry of the Sukuk Murabahah Programme.
e.	**Availability period of the sukuk programme**	:	The Sukuk Murabahah Programme shall be available commencing on the date of fulfilment of the conditions precedent set out in the Commodity Murabahah Master Agreement (as summarized in item (q) below) and ending on the close of business in Kuala Lumpur on the date falling nineteen (19) years after the date of the issue of the first series of Sukuk Murabahah.
f.	**Profit/coupon/rental rate (%)**	:	The profit rate of Sukuk Murabahah of each series shall be determined and agreed prior to the issuance of Sukuk Murabahah of each such series.
g.	**Profit/coupon/rental Payment Frequency**	:	The frequency of the profit payment ("**Periodic Profit Payments**") of Sukuk Murabahah of each series shall be on a semi-annual or quarterly basis or such other period of time as is agreed between the Issuer and the Lead Manager prior to the issuance of Sukuk Murabahah of each such series.
h.	**Profit/coupon/rental Payment Basis**	:	The Periodic Profit Payments of Sukuk Murabahah of each series shall be calculated based on the actual number of days elapsed and 365 days basis (actual/365).
i.	**Security/Collateral (if any)**	:	None.

j.	**Details on Utilisation of Proceeds. If proceeds are to be utilised for project or capital expenditure, description of the project or capital expenditure, where applicable**	:	Proceeds raised from the issuance of Sukuk Murabahah of each series under the Sukuk Murabahah Programme shall be utilised for the Issuer's general corporate purposes provided always that any such utilisation shall be in compliance with the Shariah principles as in effect from time to time.
k.	**Sinking Fund and designated accounts (if any)**	:	None.
l.	**Rating**		
	- **Credit Rating Assigned**	:	The Sukuk Murabahah Programme has been assigned (i) an expected rating of BBB by Fitch and (ii) an indicative rating of AA_2 by RAM Ratings.
	- **Name of Rating Agency**	:	Fitch Ratings Ltd. ("**Fitch**") and RAM Rating Services Berhad ("**RAM Ratings**").
m.	**Mode of Issue**	:	Book building or private placement (on a best efforts basis) or on bought deal basis, each without a prospectus.
n.	**Selling Restrictions, including tradability**	:	The Sukuk Murabahah are tradable. Except as otherwise permitted by law, the selling restrictions for Sukuk Murabahah of each series are as follows: <u>Selling Restrictions at Issuance</u> The Sukuk Murabahah of each series may only be offered, sold, transferred or otherwise disposed, directly or indirectly, to a person to whom an offer or invitation to subscribe for the Sukuk Murabahah may be made and to whom the Sukuk Murabahah may be issued and falling within the provisions of Schedule 6 or Section 229(1)(b) or Schedule 7 or Section 230(1)(b) read together with Schedule 9 or Section 257(3) of the Capital Markets and Services Act 2007 ("**CMSA**"). <u>Selling Restrictions Thereafter</u> The Sukuk Murabahah of each series may only be offered, sold, transferred or otherwise disposed, directly or indirectly, to a person to whom an offer or invitation to purchase the Sukuk Murabahah may be made, falling within the provisions of Schedule 6 or Section 229(1)(b) read together with Schedule 9 or Section 257(3) of the CMSA.
o.	**Listing Status and types of listing**	:	The first series of Sukuk Murabahah will not be listed on any stock exchange. One or more subsequent series of Sukuk Murabahah may be listed on Bursa Malaysia Securities Berhad under the Exempt Regime, if the Issuer so elects.
p.	**Other regulatory approvals required in relation to the issue, offer or invitation and whether or not obtained (please specify)**	:	The PA/LA had, on behalf of Mumtalakat, submitted an application to the Controller of Foreign Exchange ("**CFE**") of BNM and approval from BNM was obtained on 30 March 2011.

q. Conditions precedent : The conditions precedent to establish the Sukuk Murabahah Programme shall be set out in the Commodity Murabahah Master Agreement and shall be (in each case below, in a form and substance reasonably acceptable to the PA/LA):

1. the relevant Transaction Documents (as defined in item (v)(16)) have been duly executed by the parties thereto and, where applicable, stamped or endorsed as exempted from stamp duty;

2. evidence that the Sukuk Murabahah Programme at the time it was established was assigned an international minimum rating of BBB by Fitch;

3. the approvals from the SC and BNM have been obtained;

4. copies of all resolutions, authorisations and consents of Mumtalakat required in connection with establishing the Sukuk Murabahah Programme having been obtained and delivered to the PA/LA;

5. a certificate signed by a duly authorized officer of the Issuer confirming that as at the date of such certificate, there is: (i) no material adverse change in the condition (financial, economic or otherwise) of the Issuer; (ii) no event rendering untrue or incorrect any of the representations and warranties of the Issuer set out in the Commodity Murabahah Master Agreement; (iii) no breach of any of the undertakings by the Issuer set out in the Commodity Murabahah Master Agreement; and (iv) no Event of Default (as defined in item (s)) has occurred (which remains uncured or unwaived) or will occur as a result of establishing the Sukuk Murabahah Programme;

6. the endorsements from the Shariah Adviser in respect of the Sukuk Murabahah Programme and the relevant Transaction Documents have been received;

7. completion of the legal due diligence carried out on Mumtalakat, Mumtalakat’s Material Subsidiaries (as defined below) and Mumtalakat’s Material Associates (as defined below);

8. a written legal opinion from Haya Rashed Al Khalifa as the legal counsel to the PA/LA in relation to the laws of the Kingdom of Bahrain addressed to the PA/LA with respect to, amongst other things, the capacity of the Issuer to enter into, deliver and perform its obligations under, and the validity and enforceability of, the Transaction Documents to which it is a party;

9. a written legal opinion from Messrs. Adnan Sundra & Low as the legal counsel to the PA/LA in relation to the laws of Malaysia addressed to the PA/LA with respect to, amongst other things, the legality, validity and enforceability of the Transaction Documents and other matters under the laws of Malaysia and a confirmation that all conditions precedent have been fulfilled (or waived); and

10. such other conditions precedent (if any) as advised by the legal counsel of the PA/LA and are mutually agreed to by the Issuer.

"**Associate**" means, at any given time, a company (other than a Subsidiary) in which the Issuer controls, directly or indirectly, at least 20% of the voting rights of such company; provided, however, any investment fund, managed account or other similar vehicle or structure in which the Issuer has an interest in but which is managed solely by one or more Persons who are neither members of the Group nor Associates, shall not be an "Associate".

"**Group**" means the Issuer and its Subsidiaries at the relevant point in time;

"**Material Associates**" means, at any time, any Associate of the Issuer:

(a) whose contribution to the Issuer's investment in associates exceeds 10% of the consolidated total assets of the Issuer, the Issuer's total "investment in associates" being the corresponding line item contained in the Issuer's consolidated statement of financial position; or

(b) whose contribution to the Issuer's share of profit of associates exceeds 10% of the Issuer's share of profit of associates, the Issuer's total "share of profit of associates" being the corresponding line item contained in the Issuer's consolidated statement of income; or

(c) certified by the auditors of the Issuer to be a Material Associate in the circumstances set out in paragraph (iv) below.

For the purposes of this definition:

(i) for the purpose of determination of the thresholds set forth in paragraphs (a) and (b) above at any given time, the investment in associates, assets and share of profit of associates of the relevant Associate and the Issuer will be determined from the then latest available annual or semi-annual financial statements, as the case may be, of such relevant Associate and the Issuer;

(ii) upon a Material Associate transferring all or substantially all of its assets to another Associate, the transferor shall cease to be a Material Associate on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Associate until the next date of determination of the thresholds set forth in paragraphs (a) and (b) above with respect to such Associate;

(iii) subject to paragraph (ii) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a company which, immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, satisfied either of the tests set forth in paragraphs (a) or (b) above, but immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation does not satisfy either such test, such company shall immediately cease to be a Material Associate;

(iv) the Issuer shall, within 180 days of the end of each financial year and within 120 days of the end of the first six-month period of a financial year, respectively, provide the Trustee (in accordance with any notice provisions set forth in the Trust Deed), with a certificate of the Issuer's auditors (as long as permissible under such auditors' professional accounting responsibilities and standards or otherwise another Person suitably qualified), listing the Associates which fall within the definition of Material Associate as set out above as of the end of such financial year and such six-month period, respectively, and such certificates will be, in the absence of manifest error, conclusive as to the matter as of such dates; and

(v) in the event that an Associate is required to prepare and does prepare financial statements on a consolidated basis, any calculation pursuant to this definition shall be made by reference to such consolidated financial statements.

"**Material Subsidiaries**" means, at any time, any Subsidiary:

(a) whose total assets exceed 10% of the consolidated total assets of the Issuer; or

(b) whose revenues exceed 10% of the consolidated revenues of the Issuer; or

(c) certified by the auditors of the Issuer to be a Material Subsidiary in the circumstances set out in paragraph (iv) below.

For the purposes of this definition:

(i) for the purpose of determination of the thresholds set forth in paragraphs (a) and (b) above at any given time, the assets and revenues of the relevant Subsidiary will be determined from the then latest available annual or semi-annual financial statements, as the case may be, of such relevant Subsidiary, and the consolidated assets and consolidated revenues of the Issuer will be determined from the then latest available annual or semi-annual financial statements, as the case may be, of the Issuer;

(ii) upon a Material Subsidiary transferring all or substantially all of its assets to another Subsidiary, the transferor shall cease to be a Material Subsidiary on the effective date of such transfer and thereupon the transferee shall be deemed to be a Material Subsidiary until the next date of determination of the thresholds set forth in paragraphs (a) and (b) above with respect to such Subsidiary;

(iii) subject to paragraph (ii) above, if as a result of any transfer, reconstruction, amalgamation, reorganisation, merger or consolidation of a company which, immediately before such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation, satisfied either of the tests set forth in paragraphs (a) or (b) above, but immediately after such transfer, reconstruction, amalgamation, reorganisation, merger or consolidation does not satisfy either such test, such company shall immediately cease to be a Material Subsidiary;

(iv) the Issuer shall, within 180 days of the end of each financial year and within 120 days of the end of the first six-month period of a financial year, respectively, provide the Trustee (in accordance with any notice provisions set forth in the Trust Deed), with a certificate of the Issuer's auditors (as long as permissible under such auditors' professional accounting responsibilities and standards or otherwise another Person suitably qualified), listing the Subsidiaries which fall within the definition of Material Subsidiaries as set out above as of the end of such financial year and such six-month period, respectively, and such certificates will be, in the absence of manifest error, conclusive as to the matter as of such dates; and

(v) in the event that a Subsidiary is required to prepare and does prepare financial statements on a consolidated basis, any calculation pursuant to this definition shall be made by reference to such consolidated financial statements.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company or government or agency, or political subdivision thereof, or other entity.

"**Subsidiary**" means, in relation to the Issuer, any company: (i) in which the Issuer holds a majority of the voting rights; (ii) of which the Issuer has the right to appoint or remove a majority of the board of directors; (iii) of which the Issuer controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer; or (iv) that is accounted for in the Issuer's consolidated financial statements according to the full consolidation method of accounting; provided, however, any investment fund, managed account or other similar vehicle or structure in which the Issuer has an interest in but which is managed solely by one or more Persons who are neither members of the Group nor Associates, shall not be a "Subsidiary."

<u>The conditions for the issuance of any series of Sukuk Murabahah shall be as follows:</u>

(i) no Event of Default has occurred (which remains uncured or unwaived) in respect of any Sukuk Murabahah of any series outstanding or will occur as a result of the issuance of that series of Sukuk Murabahah;

(ii) no material adverse change in the financial condition of the Issuer between the date of the most recently available financial statements and the date of issuance of such series of Sukuk Murabahah; and

(iii) such other conditions as shall be mutually agreed between the Issuer and the relevant lead manager(s) in respect of such series of Sukuk Murabahah.

r. Representations and warranties : The representations and warranties as set out below are given to the Facility Agent and the Lead Arranger as of the date of the Commodity Murabahah Master Agreement.

1. the Issuer has been duly incorporated and is validly existing under Bahraini law and the Issuer is or will be able lawfully to execute and perform its obligations under the Sukuk Murabahah at the time of issuance of a series and the Transaction Documents to which it is a party (the "**Issuer Agreements**") at the time any such Issuer Agreement is entered into;

2. each of the Issuer's Subsidiaries has been duly incorporated and is validly existing under the law of its jurisdiction of incorporation;

3. the issue of the Sukuk Murabahah of a series and the execution and delivery of the Issuer Agreements by the Issuer have been duly authorised by the Issuer and that, assuming due authorisation, execution and delivery of the Issuer Agreements by all other parties thereto, due execution, issue and delivery of the same by the Issuer will constitute legal, valid and binding obligations of the Issuer enforceable in accordance with their respective terms subject to the laws of bankruptcy and other laws affecting the rights of creditors generally;

4. the execution and delivery of the Issuer Agreements and the issue and distribution of the Sukuk Murabahah of a series and the performance of the terms of the Sukuk Murabahah and the Issuer Agreements by the Issuer: (i) will not infringe any law or regulation of the Kingdom of Bahrain except where the failure to do so could not be reasonably expected to have a material adverse effect on the issue and distribution or enforceability of the Sukuk Murabahah and the entry into the Issuer Agreements; (ii) so far as the Issuer is aware, will not infringe any other law or regulation in Malaysia, except where the failure to do so could not be reasonably expected to have a material adverse effect on the issue and distribution or enforceability of the Sukuk Murabahah and the entry into the Issuer Agreements; and (iii) are not contrary to the provisions of the constitutional documents of the Issuer and will not result in any breach of the terms of, or

constitute a default under, any instrument, agreement or order to which the Issuer is a party or by which it or its property is bound;

5. it is not necessary in order to ensure the enforceability or admissibility in evidence of the Sukuk Murabahah or any of the Issuer Agreements that the Sukuk Murabahah or any Issuer Agreements be filed or recorded in the Kingdom of Bahrain or notarised or that any documentary stamp or similar tax, imposition or charge be paid on or in respect of the Sukuk Murabahah;

6. all consents and approvals of any court, government department or other regulatory body required by the Issuer for the execution and delivery of the Issuer Agreements by the Issuer have been obtained and are unconditional and in full force and effect; and

7. such other representations and warranties to be mutually agreed between the Issuer, the Lead Arranger and the Facility Agent in the Commodity Murabahah Master Agreement.

The representations and warranties under the items set out above shall be repeated to the Facility Agent, the Lead Arranger and Secondary Purchasing Agent on: (i) the date a Purchase Order is delivered in respect of the series of Sukuk Murabahah that is to be issued; (ii) the issue date with respect to each series of Sukuk Murabahah that is being issued; and (iii) each date on which the information memorandum is revised, supplemented or amended; with such modifications to the representations and warranties to reflect the facts and circumstances then existing at such time.

In connection with any series of Sukuk Murabahah, the Issuer shall also provide representations and warranties as set out in any subscription agreement with any lead manager.

s. Events of default : The Events of Default with respect to Sukuk Murabahah of any series are as follows:

(1) if default is made in the payment of any amount due in respect of Sukuk Murabahah of that series when due and such default is not remedied within seven Business Days (as defined in item (u) below) after the relevant due date; or

(2) if the Issuer fails to perform or observe any of its other obligations under the Sukuk Murabahah of that series or the Issuer Agreements in respect of that series (other than an obligation in whose performance or whose breach is elsewhere in this item (s) specifically dealt with) and (except in any case where the failure is incapable of remedy) the failure continues for the period of 45 calendar days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(3) if (i) the holders of any Financial Indebtedness or Sukuk Obligation (including a Sukuk Obligation of any series at the time outstanding other than that series) of the Issuer accelerate such Financial Indebtedness or Sukuk Obligation or declare such Financial Indebtedness or Sukuk Obligation to be due and payable or required to be prepaid (other than pursuant to an option granted to the holders by the terms of such Financial Indebtedness or Sukuk Obligation), prior to the stated maturity date thereof; or (ii) the Issuer fails to make any payment in respect of any of its Financial Indebtedness or Sukuk Obligation (including a Sukuk Obligation of any series at the time outstanding other than that series) on the due date for payment (including any originally applicable grace period); provided that no event described in this item (s)(3) shall constitute an Event of Default unless the Financial Indebtedness or Sukuk Obligation of the Issuer due and unpaid, either alone or when aggregated (without duplication) with other amounts of Financial Indebtedness or Sukuk Obligation of the Issuer due and unpaid relative to all (if any) other events specified in (i) and (ii) above, amounts to at least U.S.$30,000,000 (or its equivalent in any other currency); or

(4) if the Issuer ceases or threatens to cease to carry on the whole or substantially all of its business, save for the purposes of reorganisation on terms approved by a special resolution (as defined in the Trust Deed) of the Sukukholders of each series at the time outstanding, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent. For the avoidance of doubt, no event described in this item (s)(4) arising from, or in connection with, any divestment or disposal or liquidation or sale of any part of the Issuer's investment portfolio in the course of carrying on its business as an investment holding company shall constitute an Event of Default; or

(5) if any order is made by any competent court or a shareholders' resolution is passed for the winding up or dissolution of the Issuer; or

(6) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of a receiver, manager, administrator or other similar official, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer, and (ii) in any such case (other than the

appointment of an administrator) unless initiated by the Issuer, is not discharged within 60 calendar days; or

For the purposes of this item (s)(6), the term "**asset**" or "**assets**" shall mean any asset or assets in relation to which legal title is held in the name of the Issuer (including for the avoidance of doubt Capital Assets in any Subsidiaries which are held by the Issuer), but excluding for the avoidance of doubt any assets held directly or indirectly by any Subsidiary or affiliate of the Issuer.

"**Capital Assets**" shall mean shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of the equity of any Subsidiary, including any preferred stock of such Subsidiary, whether now outstanding or issued after the date hereof including, without limitation, all series and classes of such instruments.

(7) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(8) if any event occurs which, under the laws of the Kingdom of Bahrain or any other jurisdiction in which the Issuer has operations has an analogous effect to any of the events referred to in items (5), (6) or (7); or

(9) if the validity of the Sukuk Murabahah of that series is contested by the Issuer, or the Issuer denies any of the Issuer's obligations under the Sukuk Murabahah of that series or it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Sukuk Murabahah of any series at the time outstanding or the Transaction Documents or any of such obligations are or become unenforceable or invalid; or

(10) if any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its obligations under the Sukuk Murabahah of that series or the obligations under the Issuer Agreements in respect of that series or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any rights or claims of any of the Sukukholders of that series; or

(11) such other event (if any) as may be advised by the legal counsel of the PA/LA and to be mutually agreed between the PA/LA and the Issuer.

Upon the occurrence of an Event of Default with respect to Sukuk Murabahah of any series at the time outstanding, which remains uncured or unwaived (in accordance with the terms and subject to the conditions of the Trust Deed), the Trustee may, at its sole and absolute discretion and shall, if so directed by a special resolution (as defined in the Trust Deed) of the Sukukholders of that series (subject to its rights to be indemnified by the Sukukholders to its satisfaction against all costs and expenses thereby occasioned), declare (by giving notice to the Issuer) that an Event of Default with respect to such series has occurred (which remains uncured or unwaived) and all accrued and unpaid Deferred Sale Price in respect of the Sukuk Murabahah of such series is immediately due and payable.

"**Financial Indebtedness**" means, in relation to the Issuer, all obligations, and guarantees or indemnities in respect of obligations, for moneys borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments).

"**Sukuk Obligation**" means any undertaking or other obligation, and any guarantee or indemnity in respect of any undertaking or other obligation, to pay any money given in connection with the issue of certificates whether or not in return for consideration of any kind.

t. Covenants : I. *Positive Covenants*

Positive covenants with respect to the Sukuk Murabahah of any series:

1. the Issuer shall deliver to the Trustee and the Facility Agent:

    (i) within 180 days of the end of each financial year, a copy of its audited financial statements for that period which shall contain an income statement and a balance sheet which are duly certified by any one of its directors;

    (ii) within 120 days of the end of the first six-month period of a financial year, a copy of its half yearly unaudited financial statements for that period which are duly certified by any one of its directors;

    (iii) promptly, such additional information as the Trustee may from time to time reasonably request relating to the Transaction Documents or in order for Trustee to discharge its duties and obligations as Trustee to the extent permitted by law;

(iv) together with the delivery with the annual audited financial statements referred to in sub-paragraph (i) above, a certificate of the Issuer signed by either or both the chief executive officer and chief financial officer of the Issuer, certifying that no Event of Default has occurred (which remains uncured or unwaived) with respect to the Sukuk Murabahah of that series and if a Event of Default has occurred (which remains uncured or unwaived), the details of such Event of Default and that the total Shariah compliant portfolio value is not less than the aggregate outstanding nominal amount of the Sukuk Murabahah;

2. the Issuer shall at all times maintain a paying agent with a specified office in Kuala Lumpur;

3. the Issuer shall immediately notify the Trustee if the Issuer becomes aware of the occurrence of an Event of Default (which remains uncured or unwaived);

4. the Issuer shall immediately notify the Trustee upon becoming aware of the occurrence of the Purchase Event (as defined in item (u));

5. the Issuer shall forthwith notify the Trustee if any of its authorized signatories are no longer authorized to act on the Issuer's behalf under the Sukuk Murabahah of that series and/or to sign the other Transaction Documents and/or any other relevant documents on the Issuer's behalf;

6. the Issuer shall promptly comply with all applicable laws including the provisions of the Capital Markets and Services Act 2007 and all circulars, conditions or guidelines issued by the SC from time to time;

7. the Issuer shall ensure that the proceeds from the Sukuk Murabahah shall be used in the manner specified in the information memorandum and solely for Shariah-compliant purposes (as set forth in item (j));

8. such other undertakings (if any) as may be advised by the legal counsel of the PA/LA and to be mutually agreed between the PA/LA and the Issuer.

II. *Negative covenants*

The negative covenants with respect to the Sukuk Murabahah of any series shall be as follows:

(A) So long as Sukuk Murabahah of any series remains outstanding, the Issuer will not create or have outstanding any Security Interest other than a Permitted Security Interest upon, or with respect to, any of the present or future assets or revenues (including any uncalled capital) of the Issuer to secure any Relevant Indebtedness or Relevant Sukuk Obligation, as the case may be, unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes and/or procures any and all action necessary to ensure that:

(i) all amounts payable by it under Sukuk Murabahah of each such series are secured by the Security Interest equally and rateably with the Relevant Indebtedness or the Relevant Sukuk Obligation, as the case may be; or

(ii) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided as is approved by a special resolution (as defined in the Trust Deed) of the Sukukholders of each such series outstanding.

Any Security Interest created for the benefit of the Sukukholders of any series pursuant to this item (t)(II)(A) shall provide by its terms that such Security Interest shall be automatically and unconditionally released and discharged upon (i) the release and discharge of the other Security Interest for each other series or (ii) the full, final and irrevocable payment of all amounts payable by the Issuer under the Sukuk Murabahah for that series.

For the purposes of this item (t)(II)(A), the term "**asset**" or "**assets"** of the Issuer shall not be interpreted to mean any asset held directly or indirectly by any of the subsidiaries or affiliates of the Issuer, but shall include the Issuer's equity interests in any such subsidiary or affiliate.

III. Optional Negative Covenant

*One or more series of Sukuk Murabahah may be issued with an asset sale covenant (the "**Asset Sale Covenant**") which shall be set forth in a Pricing Supplement for that series.*

If a Pricing Supplement includes the Asset Sale Covenant, the terms of such Asset Sale Covenant with respect to the Sukuk Murabahah of that series only shall be as set out below. For the avoidance of doubt, a reference below to "Sukuk Murabahah" or "Sukukholders" shall only refer to the Sukuk Murabahah of a series and the Sukukholders of that series, respectively which expressly include the provisions of the Asset Sale Covenant set out below:

(B) so long as Sukuk Murabahah of this series remains outstanding, the Issuer will not enter into an Asset Sale other than a Permitted Asset Sale unless:

(a) the consideration received by the Issuer is at least equal to the Fair Market Value of the ownership interest held by the Issuer in the assets sold or disposed of;

(b) in the case of any Asset Sale (other than a Listed Asset Sale) of an ownership interest held by the Issuer in an asset where such ownership interest has a book value (as determined by reference to the Relevant Accounts) that is less than U.S.$75,000,000 at the time of any such proposed Asset Sale, the determination as to whether such Asset Sale complies with paragraph (a) above is made by management of the Issuer;

(c) in the case of any Asset Sale (other than a Listed Asset Sale) of an ownership interest held by the Issuer in an asset where such ownership interest has a book value (as determined by reference to the Relevant Accounts) that is equal to or more than U.S.$75,000,000 but does not exceed the higher of U.S.$300,000,000 or 3% of the then consolidated total assets of the Issuer (as determined by reference to the Relevant Accounts) at the time of any such proposed Asset Sale:

(i) where the sale is to an entity other than the Government of Kingdom of Bahrain or any department, agency or authority wholly-owned by the Government of Kingdom of Bahrain, the determination as to whether such Asset Sale complies with paragraph (a) above is made by the board of directors of the Issuer or any committee thereof duly authorised by the board of directors of the Issuer for that purpose; or

(ii) where the sale is to the Government of Kingdom of Bahrain or any department, agency or authority wholly-owned by the Government of Kingdom of Bahrain, the determination as to whether such Asset Sale complies with paragraph (a) above is made by an Independent Appraiser; or

(d) in the case of any Asset Sale of an ownership interest held by the Issuer in an asset where such ownership interest has a book value (as determined by reference to the Relevant Accounts) that exceeds the higher of U.S.$300,000,000 or 3% of the then consolidated total assets of the Issuer (as determined by reference to the Relevant Accounts) at the time of any such proposed Asset Sale:

(i) the determination as to whether such Asset Sale (other than a Listed Asset Sale) complies with paragraph (a) above is made by an Independent Appraiser; and

(ii) such Asset Sale has been approved by the board of directors of the Issuer or any committee thereof duly authorised by the board of directors of the Issuer for that purpose.

For the purposes of items (t)(III)(B)(c)(i) and (t)(III)(B)(d)(ii), a certified copy of the relevant resolution to that effect, or a certified extract of the minutes of the meeting at which the resolution to that effect was passed recording the passing of such resolution, in each case prepared by the Issuer's company secretary, shall be conclusive evidence of such approval, shall be provided to the Trustee within 30 Business Days of the date of passing of the relevant resolution and shall be available for inspection by the Sukukholders during normal business hours at the specified office of the Trustee.

"**Asset Sale**" means any sale, lease, sale and lease back, transfer or other disposition by the Issuer of all or any of its assets (either in one transaction or in a series of related transactions) to any Person who is not a member of the Group or an Associate; provided, however, that the term "Asset Sale" shall also include the sale, lease, sale and lease back, transfer or other disposition by a member of the Group or an Associate of any assets acquired directly from the Issuer for the purpose of effecting an Asset Sale to a party that is not a member of the Group or an Associate.

"**Fair Market Value**" means with respect to any asset, the value that would be paid in an arm's-length transaction between an independent, informed and willing seller or lessor under no compulsion to sell or lease and an independent, informed and willing buyer or lessee under no compulsion to buy or lease.

"**Independent Appraiser**" means any independent firm of appraisers or investment banking firm or firm of public accountants, in each case, of international standing selected by the Issuer.

"**Listed Asset Sale**" means an Asset Sale where the assets to be sold, transferred or otherwise disposed of are securities listed or traded on any public securities exchange or public trading facility (or in the case of an initial public offering, securities to be so listed or traded).

"**Permitted Asset Sale**" means any sale, lease, sale and lease back, redemption, transfer or other disposition by the Issuer of any of its assets (either in one transaction or in a series of related transactions) to any Person who is not a member of the Group or not an Associate conducted solely in connection with:

(a) an Islamic financing transaction, provided that any counterparty to such Islamic financing transaction has no recourse to the relevant assets of the Issuer; or

(b) an interest in an investment fund, managed account or other similar vehicle or structure managed by any Person who is not a member of the Group or not an Associate.

"**Permitted Security Interest**" means:

(a) any Security Interest securing Relevant Indebtedness of a Person existing at the time that such Person is merged into, or consolidated with, or acquired by the Issuer, provided that such Security Interest was not created in contemplation of such merger, consolidation or acquisition and does not extend to any other assets of the Issuer;

(b) any Security Interest existing on any assets (including shares) prior to the acquisition thereof by the Issuer and not created in contemplation of such acquisition; or

(c) any renewal of or substitution for any Security Interest permitted by paragraphs (a) or (b) of this definition, provided that with respect to any such Security Interest the principal amount secured has not increased and the Security Interest has not been extended to any additional assets (other than the proceeds of such assets).

"**Relevant Accounts**" means the most recently available audited consolidated financial statements of the Issuer prepared in accordance with International Financial Reporting Standards (IFRS), or such other international financial reporting standards as may be adopted from time to time by the Issuer.

"**Relevant Indebtedness**" means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures or other securities (but excluding, for the avoidance of doubt, any indebtedness under any bilateral, "club deal" or syndicated credit facility, commercial bank or similar indebtedness, capital lease obligations, repurchase agreements (repo) with respect to any financial asset or any other indebtedness not in the form of notes, bonds, debentures or other securities) which for the time being are, or are intended to be, or are capable of being quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market and (ii) any guarantee or indemnity of any such indebtedness.

"**Relevant Sukuk Obligation**" means any undertaking or other obligation to pay any money given in connection with the issue of certificates, whether or not in return for consideration of any kind, which for the time being are, or are intended to be, or are capable of being, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter or other securities market.

"**Security Interest**" means any mortgage, charge, lien, pledge or other security interest.

u.	**Provisions on buy-back and early redemption of sukuk**	:	<u>Buy-back</u>

The Issuer or any of its interested persons or subsidiaries or any agent(s) of the Issuer may at any time purchase the Sukuk Murabahah of any series at any price in the open market or by private treaty, but such repurchased Sukuk Murabahah of each such series shall, if purchased by the Issuer or by its subsidiaries or by agent(s) of the Issuer who is acting for the purchase, be cancelled and cannot be reissued or, if purchased by the Issuer's interested persons, such Sukuk Murabahah need not be cancelled but they will not entitle such interested persons to vote at any meeting of the holders of the Sukuk Murabahah of that series.

Optional Early Redemption Provisions:

I <u>Purchase of Sukuk Murabahah in the event of Change of Control or Specified Purchase Event</u>

One or more series of Sukuk Murabahah may be issued with the Purchase Option (as defined below) which shall be set forth in a Pricing Supplement for that series.

If a Pricing Supplement includes a Purchase Option, the terms of such Purchase Option with respect to the Sukuk Murabahah of that series only shall be as set out below. For the avoidance of doubt, a reference below to "Sukuk Murabahah" or "Sukukholders" shall only refer to the Sukuk Murabahah of a series and the Sukukholders of that series, respectively which expressly include the provisions of the Purchase Option set out below:

If, at any time, while the Sukuk Murabahah remains outstanding, there occurs (i) a Change of Control or (ii) a Specified Purchase Event (the occurrence of either (i) or (ii), a "**Purchase Event**"), the holder of such Sukuk Murabahah will have the option (a "**Purchase Option**") to require the Issuer to redeem that Sukuk Murabahah.

Promptly upon the Issuer becoming aware that a Purchase Event has occurred, the Issuer shall give notice (a "**Purchase Event Notice**") to the Sukukholders in accordance with any notice provision set forth in the Trust Deed specifying the nature of the Purchase Event, the circumstances giving rise to it, and the procedure for exercising the Purchase Option contained in this item (u).

To exercise the Purchase Option, the holder of the Sukuk Murabahah must deliver at the specified office of the Trustee at any time during normal business hours of the Trustee falling within the period of 30 calendar days after the receipt of the Purchase Event Notice (the "**Purchase Period**"), a duly signed and completed notice of exercise in the form or substantially in the form set out in the Trust Deed (a "**Purchase Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this paragraph accompanied by the certificate for such Sukuk Murabahah or evidence satisfactory to the Trustee concerned that the certificate for such Sukuk Murabahah will, following the delivery of the Purchase Notice, be held to its order or under its control.

A Purchase Notice given by a holder of any Sukuk Murabahah shall be irrevocable except where, prior to the Purchase Date (as defined below), an Event of Default has occurred and (which remains uncured or unwaived) in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Purchase Notice and instead to give notice that the Sukuk Murabahah is immediately due and repayable.

The Issuer will, upon the expiry of the Purchase Period, redeem in whole (but not in part) the Sukuk Murabahah that are the subject of the Purchase Notice on or before the date (the "**Purchase Date**") falling seven Business Days after the expiry of the Purchase Period at Redemption Amount (as defined in item (v)(4)).

"**Business Day**" means a day on which financial institutions are open for business in Kuala Lumpur and Bahrain.

A "**Change of Control**" shall occur each time the Government of the Kingdom of Bahrain or any department, agency or authority wholly-owned by the Government of the Kingdom of Bahrain:

(a) sells, transfers or otherwise disposes of any of the issued share capital of the Issuer, other than to an entity, directly or indirectly, wholly-owned by the Government of the Kingdom of Bahrain; or

(b) otherwise ceases to control (directly or indirectly) the Issuer,

provided, however, that a Change of Control shall not be deemed to have occurred if an aggregate amount not exceeding 5% of the Issuer's issued share capital is held by or on behalf of employees or former employees or directors or former directors of the Issuer pursuant to any long-term employee incentive plan the Issuer may formally adopt after June 30, 2010.

"**Indebtedness**" means, in relation to a Material Associate or a Material Subsidiary, all obligations, and guarantees or indemnities in respect of obligations for moneys borrowed or raised (whether or not evidenced by bonds, debentures, notes or other similar instruments).

"**Investment Grade Rating**" means a rating of at least investment grade (being a rating of at least BBB3 or the equivalent for the time being) from a Rating Agency.

"**Material Event**" means the occurrence of any of the following events:

(a) any sale, transfer or other disposition, in whole or in part, by the Issuer of its interest in any Material Subsidiary or Material Associate to any Person who is not a member of the Group; or

(b) any Material Subsidiary or Material Associate fails to make any payment in respect of any of its Indebtedness or Sukuk Obligation on the due date for payment or within any originally applicable grace periods, as the case may be, provided that no event described in this subparagraph (b) shall constitute a Material Event unless the Indebtedness or Sukuk Obligation due and unpaid on the due date for payment (including any originally applicable grace period), either alone or when aggregated (without duplication) with other amounts of Indebtedness or Sukuk Obligation of such Material Subsidiary or Material Associate, as the case may be, due and unpaid on the due date for payment (including any originally applicable grace period), amounts to at least U.S.$30,000,000 (or its equivalent in any other currency); or

(c) if any Material Subsidiary or Material Associate ceases to carry on the whole or substantially all of its business or any Material Subsidiary or Material Associate admits in writing its inability to pay generally its debts as they fall due or is adjudicated or found bankrupt or insolvent by a competent court and such decree or order shall not have been discharged or stayed within 60 days; or

(d) if any order is made by any competent court for relief in respect of such Material Subsidiary or Material Associate in an involuntary case or proceeding under any applicable bankruptcy, insolvency, liquidation, composition or reorganisation law or for the winding up, liquidation or dissolution of any Material Subsidiary or Material Associate and in each case such court order shall not have been discharged or stayed within 60 days; or

(e) if any Material Subsidiary or Material Associate: (i) commences, or a resolution is passed by the shareholders of such Material Subsidiary or Material Associate to commence, a voluntary case or proceeding in respect of such Material Subsidiary or Material Associate under any applicable bankruptcy, insolvency, liquidation, reorganisation law; (ii) consents to an entry by a competent court of a decree or order for relief in respect of such Material Subsidiary or Material Associate in an involuntary case or proceeding under any applicable bankruptcy, insolvency, liquidation, composition, reorganisation law; or (iii) makes an assignment for the benefit of its creditors generally; or

(f) if any event occurs which, under the laws of the Kingdom of Bahrain or any other jurisdiction in which the Issuer has operations has an analogous effect to any of the events referred to in paragraphs (c), (d) or (e);

"**Material Event Announcement**" means any formal public announcement or statement by or on behalf of
the Issuer and/or the relevant Material Subsidiary or Material Associate or any other relevant person relating to any Material Event.

"**Rating Agency**" means for purposes of this Item 2(u), RAM Rating Services Berhad or any of its successor.

A "**Rating Downgrade**" will be deemed to have occurred if, for so long as any Sukuk Murabahah remains outstanding, the solicited rating assigned to the Sukuk Murabahah by the Rating Agency (i) is withdrawn either by the Rating Agency or at the request of the Issuer or (ii) is reduced to a rating below Investment Grade Rating.

A "**Specified Purchase Event**" shall occur if, in any order:

(a) a Material Event has occurred;

(b) at any time during the Specified Purchase Event Period, a Rating Downgrade occurs and, in the case of a rating having been withdrawn by a Rating Agency that had assigned an Investment Grade Rating, it is not replaced by at least an Investment Grade Rating of another Rating Agency by the end of the Specified Purchase Event Period or, in the case of a rating having been reduced below an Investment Grade Rating, such rating is not restored to an Investment Grade Rating by the end of the Specified Purchase Event Period; and

(c) the relevant downgrading or withdrawing Rating Agency publicly announces that such downgrading or withdrawal of the rating was the result, in whole or in part, of the applicable Material Event.

"**Specified Purchase Event Period**" means the period:

(a) commencing on the date that is one Business Day before the earlier of (i) the date on which the Material Event occurred and (ii) the date of the earliest relevant Material Event Announcement (if any); and

(b) ending on the date falling 60 days after the date on which the Material Event occurred or such longer period for which the Sukuk Murabahah are under consideration by a Rating Agency for rating or rating review (such consideration having been announced publicly within the period ending 60 days after the date on which the Material Event occurred and such period not to exceed 30 days after the public announcement of such consideration).

II Purchase of Sukuk Murabahah at the request of the Issuer upon the occurrence of a Purchase Event

*One or more series of Sukuk Murabahah may be issued with an issuer redemption option (the "**Issuer Redemption Option**") which shall be set forth in a Pricing Supplement for that series.*

If a Pricing Supplement includes an Issuer Redemption Option, the terms of such Issuer Redemption Option with respect to the Sukuk Murabahah of that series only shall be as set out below. For the avoidance of doubt, a reference below to "Sukuk Murabahah" or "Sukukholders" shall only refer to the Sukuk Murabahah of a series and the Sukukholders of that series, respectively which expressly include the provisions of the Issuer Redemption Option set out below:

Upon the occurrence of a Purchase Event, provided 75% or more in principal amount of the Sukuk Murabahah outstanding immediately prior to the Purchase Date have been redeemed pursuant to the provisions of item (u), the Issuer may, having given not less than 30 or more than 60 calendar days' notice to the Sukukholders (in accordance with any notice provisions set forth in the Trust Deed) given within 30 days after the Purchase Date, redeem, at its option, the remaining Sukuk Murabahah as a whole at the Redemption Amount.

III Early Redemption

*One or more series of Sukuk Murabahah may be issued with an early redemption option (the "**Early Redemption Option**") which shall be set forth in a Pricing Supplement for that series.*

If a Pricing Supplement includes an Early Redemption Option, the terms of such Early Redemption Option with respect to the Sukuk Murabahah of that series only shall be as set out below. For the avoidance of doubt, a reference below to "Sukuk Murabahah" or "Sukukholders" shall only refer to the Sukuk Murabahah of a series and the Sukukholders of that series, respectively which expressly include the provisions of the Early Redemption Option set out below:

The Sukukholders in subscribing or purchasing the Sukuk Murabahah with rights of early redemption hereby grant to the Issuer the option to redeem the Sukuk Murabahah of such series, in whole or in part, prior to maturity dates provided that, inter alia, the following conditions are fulfilled:

(i) notice period of at least thirty (30) calendar days and not more than sixty (60) calendar days is given to the Facility Agent and the Trustee; and

(ii) redemption is made on a Periodic Profit Payment date.

In the case of any partial redemption, selection of the Sukuk Murabahah for redemption will be made by the Trustee on a pro rata basis, by lot or by such other method as the Trustee (with the agreement of the Issuer) will deem to be fair and appropriate, although no Sukuk Murabahah of RM10,000,000 in original principal amount or less will be redeemed in part.

For the avoidance of doubt, the rights to early redemption may not apply to all series of Sukuk Murabahah issued. The Issuer will determine prior to each issuance of the Sukuk Murabahah whether the Sukuk Murabahah will be issued with such rights of early redemption.

v. **Other principal terms and conditions for the issue** :

1. **Identified Assets** : Shariah-compliant commodities (excluding ribawi items in the category of medium of exchange such as currency, gold and silver) which are provided through the commodity trading platform, Bursa Suq Al-Sila'.

2. **Purchase and Selling Price/Rental (where applicable)** :

<u>Purchase Price</u>
To be determined prior to each issuance of a series of Sukuk Murabahah and shall fully comply with the SC's Shariah Advisory Council's pricing guidelines as stipulated under the revised Islamic Securities Guidelines (Sukuk Guidelines) dated 12 July 2011 and effective on 12 August 2011, as amended from time to time.

<u>Deferred Sale Price</u>
The Deferred Sale Price for any series shall be determined prior to issuance of Sukuk Murabahah.

3. **Transferability** : Transferable but subject to the Selling Restrictions.

4. **Redemption** : Unless previously redeemed or purchased and cancelled, the Issuer shall redeem the Sukuk Murabahah of any series at their face value on their respective maturity dates.

The redemption amount payable ("**Redemption Amount**") by Mumtalakat on the declaration of an Event of Default in respect of a series of Sukuk Murabahah or, if applicable to a series, in connection with: (i) a Purchase Option; (ii) an Issuer Redemption Option; or (iii) an Early Redemption Option, is an amount as determined by the Facility Agent, which shall be calculated in accordance with the formula below:

Redemption Amount = Deferred Sale Price less the aggregate of Periodic Profit Payments paid (if any) less the Rebate (if any).

5. **Status** : The Sukuk Murabahah of each series shall constitute direct, unconditional and (subject to the Negative Pledge clause in item (t)(II)(A)) unsecured and unsubordinated obligations of the Issuer and (subject to the Negative Pledge clause in item (t)(II)(A)) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

6. **Compensation (Ta'widh)** : In the event of any overdue payments of any amounts due under the Sukuk Murabahah of any series, the Issuer shall pay the compensation on such overdue amounts at the rate and manner prescribed by the SC's Shariah Advisory Council from time to time in accordance with the Shariah principles.

7.	**Governing Laws**	:	The Sukuk Murabahah of each series and the Transaction Documents shall be governed by the laws of Malaysia.
8.	**Taxation**	:	All payments by the Issuer in respect of the Sukuk Murabahah of each series to be issued shall be made in full without any withholding or deductions for, or on account of, any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Malaysia or any other Relevant Jurisdictions, or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law, in which event the Issuer shall be required to make payment of such additional amount so that the payee would receive the full amount which the payee would have received if no such withholding or deductions are made except that no additional amounts shall be payable in relation to any payment in respect of Sukuk Murabahah of any series: (a) presented for payment by or on behalf of a Sukukholder of any series who is liable to the taxes in respect of the Sukuk Murabahah of that series by reason of his having some connection with the Relevant Jurisdiction (as defined below) other than the mere holding of the Sukuk Murabahah of that series; (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; (c) presented for payment more than thirty (30) calendar days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of thirty (30) calendar days assuming that day to have been a Business Day For purposes of this item 8, "**Relevant Date**" means the date on which payment first becomes due but, if the full amount of the money payable has not been received by the Paying Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Sukukholders of that series by the Issuer in accordance to the notice provisions set out in the Trust Deed; "**Relevant Jurisdiction**" means the Kingdom of Bahrain or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Issuer is resident for tax purposes at the time of payment of principal or profit on the Sukuk Murabahah of that series.
9.	**Arbitration**	:	Subject to the item 10 below, any dispute arising out of or in connection with Sukuk Murabahah of any series ("**Dispute**") shall be decided by arbitration in accordance with the Rules of the London Court of International Arbitration with the seat of arbitration being Singapore.

10.	**Jurisdiction**	:	Notwithstanding item 9 above, the Sukukholders in connection with an affected series as more fully set out in the Trust Deed may by a special resolution (as defined in the Trust Deed), in the alternative and at its sole discretion, by notice in writing to the Issuer within a period specified in the Trust Deed, require that a Dispute be heard by a court of law. In such event, the Issuer shall unconditionally and irrevocably submit to the non-exclusive jurisdiction of the courts of Malaysia.
11.	**No Payment of Interest**	:	For the avoidance of doubt and notwithstanding any other provision to the contrary herein, it is hereby agreed and declared that nothing in these principal terms and conditions and the Transaction Documents shall oblige or entitle any party nor shall any party pay or receive or recover interest on any amount due or payable to another party pursuant to the principal terms and conditions or the Transaction Documents and the parties hereby expressly waive and reject any entitlement to recover such interest. It is further acknowledged that the principle of the payment of interest is repugnant to Shariah and accordingly, to the extent that any legal system would (but for the provisions of this item) impose (whether by contract, statute or court order) any obligation to pay interest, the relevant parties shall agree to waive and reject any entitlement to recover interest from each other. It is further agreed that any payment pursuant to the principal terms and conditions or the Transaction Documents shall not be construed as payments of interest.
12.	**Other Conditions**	:	The Sukuk Murabahah Programme shall at all times be governed by the relevant guidelines issued and to be issued from time to time by the SC, BNM, Malaysian Electronic Clearing Corporation Sdn Bhd ("**MyClear**") and/or any other authority in Malaysia having jurisdiction over matters pertaining to the Sukuk Murabahah Programme.
13.	**Rebate (Ibra)**	:	A rebate may be granted at the absolute discretion of the Sukukholders of any series. The Sukukholders in subscribing or purchasing the Sukuk Murabahah hereby consent to grant such rebate if the Sukuk Murabahah of that series is redeemed before maturity (i.e. upon the declaration of an Event of Default for that series or, if applicable to a series, in connection with: (i) a Purchase Option; (ii) an Issuer Redemption Option; or (iii) an Early Redemption Option). The rebate (Ibra) shall be the aggregate Periodic Profit Payments due to the Sukukholders of that series in respect of the period from (and including) the date of full payment by the Issuer of all accrued and unpaid Deferred Sale Price pursuant to the declaration of any Event of Default for that series or, if applicable to a series, in connection with: (i) a Purchase Option; (ii) an Issuer Redemption Option; or (iii) an Early Redemption Option up to (but excluding) the maturity date.
14.	**Issue Price**	:	The Sukuk Murabahah of each series shall be issued at par, at a premium or at a discount to nominal value and the issue price shall be calculated in accordance with the Operational Procedures for Securities Services issued by MyClear, as amended or substituted from time to time ("**MyClear Procedures**").

The issue price of the Sukuk Murabahah of each series shall be determined prior to the issuance of that series of Sukuk Murabahah.

15. Sovereign Immunity : To the fullest extent permitted by law, the Issuer irrevocably and unconditionally waives and agrees not to raise with respect to the Sukuk Murabahah of any series any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any proceedings.

16. Transaction Documents : Completion, execution and delivery of all documentation for the Sukuk Murabahah Programme which include amongst other things the following documents:

means collectively the following:

- Trust Deed;
- Commodity Murabahah Master Agreement;
- Service Agency Agreement;
- Issue Agency Agreement;
- Facility Agency Agreement;
- Securities Lodgement Form (as defined in the Central Securities Depository and Paying Agency Rules issued by MyClear);

and in relation to Sukuk Murabahah of each such series:

- Purchase Order for such series;
- CTP Purchase Agreement for such series;
- Sale and Purchase Agreement for such series;
- CTP Sale Agreement for such series;
- global certificate (or, if applicable definitive certificate(s)) of Sukuk Murabahah for such series; and

any other documents designated as Transaction Documents by the Issuer and the Trustee.

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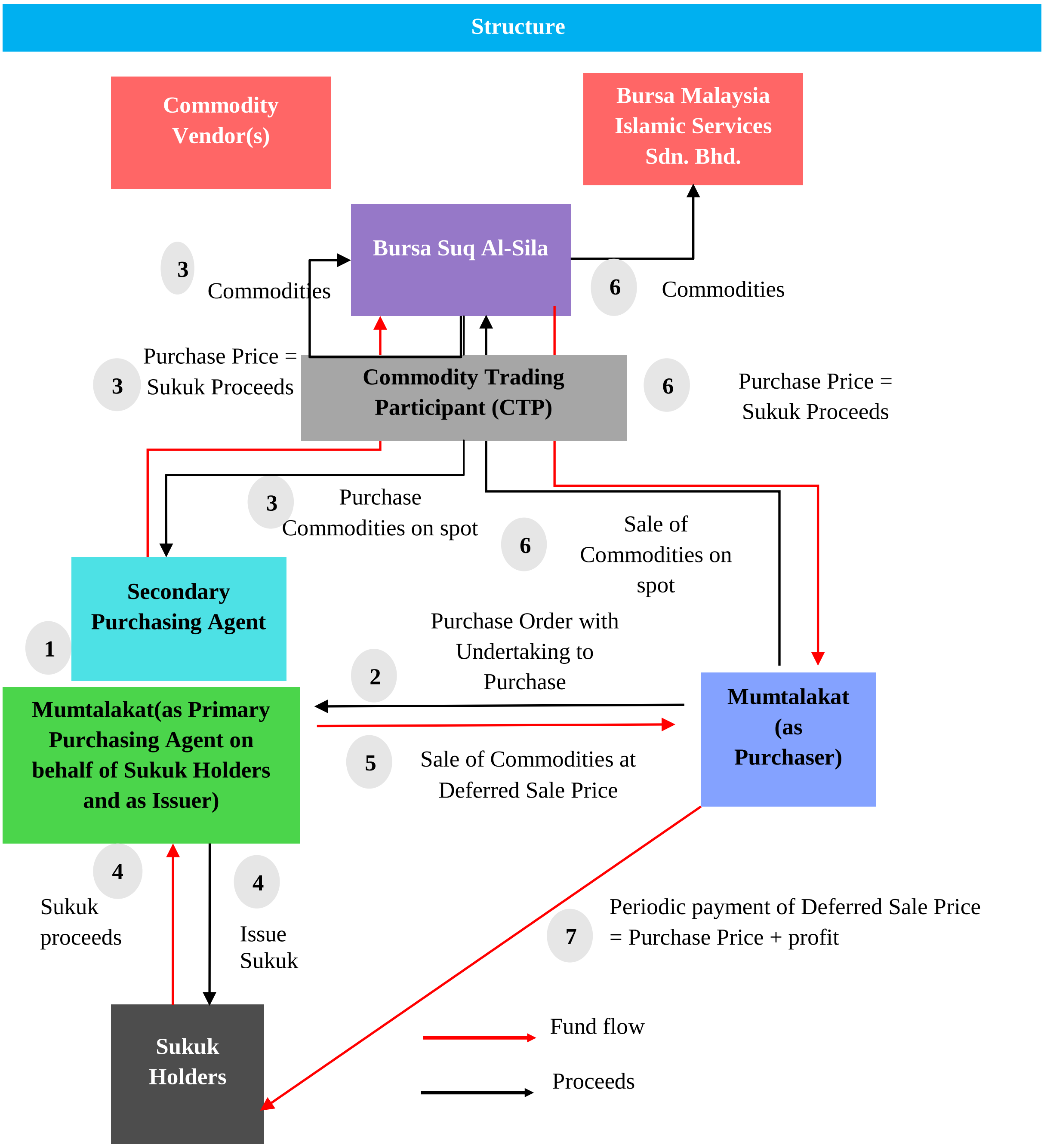
Annexure



(1) The Trustee (on behalf of the Sukukholders of each series of Sukuk Murabahah) and Mumtalakat shall enter into a Service Agency Agreement, pursuant to which Mumtalakat (Mumtalakat in such capacity, the "**Primary Purchasing Agent**") is appointed as the agent of Sukukholders for each such series for the purchase and sale of Shariah compliant commodities ("**Commodities**").The Primary Purchasing Agent will then enter into a Facility Agency Agreement to appoint the Facility Agent as its sub-agent (the Facility Agent in such capacity, the "**Secondary Purchasing Agent**") for the purchase and sale of Commodities under the Sukuk Murabahah Programme.

(2) Pursuant to a Commodity Murabahah Master Agreement, prior to the date on which a series of Sukuk Murabahah is issued, Mumtalakat (acting as purchaser for itself) issues a purchase order (the "**Purchase Order**") in relation to that series to both the Primary Purchasing Agent and the Secondary Purchasing Agent. In such Purchase Order, Mumtalakat (acting as purchaser for itself) requests the Primary Purchasing Agent and the Secondary Purchasing Agent to purchase the Commodities and irrevocably undertakes to purchase the Commodities from the Sukukholders of that series via the Secondary Purchasing Agent.

(3) Based on the Purchase Order, the Secondary Purchasing Agent (pursuant to a CTP Purchase Agreement entered into between the Secondary Purchasing Agent and the Commodity Trading Participant ("**CTP**") for that series), will purchase on a spot basis the Commodities from commodity vendor(s) in the Bursa Suq Al-Sila' commodity market (through a CTP) at a certain purchase price ("**Purchase Price**"). The Purchase Price will be in accordance with the Asset Pricing requirements under the Sukuk Guidelines.

(4) Mumtalakat (acting as the Issuer) shall then issue Sukuk Murabahah to the Sukukholders of that series, the proceeds of which are equal, and used to fund the Purchase Price of the Commodities. The Sukuk Murabahah shall evidence amongst other things, the Sukukholders' ownership of the Commodities and (subsequently once the Commodities are sold to Mumtalakat (as the Purchaser for itself)) the entitlement to receive the Deferred Sale Price (equivalent to the Purchase Price and a mark-up profit).

(5) Thereafter, pursuant to the sale and purchase agreement entered into between the Secondary Purchasing Agent and Mumtalakat for that series, the Secondary Purchasing Agent (acting on behalf of the Primary Purchasing Agent) shall sell the Commodities to Mumtalakat (acting as Purchaser for itself) at the Deferred Sale Price (the "**Sale and Purchase Agreement**").

(6) Upon completion of such purchase, Mumtalakat (pursuant to the CTP Sale Agreement entered into between Mumtalakat (acting as Purchaser for itself) and the CTP for that series) shall sell the Commodities to Bursa Malaysia Islamic Services Sdn. Bhd. (through the CTP) on a spot basis for an amount equal to the Purchase Price. The CTP Sale Agreement will provide for the CTP to directly sell the Commodities to Bursa Malaysia Islamic Services Sdn Bhd upon notice by the Secondary Purchasing Agent that the Sale and Purchase Agreement has been completed and executed.

(7) During the tenure of Sukuk Murabahah of any series, the Issuer shall make periodic payments to the Sukukholders of each such series. On the date of maturity of Sukuk Murabahah of any series, the Issuer shall pay all amounts outstanding in respect of the Deferred Sale Price to the Sukukholders of that series, upon which the Sukuk Murabahah of that series shall be cancelled.

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4. INVESTMENT CONSIDERATIONS

The purchase of Sukuk Murabahah may involve substantial risks and is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and merits of an investment in Sukuk Murabahah. Before making an investment decision, prospective investors of Sukuk Murabahah should consider carefully, in the light of their own financial circumstances and investment objectives, all of the information in this Information Memorandum.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Sukuk Murabahah issued under the Sukuk Murabahah Programme, but the inability of the Issuer to pay any amounts on or in connection with any Sukuk Murabahah may occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Sukuk Murabahah are exhaustive.

Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decision.

4.1 INVESTMENT CONSIDERATIONS RELATING TO THE ISSUER

4.1.1 The Group's operational and financial performance may be adversely impacted by local and regional political developments and geopolitical tensions

The Group's operational and financial performance depends significantly upon companies that are based in Bahrain and the Group is therefore susceptible to disruptions and/or adverse conditions that may arise as a result of local and regional political developments. For example, large-scale political demonstrations in several regional areas (including Bahrain) adversely affected key Gulf Air B.S.C.(c) ("**Gulf Air**") routes in 2011, leading to reduced traffic on many Gulf Air regional routes and cancellation of several other routes that in the past, had been profitable for Gulf Air. Recent regional geopolitical tensions have also led to materially higher fuel prices for Gulf Air, which has further deteriorated the airline's financial performance. See further "*Restructuring of Gulf Air*".

On-going global geopolitical tensions involving Iran can lead to factors that drive the global market price of oil higher and potentially lead to disruption of vital shipping channels in the Strait of Hormuz. If such conditions were to prevail over an extended period of time, the Group's operational and financial performance would likely be adversely impacted. For example, Aluminium Bahrain B.S.C. ("**Alba**") relies on shipments through the Strait of Hormuz for incoming raw materials required for its production of aluminium and then ships a portion of its finished product to customers outside of the GCC through the Strait of Hormuz. Disruption to this shipping channel could require Alba to seek out alternative shipping routes, which may be more costly and less efficient.

There can be no assurance that political developments locally and regionally will not again intensify to levels experienced in 2011 or that other locations in the region that have been relatively stable up to now, will not experience heightened political instability in the future.

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4.1.2 *Mumtalakat is wholly-owned by the Government of Bahrain, which may exercise significant influence over Mumtalakat's operations*

Mumtalakat is wholly-owned by the Government of Bahrain. The Government of Bahrain has the power to influence directly or indirectly Mumtalakat's commercial and operational affairs, including its investment and divestment decisions. Mumtalakat may be asked by the Government of Bahrain to work on important strategic projects for Bahrain, which will contribute to the overall economy of Bahrain, but may not deliver suitable investment returns for Mumtalakat. While such projects are likely to receive some Government of Bahrain funding, there can be no assurance that this will in fact be the case. In addition, involvement in such projects could divert Mumtalakat's management attention and resources.

There can be no assurance that the Government of Bahrain will not exercise significant influence over the commercial affairs of Mumtalakat. The Government of Bahrain's interests may also conflict with those of Mumtalakat or the Sukuk holders. As most of Mumtalakat's current portfolio consists of state owned enterprises of strategic and national importance, key decisions with respect to these assets may be political in nature and sometimes require parliamentary approvals, such as for funding. Thus, the outcome from any such decision making processes may not be always strictly commercial or transparent or made on a timely basis which in turn may have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

4.1.3 *The Government of Bahrain may alter its economic development strategy or its relationship with Mumtalakat*

A primary objective of Economic Vision 2030, the Government of Bahrain's economic development strategy, is to shift Bahrain's economy from an oil-driven economy to a global, competitive economy driven by the private sector across a variety of sectors and industries. Although Mumtalakat, as the holding company for the Government of Bahrain's non-oil and gas commercial assets, is central to the implementation of various elements of Economic Vision 2030, the Government of Bahrain could alter the scope of Economic Vision 2030 or appoint one or more other entities to implement aspects of Economic Vision 2030. Any such action by the Government of Bahrain could limit Mumtalakat's mandate, limit the amount of financial support Mumtalakat receives from or assets granted by the Government of Bahrain, and/or lead the Government of Bahrain to reclaim assets previously granted to Mumtalakat without the payment of any compensation for such reclaimed assets. These actions could have a material adverse effect on Mumtalakat's business, results of operations, financial condition and prospects and could therefore affect the ability of Mumtalakat to perform its obligations under financial covenants in its existing credit facility, Sukuk Murabahah and the Transaction Documents.

4.1.4 *Mumtalakat depends on the skill and judgment of the members of its Board Investment Committee and its Management Investment Committee for all major investment decisions*

The Management Investment Committee of Mumtalakat is currently composed of the Chief Executive Officer (as Chairman of the Committee), the Chief Investment Officer and the Chief Financial Officer. The Management Investment Committee is responsible for monitoring the performance of the investment portfolio and reviewing proposed investments and divestments. In addition, the Management Investment Committee may approve any investment or divestment up to BD 25 million that is consistent with its approved investment budget.

Mumtalakat's Board Investment Committee approves investments or divestments in excess of BD 25 million, and approves and recommends the investment budget to the Board of Directors. The Board of Directors gives final approval on the investment budget, the asset allocation strategy and the investment strategy generally. Mumtalakat's investment strategy is thus dependent to a significant extent on the skill, judgment and experience of the members of the Board Investment Committee and the Management Investment Committee acting within the framework established by the Board of Directors. Failure by the Board Investment Committee and the Management Investment Committee to perform its obligations within the framework established by the Board of Directors could result in an adverse effect on the results of operations, financial condition and prospects of the Group. In such circumstances, Mumtalakat's business and its ability to perform its obligations under Sukuk Murabahah and the Transaction Documents could be adversely affected.

4.1.5 Mumtalakat has a limited operating history and the Group's past performance is not necessarily indicative of its future results

Mumtalakat commenced operations in June 2006 and thus has only limited history operating as an investment firm. Its strategy and the execution of that strategy is also still evolving. Accordingly, prospective investors only have limited information with which to evaluate the Group's current or future prospects or financial results and performance. Furthermore, as a result of Mumtalakat's limited operating history, the Group's historical financial statements are unlikely to be indicative of its future cash flows, results of operations or rate of growth, and the Group's past performance should not be relied upon as an indication of its future performance.

Mumtalakat's business and prospects must be considered in light of the risks, uncertainties and challenges frequently encountered by companies in their early stages of development or companies, such as Mumtalakat, that have inherited assets from a government. Since its incorporation in 2006, Mumtalakat has monetised or completed only a limited number of portfolio company divestments. In addition, as part of a long-term strategy to diversify its portfolio, Mumtalakat may allocate investments into new asset classes, which will likely include those in which Mumtalakat has limited investing experience. As a business with a limited operating history, there can be no assurance that Mumtalakat will be successful in implementing its business plan or investment strategy, and the failure to do so could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

4.1.6 The Group's results of operations and financial condition will depend on Mumtalakat's ability to manage future growth and implement its strategy effectively

Mumtalakat's ability to achieve its investment objectives will depend on its ability to grow and diversify its investment base, which will depend, in turn, on its ability to identify, invest in and monitor a suitable number of investments and implement the various aspects of its investment strategy.

Mumtalakat may from time to time make substantial investments and divestments. Such transactions expose the Group to numerous risks, including:

- diversion of management attention and financial resources that would otherwise be available for the on-going development or expansion of existing operations;
- challenges in managing the increased scope, geographic and asset class diversity and complexity of Mumtalakat's investments;
- difficulties in obtaining financing on commercially acceptable terms necessary to support the growth of new investments; and
- challenges in effectively redeploying capital raised through the divestment of Mumtalakat's existing investments.

Significant investments and divestments could thus prove to be costly in terms of Mumtalakat's time and resources and may impose risks, which, if unsuccessfully managed, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

4.1.7 *Almost all of Mumtalakat's current investment portfolio is illiquid, which may adversely affect Mumtalakat's ability to divest its investments or generate income or gains upon divestment*

Mumtalakat is a key vehicle for the successful achievement of Bahrain's long-term economic development strategy and almost all of the current investment portfolio and a significant portion of Mumtalakat's future investments may require a long-term commitment of capital to facilitate the implementation of this development strategy. The long-term investment horizon and the illiquidity of these investments may make it difficult to sell investments if the need arises or if Mumtalakat determines it would be in its best interests to sell. In addition, if Mumtalakat were required to liquidate all or a portion of an investment quickly, it may realise significantly less than the carrying value, which could adversely affect the Group's results of operations and financial position.

4.1.8 *Mumtalakat currently holds, and in the future may acquire, non-controlling interests in companies, which could expose Mumtalakat to additional risks*

Mumtalakat currently holds, and may in the future make investments, in companies that it does not control. In addition, Mumtalakat may dispose of certain of its investments over time in a manner that results in Mumtalakat retaining only a minority interest in certain portfolio companies. Furthermore, Mumtalakat's investments in its portfolio companies may be diluted if Mumtalakat does not participate in their future equity offerings or equity contributions.

Investments in which Mumtalakat holds a non-controlling interest will be subject to the risk that the portfolio company may make business, financial or management decisions with which Mumtalakat does not agree, or that the majority stakeholders or the management of the portfolio company may take risks or otherwise act in a manner that is contrary to Mumtalakat's interests. The risk is made worse by the fact that contractual protection of minority rights that are customary in more developed markets may not be enforceable or as robust in jurisdictions such as Bahrain in which Mumtalakat currently holds or may in the future holds assets. In addition, any of the companies in which Mumtalakat holds a non-controlling interest may experience financial or other difficulties that may adversely impact Mumtalakat's investment. Mumtalakat can give no assurance as to the performance of such portfolio companies, and an inability to exercise influence or control over such portfolio companies may have an adverse effect on the Group's business, results of operations, financial condition and prospects. In such circumstances Mumtalakat's business and its ability to perform its obligations under Sukuk Murabahah and the Transaction Documents could be adversely affected.

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4.1.9 *Mumtalakat and its material portfolio companies are highly dependent on their management teams, and the loss of any key member of their existing management teams or the failure to retain and attract qualified and experienced management could have a material adverse effect on the Group's business*

If the Group is unable to retain experienced, capable and reliable senior and middle management with appropriate professional qualifications, or fails to recruit skilled professionals in line with its growth, the Group's business and financial performance may suffer. When talented employees leave, the Group may have difficulty replacing them and may incur additional costs and expenses in securing such replacements. The loss of the services of valuable employees, or a failure to attract and retain qualified management in the future, could have an adverse effect on the Group's business, results of operations, financial condition and prospects and its ability to perform its obligations under Sukuk Murabahah and the Transaction Documents.

4.1.10 *Substantially all of the dividends and distributions Mumtalakat receives come from a small number of its portfolio companies*

As a result of its holding company structure, Mumtalakat's ability to meet its operating and capital expenditure requirements and to service its debt, including payments of principal and profit on Sukuk Murabahah, depends on dividends and distributions it receives from its portfolio companies. Dividends from Alba, National Bank of Bahrain B.S.C. ("**NBB**") and Bahrain Telecommunications Company B.S.C. ("**Batelco**") represented in the aggregate 97.9 per cent. of Mumtalakat's total dividends received in 2011. The ability of these portfolio companies to pay dividends or make other distributions or payments will be subject to, among other things, the availability of profits or funds (which in turn may depend on macro-economic conditions, business cycles, capital expenditures and business operations), restrictions, if any, on payments of dividends set forth in covenants given in connection with financial indebtedness and applicable laws and regulations. For example, certain of Mumtalakat's portfolio companies, such as Alba, have significant debt and will continue to use a large portion of their cash flow to pay principal and interest on their debt, which will reduce the cash flow they can use for other purposes, including dividend payments to Mumtalakat. The inability of Mumtalakat's portfolio companies to pay dividends or make distributions to Mumtalakat could have a material adverse effect on Mumtalakat's business, results of operations, financial condition and prospects, and Mumtalakat may not be able to make payments on Sukuk Murabahah. Furthermore, the sale, transfer or disposition by Mumtalakat of its interest in a portfolio company that makes substantial dividends and distributions to Mumtalakat may also have a material adverse effect on Mumtalakat's business, results of operations, financial condition and prospects, as well as Mumtalakat's ability to make payments on Sukuk Murabahah.

4.1.11 *The Group is subject to the industry and business-specific risks faced by its portfolio companies*

Mumtalakat is a holding company and as such is dependent on the operations, revenues and cash flows generated by its investments. Mumtalakat's portfolio companies are involved in a diverse range of businesses and operations and are subject to differing risks and challenges, largely depending on the industries in which they operate. Mumtalakat is also exposed to the specific risks affecting the projects or assets of its portfolio companies. In addition, Mumtalakat's exposure to these industry and business-specific risks will continue if Mumtalakat does not develop or maintain a diversified portfolio.

Examples of the industry and business-specific risks to which Mumtalakat's portfolio companies are exposed include:

- the aluminium industry is a cyclical industry which has historically experienced significant global demand and price volatility and overcapacity, which makes prices for Alba's products difficult to forecast and could adversely affect its business, financial condition, results of operations and prospects;

- Alba's competitive position in the global aluminium industry is highly dependent on its continued access to an adequate gas supply on attractive terms from its sole supplier, the Bahrain Petroleum Company ("**Bapco**"). In 2011, Bapco announced a 50 per cent. increase in the price of gas for all of its customers in Bahrain, effective January 1, 2012. While Alba expects to remain highly competitive globally even after taking into account this gas price increase, further such decisions by Bapco to change the terms under which it supplies gas to Alba and/or Alba's inability to lock in a long-term gas supply contract on commercially attractive terms with another supplier could have a material adverse effect on Alba's business, financial condition, results of operations and prospects;

- general regulatory uncertainty and intense competition in the telecommunications industry in Bahrain may result in new entrants, an increase in customer churn rates, a decrease in the number of new customers and a decrease in the prices Batelco may charge for its services;

- the recent political tensions in the Middle East and North Africa ("**MENA**") region, following the global economic downturn in 2008 and 2009 has resulted in losses and sluggish growth forecasts, which, coupled with high fuel prices and increased competition from regional competitors in the GCC region, has exerted downward pressure on the profitability of Gulf Air;

- the performance of NBB is influenced by conditions in the global financial markets and macroeconomic trends, as well as increased competition in the Bahraini and GCC financial services sector resulting from consolidation among existing players;

- the implementation of real estate projects by Bahrain Real Estate Investment Company B.S.C. (c) ("**Edamah**"), or any of the other Mumtalakat portfolio companies in the real estate sector, involves a number of risks, including government restrictions on the ability of Edamah to sell or transfer government-owned land, delays or failure in obtaining the necessary governmental and regulatory permits, approvals and authorisation, significant capital expenditure requirements and a challenging financing environment for the real estate development sector; and

- lawsuits involving Mumtalakat portfolio companies could adversely affect the Group's profitability or financial position.

Exposure of Mumtalakat's portfolio companies to these and other industry and business-specific risks, may have an adverse effect on the business, financial condition, result of operations and prospects of these portfolio companies, which, in turn, may have an adverse effect on the Group's business, financial condition, results of operations and prospects. Any of the foregoing could cause the value of Mumtalakat's affected investments to decline.

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4.1.12 *The Group is subject to risks associated with Gulf Air's operating challenges, restructuring plans and the Government's decision on Gulf Air's strategy and funding going forward*

Gulf Air is wholly-owned by Mumtalakat and therefore Gulf Air's financials are consolidated into the financial statements of the Group. Gulf Air has historically generated material operating losses which have negatively impacted the Group's financial results. Mumtalakat and the Government have been working with Gulf Air to develop multiple options for operational and strategic restructurings of Gulf Air that would mitigate the airline's future operating losses. A decision from the Government is pending, as of the date of this Information Memorandum, on the nature and timing of the strategy and funding of Gulf Air. Failure by the Bahrain Government to approve the funding in a timely manner and/or in a sufficient amount could mean that Gulf Air is unable to sustain its operations and meet its financial obligations in the normal course of its business, which could in turn have a material adverse effect on the consolidated financial statements of the Group.

There can be no assurance that any operational and strategic restructuring of Gulf Air will (i) be executed as planned; (ii) will deliver the necessary improvements to Gulf Air's profitability; or (iii) not be modified as the restructuring proceeds, (iv) not result in a further need for additional direct material financial support or credit support from the Government or Mumtalakat, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and affect the ability of Mumtalakat to perform its obligations under Sukuk Murabahah and the Transaction Documents.

4.1.13 *Mumtalakat is exposed to risks relating to the various strategic and operational initiatives that its portfolio companies may be pursuing and may not have the relevant information regarding the business operations of its publicly listed portfolio companies*

Mumtalakat's portfolio companies may pursue strategic and operational initiatives that are deemed to further their business objectives. Some may choose to pursue acquisitions or divestments. Some may undergo significant operational reorganisations. The ability of these portfolio companies to successfully execute their strategic and operational initiatives could have a material impact on Mumtalakat. Failure to execute any of these initiatives or to achieve the intended results could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the interpretation and application of "insider trading" and other laws in Bahrain mean that there are practical difficulties in Bahrain for a holding company, such as Mumtalakat, in its capacity as a shareholder, to receive the relevant information regarding the business operations of its publicly listed portfolio companies. Management believes that its reporting systems are adequate and in line with international standards, however the lack of such information, or the inability to receive such information in a timely manner, could materially limit Mumtalakat's ability to monitor the performance of its portfolio companies, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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4.1.14 The value of Mumtalakat's investments could be significantly impaired due to changes in the financial markets

Changes in the financial markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, may also materially and adversely affect the revenues, operating results, cash flows and financial condition of Mumtalakat's portfolio companies, which could in turn have a material adverse effect on their values. As part of its diversification strategy, Mumtalakat may choose to materially increase its investments in liquid asset classes. The value of such investments may be highly correlated, and therefore more directly affected, by changes in the financial markets. As a result, the value of Mumtalakat's investments in liquid asset classes may be subject to market volatility and may result in material impairment to the overall value of Mumtalakat's investments.

4.1.15 The due diligence process that Mumtalakat undertakes in connection with new projects and investments may not reveal all relevant facts

Mumtalakat conducts due diligence, sometimes with the assistance of outside consultants, by evaluating a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with a new project or make a new investment. Nevertheless, when conducting due diligence and making an assessment regarding a project or an investment, Mumtalakat can only rely on resources available to it at the time, including information provided by the target of the investment where relevant and, in some circumstances, third party investigations. In some cases, information cannot be verified by reference to the underlying sources to the same extent as Mumtalakat could for information produced from its own internal sources. Mumtalakat can offer no assurance that any due diligence investigation it carries out with respect to any project or investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such opportunity. Any failure by Mumtalakat to identify relevant facts through the due diligence process may cause it to make inappropriate business decisions, which could have an adverse effect on the Group's business, financial condition, results of operations and prospects.

4.1.16 Mumtalakat may choose to pursue investment opportunities in countries in which it has no previous investment experience, including in markets that have greater social, economic and political risks

Almost all of Mumtalakat's current investments are businesses based in Bahrain. However, Mumtalakat may choose to pursue projects and investment opportunities in the GCC and other regions of the world, such as Asia, Africa, Europe and the Americas, as part of its diversification strategy. It may therefore undertake projects and make investments in countries in which it has little or no previous investment experience. As a result, Mumtalakat may not be able to assess the risks of investing in such countries adequately, and may be unfamiliar with the laws and regulations of such countries applicable to its projects and investments. Mumtalakat cannot guarantee that its strategy will be successful in such markets. The Group could lose some or all of the investment value in projects and investments made as part of Mumtalakat's diversification strategy.

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In addition, investments made by Mumtalakat in emerging markets generally involve a greater degree of risk than an investment in companies based in developed countries. Among other things, investments in emerging markets may be subject to less publicly available information, more volatile markets, less sophisticated securities market regulation, less favourable tax provisions and a greater likelihood of severe inflation, unstable currency, corruption, war and expropriation of personal property than investments in companies based in developed countries. In addition, investment opportunities in certain emerging markets may be restricted by legal limits on foreign ownership and provide less protection of shareholder rights, especially the rights of minority shareholders, that is customary in more developed markets.

4.1.17 *The Group is exposed to liquidity risks and financing risks*

The Group's liquidity could be impaired by significant operating losses, inability to monetise assets, and a failure to obtain financing on a timely basis at a reasonable cost as well as other factors.

The availability of financing is dependent on a number of factors, such as market conditions, the general availability of credit and the Group's credit profile. For example, any disruption in the global credit markets or re-pricing of credit risk may impact the Group's ability to fund its business in a similar manner, and at a similar cost, to the funding raised in the past. If the Group is unable to obtain financing in a timely fashion and on acceptable terms, it may be forced to delay or reduce capital expenditure, sell certain of its assets on disadvantageous terms and/or forego business opportunities, including investments and joint ventures. In addition, the Group may not be able to refinance, extend or pay existing financial obligations. The occurrence of any of the foregoing events could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and could therefore affect the ability of Mumtalakat to perform its obligations under its outstanding bonds, Sukuk Murabahah and the Transaction Documents.

In addition, certain of Mumtalakat's portfolio companies may need liquidity support from Mumtalakat from time to time, and Mumtalakat may not have the financial resources available to fund the liquidity needs of its portfolio companies. For example, Gulf Air has received material liquidity assistance from Mumtalakat in the form of equity contributions and loans amounting to BD 168.9 million in 2008 and BD 196.7 million in 2009. In 2010, the Government provided a significant equity injection for the benefit of Gulf Air in the form of direct and indirect cash contributions amounting to BD 471.2 million. Gulf Air will require additional financial support to cover ongoing and expected future operating losses and costs of restructuring initiatives. The Government has provided various forms of direct and indirect support in the past to Gulf Air. However, if the Government does not in the future make funding available to Gulf Air, or if such funding proves insufficient or untimely to support the restructuring process, there can be no assurance that Mumtalakat will have the liquidity necessary to financially support Gulf Air.

No assurance can be given that the Group will be able to raise the financings required, or that it will maintain sufficient liquidity, for its operations. In addition, failure to comply with financial covenants specified under certain of the Group's credit facilities could cause lenders to accelerate the repayment of the Group's borrowings. Any deficiency in liquidity could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and could therefore affect the ability of Mumtalakat to perform its obligations under its bonds, Sukuk Murabahah and the Transaction Documents.

4.1.18 The Group has significant indebtedness and its financing arrangements impose restrictions on the Group

The Group has a significant amount of third-party financial obligations. As of December 31, 2011, the Group had BD 1,014.2 million in outstanding borrowings. The Group incurred interest expenses of BD 37.1 million in 2011.

The various financing arrangements to which the Group is or may become a party contain a number of restrictive covenants that impose significant operating restrictions, including restrictions on the Group's ability to engage in activities that may be in the Group's best long-term interests. For example, the various financing arrangements to which Mumtalakat is a party contain covenants restricting or limiting its ability to, among other things:

- create liens;
- transfer, sell or otherwise dispose of assets;
- make substantial changes to the general nature of its business; and
- reduce its ownership in Gulf Air to less than a 50 per cent. stake or own a larger percentage of any other airline than it does of Gulf Air.

These financing arrangements also include financial covenants that require Mumtalakat to comply with, among other things, on a consolidated basis, a maximum leverage ratio and minimum tangible net worth. A breach of the terms of any borrowings, including financial covenants, could cause Mumtalakat's lenders to require Mumtalakat to repay the borrowings immediately, as well as cause lenders under other financing arrangements to which Mumtalakat is a party to accelerate such financing arrangements, in which case the amounts under those arrangements would become due as well. Additionally, Mumtalakat had guarantees outstanding in respect of certain of Gulf Air's financial obligations in an aggregate amount of BD 99.4 million as of December 31, 2011. If Gulf Air is unable to meet its financial obligations, Mumtalakat would likely be required to assume the obligations of Gulf Air that it has guaranteed. There can be no assurance that Mumtalakat's assets would be sufficient to repay such financial obligations in full. The occurrence of any of these events could have a material adverse effect on Mumtalakat's and the Group's business, liquidity, financial condition, results of operations and prospects and could therefore affect the ability of Mumtalakat to perform its obligations under Sukuk Murabahah and the Transaction Documents.

4.1.19 The Group is exposed to interest rate risk

The Group is exposed to interest rate movements through its floating rate financing arrangements. As at December 31, 2011, the Group had BD 699.9 million in borrowings that bear interest at floating rates. As a result, the Group is sensitive to changes in interest rates. Interest rates are sensitive to numerous factors not within the Group's control, including government and central bank policy in Bahrain, the Middle East and globally. The Group cannot give any assurance that any current or future hedging activities will sufficiently protect it from the adverse effects of interest rate movements. An increase in interest rates would cause the Group's debt service obligations to increase and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and could therefore affect the ability of Mumtalakat to perform its obligations under Sukuk Murabahah and the Transaction Documents.

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4.1.20 *Mumtalakat may pay dividends to the Government in the future*

Although Mumtalakat has not paid any dividends to the Government to date and is not likely to do so in the near future, the board of directors of Mumtalakat may recommend a dividend to the Government in the future. In addition, Mumtalakat may be expected to contribute to the Government's budget. Any dividend payment or budget contribution to the Government could be made out of, among other things, Mumtalakat's revenues, retained earnings or proceeds from sales of its investments and, as such, this may have an adverse effect on Mumtalakat's ability to make payments on Sukuk Murabahah and its ability to capitalise on investment opportunities.

4.1.21 *Significant judgment is involved in the preparation of the Group's consolidated financial statements for any period*

The preparation of the Group's consolidated financial statements requires management to make certain judgments, including, for example, the estimation of impairment losses, in particular goodwill, equity-accounted investments and available-for-sale investments that are not publicly traded.

The exercise of this judgment may have a material effect on the Group's results of operations as presented in its consolidated financial statements, and the results of operations could be materially different from those which would have been presented if different assumptions and/or estimates had been used. In addition, there can be no assurance that any assumptions made by management will necessarily prove to have been accurate predictions of future events.

4.1.22 *Mumtalakat's financial obligations, including its obligations under the Sukuk Murabahah Programme are not guaranteed by the Government absent an explicit guarantee*

Although Mumtalakat is wholly-owned by the Government, Mumtalakat's obligations under Sukuk Murabahah are not guaranteed by the Government. In addition, the Government is under no obligation to extend financial support to Mumtalakat. Accordingly, Mumtalakat's financial obligations, including its obligations under the Sukuk Murabahah Programme, are not and should not be regarded as, obligations of the Government. Mumtalakat's ability to meet its financial obligations under the Sukuk Murabahah Programme is solely dependent on its ability to fund such amounts from its operating revenues, profits and cash flows. Therefore any decline in Mumtalakat's operating revenues, profits and cash flows, or any difficulty in securing external funding, may have a material adverse effect on the Group's business, financial condition and results of operations and could therefore affect the ability of Mumtalakat to perform its obligations under Sukuk Murabahah and the Transactions Documents.

4.1.23 *Foreign currency fluctuations may adversely affect the Group's operating results*

Mumtalakat may in the future become more exposed to the risk of currency fluctuations as it seeks to geographically diversify its portfolio over time. Exchange rate movements can therefore have a significant impact on the value of Mumtalakat's investments.

In addition, while Mumtalakat may enter into derivative contracts to hedge against its exposure to currency fluctuations, the Group cannot give any assurance that any current or future hedging activities will sufficiently protect it from the adverse effects of such fluctuations. In addition, if the counterparties to such exchange contracts do not fulfil their obligations to deliver the contractual foreign currencies, the Group could be at risk for fluctuations, if any, required to settle the obligation.

4.2 RISKS RELATING TO SUKUK MURABAHAH AND THE MARKET

4.2.1 Sukuk Murabahah are unsecured obligations

As Sukuk Murabahah are direct, unconditional and unsecured obligations of the Issuer, their repayment may be adversely affected if:

- Mumtalakat enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- a payment default occurs under Mumtalakat's future secured indebtedness or other unsecured indebtedness; or
- any of Mumtalakat's indebtedness is accelerated.

If any of these events occur, Mumtalakat's assets may not be sufficient to pay amounts due on Sukuk Murabahah.

4.2.2 Modifications and waivers

The conditions of Sukuk Murabahah contain provisions for calling meetings of Sukukholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Sukukholders including Sukukholders who did not attend and vote at the relevant meeting and Sukukholders who voted in a manner contrary to the majority.

4.2.3 The ratings assigned to Sukuk Murabahah may be downgraded by rating agencies in the future

Each series of Sukuk Murabahah is expected to be assigned a rating by RAM Ratings and/or Fitch. These ratings may be reviewed and changed at any time. The ratings address Mumtalakat's then present ability to perform its obligations under the terms of Sukuk Murabahah and the likelihood that payments will be made when due under Sukuk Murabahah. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. Mumtalakat cannot assure prospective investors that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. Any change leading to a downgrade would have a negative impact on the market trading prices of Sukuk Murabahah. Mumtalakat is under no obligation to inform the Sukukholders of any such revision, downgrade or withdrawal. In addition, any ratings downgrade could adversely affect Mumtalakat's ability to access the debt capital markets in the future and may subject Mumtalakat to higher costs of funding in respect of Mumtalakat's credit facilities. This may have a material adverse effect on Mumtalakat's financial condition and results of operations and could therefore affect the ability of Mumtalakat to perform its obligations under Sukuk Murabahah and the Transaction Documents.

4.2.4 The price of Sukuk Murabahah may be subject to fluctuation

Trading prices of Sukuk Murabahah may be influenced by numerous factors, including the operating results and/or financial condition of Mumtalakat, political, economic, financial and any other factors that can affect the capital markets and the investment industry. Adverse economic developments could have a material adverse effect on the market value of Sukuk Murabahah.

4.2.5 *An investment in Sukuk Murabahah is subject to interest rate risk*

Sukuk Murabahah may be affected by fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in bond prices which may result in a capital loss for Sukukholders. Conversely, when interest rates fall, bond prices and therefore the prices at which Sukuk Murabahah trade may rise. Sukukholders may enjoy a capital gain but profit received may be reinvested for lower returns.

4.2.6 *There has been no prior public market for Sukuk Murabahah; the liquidity and price of Sukuk Murabahah following the issue of a series of Sukuk Murabahah may be volatile.*

There is currently no active trading market for Sukuk Murabahah and there can be no assurance that a secondary market for Sukuk Murabahah will develop, or if a secondary market does develop, that it will provide Sukukholders with liquidity of investment or that it will continue for the life of Sukuk Murabahah. The market value of Sukuk Murabahah may fluctuate and Sukuk Murabahah may trade at prices that are higher or lower than the initial offering price depending on prevailing profit rates, the market for similar securities, general economic conditions and the financial condition of Mumtalakat. Accordingly, no assurance can be given as to the liquidity of, or trading market for, Sukuk Murabahah and a prospective investor in Sukuk Murabahah must be prepared to hold Sukuk Murabahah for an indefinite period of time or until their maturity, nor any assurance can be given as to the ability of Sukukholders to sell their Sukuk Murabahah, or prices at which Sukukholders would be able to sell their Sukuk Murabahah.

4.2.7 *Sukuk Murabahah may be subject to early redemption.*

If so applicable for a relevant series of Sukuk Murabahah, such series of Sukuk Murabahah may be redeemed early at the option of Mumtalakat subject to satisfaction of certain conditions as set out in the Trust Deed. During any such period, the market value of those Sukuk Murabahah generally will not rise substantially above the redemption amount payable.

Mumtalakat may redeem Sukuk Murabahah when Mumtalakat’s cost of borrowing is lower than the profit payable on Sukuk Murabahah. Accordingly, prospective investors generally would not be able to reinvest the redemption proceeds at an interest rate as high as the profit payable on Sukuk Murabahah being redeemed and may only be able to do so at a significantly lower rate. Prospective investors should consider reinvestment risk in light of other investments available at that time.

4.2.8 *Sukuk Murabahah will be structurally subordinated to the claims of creditors of Mumtalakat’s portfolio companies.*

Mumtalakat’s majority-owned portfolio companies have incurred, and will continue to incur in the future, substantial amounts of debt in order to finance their operations. As of December 31, 2011, the Group had total consolidated outstanding borrowings of BD 1,014.2 million, of which BD 545.9 million was third-party borrowings of Mumtalakat’s subsidiary companies. In the event of the insolvency of any of Mumtalakat’s subsidiary companies, claims of secured and unsecured creditors of such entity, including trade creditors, banks and other lenders, will have priority with respect to the assets of such entity over any claims that Mumtalakat or Mumtalakat’s creditors, as applicable, may have with respect to such assets. Accordingly, if Mumtalakat became insolvent at the same time, claims of the Sukukholders against Mumtalakat in respect of any Sukuk Murabahah would be structurally subordinated to the claims of all such creditors of Mumtalakat’s subsidiary companies.

4.2.9 *Shariah compliance*

The Shariah Adviser has approved and confirmed that the structure, mechanism and the form of legal documentation of the Sukuk Murabahah Programme are in compliance with Shariah principles. However, there can be no assurance as to the permissibility under Shariah principles of the structure, the form of legal documentation or the issue and the trading of Sukuk Murabahah and none of the Issuer, the Lead Arranger and any Lead Manager makes any representation as to the same. Prospective investors in Sukuk Murabahah are reminded that, as with any Shariah views, differences in Shariah opinion are possible. Prospective investors should obtain their own independent Shariah advice as to the permissibility under Shariah principles of the structure, the form of legal documentation and the issue and the trading of Sukuk Murabahah.

4.2.10 *Exchange Control Risk*

Malaysia has a system of exchange controls. Although its exchange control regime has been liberalised, there is no assurance that strict exchange controls will not be re-imposed, which may affect the convertibility of Ringgit into other currencies.

The Issuer will pay all amounts in Ringgit. There are certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than in Ringgit. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Ringgit or revaluation of the Investor's Currency) and the risk that government and monetary authorities (including those having jurisdiction over the Investor's Currency) may impose or modify exchange controls that could adversely affect an applicable exchange rate. An appreciation in the value of the Investor's Currency relative to the Ringgit would decrease (1) the Investor's Currency-equivalent yield on Sukuk Murabahah, (2) the Investor's Currency-equivalent value of the Deferred Sale Price and Redemption Amount and (3) the Investor's Currency-equivalent market value of Sukuk Murabahah.

4.3 RISKS RELATING TO BAHRAIN AND THE BAHRAIN LEGAL AND REGULATORY SYSTEM

4.3.1 Bahrain is located in a region that has been subject to on-going political and security concerns

Bahrain is located in a region that is strategically important and parts of this region have, at times, experienced political instability. Regional wars, such as the Gulf War of 1991, the Iraq War of 2003 and the 2006 conflict in Lebanon as well as terrorist acts, maritime piracy or other forms of instability, including continuing global tensions over Iran's nuclear programme, in the Middle East and surrounding regions that may or may not directly involve Bahrain may have a material adverse effect on Mumtalakat's results of operations, financial condition and prospects and could therefore affect the ability of Mumtalakat to perform its obligations under Sukuk Murabahah and the Transaction Documents.

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4.3.2 *Political considerations relating to Bahrain*

Since his accession in March 1999, Sheikh Hamad bin Isa Al-Khalifa, the current King of Bahrain, has embarked upon a programme of political reform. These reforms resulted in the adoption of a new Constitution in February 2002 which envisaged a bicameral parliament made up of an equally numbered elected chamber ("**Chamber of Deputies**") and an appointed chamber (the "**Shura Council**"). Elections in relation to the elected chamber, Bahrain's first for 30 years, were held in October and November of 2002. The first elections to the Chamber of Deputies were held in late October 2002. There was opposition within Bahrain to the new parliament by groups who argued that only the elected chamber should have legislative powers. As a result, some opposition groups boycotted the 2002 elections. Further parliamentary elections were held in 2006 as scheduled and all parties participated in the elections. New parliamentary elections were held in October 2010. Approximately 67 per cent. of eligible voters cast their vote, which was a significantly higher turn-out rate than in previous parliamentary elections. The election process continued, although there was some domestic political tension. The party with the most seats (18 out of 40) was Al- Wefaq, the largest political party in Bahrain. It should be noted that some political parties boycotted the parliamentary election process.

In the aftermath of the February - March 2011 Protests (as discussed and defined below), members of the Al Wefaq Party resigned from parliament and vacated their 18 parliamentary seats. By-elections were held in Bahrain on 24 September 2011 to fill the vacated seats. Opposition groups, including Al Wefaq, boycotted the by-elections.

On 14 February 2011, protests and demonstrations were held in Bahrain, protesting against the Government (the "**February – March 2011 Protests**"). The date was chosen to coincide with the anniversary of Bahrain's constitutional reforms of 2002.

In the following weeks, the GCC or "Pearl" roundabout became the staging-post for widespread protests in the centre of Manama and neighbouring areas. Prominent protests occurred in the key financial and Government districts in Manama. By 13 March 2011, protestors had occupied and blockaded the key transportation arteries leading into the centre of Manama causing significant economic and social disruption.

On 14 March 2011, amid growing domestic unrest, the GCC deployed the Peninsula Shield, which was formed in 1981 as a measure for co-coordinating collective security challenges within GCC member states, of which Bahrain is a member. The following day, Bahraini security forces evacuated the Pearl roundabout.

On 16 March 2011, His Majesty, King Hamad bin Isa Al Khalifa, issued Royal Decree No. 18 of 2011 announcing a state of National Safety for three months, which was scheduled to end on 15 June 2011. On 1 June 2011, and ahead of the scheduled date, His Majesty declared an end to the period of National Safety with the goal of encouraging national dialogue and reconciliation.

The National Consensus Dialogue (the "**Dialogue**") took place in July, 2011, and included participants from across Bahrain's political, social and religious spectrum, including representatives of a range of different expatriate and religious groups. The Dialogue produced a number of recommendations for constitutional and legislative reform. Most significantly, it proposed constitutional amendments to increase the powers of Parliament and in particular of its elected chamber. These amendments were ratified by HM the King on 3 May 2012.

The Bahrain Independent Commission of Inquiry (the "**BICI**") was established by Royal Order in June 2011. Made up of international human rights experts, it was assigned a task of reporting on the protests and demonstrations of February and March 2011, and their aftermath. It produced its report on 23 November, 2011, setting out detailed narrative regarding the events that had taken place and presented a series of recommendations involving comprehensive, structural reform and a process of national reconciliation. The government pledged to implement the BICI recommendations in their entirety. A high-level National Commission, chaired by the speaker of the upper house of Parliament and including independent representatives from across Bahraini society, was formed to monitor and oversee the government's progress in implementing the BICI recommendations. Its report dated 20 March, 2012, found that the government had made substantial progress towards fully implementing the BICI recommendations, with the most important issues already addressed and clear procedures in place to complete those recommendations that remain outstanding.

Although there has continued to be sporadic unrest in 2012, the level of unrest has generally declined since the protests and demonstrations of February and March 2011. However, there can be no assurance there will not be further protests and domestic unrest in the future.

Political instability in Bahrain and in the region may have a material adverse effect on the Group's Financial condition, results of operation and prospects and could adversely affect the trading price of Sukuk Murabahah.

4.3.3 There is no policy of precedent and impact of local, regional and national laws and regulations

Bahrain law does not rely on or adhere to a policy of precedent and therefore judgments of the courts of Bahrain are not necessarily binding (even if subsequent cases are based on broadly similar fact patterns). As such and to the extent contested before the courts of Bahrain, there can be no assurance that, in any particular case, a matter which may affect Sukuk Murabahah and/or any of the Transaction Documents will be decided on a consistent basis, notwithstanding previous court decisions.

The Issuer is also subject to local, regional and national laws and regulations. There can be no assurance that such laws or regulations or the interpretation or enforcement of or change in any such laws or regulations will not have an adverse effect on the value of the Commodities (and their revenues) or require additional costs or will otherwise adversely affect the management of the Commodities, and these may adversely affect the ability of the Issuer to meet its payment obligations in connection with Sukuk Murabahah and/or under the Transaction Documents.

4.3.4 There is no reciprocity of judgements between Malaysia and Bahrain

The terms and conditions of Sukuk Murabahah are governed by Malaysian law. Under the conditions of Sukuk Murabahah and the terms of the Transaction Documents, the courts of Malaysia have non-exclusive jurisdiction to settle any dispute arising from Sukuk Murabahah and/or the Transaction Documents, and enforcement of a judgment of the Malaysian court in any other jurisdiction will be subject to the laws and procedures of that jurisdiction. A Malaysian judgment will not be enforced by the courts of Bahrain as there is no reciprocity between Malaysia and Bahrain pursuant to Legislative Decree No. 12/1971 with respect to promulgating the Civil and Commercial Procedure Law. Accordingly, even if a Malaysian judgement has been obtained by a Sukukholder against the Issuer in relation to a particular dispute arising from Sukuk Murabahah and/or the Transaction Documents, the action will need to be re-litigated in Bahrain if a party is seeking a remedy from the courts of Bahrain, resulting in enforcement delays and increased legal costs.

In practice, when one seeks to enforce a foreign judgment in Bahrain (where no mutual recognition and enforceability of foreign judgments treaty or agreement exists between the jurisdictions, such as between Malaysia and Bahrain); one has to raise a claim before the court, using the foreign judgment as evidence for the claim. A foreign court judgment may not be enforceable under the laws of Bahrain where the choice of governing law has not been proven to the Bahrain courts satisfaction. All documents presented to the courts will require translation into Arabic. In respect of the aforementioned, the Bahrain courts shall retain absolute discretion in the recognition and enforcement of foreign court judgments.

As a signatory to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, all relevant arbitral awards would be recognised and enforced in Bahrain.

Any dispute in relation to the terms and conditions of Sukuk Murabahah may be referred to arbitration in Singapore under the London Court of International Arbitration Rules. Bahrain has ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the party seeking to enforce the arbitration award must supply:

(a) the duly authenticated original or a duly certified copy of the award; and

(b) the original or a duly certified copy of the arbitration agreement.

However, the enforcement of the arbitration award may be refused at the request of the party against whom it is invoked, if that party furnishes to the competent authority, where the recognition and enforcement is sought, proof that:

(a) the party to the agreement was, under the law applicable to it, under some incapacity, or the said agreement is not valid under the law to which the parties have subjected to or failing any indication thereon under the laws of Bahrain; or

(b) the party against whom the award is invoked was not given proper notice of the appointment of the arbitrator or of the arbitration proceedings or was otherwise unable to present his case; or

(c) the award deals with a dispute not contemplated by or not falling within the terms of the submission to arbitration or it contains decisions on matters beyond the scope of the submission to arbitration. Provided that the decision on matters submitted to arbitration can be separated from those not so submitted, only that part of the award which contains decisions on matters not submitted to arbitration may be set aside; or

(d) the composition of the arbitral authority or the arbitral procedure was not in accordance with the agreement of the parties, or failing such agreement, was not in accordance with the laws of the country where the arbitration took place; or

(e) the award has not yet become binding on the parties, or has been set aside or suspended by a competent authority of the country in which, or under the laws of which that award was made.

Recognition and enforcement of an arbitral award may also be refused if the competent authority in Bahrain finds that:

(a) the subject matter of the dispute is not capable of settlement by arbitration under the laws of that country; or

(b) the recognition or enforcement of the award would be contrary to the public policy of that country.

In addition, no document will be admitted in evidence in the Bahrain courts unless they are submitted in Arabic or accompanied by a duly authenticated Arabic translation approved by the Official Translator of the Courts of Bahrain, which will be the official text.

The Issuer, to the extent permitted by law, has waived its rights in relation to sovereign immunity (including, without limitation, Article 251 of the Law of Civil and Commercial Procedure (Decree Law No. 12/1971 of the laws of Bahrain). However there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under Sukuk Murabahah and the Transaction Documents are valid and binding under the laws of Bahrain.

4.3.5 The Noteholders may not be able to obtain specific enforcement of Mumtalakat's obligations under Sukuk Murabahah, or obtain monetary damages sufficient to cover any losses incurred in connection with their investment in Sukuk Murabahah.

In the event that Mumtalakat fails to perform its obligations under Sukuk Murabahah, the potential remedies available to Sukukholders include obtaining an order for specific enforcement of the relevant obligations or a claim for damages. There is no assurance that any court would order specific performance of a contractual obligation.

The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors. No assurance is provided on the level of damages which a court may award in the event of a failure by Mumtalakat to perform its obligations under Sukuk Murabahah.

4.4 ADDITIONAL RISKS

4.4.1 Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to Sukuk Murabahah. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of Sukuk Murabahah. A credit rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of repayment and may be revised, suspended or withdrawn by the assigning rating agency at any time.

4.4.2 Emerging markets

Investors in emerging markets should be aware that these markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

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5. OVERVIEW OF BAHRAIN

5.1 INTRODUCTION

Bahrain is an archipelago of 36 islands with a total land surface area of 760 square kilometres situated in the Arabian Gulf. The islands are about 24 kilometres from the east coast of Saudi Arabia and 28 kilometres from the State of Qatar ("**Qatar**"). The largest island, Bahrain Island, comprises nearly 91.3 per cent. of the total land area of Bahrain and is linked to mainland Saudi Arabia by a 25 kilometre causeway. The capital of Bahrain, Manama, is on Bahrain Island. Bahrain's other significant islands include the southern archipelago called Hawar, near the coast of Qatar, Muharraq island ("**Muharraq**") (which is Bahrain's second largest city and where Bahrain's international airport and the country's main port, Khalifa Bin Salman Port at Hidd, are located) and Sitra (a mainly industrial island). Muharraq and Sitra are connected to Bahrain Island by causeways.

Bahrain benefits from a number of characteristics that enhance its reputation as a favourable business environment. Bahrain has a long and stable economic and political history; its financial sector is its single largest GDP-contributing sector; there is a relatively low cost to conduct business in Bahrain when compared to other countries in the MENA region; there are established wholesale banking, insurance and re-insurance and fund management industries (including industries ancillary to these, such as audit firms) and an established legal and regulatory framework regulated by CBB (which acts in a dual role as Bahrain's sole banking regulator and the central bank).

In March 2011, Standard & Poor's lowered its long- and short-term local and foreign currency sovereign credit ratings on Bahrain from 'A/A-2' to 'BBB/A-3' and maintained an outlook of CreditWatch with negative implications. In July 2011, Standard & Poor's affirmed its long- and short-term local and foreign currency sovereign credit rating on Bahrain at 'BBB/A-3' and removed the rating from CreditWatch. An outlook of negative was assigned at that time. In July 2012, Standard & Poor's reaffirmed its long-term local and foreign currency sovereign credit rating on Bahrain at 'BBB' with a negative outlook. The short term rating was raised from 'A-3' to 'A-2' following a change in Standard & Poor's criteria.

5.2 HISTORY

On August 15, 1971, Bahrain declared its independence and the late Shaikh Isa assumed the position of Emir as Head of State while his brother, Shaikh Khalifa, became Prime Minister. In 1972, a constituent assembly was formed and, in May 1973, a constitution was published. In December 1973, a 44-person national assembly (the "**National Assembly**") was established, comprising of 30 elected members. The then National Assembly was dissolved in August 1975 following disagreement between it and the Government. In the early 1990s, political tensions increased despite limited reforms by the Government including the establishment of a consultative council (the "**Consultative Council**"). In 1981 Bahrain, together with Saudi Arabia, the United Arab Emirates (the "**UAE**"), Qatar, State of Kuwait ("**Kuwait**") and Sultanate of Oman ("**Oman**"), established the GCC.

When Shaikh Isa died in March 1999, his son Shaikh Hamad bin Isa Al Khalifa came to power. The new Emir (as he previously was referred to) embarked on a programme of political reform and released all jailed political activists. He also introduced a new national charter, the National Action Charter (the "**Charter**"), that sought to establish a new national assembly that was to be part appointed and part elected. It also paved the way for Bahrain to become a constitutional monarchy and for Shaikh Hamad bin Isa Al Khalifa to be proclaimed king of Bahrain (the "**King**"). The Charter was approved in a national referendum in February 2001, in which 98.4 per cent. of the voters voted in favour of it.

5.3 CONSTITUTION AND GOVERNMENT

Under a new constitution adopted in February 2002 (the "**Constitution**") pursuant to the Charter, Bahrain is a hereditary constitutional monarchy with a democratic system of government. The system of government rests on a separation of the legislative, executive and judicial authorities. The legislative authority is vested in the King and the National Assembly in accordance with the Constitution. Executive authority is vested in the King together with the Council of Ministers and the Ministers and judicial rulings are issued in his name in accordance with the provisions of the Constitution. The Constitution also declares the state religion to be Islam with Islamic Shariah as a principal source for legislation.

Under the Constitution, the King is entitled to appoint the prime minister and other ministers. The King is the supreme commander of the Bahrain Defence Force and chairs the Higher Judicial Council (which oversees the judiciary). The King has power to conclude treaties, and any amendments to the Constitution require the approval of the King.

The Constitution provides for a National Assembly comprising two chambers, the Consultative Council and the Chamber of Deputies. Each chamber has 40 members. The members of the Chamber of Deputies are elected in national elections, whereas the members of the Consultative Council are appointed by the King. Members of the Chamber of Deputies and Consultative Council each sit for four-year terms.

Legislation is initiated in the Chamber of Deputies and draft laws are considered by the Consultative Council, which has the power to comment on and suggest alterations to proposed legislation. New laws may only be passed when approved by both chambers and ratified by the King.

The Chamber of Deputies represents a wide range of political opinion in Bahrain and plays a significant role in the development of the democratic process. The first election to the Chamber of Deputies was held in 2002, albeit with only moderate participation by some political groups. A second election process was held in 2006 and a third election process was held in 2010, with both election processes experiencing full and active participation from all the major political groupings. The next election process for the Chamber of Deputies is expected in 2014.

The Cabinet ("**Cabinet**") is appointed by the King. The Cabinet is headed by the Prime Minister, who, as at the date of this Information Memorandum, is His Royal Highness Prince Khalifa bin Salman Al-Khalifa. The Prime Minister is responsible for much of the day-to-day running of the country. In accordance with the Constitution, the King's eldest son, His Royal Highness Prince Salman bin Hamad Al-Khalifa, is the crown prince (the "**Crown Prince**") and commander-in-chief of the Bahrain Defence Force.

On 1 June 2011, in the aftermath of the February – March 2011 Protests, His Majesty announced the launch of the Dialogue. The purpose of the Dialogue was to provide a forum for Bahraini society, including Bahraini citizens and expatriates, to present their views and proposals for future reform in Bahrain. The Dialogue process resulted in a number of recommendations for legal, economic and social reforms.

Legislative reforms to the political system recommended by the Dialogue included increasing Parliament's legislative powers and Parliamentary scrutiny over the Government and enabling the Prime Minister to select his Government, subject to the approval of the elected Parliament. The Dialogue also called for measures to ensure non-sectarianism in all civil and political organisations and oversight of funding of political societies. Economic reforms recommended by the Dialogue included: faster implementation of Economic Vision 2030; the creation of independent authorities to assess the quality of Government services and implementation of management policies and financial transparency (governance) in ministries and institutions, in line with international standards; and establishment of mechanisms to manage the expenditure of Government institutions. Societal reforms recommended by the Dialogue included implementation of youth programmes, a national strategy for NGOs (including corporate social responsibility programmes); and better implementation of legislation on security and peace. Additional reforms recommended by the Dialogue included formation of the Supreme Judiciary Council by appointment rather than election, judicial training on human rights issues, laws protecting the freedom of expression and assembly and initiatives to improve foreign workers' rights, including establishing a minimum wage.

The Council of Ministers (the collective decision making body of the Government comprising of all Government ministers) formed a ministerial sub-committee to oversee the implementation programme for the recommendations of the Dialogue. On 3 October 2011, the ministerial sub-committee presented its report to His Royal Highness, Prime Minister Prince Khalifa bin Salman Al Khalifa. The proposed constitutional changes were then sent to Parliament and were approved by the Parliament on 30 April 2012.

HM the King ratified these constitutional changes on 3 May 2012. The amendments provide for:

- Increased powers of the Parliament: in particular by granting it enhanced democratic scrutiny over the Government.

- Parliamentary approval of new governments: the constitution has been amended so that a new Government will need to secure the approval of the democratically elected Parliament.

- Elected Chamber to preside over the National Assembly: responsibility for presiding over the National Assembly has been transferred from the Chairman of the Shura Council to the Chairman of the Council of Representatives.

- Greater legislative and monitoring powers for the Elected Chamber: Ministers will be required to be answerable to appointed representatives.

- Measures to create more efficient law-making procedures: These measures will help address and overcome delays in ratification, and gaps in implementation, of legislation.

As a further response to the February – March 2011 Protests, the BICI was established on 29 June 2011 pursuant to Royal Order No 28 of 2011. The BICI was developed in consultation with the Office of the UN High Commissioner for Human Rights was commended by the UN Secretary General, Amnesty International together with the UK and US governments.

The BICI has been asked to determine whether the events of the February to March 2011 protests (and thereafter) involved violations of international human rights law and norms and to make the
recommendations that it deems appropriate.

Professor Mahmoud Cherif Bassiouni, an expert in international criminal and human rights law, heads the BICI. The BICI was granted access to government officials, records and facilities, as well as the right to conduct confidential interviews with any complainant or witness. The Commission's 500 page report, published on 23 November 2011, contained a detailed narrative regarding the events that had taken place and presented a series of recommendations involving comprehensive, structural reform and a process of national reconciliation. The Government pledged to implement the BICI recommendations in their entirety.

To this end, and implementing the very first BICI recommendation, a high-level National Commission was set up, chaired by the speaker of the upper house of Parliament and including independent representatives from across Bahraini society, to monitor and oversee the government's progress in implementing the other BICI recommendations.

On 20 March 2012, this National Commission presented its report on the implementation of the BICI recommendations. The report found that the Government had made substantial progress towards fully implementing the BICI recommendations, with the most important issues already addressed and clear procedures in place to complete those recommendations that remain outstanding. Since March 2012, the Government has continued to follow these procedures.

5.4 LEGAL SYSTEM

The judiciary is enshrined under the Constitution as an independent and separate branch of the Government. The Constitution is upheld by a constitutional court, independent of both the executive and legislative branches. The Minister of Justice oversees the administration of the court system, but does not exercise a judicial function.

Bahrain has a dual court system, consisting of civil courts and Shariah courts. The Shariah courts deal only with personal law matters relating to Muslims such as marriage, divorce and inheritance. These courts do not have jurisdiction over commercial matters.

The civil court system consists of courts of first instance, which deal with all civil, commercial and criminal matters. The court of appeal hears all appeals and is the highest appellate authority in the country on issues of facts. The Court of Cassation is the final appellate authority and decides on issues of law. The Constitutional Court decides on the constitutionality of laws and regulations enacted by the legislature.

The Bahraini legal system is seen as a sound system for settling disputes and there has been a relaxation of ownership rules, with certain activities now being permitted to be undertaken by 100 per cent. foreign-owned Bahraini entities and/or entirely foreign firms. In a move aimed at attracting more foreign investors and reinforcing Bahrain’s status as a “commercial hub” for the region, a new independent alternative dispute resolution centre for commercial disputes was unveiled in early January 2010. The Bahrain Chamber of Dispute Resolution is an initiative conceived by Bahrain's Ministry of Justice and Islamic Affairs and the nation's Economic Development Board in partnership with the American Arbitration Association (AAA), the world's largest provider of conflict management and dispute resolution services. The BCDR-AAA was established by royal decree in 2009, Royal Decree No.(30). The BCDR-AAA was founded with the aim of providing a strong legal entity to guarantee a safe economic environment and to maintain and attract international trade and investment.

The BCDR-AAA's unique ADR legislation is made up of two sections (i) Section One: As a mandatory Statutory ADR Tribunal for any claim exceeding BD500,000 (approximately US$1.3 million) which would have come within the jurisdiction of the courts of Bahrain, and involves either an international commercial dispute or a party licensed by the Central Bank of Bahrain (CBB) and, (ii) Section Two: As a voluntary Mediation and Arbitration with its unique "Free Arbitration Zone" which offers jurisdictional and legal certainty to the recognition of arbitration awards, along with time and cost effective resolutions to disputes.

In short, the BCDR-AAA is focused on enhancing the work of international commercial business through the provision of its ADR services.

5.5 THE ECONOMY OF BAHRAIN

Bahrain enjoys a strong and diverse economy. Although oil does play an important part in Bahrain’s economy, it also has an increasingly important financial services industry, with Bahrain acting as a major financial centre for the MENA region. Manufacturing, oil refining, aluminium production and tourism are also significant contributors to its GDP.

5.6 GROSS DOMESTIC PRODUCT

In recent years, the financial services sector has been the single largest contributor to Bahrain's GDP, reflecting the very high growth in the sector. In 2011, the financial services sector remained the single largest contributor to Bahrain's GDP (contributing 24.7 per cent. to Bahrain's real GDP), followed by manufacturing (16.7 per cent. of GDP), mining and quarrying (including oil and gas) (13.1 per cent. of GDP), Government services (15.1 per cent. of GDP), transport and other communications (9.8 per cent. of GDP) and real estate and business activities (7.94 per cent. of GDP).

The following table sets out the GDP of Bahrain for the periods indicated both as a total and on a per capita basis, and both in current prices and constant 2001 prices for the periods indicated:

	2008	2009	2010	2011
Total:				
At current prices (U.S.$ millions)(1)	22,151.1	19,621.0	21,929.8	25,825.3
At constant 2001 prices (U.S.$ millions)(1)	12,591.8	12,979.7	13,654.4	13,866.2
Percentage change over previous period:				
At current prices	19.9	(11.4)	11.8	17.8
At constant 2001 prices	6.3	3.1	4.5	2.2
Per capita:(2)				
At current prices (U.S.$)(1)	20,081.9	16,650.3	17,763.0	20,918.4
At constant 2001 prices (U.S.$)(1)	11,137.5	11,725.4	10,987.1	11,231.6

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Assuming a population of 1,107,000 in 2008, 1,107,000 in 2009 and 1,234,571 in 2010 and 2011.

Source: Central Informatics Organisation

The table below sets out Bahrain's GDP in current prices (using the expenditure approach) and in percentage terms for the periods indicated:

	2008		2009		2010*	
	(U.S.$ millions)(1)	*(%)*	*(U.S.$ millions)*(1)	*(%)*	*(U.S.$ millions)*(1)	*(%)*
Private consumption	6,739.1	30.4	6,724.4	34.3	7,496.1	34.2
Government consumption	2,942.4	13.3	3,163.9	16.1	3,281.4	15.0
Gross fixed capital formation	7,250.2	32.7	5,186.1	26.4	6,160.3	28.1
Change in stocks(2)	264.3	1.2	194.8	1.0	207.4	0.9
Exports of goods & services	21,231.4	95.9	15,704.8	81.4	17,880.3	79.8
Imports of goods & services	16,276.3	73.5	11,354.0	57.9	13,097.1	59.7
Change in exports/imports	4,955.1	22.4	4,350.8	22.2	4,783.2	21.8
GDP	**22,151.0**	**100**	**19,621.0**	**100**	**21,929.8**	**100**

Notes:

(1) Using the fixed conversion rate of BD0.376 = U.S.$1.00.

(2) Including net errors and omissions.

* Provisional data

Source: Central Informatics Organisation. Data for 2011 not available as of the date of this Information Memorandum.

Direct government consumption constituted approximately 15 per cent. of GDP in 2010, down from 15.5 per cent. of GDP in 2009 and up from 13.5 per cent. of GDP in 2008, respectively. Government consumption also impacts private consumption since the Government is the country's major employer and promoter of capital projects. Government consumption has dramatically increased in recent years from approximately U.S.$265.96 million in early 2000, to U.S.$3,281.4 million in 2010 (a 3.7 per cent. increase from 2009). Investment itself is affected by the oil sector with gross fixed capital formation and stock building being affected by periods of weak oil prices.

5.6.1 Mining

Oil

Bahrain has the lowest oil reserves of all of the GCC countries, with an average production of approximately 42,510 barrels per day ("**bpd**") as of December 31, 2011 from its onshore oilfield, Awali.

Bahrain has authorised two companies, PTT Exploration and Production Company Limited (part of the PTT Thailand group of companies) and Occidental of Bahrain Ltd. ("**Occidental**"), to carry out exploration and production of new offshore fields. Bahrain has also signed a U.S.$1.2 billion deal with Occidental to increase production at its existing onshore field. Bahrain also exports oil from the Abu Saafa oilfield which is located on its border with Saudi Arabia. Under a treaty signed with Saudi Arabia in 1958, Bahrain is entitled to receive 50 per cent. of the output from this field. Bahrain's share in the production at Abu Saafa amounted to around 150,028 bpd in 2009, 149,974 bpd in 2010 and 147,771 bpd in 2011. Bahrain also imports about 230,000 bpd of crude oil from Saudi Arabia for processing at its refinery at Sitra. Bahrain's crude oil production for the third and fourth quarters of 2010 and the four quarters of 2011 was 16.9, 16.9, 16.5, 16.8, 17.6, and 18.6 million barrels respectively.

Occidental, MDC Oil and Gas (Bahrain Field) LLC ("**Mubadala**"), The Oil and Gas Holding Company B.S.C.(c) ("**Nogaholding**") (together the "**Joint Venture Partners**") and the National Oil and Gas Authority of Bahrain ("**NOGA**") announced in November 2009 the creation of a new state-owned joint operating company, Tatweer Petroleum-Bahrain Field Development Company WLL ("**Tatweer Petroleum**").

Tatweer Petroleum is responsible for all of Bahrain's on-shore domestic field activities including operation of the Awali field and the Khuff gas reservoir. Tatweer Petroleum's strategic aim is to double the production of oil from the on-shore field within five years and triple the production of oil within ten years. Tatweer Petroleum embarked on this strategic aim at the end of 2009 and has already increased crude oil production from 2010's forecasted daily average of 31,900 bpd to a production level of 45,800 bpd in December 2011, which is higher than its 2011's forecast daily average of 43,000 bpd. In March 2012, production level was 45,300 barrels per day, as compared to 2012's forecasted daily average of 45,200 bpd. The increase in production in 2011 and 2012 has been achieved by the use of tertiary production techniques. The significant drilling and work over activity now taking place will ensure that production continues to increase throughout 2012.

Bapco manages and distributes gas from Bahrain's main gas field, the Khuff gas reservoir, to end-user customers and manages and operates the Sitra oil refinery.

Gas

Although Bahrain's gas reserves are relatively small, production has gradually risen over recent years. In2011, actual gas production was 552.11 billion cubic feet of natural gas from the Khuff reservoir.

Khuff gas is sold directly to Bapco's principal domestic consumers, being Alba, followed by the power stations, Gulf Petrochemical Industries Company B.S.C. (c) ("**GPIC**") and the Sitra refinery. The other principal use of the gas produced was for oil field injection.

Gas that is produced with crude oil, *i.e.* associated gas, is sold by Bapco to the Bahrain National Gas Company B.S.C. (c) ("**BANAGAS**"). BANAGAS produces liquefied propane and butane for export, and naphtha, which is pipelined to the Sitra refinery. Residue gas from BANAGAS enters the national gas system at a pressure lower than Khuff gas and is sold to local customers who can accommodate the lower pressure.

5.6.2 Manufacturing

The discovery of oil in the early 1930s was the spur for industrialisation in Bahrain. The principal manufacturing facilities are an aluminium smelter operated by Alba, an oil refinery operated by Bapco at Sitra and the petrochemicals complex operated by GPIC. Other areas of manufacturing include ship repair, iron palletising and light engineering facilities, and textile production.

Aluminium

The Alba aluminium smelter, with a capacity of 865,000 tonnes per year, is one of the largest aluminium smelters in the world and produces in excess of 500,000 tonnes of aluminium per annum. The Alba aluminium smelter is the world's fourth largest producer of aluminium by individual smelter capacity. Alba is majority state owned, with 69.3 per cent. of its share capital held through Mumtalakat and 20.6 per cent. of its share capital held by Saudi Basics Industries Corporation ("**SABIC**"). In November 2010, Mumtalakat conducted a global offering of a portion of its ordinary shares in Alba. Alba's ordinary shares are listed on the Bahrain Bourse and global depositary receipts representing such shares are listed on the London Stock Exchange under the symbol "ALBH". Alba's global depositary receipts were listed on the London Stock Exchange on 30 November 2010.

In 2008, aluminium exports accounted for approximately 9 per cent. of Bahrain's total exports and approximately 46 per cent. of its total non-oil exports. In 2009, 2010 and 2011, aluminium exports are estimated by the CBB to have accounted for approximately 8 per cent., 11.3 per cent. and 9.4 per cent., respectively of Bahrain's total exports and 33 per cent., 25.4 per cent. and 44.6 per cent., respectively, of its total non-oil exports. Alumina for the smelter is imported from Australia. See *"Description of the Issuer—Description of Key Portfolio Companies—Alba*" for a fuller description of Alba's business.

Refining

Bahrain has an oil refinery at Sitra, which has a capacity of 250,000 bpd and operates at levels close to capacity. The principal products produced at the refinery in terms of volume are gas and fuel oil, jet fuel, naphtha and gasoline. Bapco has commissioned major new plants under a USD1 billion modernisation programme designed to reduce the sulphur content of the middle distillates to enable it to meet current environmental standards, and the requirements of its principal customers. The low sulphur diesel complex was completed in June 2007 and a refinery gas desulphurisation plant was commissioned in January 2009.

Petrochemicals

GPIC, which is a joint venture between the Government (which has a 33.3 per cent. share in the company through Nogaholding, SABIC and Petrochemical Industries Inc. of Kuwait, established a petrochemicals complex at Sitra in 1985.

In 1995, a sulphur derivatives plant was commissioned by National Chemical Industries Corporation. This plant uses feedstock from the refinery operated by Bapco.

5.6.3 Financial Services

Bahrain has become one of the major financial centres in the MENA region. The sector's success is due, in part, to Bahrain's geographical location between the east and west time zones and its proximity to Kuwait and Saudi Arabia. For example, Bahrain is increasingly involved in the rapidly expanding Islamic banking business and hosts the industry's global oversight body, the Accounting and Auditing Organisation for Islamic Institutions, as well as the Islamic Rating Agency and the International Islamic Financial Market.

CBB is the sole banking regulator in Bahrain. Established in 2006, the CBB succeeded the Bahrain Monetary Agency, which had previously carried out central banking and regulatory functions since 1973. The CBB performs the role of financial agent to the Government, a role which principally entails advising the Government in relation to financial matters generally, as well as administering Government debt. More specifically, the main functions of the CBB are to arrange and implement the issuance of currency; to maintain monetary stability; and to supervise and construct the regulatory framework applicable to financial institutions. The CBB is not directly accountable to parliament and is independent of the Government. There are seven members of the Board of Directors of the CBB as well as an independent chairman, each of whom is appointed by royal decree. The governor of the CBB serves for a five-year term (and the current governor was reappointed in January 2010).

The consolidated balance sheet of the banking system was USD 252.4 billion as at 31 December 2008, USD 221.8 billion as at 31 December 2009, USD 222.2 billion as at 31 December 2010, USD 197.1 billion as at 31 December 2011 and USD 200.4 billion as at 31 March 2012. The decrease in consolidated balance sheet since 2010 was primarily due to deleveraging of wholesale banks' assets in conjunction with prudential meetings the banks held with the CBB, which has led to a "clean up" of non-performing assets.

Bahrain also has an established insurance sector and a stock exchange, both of which are regulated by the CBB.

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5.7 FOREIGN TRADE

Bahrain's major import is crude oil which is piped to the Sitra refinery from Saudi Arabia. Although in terms of volume oil imports have been relatively stable, in terms of price they have varied considerably. This variation in price reflects market-based movements in the price charged by Saudi Arabia for oil.

The majority of Bahrain's major exports are petroleum related, consisting of petroleum products from the refinery at Sitra, petrochemical products from the petrochemical complex operated by GPIC and revenues derived from the sale of Bahrain's share of the crude oil produced at the Abu Saafa oil field. The largest non-oil export is aluminium from the Alba production plant (estimated by the CBB to account for 8.3 per cent. of total exports and 33.4 per cent. of all non-oil exports in 2009, 11.3 per cent. of total exports and 44.6 per cent. of all non-oil exports in 2010 and 9.4 per cent. of total exports and 44.6 per cent. of all non-oil exports in 2011). Bahrain has historically had a trade surplus, the size of which is dependent on global oil prices.

The surplus in 2008 was due to historically high oil prices and a sharp reduction in non-import revenues due to the global decline in consumer goods prices. In 2009 and 2010, lower surpluses of USD 2,438.8 million and USD 2,642.8 million, respectively, were recorded. In 2011, the surplus increased to USD 7,800.3 due to higher oil prices.

5.8 INFLATION

The CBB maintains the Bahraini dinar's peg against the US Dollar, which has provided price stability over the years, and as a result managed to keep inflation relatively stable. As Bahrain has no significant onshore production, its inflation (as measured by the Consumer Price Index) has been mainly affected by the cost of imports. Until the year 2008, Bahrain recorded moderate consumer price increases in the range of 3 per cent. to 4 per cent. However, during the years 2009, 2010 and 2011, consumer prices decelerated, particularly in 2011, where a deflation rate of 0.4 per cent. was recorded. This was mainly due to a reduction in consumer spending.

The table below shows the consumer price index and inflation for each of the four years listed below:

	2008	2009	2010	2011
Consumer price index (CPI) (2006=100)	106.9	109.9	112.1	111.6
Inflation (per cent)	3.5	2.8	2.0	(0.4)

Source: Central Informatics Organisation

The Government has updated its consumer basket weights with the year 2006 as the new base year. Accordingly, Bahrain has maintained strong economic growth in a relatively low inflation environment as indicated by the CPI. This decrease in the rate of inflation in 2009 was a result of the decrease in commodity and food price rises due to the global financial crisis. In 2010 there was a further slowdown in consumer prices as the CPI increased by 2.2 per cent. to 112.1 recording an inflation rate of 2.0 per cent. This decrease in the rate of inflation in 2010 was again as a result of the decrease in commodity and food prices as well as a general fall in the price of rents. In 2011, the CPI decreased by 0.4 per cent. to 111.6 recording a negative inflation rate of 0.4 per cent. This deflation in 2011 was due to a decrease in consumer spending. Inflation data is collected and calculated on a monthly basis by the Central Informatics Organisation.

5.9 FOREIGN DIRECT INVESTMENT AND PRIVATISATION

5.9.1 Foreign Direct Investment

The Bahrain Economic Development Board ("**EDB**") was established by decree in March 2002 to promote foreign direct investment in Bahrain in order to further diversify the economy. The EDB is an independent public sector organisation constituted under its own law which is headed by the Crown Prince and consists of seven ministers and seven prominent business leaders. In recent years, the principal source of foreign direct investment has been reinvested earnings by Bahrain's significant offshore banking sector.

The EDB has identified eight key economic areas in which it intends to promote investment. These are information technology; business services; education; tourism; healthcare; logistics; high tech manufacturing; and financial services.

5.9.2 Privatisation

In 2002, the Government passed a privatisation law which, among other matters, established procedures for determining privatisation policy, identified the sectors to be targeted for privatisation and detailed the use of privatisation proceeds. The total proceeds raised from privatisations in Bahrain between 1989 and 2000 were less than USD 79.8 million. Since then, privatisations have accelerated, and during 2006/07 Hidd Power plant was privatised generating USD 738 million. In 2007, the Seef Mall privatisation generated USD 72 million to the Government. Private power capacity has increased significantly following the establishment of the private Al Ezzel 950 plus kilowatt power and 90 metre gallons per day water plant which began commercial production in April 2006.

As set out in Economic Vision 2030, privatisation remains a priority for the Government and includes a focus on deregulation in order to encourage private investment in schools, hospitals and other public services. Over the last two decades, a considerable share of Bahrain's growth has been driven by the public sector.

The Government has announced that privatisation will take centre stage as the private sector will remain the focus for economic growth. This is part of the Government's strategy to make the private sector the key area for Bahrain's economic growth.

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5.10 PUBLIC FINANCE

5.10.1 Revenue

Total revenues for the year to 31 December 2010 increased to USD 5,786.2 million compared to USD 4,543.1 million for the same period in 2009.

The table below sets out a breakdown of Government revenues for the periods indicated:

	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*
			(U.S.$ million)		
Oil and gas	6,067.1	3,770.8	4,925.8	6,593.3	5,859.1
Taxation and fees	495.5	423.8	476.1	448.6	529.9
Government goods and services	365.3	119.0	138.3	107.3	94.8
Government investment and properties	68.1	63.5	51.6	40.8	32.6
Grants	78.4	75.6	76.1	266.6	100
Fines, penalties and misc	44.9	88.1	117.3	47.6	92.8
Sale of capital assets	2.2	2.3	0.9	0.8	0.9
Total:	**7,121.4**	**4,543.1**	**5,786.2**	**7,504**	**6,710.2**

* As provided in the Government's adjusted budget for fiscal years 2011/2012.

Source: Ministry of Finance

The principal source of revenue for the last five years has been, and is expected to be in 2012, the oil and gas industry, which is highly dependent on world oil prices.

Revenue from Government investments and properties principally comprise dividends earned on the Government's shareholdings. as well as grants (being amounts paid annually to Bahrain by other GCC countries). The Government's major domestic shareholdings as at 31 March 2012 were its 100 per cent. stake in each of its holding companies, Mumtalakat and Nogaholding.

5.10.2 Current Expenditure

The following table shows the structure of the Government current expenditure for the years indicated:

	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*
			(U.S.$ million)		
Manpower	2,186.3	2,217.9	2,308.7	2,673	2,970.2
Services	304.6	345.0	347.2	453	372
Consumables	470.8	208.1	211.9	249	401
Assets	51.2	56.0	55.4	81	57
Maintenance	117.9	126.1	118.1	157	144
Transfers	566.0	1,181.1	1,407.9	1,688	2,310
Grants, subsidies and payment	430.7	366.6	518.8	1,115	892
Total	**4,127.6**	**4,500.8**	**4,967.9**	**6,415**	**7,145**

* As provided in the Government's adjusted budget for fiscal years 2011/2012.

Source: Ministry of Finance

Current expenditure on manpower (principally comprising wages and pension contributions) is the most significant part of Government current expenditure.

In accordance with Economic Vision 2030, the Government aims to reduce the dependence on oil revenues for funding recurrent expenditure. It aims to achieve this by generating additional sources of revenue and cutting inefficient spending. Subsidies for water, electricity, gasoline and food will be targeted to reduce costs. By funding the majority of its day-to-day expenditure from recurrent revenue (independent of oil), the Government aims to be able to apply oil revenues for the benefit of future generations.

5.10.3 *Projects Expenditure*

The following table shows the structure of the Government's projects expenditure for the years indicated:

	2008	2009	2010	2011	2012
	Actual	Actual	Actual	Actual	Budgeted*
			(U.S.$ million)		
Infrastructure	896.8	650.0	597.6	683.2	1,329
Social services	143.3	106.1	97.8	117.6	431.4
Economic services	9.0	14.5	21.8	12.8	81.1
Administrative services	130.2	81.2	65.4	114.9	154.3
Others	171.6	185.0	1,258	243.8	610.1
Total	**1,352.0**	**1,036.9**	**2,040.9**	**1,172.3**	**2,065.9**

* As provided in the Government's adjusted budget for fiscal year 2012

Source: Ministry of Finance

The principal area of projects expenditure is infrastructure, which accounted for 63.5 per cent. in 2008, 62.7 per cent. in 2009, 29.2 per cent. in 2010, 58.2 per cent in 2011 and is forecasted to be 50.9 per cent. in 2012.

5.11 BUDGET PROCESS

At the beginning of the financial year starting before the two-year budget period, the Ministry of Finance estimates the affordable aggregate expenditures for the following two budgets and obtains Cabinet approval for budget policy and the basis for the aggregation.

The Ministry of Finance then requests detailed revenue and expenditure estimates from all ministries and agencies which it uses to prepare a draft of the budget. These estimates are frequently the subject of discussion between the Ministry of Finance and the estimating ministry or agency.

The draft budget is usually presented to the National Assembly around September which, after its review, is submitted to the Consultative Council for its recommendations, if any. The budget is typically approved in December by Royal Decree after Cabinet endorsement. Pending approval of the budget, monthly spending by individual ministries is limited by law to one-twelfth of their budget for the previous year.

Bahrain's most recently published budget relating to the financial year 2011/2012 was approved by the National Assembly and published on 1 June 2011. The 2011/2012 budget contains a revised approach to oil price assumption by the Government. The oil price assumptions which have formed the basis of Government budgets in recent periods and which formed the basis of the Government's budget for 2009/2010 have been conservative (assumed an average price of USD 40 per barrel). However, the Government budget for 2011/2012 assumes an increase in the average price of oil to USD 80 per barrel to reflect the Government's raised estimate of international oil prices.

Implementation of the budget once approved is closely monitored by the Ministry of Finance using a financial management information system. Additionally, the Government follows a centralised treasury system under which all payments are routed through the Ministry of Finance enabling it to exercise reasonable control over the performance of the budget.

The state budget law allows supplementary budgets to be prepared and promulgated by royal decree after approval by the National Assembly. At the conclusion of each financial year, the Ministry of Finance prepares final accounts including the performance of the budget. These are audited by the National Audit Bureau and approved by the Cabinet and the National Assembly and published after approval.

5.12 ECONOMIC VISION 2030 & MUMTALAKAT

In October 2008, the Government set out a comprehensive economic vision for Bahrain (**Economic** Visio**n 2030**) to outline a path for the development of the economy, with the ultimate aim of ensuring that every Bahraini household has at least twice as much disposable income as it currently has, in real terms, by 2030. Economic Vision 2030's objective is to shift Bahrain's economy from an oil-driven economy to a global competitive economy predominantly based on finance, tourism and industry. The economic vision sets out the aspirations for Bahrain's economy, government and society in accordance with the guiding principles of sustainability, competitiveness and fairness. The key priority areas of Economic Vision 2030 are taken into account during each budget process.

To turn Economic Vision 2030 into reality, the EDB, whose chairman is the Crown Prince and whose members include representatives of a number of ministries of the Government worked in close cooperation with partners across Government to develop the National Economic Strategy 2009-2014 ("**NES**"), which has three guiding principles: (i) to strengthen the private sector and change the balance between private and public sector employment (see "Foreign Direct Investment and Privatisation"); (ii) to aim for diversification and innovation in a sustainable knowledge-based economy, independent of oil to the extent possible (see "**Trade and Tourism**" and "**Gross Domestic Product**"); and (iii) to ensure appropriate skill-building in the Bahrain labour market to match the shift in focus.

Economic Vision 2030 is implemented through the NES, which began in 2009 and is updated every two years (last update was December 2010).

With the implementation of the NES, the EDB has been able to forge new relationships, strengthen communications channels and streamline approaches to the planning and implementation of policies. As a result the EDB has created the National Communications Centre and established a countrywide network of public sector communications professionals to facilitate the implementation of the Economic Vision 2030 programme.

Bahrain has also implemented educational reforms to help to ensure that the population develops the skills necessary to implement Economic Vision 2030 objectives. The establishment of the Bahrain Teachers College was authorised in March 2008 as an integral part of the national educational reforms. The Bahrain Polytechnic was officially opened in November 2008. The Quality Assurance Authority was established in 2008 with a remit to review and publicly report on the quality of education and training institutions in Bahrain. It focuses on driving the improvement process and raising standards of education and training in Bahrain. The Ministry of Education and ten schools from all five governorates in Bahrain have been working together to pilot the School Improvement Programme since September 2008.

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The Government has also established other programmes since 2008, all designed to make the Bahrain employee more attractive in the job market. The Ministry of Labour, Tamkeen (the Bahrain labour fund, as more fully described in "Economy of The Kingdom of Bahrain"), and the Labour Market Regulatory Authority have worked alongside Government partners including the EDB to increase productivity, support growing businesses and entrepreneurs, build core skills for Bahraini nationals and deliver and provide a safety net and training for those who find themselves unemployed. 50 per cent. of the fees collected by the Labour Market Regulatory Authority are provided to Tamkeen for its activities.

Despite the February – March 2011 Protests, Economic Vision 2030 has not been materially disrupted. The Government intends to continue to take the measures necessary to implement the objectives of Economic Vision 2030.

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6. RELATIONSHIP WITH THE GOVERNMENT

The Government of Bahrain has minority and majority stakes in a wide range of enterprises in diverse sectors. With the aim of improving the performance and governance of and transparency with regard to state-owned assets, the Government has grouped its assets under the control of two wholly state-owned holding companies. Nogaholding was established to hold and manage the Government's oil and gas assets, while Mumtalakat was established by Royal Decree No. 64/2006 dated June 26, 2006 to hold and manage the Government's stakes in non-oil and gas commercial assets. Effective June 29, 2006, the Government transferred its interest in 29 commercial assets to Mumtalakat, including its interest in Alba, Gulf Air, Edamah, Batelco and NBB, each of which are described in "*Description of the Issuer*" below.

Members of Mumtalakat's nine-member Board of Directors are appointed to four-year terms by resolution of the EDB, for which His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, serves as Chairman. Mumtalakat's Board of Directors is composed of both public sector individuals, including key government officials, and private sector individuals. His Excellency Shaikh Khalid bin Abdulla Al Khalifa, Deputy Prime Minister, is Chairman of Mumtalakat's Board of Directors. His Excellency Mr. Kamal Ahmed, Minister of Transport, is Deputy Chairman of Mumtalakat's Board of Directors. Other key government officials that serve on Mumtalakat's Board of Directors include, His Excellency Shaikh Ahmed bin Mohammed Al Khalifa, Minister of Finance and His Excellency Mr. Essam Abdulla Khalaf, Minister of Works.

Mumtalakat is subject to oversight by the National Audit Court of Bahrain ("**NAC**"), which conducts regular reviews of the ministries, various governmental entities and public authorities. After finalising and consolidating the results of its various audits, the NAC submits its report annually to His Majesty the King, the Prime Minister and the Chairman of the Representatives Council. Mumtalakat is also subject to oversight by the Tender Board of Bahrain, whose main role is to oversee the procurement practices and processes of governmental bodies, to ensure transparency, fair competition, efficiency and the best use of public funds.

Mumtalakat, as a wholly-owned government entity, is obligated to submit periodic performance and financial reports to the Government through the Ministry of Finance. In addition, Mumtalakat is required to hold annual general shareholder meetings to approve its financial statements.

Like any other governmental entity, Mumtalakat is also required to answer all Parliamentary queries and to provide any appropriate supporting material. Any queries related to Mumtalakat or any of its portfolio companies that are raised by Parliament are submitted through the Minister of the National Council Affairs (Representatives and Shura Councils) who present the queries to the Minister of Finance. The Minister of Finance may then request that the management of Mumtalakat provide responses and supporting material.

While created by royal decree and being wholly-owned by the Government, Mumtalakat is incorporated as a commercial entity and is therefore subject to the commercial laws of Bahrain, including those laws and processes relating to insolvency. Mumtalakat is regulated by the Ministry of Industry and Commerce as a private commercial company in Bahrain.

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6.1 MUMTALAKAT'S ROLE IN THE NATIONAL ECONOMIC STRATEGY

6.1.1 Introduction

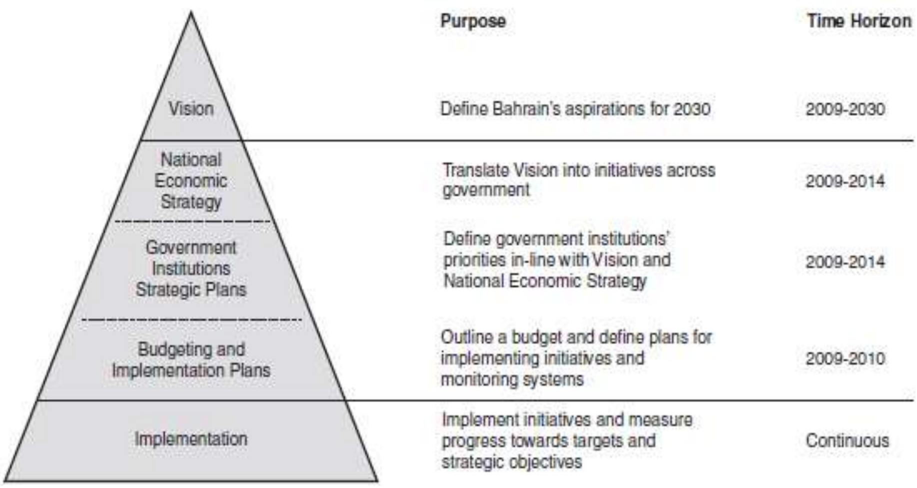
Mumtalakat was created to help align and implement the execution of the Government's initiatives to improve governance and transparency, pursue value-enhancing opportunities, and help achieve operational excellence for its state owned non-oil and gas assets. These goals are consistent with the various objectives set forth in Economic Vision 2030. Mumtalakat, as the Government's investment arm, is responsible for ensuring effective management, growth and oversight of a variety of businesses that are strategically important to Bahrain's economy and future. Mumtalakat's portfolio includes significant stakes in companies that contribute considerably, both directly and indirectly, to the country's economy, employ a substantial number of the local workforce, ensure the strategic connectivity of Bahrain to the rest of the world, and represent the diversification of Bahraini business and commerce away from the oil and gas sector.

To turn Economic Vision 2030 into reality, the EDB, in coordination with various ministries of the Government, led the development of the National Economic Strategy to detail the initiatives to be implemented over the six years from 2009 through 2014. The National Economic Strategy identifies strategic initiatives that ministries and other Government institutions, including Mumtalakat, must focus on implementing immediately and through 2014. It also defines benchmarks measuring the success of these initiatives. The EDB and Mumtalakat are engaged in on-going collaborative efforts to identify and implement initiatives and projects that contribute to the objectives of Economic Vision 2030.

6.1.2 The Government's Overall Strategic Plan

The figure below illustrates the different elements that comprise the Government's strategic planning process and how they are structured within specific timeframes. Within this framework, Mumtalakat has many important broad, as well as specific, responsibilities and initiatives that it must implement. As a key Government institution, Mumtalakat is actively and regularly engaged with the Government to develop and implement Mumtalakat's strategic plans and ensure alignment with Economic Vision 2030 and the National Economic Strategy.

6.1.3 Bahrain's Planning Process for Economic Development



Broadly, Mumtalakat is committed to driving sustainability, competitiveness and transparency through its active management of Bahrain's strategic non-oil and gas assets. For example, Mumtalakat, through its directors appointed at its portfolio companies, has helped to develop and implement several major organisational and operational restructurings aimed at significantly enhancing the sustainability and competitiveness of two important Bahraini businesses, Alba and Gulf Air. At Alba, a comprehensive organisational restructuring was initiated in 2009 with the goal of improving the company's efficiency and profitability. At Gulf Air, Mumtalakat initiated in 2009 the development of a broad operational and strategic restructuring plan. The plan was designed to improve the airline's financial and operational performance and realign its business model to best meet the needs of Bahrain. Currently, Mumtalakat is working with Gulf Air and the Government to further restructure the airline's operations and strategy to address challenges it faces due to regional political developments, financial and operational issues and to realign its business model to best meet the needs and resources of Bahrain.

At Alba and Gulf Air, as well as other portfolio companies, Mumtalakat's involvement has been instrumental in identifying, attracting and retaining qualified senior executives who are able to deliver strong performance on clear operational, financial and strategic objectives. Mumtalakat has also engaged in an on-going process at its key portfolio companies to appoint, train and empower qualified directors to represent shareholder rights and exert appropriate shareholder control. Through these various activities, Mumtalakat is executing a key mandate at these important Bahraini companies, namely, to improve performance, appoint strong management teams, and implement proper governance, oversight and systems of accountability.

6.1.4 Initiatives under the National Economic Strategy

Along with Government ministries and other Government institutions, Mumtalakat has been assigned very specific initiatives and responsibilities through the National Economic Strategy, which presents an action plan grouped by three integrated streams of initiatives: *Government Strategy, Economic Strategy and Social Strategy*.

Initiatives within *Government Strategy* include, amongst others, a focus on enhancing Bahrain's non-oil and gas related wealth. Mumtalakat has been mandated to ensure that the performance of key non-oil and gas companies meets industry benchmarks in order to contribute to Bahrain's overall economy. Mumtalakat's holdings represent the Government's diversification of its wealth over a broad spectrum of sectors, including aluminium production, financial services, telecommunications, aviation, real estate, tourism and food production. Improving the profitability and sustainability of these businesses directly strengthens the potential for long-term Government wealth and revenues from these sources.

Economic Strategy gives priority to initiatives that support growth, diversification and transformation of Bahrain's economy in the long-term. Under these initiatives, Mumtalakat is mandated to improve overall productivity by enhancing performance of Bahrain's strategic non-oil and gas assets and selectively supporting the development of new industries. Mumtalakat's mission is to create, over the long-term, a global portfolio diversified across asset classes and allocated in accordance with the long-term objective of securing sustainable returns and creating wealth for future generations of Bahrain.

Social Strategy includes a number of initiatives designed to ensure that the benefits of economic development contribute to Bahrain's continuing social development. Priority initiatives include: enhancement of social assistance, improvement of the quality of and access to healthcare, development of a high quality education system, public safety and security, protection of the natural environment and promotion of Bahrain's cultural life. Mumtalakat's direct role in the implementation of Social Strategy initiatives is limited.

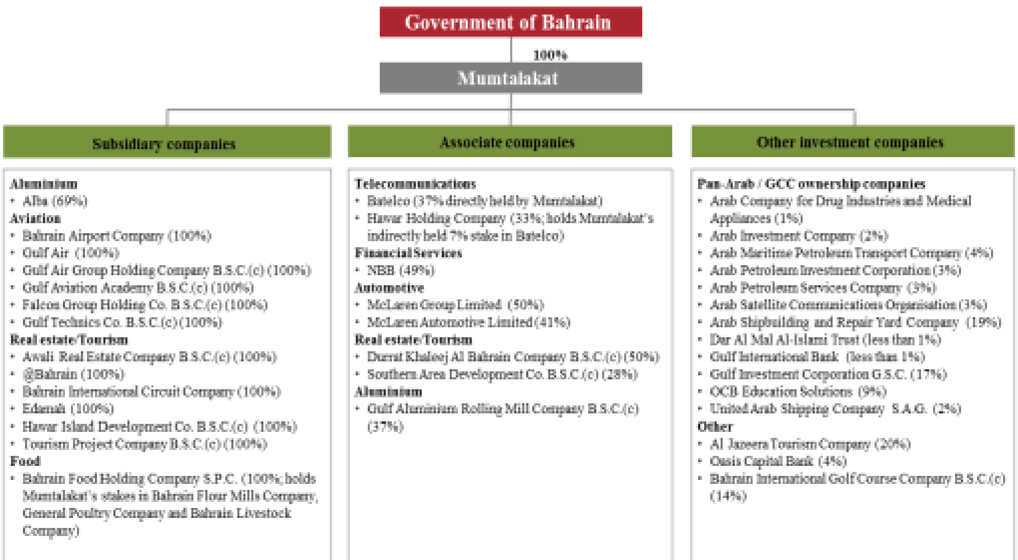
7. DESCRIPTION OF THE ISSUER

7.1 INTRODUCTION

Mumtalakat was incorporated by the Royal Decree No. 64/2006 dated June 26, 2006 as an independent holding company for the Government of Bahrain's stakes in non-oil and gas related assets. Mumtalakat owns stakes in strategic non-oil and gas related assets of Bahrain, which are significant contributors to the Bahraini economy and directly and indirectly support many other businesses in the country and the region. Mumtalakat's portfolio of companies spans a variety of sectors, including aluminium production, financial services, telecommunications, real estate, aviation, tourism, and food production. Effective June 29, 2006, the Government transferred its interest in 29 commercial assets to Mumtalakat, including its interest in Alba, Gulf Air, Batelco and NBB, each of which are described below. Mumtalakat was created to help align and implement the execution of the Government's initiatives to improve governance and transparency, pursue value-enhancing opportunities, and help achieve operational excellence for its state owned non-oil and gas assets. Mumtalakat is wholly-owned by the Government through the Ministry of Finance.

As of December 31, 2011, Mumtalakat held minority and majority stakes in over 35 commercial enterprises and held investments in third party managed funds. For the convenience of the reader, a portfolio value of such stakes and investments has been presented below. Mumtalakat's portfolio value represents the value of investments in subsidiary companies (greater than 50 per cent. shareholding), associate companies (20-50 per cent. shareholding), other investment companies (less than 20 per cent. shareholding) and the value of investments in third party managed funds. The value of investments in subsidiary companies and associate companies is calculated based on equity accounting. Under the equity accounting methodology, the value of an investment is calculated at the original cost of the investment plus further investments, share of profit and other comprehensive income of the subsidiary/associate company less share of loss, dividend received and share of other comprehensive loss of the subsidiary/associate company. The value of other investment companies is based on their fair market value as of the end of the financial year.

As of December 31, 2011, the value of Mumtalakat's total direct equity investments, as determined above, was BD 2,603.6 million. As of December 31, 2011, Mumtalakat's portfolio included BD 61.8 million of investments deployed in third party managed funds. Mumtalakat's total portfolio value as of December 31, 2011 was BD 2,665.4 million. The chart below highlights Mumtalakat's portfolio companies and ownership as of December 31, 2011.



Examples of the importance of these assets to the economy, strategy and people of Bahrain include:

- Alba, Gulf Air and Batelco are significant employers of Bahrainis and have historically served as important institutions for the development and advancement of the local workforce;

- Alba, representing over 40 years of Bahrain's industrial history, was the first aluminium smelter in the Middle East and continues to be one of the leading producers of primary aluminium in the world;

- Gulf Air is the national flagship carrier and serves the critical role of connecting Bahrain to key financial centres of Europe and other important regional destinations;

- NBB is a symbolically important financial institution to the country, which has built a long-standing reputation as a major financial hub in the Middle East;

- Batelco's origins as the national telecommunications provider have helped it maintain a leading market share in an increasingly deregulated market and it remains Bahrain's only fully integrated telecommunications provider;

- The Formula 1 race track operated by Bahrain International Circuit Company ("**BIC**") was first to bring Grand Prix racing to the Middle East and continues to enjoy its position in the race calendar, having successfully hosted the 2012 Grand Prix race in Bahrain in April 2012; and

- Bahrain Livestock Company B.S.C. and Bahrain Flour Mills Company B.S.C. are responsible for the import, processing and sale of Government subsidised livestock and wheat products in Bahrain as part of the Government's program to ensure that the broader population has access to basic needs.

Mumtalakat's vision is to grow the wealth of Bahrain. Mumtalakat's mission is to drive value creation in the strategic non-oil and gas related assets of Bahrain and manage, over time, a diversified portfolio aimed at securing sustainable returns and wealth creation for future generations of Bahrain. With the mandate to fulfil key objectives of Economic Vision 2030, Mumtalakat is focused on building a best-in-class organisation that is committed to the highest standards of transparency and corporate governance.

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7.2 SUMMARY FINANCIAL DATA

Summary financial data has been provided for the reader's convenience. Please refer to Mumtalakat's consolidated financial statements in Appendix 1 and Appendix 2 of this Information Memorandum for the full consolidated financial statements and associated notes. Note that Mumtalakat's 2011 consolidated financial statements have been prepared on the basis that Gulf Air remains a going concern. Please refer to Note 2.1 of the 2011 audited consolidated financial statements for further information on this matter.

The following tables present certain summary financial data of the Group for the periods indicated.

Selected consolidated income statement data

		Year ended	
	Dec. 31, 2009 (BD millions)	**Dec. 31, 2010 (BD millions)**	**Dec. 31, 2011 (BD millions)**
Consolidated operating income (loss)	(123.4)	(48.9)	(5.9)
Consolidated net income (loss)	(183.2)	(234.3)	(270.7)

The Group recorded an operating loss for the year ended December 31, 2009 primarily due to the fall in the London Metals Exchange ("LME") price of aluminium, which had a material adverse effect on the results of operations of Alba, operating losses at Gulf Air and general adverse macro-economic conditions in connection with the global credit crisis. Consolidated net loss for the year ended December 31, 2009 was due to operating losses as mentioned above and loss on derivatives of BD 64.1 million.

The reduction in consolidated operating loss for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to the increase in the LME price of aluminium, which had a material favourable effect on the results of operations of Alba in that year.

The increase in consolidated net loss for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to higher impairment losses in 2010 compared to 2009, which was partially offset by reduction in consolidated operating loss as mentioned above. Impairment losses of BD 191.3 million in 2010 primarily comprising of BD 151.9 million relating to investment in associates and BD 33.0 million relating to investment properties, compared to impairment losses of BD 42.7 million in 2009.

The reduction in consolidated operating loss for the year ended December 31, 2011 compared to the year ended December 31, 2010 was primarily due to increase in the LME price of aluminium, which had a material favourable effect on the results of operations of Alba, and other operating income of BD 21.7 million on account of gain on deemed disposal of investment in McLaren Automotive Limited.

The increase in consolidated net loss for the year ended December 31, 2011 compared to the year ended December 31, 2010 was primarily due to higher impairment losses in 2011 compared to 2010, which was partially offset by reduction in consolidated operating loss as mentioned above. Impairment losses of BD 316.5 million in 2011 primarily comprising of BD 209.7 million relating to investment properties and BD 94.1 million relating to investment in associates, compared to impairment losses of BD 191.3 million in 2010.

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Selected consolidated balance sheet data

	As of		
	Dec. 31, 2009 (BD millions)	**Dec. 31, 2010 (BD millions)**	**Dec. 31, 2011 (BD millions)**
Consolidated total assets	4,861.2	5,070.0	4,219.2
Consolidated total liabilities	1,975.0	1,822.4	1,653.9
Consolidated total equity	2,886.2	3,247.6	2,565.3

Consolidated total assets increased from December 31, 2009 to December 31, 2010 primarily due to increase in cash on account of capital contribution by Mumtalakat's shareholder, which was partially offset by decrease in the value of investment in associates due to impairment losses.

Consolidated total assets decreased from December 31, 2010 to December 31, 2011 primarily due to transfer of assets held for distribution to the shareholder and impairment loss on investment properties and investments in associates.

Consolidated total liabilities decreased from December 31, 2009 to December 31, 2010 primarily due to a reduction in liabilities relating to trade accounts payable.

Consolidated total liabilities decreased from December 31, 2010 to December 31, 2011 primarily due to reduction in borrowings and liabilities relating to derivative financial instruments.

Changes in consolidated total equity over the above periods mainly represent consolidated net loss, net capital contribution from the shareholder and distribution of assets to the shareholder.

Borrowings on a consolidated basis were BD 1,147.7 million, BD 1,163.7 million and BD 1,014.2 million as of December 31, 2009, 2010 and 2011, respectively.

Borrowings at the parent level were BD 512.1 million, BD 577.6 million and BD 468.4 million as of December 31, 2009, 2010 and 2011, respectively.

Of Mumtalakat's total parent-level borrowings of BD 468.4 million as of December 31, 2011, the entire amount represented borrowings with maturities due in more than one year.

Mumtalakat's borrowings as of December 31, 2011 were mainly denominated in Bahraini dinars (10.1 per cent.) and U.S. dollars (89.9 per cent.). As the Bahraini dinar is pegged to the U.S. dollar, debt in U.S. dollars is not considered to represent material currency risk.

The following table shows dividends received by Mumtalakat from certain key portfolio companies.

	Year ended		
	Dec. 31, 2009 (BD millions)	**Dec. 31, 2010 (BD millions)**	**Dec. 31, 2011 (BD millions)**
Alba	18.8	63.6	69.9
Batelco	26.4	26.4	23.8
NBB	11.4	13.3	11.4

Total dividends received by Mumtalakat, at the parent level, from its portfolio companies were BD 57.4 million, BD 103.5 million and BD 107.4 million for each of the years ended December 31, 2009, 2010 and 2011, respectively.

7.3 STRATEGY

Mumtalakat's strategy is designed to fulfil specific mandates that the Government has assigned to Mumtalakat under the National Economic Strategy. Mumtalakat will seek to increase the value of its portfolio as a whole through the following strategies:

- **Identification and implementation of value-enhancing initiatives at its strategic portfolio companies.** A core element of Mumtalakat's strategy is to enhance value at its existing portfolio companies. At Alba, for example, Mumtalakat supported the development of a comprehensive organisational restructuring aimed at improving Alba's efficiency and cost structure. At Gulf Air, Mumtalakat has worked closely with the airline's management and the Government to develop a broad operational and strategic restructuring plan. The goal of this plan has been to improve the airline's financial and operational performance and realign its business model to best meet the needs and resources of Bahrain. Mumtalakat is rolling out a best in class corporate governance program across its portfolio companies through its representative directors, which will help influence strategic decisions and value creation initiatives at each portfolio company level.

- **Carefully planned portfolio adjustments, which may include partial or complete disposal of select assets.** Mumtalakat seeks to identify opportunities for partial or complete disposals of select assets in its portfolio. Ultimately, Mumtalakat aims to maintain a significant minority interest in its portfolio companies that will allow Mumtalakat to exert meaningful influence over the corporate governance of the portfolio company. With certain more strategic assets, Mumtalakat may continue to hold a majority interest for the foreseeable future.

- **Further investments for growth in select existing assets and investments in new assets.** Mumtalakat will continue to invest selectively in its existing portfolio companies and related projects. Local and regional opportunities exist for portfolio companies to expand and enter into complementary businesses and for Mumtalakat to develop new companies within existing industries. Mumtalakat plans to help identify and analyse such opportunities with its existing portfolio companies and appropriately support the implementation of profitable growth strategies.

  Mumtalakat is also involved in important strategic development projects that will contribute to the overall economy of Bahrain, but may not deliver suitable investment returns for Mumtalakat's portfolio. Such projects are likely to require some Government funding so that Mumtalakat's financial resources can be deployed in other projects that are in line with its vision and mission.

- **Diversification of the portfolio**. Over time, Mumtalakat seeks to diversify its portfolio through a combination of disposals of existing assets and investments in new assets. Given its significant stakes in several large companies, Mumtalakat is particularly exposed to certain sectors such aluminium, aviation, telecommunications and financial services. A fundamental element of Mumtalakat's long-term strategy with respect to its portfolio is to diversify its exposures across geographies, asset classes and sectors.

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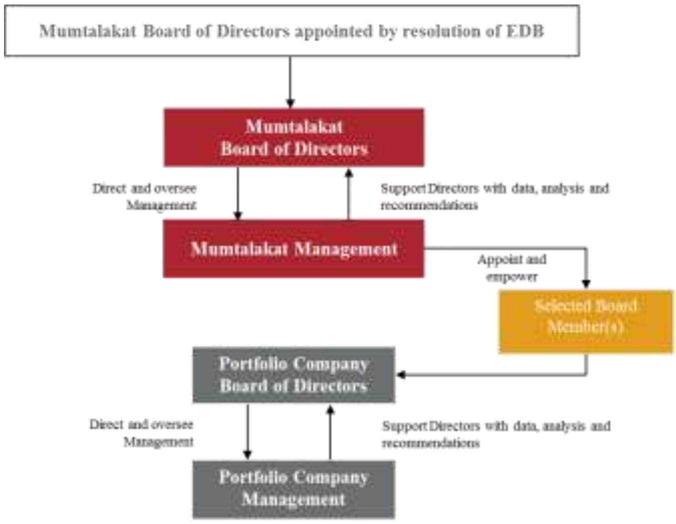
7.4 PORTFOLIO COMPANIES

7.4.1 Oversight of Portfolio Companies

As a shareholder, Mumtalakat is focused on encouraging the adoption of best-in-class corporate governance structures and practices at each of its portfolio companies. Mumtalakat's oversight and influence of a portfolio company is exercised through its representative directors appointed to the portfolio company's board of directors. Thus, the level of Mumtalakat's influence at a given portfolio company is generally determined by the level of Mumtalakat's ownership stake in that portfolio company. Mumtalakat selects nominees for directorships of the portfolio companies and submits the nominations to the Chairman of the Board of EDB, who makes the final decision on their appointment.

Below is a diagram illustrating the governance model used by Mumtalakat and the Government to maintain effective oversight of Mumtalakat's portfolio companies.



Mumtalakat aims to manage its business to be sustainable on a stand-alone basis, without requiring the Government to provide funding support. Similarly, Mumtalakat's expectation is that directors and management teams of each of its portfolio companies run the respective businesses in an independent manner based on long-term sustainable operating and financial practices. Each portfolio company is expected to manage and access its own funding needs, which should be done on a non-recourse basis to Mumtalakat and the Government. By instilling such principles in its portfolio companies, Mumtalakat believes that directors and managements of these companies will be encouraged to embark on commercially viable and attractive projects that are likely to attract third party funding support. In exceptional situations where portfolio companies require shareholder support, such as Gulf Air, Mumtalakat has worked and will continue to work with the Government to structure and deliver appropriate support in a timely manner. See "Description of Key Portfolio Companies – Gulf Air".

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7.4.2 *Description of Key Portfolio Companies*

As of December 31, 2011, Mumtalakat had more than 35 directly held investments. Alba and Gulf Air qualified as the two Material Subsidiaries and Batelco, NBB and McLaren Group qualified as the three Material Associates in Mumtalakat's portfolio as defined in the Principal Terms and Conditions of the Sukuk Murabahah in section 3 of this Information Memorandum. These five portfolio companies described below represented approximately 73.1 per cent. of Mumtalakat's total portfolio value as of December 31, 2011. Alba and Gulf Air, as subsidiary companies, are consolidated into the Group's consolidated financial statements and represented 97.4 per cent. of the Group's consolidated revenues for the year ended December 31, 2011.

Unless otherwise stated, the financial information for Alba, Batelco and NBB presented below has been extracted from the consolidated financial statements of such portfolio companies, each prepared in accordance with IFRS. As of the date of this Information Memorandum, the audit of Gulf Air's 2011 financial statements remains in progress and will likely conclude once the Government has made its decision and announced funding plans for the airline. The 2011 Gulf Air financial data provided herein has been prepared on the basis that Gulf Air continues as a going concern. The financial information for the McLaren Group presented below has been extracted from its consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom.

Alba

Introduction

Alba operates an aluminium smelter, power plant and a coke calcining plant located in Askar, Bahrain, producing an average of 860,000 metric tonnes of aluminium per year. Alba was incorporated in 1971 to construct, own and operate Bahrain's primary aluminium smelter. Alba commenced commercial operations in May 1971 as the first aluminium smelter in the Middle East and has now grown into one of the leading producers of primary aluminium in the world. Alba is owned 69 per cent. by Mumtalakat, 21 per cent. by Saudi Industrial Investments Company ("**SIIC**"), a wholly-owned subsidiary of Saudi Basic Industries Corporation ("**SABIC**") and 10.0 per cent. by public investors. In 2010, Mumtalakat sold a 10 per cent. equity stake in Alba, through a public listing on the Bahrain Bourse and London Stock Exchange. Mumtalakat is represented by six directors on Alba's nine-member board of directors. As of 17 July 2012, its market capitalisation was BD 766.8 million.

Business

Alba's industrial facilities consist of four on-site captive power stations, five metal production lines, two cast houses, three carbon plants, a coke calcining plant, and a marine terminal. Alba also possesses its own waste management system and water treatment plant. Since 1971, Alba has continuously produced a variety of aluminium products, including extension billet, liquid metal, rolling slab, foundry alloy, standard ingot and tee ingot. Alba's facilities have consistently produced aluminium with a purity level exceeding global standards. The uninterrupted expansion of Alba's facilities over 40 years has led to a vertical integration of the production process and a diversification of Alba's product mix.

In addition, Alba's in-house coke calcining plant allows for a high degree of control over the supply and quality of calcined petroleum coke ("**CPC**") used in the aluminium production process. Its calcining plant can produce approximately 550,000 metric tonnes of CPC each year, allowing it to meet its needs and sell the surplus. Alba also has four on-site captive power stations with a total installed capacity of 2.2GW that meets all of the electricity requirements of Alba's smelters. The gas required for the production of power is supplied by state-owned Bapco, which operates Bahrain's gas fields and is wholly-owned by the Oil and Gas Holding Company B.S.C. (c). All of Alba's other raw material imports (primarily alumina ore) are supplied by sea through its marine terminal, located approximately 10 kilometres from its smelter. Production exports are delivered to Mina Salman and Sheikh Khalifa ports, as well as by road via the King Fahad Causeway.

As a result of its captive power generation facilities and low-cost gas from Bapco, Alba is among one of the lowest-cost facilities in the aluminium industry. In 2011, Bapco announced a 50 per cent. increase in the price of gas for all of its customers in Bahrain, effective January 1, 2012. Despite this increase, Alba expects to remain highly competitive globally and within the region. As competition increases, Alba's low-cost operating model represents a key competitive advantage. Alba's regional competitors include Sohar Aluminium in Oman, Qatalum in Qatar, Emirates Aluminium in the UAE and proposed new smelters in Saudi Arabia.

Under the terms of a quota agreement between Alba and its then shareholders dated September 3, 1990, as most recently amended on July 29, 2003 (the "**Quota Agreement**"), the current shareholders of Alba are entitled to take a proportion of Alba's aluminium production equal to their respective percentage ownership in Alba at a specified price. Conversely, Alba may require its shareholders to purchase their proportional share of aluminium from Alba at the same specified price. Before 2008, ALBA Marketing ("**ALMA**") which was an unregistered joint venture between Mumtalakat and SIIC, marketed and sold Mumtalakat's and SIIC's aluminium quotas to third-party buyers on their behalf. In 2008, in order to commercialise Alba's operations, ALMA's operations were integrated with Alba's. As a result of this integration, and notwithstanding contractual arrangements with shareholders, the current practice involves Alba selling and marketing aluminium to third parties on a commercial basis. In 2010, Mumtalakat (but not SIIC) waived its right to purchase its share of the aluminium production on an on-going basis. However, Alba retains the right to require Mumtalakat to purchase its proportional share of aluminium. Alba may take further steps to commercialise its operations in respect of the Quota Agreement in the future.

Alba's core customer base is comprised of downstream manufacturers primarily located in the MENA region requiring aluminium inputs. Bahrain-based Gulf Aluminium Rolling Mill Company B.S.C. (c) ("**Garmco**") and Midal Cables Ltd. ("**Midal Cables**") are Alba's two largest customers, consuming 34 per cent. of Alba's production in 2011. Garmco and Midal Cables manufacture aluminium-based products, including aluminium rod, electrical conductors, cold-rolled coil and sheet, aluminium circles and aluminium foil. Alba's site is in close proximity to the principal manufacturing operations of both Garmco and Midal Cables, and Alba's commercial relationship with Garmco is supported by existing cross shareholdings in both companies by Mumtalakat and SABIC.

After a detailed study conducted by external consultants, Alba began implementing an organisational restructuring strategy in late 2009, including initiatives to reduce cost and increase revenue. Alba expects this plan to show net operating benefits of approximately USD 250 million per annum from 2012. Alba has achieved majority of the identified savings by increasing value-added sales, improving marketing efforts, increasing capacity, downsizing work force, entering long term supply contracts with raw material suppliers and optimising of gas/power usage. The proportion of value added-sales has increased to ~63 per cent. of the total sales volume from 62 per cent. in 2010.

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Strategy
Alba's strategy is focused around maintaining and expanding its position as one of the world's leading low-cost smelters. Global demand for aluminium decreased during the economic downturn in 2008-2009, resulting in a market surplus. However, Alba management believes that the global supply of aluminium is expected to go into deficit in 2013/2014. Alba intends to harness this expected increase in demand by exploring opportunities that exploit its competitive advantages, including uninterrupted production, its status as one of the lowest cost facilities in the industry and strong local and regional reputation.

Selected Financial Information
The company reported revenues of BD 186.4 million for the first quarter of 2012, down 14% from BD 217.2 million in the corresponding period last year mainly due to 13% lower LME cash average price of aluminium. For the first quarter of 2012, the company reported net profit of BD 21.3 million versus BD 33.2 million for the corresponding period in 2011, a decrease of 36% year over year mainly due to lower LME prices and higher gas cost.

Financial information for the years ended December 31, 2009, 2010 and 2011 is based on the audited financial statements of Alba.

Sales were BD 582.5 million in 2009, BD 750.8 million in 2010 and BD 883.3 million in 2011. Comprehensive losses was BD 82.7 million in 2009 and comprehensive income were BD 138.2 million in 2010 and BD 211.9 million in 2011. In 2009, average price for aluminium on the LME declined by approximately 35 per cent. to USD 1,625 per metric tonne from USD 2,581 per metric tonne in 2008. In 2010 and 2011, average LME aluminium prices recovered to USD 2,173 per metric tonne and USD 2,398 per metric tonne, respectively. Alumina is Alba's main variable cost, representing on average approximately 30 per cent. of total costs, and its price is linked to the official prices on the LME. The rest of Alba's costs are mainly fixed. In the financial year 2011, Alba also gained BD 36.9 million related to mark to market profit on derivatives.

Total assets were BD 1,390.9 million, BD 1,326.6 million and BD 1,304.8 million as of December 31, 2009, 2010 and 2011, respectively. Total liabilities were BD 737.2 million, BD 627.9 million and BD 496.0 million as of December 31 2009, 2010 and 2011, respectively.

Alba is one of the largest employers in Bahrain with approximately 2,990 employees as of December 31, 2011.

Gulf Air

Introduction
Established in 1950, Gulf Air is today the national carrier of Bahrain, connecting traffic from Europe and, to a lesser degree, Asia to the Middle East and targeting local traffic within the Middle East. Gulf Air's principal activity during its 60-year operating history has been the transportation of passengers and freight on a scheduled basis. Until 2002, Gulf Air was owned by Bahrain, Qatar, Abu Dhabi and Oman, which had originally established Gulf Air as a GCC carrier. In November 2007, Mumtalakat became the sole shareholder of Gulf Air, as each of the other GCC countries gradually established their own respective airline carriers and withdrew from their respective ownership in Gulf Air.

Business
With a fleet of 37 aircraft as of May 2012, Gulf Air is a full-service carrier with operations to over 40 destinations in the Middle East, Asia, Europe and Africa. Gulf Air, in addition to its high quality service standards and has launched several innovative service concepts including the Sky Chef and Sky Nanny and was the first airline in the region with a state-of-the-art in flight connectivity suite including live

TV programming. As a carrier in the Middle East, Gulf Air is also well positioned geographically to benefit from passenger traffic and cargo traffic growth in the region.

Restructuring of Gulf Air

In 2009, Gulf Air engaged specialist aviation consulting firms to undertake a detailed strategic review of its business. As a result, Gulf Air commenced an operational and strategic restructuring process designed to increase the airline's profitability, such as reducing its fleet of wide bodied aircraft and increasing its fleet of narrow bodied aircraft and decreasing the focus on transit routes that are not sufficiently profitable. The immediate steps taken by Gulf Air in pursuit of this strategy include a shift in focus to regional flights, with recently increased services to Kuwait, Jeddah, Riyadh, Aden, Kabul and Karachi, and a focus on limited select long-haul routes. In addition, Gulf Air also plans to expand its codeshare relationships with key airline carriers, and may in the future seek to join a global airline alliance.

Restructuring Strategy

Gulf Air's restructuring strategy aims to address the carrier's major challenges through (i) realignment of the route network, (ii) rationalisation of the fleet, (iii) a better and more consistent product offering and (iv) a significant reduction of the cost base. The key elements of Gulf Air's strategy include:

Bahrain first. Refocus first on Bahrain, with an emphasis on high-quality service for the local business market, including the Eastern Province of Saudi Arabia;

Growth. Connect Bahrain to over 50 destinations, including 20 new cities, while eliminating less strategic and less profitable routes, making Gulf Air the preferred carrier throughout the region for these destinations;

Competitive advantage. Tailor the fleet to serve more points with more nonstop service and secure competitive advantage over less nimble competitors;

Ahead of the curve. Lead the Gulf region in the global industry trend toward frequent point-to-point services and focus on a higher-value market segment; and

Re-focus. Re-launch Gulf Air with a focus on regional growth and innovation.

Strategy Implementation

The implementation of this strategy, which requires Government support, significant asset redeployment, cost reductions and productivity improvements commenced successfully with a 28 per cent. reduction in the airline's operating losses for the year ended 2010.

However, regional unrest and other events in 2011 led to significant reductions in passenger traffic, closure of key profitable routes, and rising fuel costs, all of which negatively impacted the performance of Gulf Air. Despite these disruptions, Gulf Air continued to focus on key elements of the operational and strategic restructuring in 2011. In addition, interim solutions to recover lost revenue were also launched in 2011, such as the launch of new routes outside the MENA region, but with limited success.

Since 2011, Mumtalakat and the Government have been working closely with Gulf Air to review and potentially reformulate its strategy in light of material changes to the airline's operating environment. Several options have been considered, analysed and presented to the Government and Parliament. As at the date of this Information Memorandum, a decision on the strategy and related funding for Gulf Air has not been finalised.

Selected Financial Information

As of the date of this Information Memorandum, the audit of Gulf Air's 2011 financial statements remains in progress and will likely conclude once the Government has made its decision and announced funding plans for the airline. The 2011 Gulf Air financial data provided herein has been prepared on the basis that Gulf Air continues as a going concern.

Gulf Air revenue was BD 432.5 million in 2009, BD 407.3 million in 2010 and BD 374.0 million in 2011. Gulf Air has recorded net losses of BD 190.1 million, BD 188.1 million and BD 210.7 million in each of 2009, 2010 and 2011, respectively. Gulf Air's losses were primarily due to volatile oil prices, a decrease in demand resulting from the global economic downturn, heavy competition from strong airlines operating in the region such as Emirates, Etihad, Qatar Airways, Air Arabia and Bahrain Air, and due to the impact of recent regional unrest and other events.

Gulf Air's total assets were BD 657.7 million, BD 758.3 million and BD 600.0 million as of December 31, 2009, 2010 and 2011, respectively. Gulf Air's total liabilities were BD 616.2 million, BD 433.7 million and BD 486.1 million as of December 31, 2009, 2010 and 2011, respectively.

Historically, Gulf Air has received material liquidity assistance from Mumtalakat and the Government of Bahrain to help the airline offset its operating losses, fund the acquisition of new aircraft, refinance facilities on existing aircraft and assist funding of various other corporate needs. Mumtalakat has provided BD 168.9 million in 2008 and BD 196.7 million in 2009 directly to Gulf Air in the form of cash equity contributions and loans. In December 2010, the Government of Bahrain injected BD 471.2 million to assist Gulf Air in implementing its new turnaround strategy, fund operating losses and meet financial obligations.

Gulf Air is one of the largest employers in Bahrain with approximately 4,000 employees as of December 31, 2011.

Batelco

The information below has been obtained primarily from the publicly available annual reports and website of Batelco.

Introduction

Batelco was established in Bahrain in 1981, and is the leading integrated telecommunications provider in Bahrain. Mumtalakat directly owns 37 per cent. of Batelco's shares and 7 per cent. of shares through its associate Hawar Holding. The Government, directly or indirectly, including through Mumtalakat, owns 78 per cent. of Batelco's shares. The remaining shares are held by other financial and commercial organisations and various GCC citizens. Mumtalakat is represented by five directors on Batelco's ten-member board of directors. Batelco is listed on the Bahrain Bourse. As of July 17, 2012, its market capitalisation was BD 668.2 million.

Business

As Bahrain's only fully integrated provider, Batelco's comprehensive service offering includes mobile services, international roaming, high speed internet connections, WiFi, VPN network management, data communications, information and telecommunications services and national/international fixed line services to residential, business and government customers. Batelco is also the only operator licensed to build and maintain fixed telecommunications infrastructure in Bahrain. It provides wholesale services to other licensed operations under a regulated access and pricing regime. Batelco continues to invest in telecommunications infrastructure, spending over BD 40 million in Bahrain over the past two years.

Batelco has also expanded outside Bahrain through subsidiaries and joint ventures in Kuwait, Yemen, Saudi Arabia, Jordan, India (exit in progress) and Egypt. Batelco's overseas operations contributed 37 per cent. of gross revenues in 2011. Umniah, Batelco's subsidiary in Jordan, succeeded in achieving 30 per cent. market share in the mobile market in Jordan in 2011. Umniah currently has approximately 2.29 million subscribers for GSM and approximately 28,000 broadband customers. Umniah recently acquired a 3G license in Jordan and is expected to launch services towards the end of 2012. In Kuwait, Batelco owns a 44 per cent. interest in QualityNet, which provides information and communications technology solutions. QualityNet is a market leader in the data communications and internet services industry in Kuwait.

In Yemen, Batelco has a 26.9 per cent. shareholding in Sabafon, the largest GSM mobile operator in the country, providing national coverage to over 2 million mobile subscribers. Batelco owns a 15 per cent. stake in Etihad Atheeb Telecom, a fixed broadband (WIMAX) operator in Saudi Arabia operating under the GO brand. Atheeb has amassed over 110,000 customers since its launch in 2009. The company recently completed a capital increase, which will support its future growth plans.

In 2009, Batelco acquired a 42.7 per cent. stake in S Tel Ltd ("**S Tel**"), an Indian mobile operator with licenses to operate in northeast and northwest India. S Tel launched services in 2009. In 2011, the Indian regulator revoked a large number of 2G licenses, including those held by S Tel. Batelco announced the sale of its stake in S Tel in February 2012 for USD 174.5 million (equivalent to the acquisition cost). The agreed time frame for completion of the sale is the end of October 2012. The disposition of S Tel is not expected to have a material effect on Batelco's results of operations.

Strategy

Batelco seeks to retain its domestic market share, with a focus on its higher value post-paid customers, continue to enhance its network and services and grow its non-core revenue in response to competitive and regulatory pressures. Until 2002, Batelco was the sole provider of telecommunications services in Bahrain. Since then, Zain Bahrain B.S.C. (c) and Saudi Telecommunications Company, through its "Viva" operations, have commenced mobile telephone operations. The entry of the third player, Viva, in March 2010 has led to the erosion Batelco's market share and Average Revenue Per User, owing to the limited size and high penetration (over 130 per cent. in 2011) of the Bahrain market, although it remains the country's leading telecommunications provider.

Batelco also intends to accelerate the geographic expansion of its business, focusing on mobile and broadband services in particular.

Selected Financial Information

The company reported revenues of BD 78.0 million for the first quarter of 2012, down 4% from BD 80.8 million in the corresponding period last year mainly due to a decline in mobile and fixed business lines, which was offset by higher wholesale data communications and other revenue lines. For the first quarter of 2012, the company reported net profit of BD 16.1 million versus BD 17.5 million for the corresponding period in 2011, a decrease of 8% year over year.

Revenues were BD 346.9 million, BD 340.3 million and BD 327.0 million in 2009, 2010 and 2011, respectively. Profit for the year was BD 108.8 million, BD 90.6 million and BD 83.9 million in 2009, 2010 and 2011, respectively.

As one of the leading telecommunications operators of Bahrain's high quality, modern telecommunications system, Batelco is strategic to the long-term economic development of Bahrain, as articulated by Economic Vision 2030. This includes decreasing Bahraini economy's dependence on oil by diversifying the revenue base to include non-oil sources of revenue and developing a sustainable knowledge-based economy, including development of information technology.

Batelco is a significant employer in Bahrain with approximately 1,200 employees as of December 31, 2011.

NBB

The information below has been obtained primarily from the publicly available annual reports and website of NBB.

Introduction

Established in 1957 as Bahrain's first locally owned bank, NBB has grown steadily to become one of the country's leading providers of retail and commercial banking services. NBB is publicly listed on the Bahrain Bourse, and is owned 46 per cent. by the public, 5 per cent. by SIO and 49 per cent. by Mumtalakat. Mumtalakat's and SIO's combined ownership gives the Government a controlling stake in NBB. Mumtalakat is represented by four directors on NBB's ten-member board of directors. As of 17 July, 2012, its market capitalisation was BD 453.3 million.

Business

NBB is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities, and investment advisory services. NBB is one of the key players in the domestic commercial banking market, and has the largest coverage network in Bahrain, consisting of 26 branches and 56 ATMs.

NBB sells various products and services to individuals through Personal Banking. Business Banking provides products and services to governments, corporations, small and medium enterprises and financial institutions. Treasury & Investments has the overall responsibility for managing NBB's liquidity, interest rate, foreign exchange and market risk. Its activities comprise borrowing and lending in the interbank market, purchase of treasury bills, proprietary dealing, investments and trading in securities, derivatives, managed funds and equities in international markets and selling of NBB's own private label fund to clients.

NBB's main strategic business units are Personal Banking, Business Banking and Treasury & Investments.

Strategy

NBB's strategy is to achieve sustainable growth through diversification and enhancement of its presence in active segments of the domestic market, coupled with selective expansion in regional markets. Pursuant to this strategy, NBB has opened branches in Abu Dhabi and Riyadh, and has a license for a new branch in Dubai.

Selected Financial Information

The bank reported net income of BD 14.1 million for the first quarter of 2012, an increase of 3.5% from BD 13.6 million in the corresponding period last year. Over the same period, the Bank recorded a 19.2% growth in net interest income. This was driven primarily by a 15.4% increase in interest income and control of interest expense. Non-performing loans increased by 25.6% to reach BD 22.5 million by March 2012.

Operating income was BD 79.9 million in 2011, BD 71.9 million in 2010 and was BD 72.3 million in 2009. Profit for the year was BD 45.6 million in 2011, BD 43.0 million in 2010, and BD 42.8 million in 2009. NBB's main revenue driver is interest income, and net interest income was recorded at BD 55.4 million for 2011, showing a strong growth of 13.7 per cent. Other income was BD 24.6 million, showing a growth of 5.9 per cent. over the previous year.

In 2011, Personal Banking generated operating income of BD 31.7 million, Business Banking generated operating income of BD 20.6 million, and Treasury & Investments generated operating income of BD 27.6 million. In 2011, NBB's domestic operations generated operating income of BD 78.1 million and its overseas operations (consisting of branches in the United Arab Emirates and Saudi Arabia) generated operating income of BD 1.8 million.

NBB generated increased earnings from continued growth in core banking businesses in 2011 compared to previous years. At 31 December 2011, NBB had a provision coverage ratio (calculated as the ratio of total principal provisions over total non-performing loans) of 104.2 per cent., maintaining a good coverage ratio compared to the domestic industry average of 95.8 per cent. (and a regional industry average of ~71.6 per cent.).

As of 31 December 2011, the Bank's total assets stood at BD 2,388.7 million, compared to BD 2,274.1 million at year-end 2010. The growth in total assets was mainly attributable to growth in loans and advances by 2.2 per cent., to reach BD 972.1 million. In addition, the Treasury Bills portfolio increased to BD 377.9 million in 2011 compared to BD 183.6 million in 2010.

Liquid assets represented 30.7 per cent. of total assets in 2011. Customer deposits grew by 7.7 per cent. during 2011.

NBB's capital adequacy ratio as of December 31, 2011 was 25.1 per cent., with Tier 1 ratio at 23.5 per cent. (pre dividends). The ratios were calculated in accordance with the Basel 2 and CBB guidelines. NBB's capital adequacy ratio, encompassing credit, operational and market risk, is well above the Basel requirement of 8 per cent. and also comfortably above the minimum level of 12 per cent. set by the CBB. The main factors that contribute to NBB's strong capital adequacy ratio are a relatively high capital base, relatively low levels of non-performing assets that are fully provided for, and the relatively low risk profile of NBB's on-balance sheet and off-balance sheet exposures, which includes lower risk weighted assets, namely loans to governments, public sector undertakings, banks and financial institutions.

NBB is a significant element in Bahrain's financial services sector, which contributes more to Bahrain's GDP than any other sector, including the oil and gas sector. NBB employed 572 people as of December 31, 2011.

The McLaren Group

The information below has been obtained primarily from the website of The McLaren Group Limited ("**McLaren Group**"). Certain information has been provided by the McLaren Group to Mumtalakat in its capacity as a shareholder.

Introduction

The McLaren Group originated as a partnership in 1978 between Project 4 (owned by Ron Dennis) and McLaren Cars. In 1981 Techniques d'Avant Garde ("**TAG**") joined as an equal shareholder, and in 1999 Daimler AG acquired 40 per cent. of the company. In December 2009, McLaren Automotive Limited ("**McLaren Automotive**") was spun off from McLaren Group.

Mumtalakat originally acquired a 30 per cent. stake in McLaren Group in February 2007. At the end of 2009, McLaren Group contracted to buy back the shares owned by Daimler AG. Mumtalakat owns a 50 per cent. stake in McLaren Group, with Ron Dennis and TAG owning the other 50 per cent.. Mumtalakat is represented by two directors on McLaren Group's seven-member board of directors.

Business: McLaren Group
Based in the United Kingdom, the McLaren Group consists of a group of companies engaged in activities related to the sport and technology of Formula 1.

McLaren Racing. Since its foundation in 1966, the McLaren Formula 1 team has become one of the most successful and ground-breaking teams in grand prix motor racing. McLaren Racing is the centre of the racing operation, housing the extensive design office, 60-per-cent-scale wind tunnel, manufacturing plant, fabrication facilities and build stations that have created some of the most iconic Formula 1 cars in the sport's history. The McLaren Formula 1 team has won four consecutive Drivers' and Constructors' Championships (1988-1991) and secured eight Constructors' World Championship titles, the first of which was in 1974. Today, the team has a record 12 Drivers' World Championship titles. Additionally the company has consultancy contracts with Sahara Force India and Marussia Racing, to support the development of their Formula 1 racing teams.

McLaren Electronic Systems. As well as supplying every team on the Formula 1 grid with a common electronics control unit, McLaren Electronic Systems has also produced and supplied high-end electronic systems to teams and championships throughout Europe and North America. These include a common electronic control unit for NASCAR race cars, which is being installed during 2012, and becomes compulsory from 2013. The company is a leading developer of bespoke race telemetry and sensor equipment.

McLaren Applied Technologies. Applying McLaren technical expertise to a number of non-race-specific scenarios has enabled McLaren Applied Technologies to develop advanced technical solutions in a number of specialist fields, such as sports, medicine, biomechanics and entertainment.

McLaren Marketing. McLaren Marketing is the marketing arm for the entire McLaren Group. It is responsible for the acquisition and maintenance of a portfolio of international partners, including title partner Vodafone.

Absolute Taste. The McLaren Group's food and hospitality arm serves clients and guests at every race on the Formula 1 calendar and also provides catering and hospitality services to high-end customers around the world.

Selected Financial Information
Sales for the McLaren Group were GBP 291.6 million in 2009, GBP 201.7 million in 2010 and GBP 239.1 million in 2011. The McLaren Group had net income of GBP 94.3 million, GBP 14.5 million and GBP 21.5 million in 2009, 2010 and 2011 respectively. The last year during which the results of McLaren Automotive were consolidated within those of McLaren Group was 2009.

Mumtalakat's ownership of McLaren Group supports the Government's focus on developing and enhancing flagship projects in Bahrain and complements its goals to promote BIC and further develop opportunities related to the racetrack and surrounding land and infrastructure.

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7.5 INFORMATION TECHNOLOGY

Mumtalakat's IT strategy is closely integrated with its overall business strategy. The technology architecture provides a solid foundation for Mumtalakat to execute its long term growth strategy across its various lines of businesses. Mumtalakat's technology is based on a scalable and robust enterprise support system designed to be fully resilient and secured. Mumtalakat's IT processes and procedures are adapted from international best practices in the field of IT service management. Mumtalakat continuously strives to optimise its IT infrastructure with the goal of achieving the highest possible return on investment in technology.

7.6 DIRECTORS, MANAGEMENT AND EMPLOYEES

7.6.1 Board of Directors

Members of Mumtalakat's nine-member Board of Directors are appointed to four-year terms by resolution of the EDB, for which His Royal Highness Prince Salman bin Hamad Al Khalifa, the Crown Prince, serves as Chairman.

The Board of Directors of Mumtalakat currently comprises nine directors listed below:

Name	Title
H.E. Shaikh Khalid bin Abdulla Al Khalifa	Chairman
H.E. Shaikh Ahmed bin Mohammed Al Khalifa	Board Member
H.E. Shaikh Mohammed bin Essa Al Khalifa	Board Member
H.E. Mr. Kamal Ahmed..	Vice Chairman
H.E. Mr. Essam Abdulla Khalaf	Board Member
Mr. Mahmood Hashim Al Kooheji	CEO and Board Member
Dr. Essam Abdulla Fakhro...	Board Member
Dr. Samer Al Jishi..	Board Member
Mr. Redha Abdulla Faraj	Board Member

H.E. Shaikh Khalid bin Abdulla Al Khalifa

H.E. Shaikh Khalid is the Deputy Prime Minister of Bahrain. Prior to that, he was the Minister of HRH the Prime Minister's Court. He began his career as a roads engineer in the Directorate of Works in 1966. He rose in the organization to become the Director of Public Works Directorate in 1971. From 1975 to 1995, he took the role of Minister of Housing. He was Chairman of the Housing Bank from 1979 to 2002, and Chairman of the Central Municipal Council between 1987 and 1995. From 2001 to 2002, Shaikh Khalid served as Minister of Housing and Agriculture. Before that, he was the Minister of Housing, Municipalities & Environment.

In addition to his role as Chairman of Mumtalakat, Shaikh Khalid is the Chairman of the following organizations: Hawar Islands Development Committee; Ministerial Committee for Services and Infrastructure; Civil Service Bureau; Committee for Studying, Building Materials Supply; Committee for Organizing Tourism in Bahrain.

Shaikh Khalid is also a board member of the Ministerial Committee for Finance and Economy, Bahrain Economic Development Board, Committee for Revising the Strategic Diagrammatic National Masterplan for Bahrain, Shaikh Isa Award for Service to Humanity, and the Supreme Committee for Information Technology and Communications.

Shaikh Khalid holds a bachelor degree in civil engineering from the College of Engineering at Cairo University.

H.E. Shaikh Ahmed bin Mohammed Al Khalifa

H.E. Shaikh Ahmed has been Minister of Finance for Bahrain since January 2005. From 1989 to 1996, Shaikh Ahmed was the head of operations for the Bahrain Stock Exchange. In 1997, he became a Director until 2001, when he was appointed Governor of the Bahrain Monetary Agency.

Shaikh Ahmed is the Chairman of the Future Reserve Generation Council and the World Bank’s Development Committee.

Shaikh Ahmed is a member of the Board of Governors for the World Bank, the International Monetary Fund, the International Finance Corporation, the Multilateral Investment Guarantee Agency, the Arab Monetary Fund, the Islamic Development Bank, the Arab Fund for Economic & Social Development, the Arab Bank for Economic Development in Africa, the Arab Investment and Export Credit Guarantee Corporation and the Arab Authority for Agriculture Investment and Development.

Shaikh Ahmed graduated from St. Edwards University, Austin, Texas with a master degree in business management.

H.E. Shaikh Mohammed bin Essa Al Khalifa

Shaikh Mohammed bin Essa Al Khalifa was appointed the role of Political and Economic Adviser to HRH the Crown Prince's Court in 2012. He served as Chief Executive of the Economic Development Board of Bahrain from 2005-2012 and was responsible for ensuring the continued growth and stimulation of the Bahraini economy.

Shaikh Mohammed is also deeply involved in the wider economic development of the region, notably through the World Economic Forum’s Davos and regional fora and chairs, including the Tamkeen, Young Arab Leaders’ Bahrain chapter, Bahrain Development Bank and Bahrain Polytechnic, and Capital Club, Bahrain. Shaikh Mohammed is a board member of the Bahrain Association of Banks, the Bahrain Labour Market Regulatory Authority and the Crown Prince’s International Scholarship Programme.

Shaikh Mohammed graduated from the American University in Washington D.C. with a bachelor degree in economic theory and with a postgraduate diploma in business studies from the London School of Economics.

H.E. Mr. Kamal Ahmed

H. E. Minister Kamal bin Ahmed Mohammed was appointed as Minister of Transport in February 2012. He is also the Acting Chief Executive Officer of the Bahrain Economic Development Board. Prior to his appointment as Transport Minister, he was Minister of Cabinet Affairs, and prior to that he was the Chief Operating Officer of Bahrain Economic Development Board. He began his career as a project engineer in 1994 at Gulf Petrochemical Industries Company, which he left in 2004.

Minister Kamal Ahmed is currently a board member of the Bahrain Economic Development Board, Quality Assurance Authority for Education and Training, Higher Education Council, and Civil Service Council.

He holds a bachelor of science degree in civil engineering from the University of Bahrain and a master degree in international project management from Leeds University.

H.E. Mr. Essam Abdulla Khalaf

H.E. Minister Essam Bin Abdulla Khalaf holds the position of Minister of Works. Prior to this role, he served as Assistant Undersecretary for Roads from 2005 until October 2010. He joined the Ministry in 1978 as a trainee engineer and was appointed as Planning Engineer in 1981. He held several key positions in the Ministry and was appointed Assistant Undersecretary for Roads and Sewerage in 2002. Additionally, he was responsible for the Coordination and Monitoring Committee with the Municipal councils.

Mr. Essam Bin Abdulla Khalaf is a board member of Hawar Island Development Board, Junior Board in the Ministry of Justice and Islamic Affairs, Traffic Board, and the Civil Defence Board.

Mr. Essam Bin Abdulla Khalaf holds a bachelor degree in civil engineering from Texas University at Austin, a master degree in Transportation Planning from Virginia Tech and State University and a diploma in advanced management administration from University of Bahrain. He is an active member in many international professional organizations such as International Road Federation and the Institute of Transportation Engineers, both in the US. He is also a graduate member in the Institute of Civil Engineers in the United Kingdom.

Mr. Mahmood Hashim Al Kooheji

Mr. Mahmood Al Kooheji is the Chief Executive Officer of Mumtalakat. He began his career in Bahrain Petroleum Company as an industrial engineer before joining the Ministry of Finance in 1988. From 1994 to 2005, Mr. Al Kooheji served as the Director of Government Shareholdings Directorate before being appointed Assistant Undersecretary of Economic Affairs. During this time he was actively involved in the Bahrain Economic Development Board’s initiative which led to the establishment of Mumtalakat. Mr. Al Kooheji served as Chief Executive Officer of Tamkeen from 2011 to 2012.

Chairman of Alba, Mr. Al Kooheji also serves on a number of boards in Bahrain and outside the country, including: The Crown Prince International Scholarship Program, Arab Petroleum Investment Corporation and the Board of Governors of the Royal College of Surgeons in Ireland.

Mr. Al Kooheji holds a bachelor degree in mechanical engineering from Staffordshire University, and an MBA from the Henley College of Management, Brunel University.

Dr. Essam Abdulla Fakhro

Dr. Essam Abdulla Fakhro is currently the Deputy Chairman of the National Bank of Bahrain, Chairman of the Bahrain Chamber of Commerce and Industry and Chairman of the Abdulla Yousif Fakhro & Sons Company.

In addition, Dr. Fakhro is on the board of directors of several organisations, including the Bahrain Economic Development Board, the Bahrain Stock Exchange, Bahrain Livestock Company and the Higher Education Council.

Dr. Essam holds a bachelor degree and a Ph.D. in mechanical engineering from London University.

Dr. Samer Al Jishi

Dr. Samer Al Jishi is the managing director of BFG International, a multinational company manufacturing composites based products and systems. From 1990 to 1992, Dr. Al Jishi advised the Minister of Industry in Bahrain on industrial development. He also held a teaching post at the University of Bahrain as guest lecturer for the department of Physics.

Dr. Al Jishi graduated from Rensselaer Polytechnic Institute with a bachelor in engineering and from Princeton University with a master degree and a Ph.D. in electrical engineering.

Mr. Redha Abdulla Faraj

Mr. Redha Faraj is the founder of Al Faraj Consulting W.L.L. From 1991 to 2001, Mr. Faraj was a partner in Ernst & Young, Bahrain. He also held the position of Deputy Chief Executive Officer of Arab Shipbuilding and Repair Yard Company (ASRY). Prior to that, he was the Finance and Account Manager at British Petroleum (Eastern Agencies) Ltd.

Mr. Faraj is a board member of BMMI, Bahrain Development Bank, Almoayyed International Group, Y.K. Almoayyed & Sons Group, Instrata Capital, Bahrain Chamber for Dispute Resolution, American Mission Hospital and Eskan Bank.

Mr. Faraj is a Chartered Accountant and a Fellow of the Chartered Association of Certified Accountants UK, one of the first Bahrainis to receive this qualification.

7.6.2 Executive Management

Senior executives of Mumtalakat's management team include:

Name	**Title**
Mahmood Hashim Al Kooheji	Chief Executive Officer
Serge Lepine...	Chief Investment Officer
Tony Robinson	Chief Financial Officer(1)
Damien Balmet.......................................	Vice President Corporate Development
Zulfe Ali	Vice President Corporate Finance
Arvind Mathur..	General Counsel and Vice President, Legal

(1) Tony Robinson will become the CFO as of August 1, 2012.

The biography of Mahmood Hashim Al Kooheji is provided under "—*Board of Directors*" above.

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Serge Lepine

Mr. Serge Lepine is the Chief Investment Officer of Mumtalakat and is responsible for the strategic asset allocation of Mumtalakat's funds as well as managing the long-term growth of Mumtalakat's investment portfolio.

Mr. Lepine has more than 20 years' financial experience and has worked in Canada, Asia and the GCC. Within the GCC, he has worked at both the Abu Dhabi Investment Authority and, more recently, the Abu Dhabi Investment Council. While in Asia, Mr. Lepine participated in the establishment of the Asian private equity activities of Caisse dé Dépôt et Placement du Québec (**CDPQ**), one of Canada's largest institutional investors. Prior to leaving Canada, he worked for CDPQ, as well as other leading financial institutions, primarily in the fields of direct investment, mergers and acquisitions advisory and corporate finance.

Mr. Lepine has a bachelor of business administration (finance & marketing) degree from Bishop's University, Canada and has completed the Maîtrise ès Science (MSc) class curriculum in corporate finance at Sherbrooke University, Canada.

Tony Robinson

Mr. Tony Robinson has more than 30 years of finance, accounting, taxation and operations experience in the finance industry and the accounting profession. Effective August 1, 2012, Mr. Robinson will assume the responsibilities of the CFO role and will head the Finance function at Mumtalakat. He has previously held the role of Investment Manager and Coordinator Direct Investments at Mumtalakat. Prior to joining Mumtalakat, Mr. Robinson worked in the insurance industry in a project management roll. Prior to that, he worked at Investcorp Bank in Bahrain where he held various positions including Group Financial Controller and Chief Internal Auditor over his 14 year career with the bank.

Graduating from the Western Australia Institute of Technology with a Bachelor of Business (Accounting), Mr. Robinson then continued his studies at Curtin University in Perth, Australia gaining a Masters degree in Taxation. He is a Chartered Accountant holding membership with both the Australian and English institutes of Chartered Accountants.

Damien Balmet

Responsible for Mumtalakat's strategic and business development agenda, Mr. Damien Balmet is Mumtalakat's Vice President Corporate Development. With 11 years of experience in consulting, Mr. Balmet advises Mumtalakat's Chief Executive Officer on its strategic plan and recommends business development proposals. He also brings significant international consulting experience to Mumtalakat having advised global companies on their corporate strategies in Europe and the Middle East whilst working for Arthur D. Little and A.T. Kearney.

Mr. Balmet is a graduate of the Ecole Polytechnique in France and also holds a Master of Science in Economics from the Colorado School of Mines in the US.

Zulfe Ali

Mr. Zulfe Ali has more than 15 years of experience in investment banking across a variety of debt and equity origination and distribution platforms. He heads the Corporate Finance function at Mumtalakat and plays a key role in defining and implementing Mumtalakat's capital structure and financing strategy. Before joining Mumtalakat, he worked in the Acquisition and Leveraged Finance group of JPMorgan in both London and New York. Prior to that, he worked at Banc of America Securities in San Francisco as a member of the Institutional Equities team.

Mr. Ali holds an MBA from Cornell University's Johnson School of Management and a bachelor's degree in mathematics from Carleton College in the US.

Arvind Mathur

Mr. Arvind Mathur heads the Legal Department at Mumtalakat and is responsible for managing and overseeing Mumtalakat's legal affairs at both the corporate level and on the investment side of Mumtalakat's business.

He is a US corporate lawyer with 10 years' of transactional experience, including corporate finance transactions and private M&A. He has practised corporate law in New York and in Asia. He started his legal career in New York including in the New York office of Sullivan & Cromwell. He subsequently joined the Singapore office of Latham & Watkins where his practice primarily focused on capital market transactions in Singapore and in the emerging markets of India and Indonesia, representing both issuers and underwriters.

Mr. Mathur is a member of the New York Bar and California Bar. Mr. Mathur holds a master of laws (LL.M.) degree from Columbia University, New York and a bachelor of laws (LL.B. (Hons.)) from the University of Wollongong (Australia). In addition to his legal qualifications, he holds a bachelor of electrical engineering (BE (Hons.)) from the University of Wollongong and prior to law school, worked at BHP Billiton, Port Kembla.

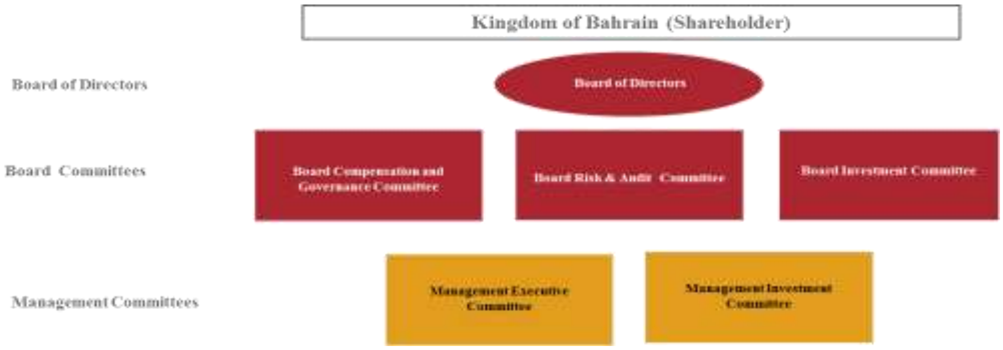
7.7 CORPORATE GOVERNANCE

Mumtalakat is committed to developing the highest standards of corporate governance. Responsibility for adopting these standards rests with the Board of Directors, which recognises the importance of this responsibility.

Mumtalakat voluntarily complies with Bahrain's Corporate Governance Code (the "**Code**"). The Code was developed in a consultative process involving the Ministry of Industry and Commerce, the CBB and the National Corporate Governance Committee (a steering committee created under the auspices of the Ministry of Industry and Commerce composed of public and private sector stakeholders), and became effective in January 2011. The Code applies to all companies incorporated under Legislative Decree No. 2001 with respect to promulgating the Bahrain Commercial Companies Law (the "**Commercial Companies Law**") whose shares are listed on the Bahrain Bourse. However, the Code can also function as a model and reference framework for all other companies, including unlisted Bahraini companies and foreign companies doing business in Bahrain. The Code is a testament to the Government's commitment to sound corporate governance principles and making Bahrain an attractive business environment.

The Code is based upon nine core principles of corporate governance reflecting international best practices, including in the areas of board evaluation, internal control, remuneration of officers and directors, shareholder participation and publicly available written corporate governance guidelines. The Code supplements the Companies Law, but goes beyond the requirements of Companies Law on several points. Examples include the Code's recommendations that the chairperson of the board and the CEO should not be the same person, and that at least 50 per cent. of the members of the board of directors should be non-executive directors. The Code also calls for companies to operate within a "comply or explain" corporate governance framework, which means that companies should comply with the recommendations, or give an explanation in the case of non-compliance.

The corporate governance structure of Mumtalakat is as follows:



7.7.1 Board of Directors

Mumtalakat's Board of Directors is appointed by resolution of the EDB and convenes at least four times a year. The Board of Directors reviews and approves Mumtalakat's strategic business plan. The Board also reviews and approves rules governing investment policy and guidelines for Mumtalakat. The Board of Directors exercises, through the executive management, all powers necessary for the management of Mumtalakat, including reviewing and approving:

- the administrative and financial policies necessary to organise Mumtalakat's business and supervision of their implementation;
- the organisational structure of Mumtalakat and personnel policies;
- Mumtalakat's annual budget and audited accounts; and
- periodic reports concerning funding of Mumtalakat's business and adoption of the necessary decisions concerning them.

The Chairman of the Board of Directors is responsible for submitting to Mumtalakat's shareholder semi-annual periodic reports about Mumtalakat's business activities, operations, achievements, difficulties faced and solutions adopted.

The Board of Directors reviews and approves Mumtalakat's annual budget and asset allocation strategy. Within the limitations adopted by the annual budget and asset allocation strategy, Mumtalakat's Board Investment Committee must approve any investment and divestment activity exceeding BD 25 million.

Investment and divestment transactions below BD 25 million can be approved by the Management Investment Committee, if such activity has been pre-approved by the Board of Directors within the annual budget and asset allocation strategy.

The management of Mumtalakat is not aware of any potential conflicts of interest between the duties to Mumtalakat of the members of the Board or management and their private interests or other duties.

7.7.2 Board Compensation and Governance Committee

The Board Compensation and Governance Committee assists the Board in identifying and nominating individuals to serve as Board sub-committee members; recommends the remuneration and rewards policy for Mumtalakat and, in particular, for the executive directors and executive management team; supports the Chairman of the Board in the performance review of the Board and its sub-committees; and establishes Mumtalakat's corporate governance framework.

This committee meets at least twice a year. Its members are appointed by the Board, and comprise three members, all of whom are non-executive directors.

7.7.3 Board Audit and Risk Committee

The Board Audit and Risk Committee assists the Board in independently ensuring and maintaining oversight of Mumtalakat's financial reporting system, internal control and risk management processes, audit functions and legal and regulatory requirements. The duties and responsibilities of the Board Audit and Risk Committee include assisting the Board in identifying and managing principal financial and compliance risks; approving the internal audit plan to be undertaken by KPMG, who conducts internal audits of Mumtalakat; assessing the independence, accountability and effectiveness of the external auditor; and evaluating the adequacy and effectiveness of Mumtalakat's procedures and systems (such as the management reporting processes) for ensuring compliance with legal and regulatory requirements and internal policies.

This committee meets at least four times per year, and its members are appointed by the Board. The Board Audit and Risk Committee comprises a minimum of three members, all of whom are independent non-executive directors.

7.7.4 Board Investment Committee

The Board Investment Committee is a non-executive committee and is independent of senior management and any executive directors. Its membership includes at least one independent director. Under its charter, the Board Investment Committee's members are recommended by the Board Compensation and Governance Committee and appointed by the Board. The Board Investment Committee meets at least four times per year.

Its duties and responsibilities include reviewing and approving investment and divestment opportunities and divestments in excess of BD 25 million; monitoring credit risks and other issues associated with specific investments; and monitoring potential insider dealing and managing any potential conflicts of interest identified in relation to prospective or existing investments.

7.7.5 Management Executive Committee

The Management Executive Committee was established by resolution of the Board to assist the Board in fulfilling its oversight responsibilities in relation to strategy, governance, budget, financing plans, investments, operations, corporate social responsibility and staff-related matters. In particular, the Management Executive Committee, in conjunction with the Investment Committee, oversees the day-to-day performance of Mumtalakat's investments and operations.The Management Executive Committee meets on a weekly basis or as required to undertake its role effectively or as requested by any member of the senior management.

7.7.6 Management Investment Committee

The role of the Management Investment Committee is to oversee the day-to-day investment activities of Mumtalakat in coordination with the Management Executive Committee. The Management Investment Committee reviews and approves investment and divestments opportunities below BD 25 million (USD 66.5 million).The Management Investment Committee reports to the Board Investment Committee, and its members, including its chairman, are appointed by the Board Investment Committee. The Management Investment Committee meets on a weekly basis.

7.8 HUMAN RESOURCES

Mumtalakat recognizes the importance of human capital in achieving its objectives and fulfilling its commitment to all its stakeholders. Mumtalakat's Human Resources policies and procedures have been developed with this as the underlying principle and are aimed at being consistent, transparent and fair to all employees. Mumtalakat's organization is staffed with approximately 70 employees across the investment and corporate teams.

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8. TAXATION

8.1 MALAYSIAN TAXATION

The following is intended as general information only and it does not purport to present any comprehensive or complete picture of all aspects of Malaysian tax laws, which could be of relevance to a holder of Sukuk Murabahah. Prospective Sukukholders should therefore consult their tax advisor regarding the tax consequences of any purchase, ownership or disposal of Sukuk Murabahah.

The following summary is based on the Malaysian tax law, published case law, and tax practice as in effect on the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

(a) *Income Tax*

In general, income tax is imposed on income accruing in or derived from Malaysia, or received in Malaysia from outside Malaysia. However, income derived from sources outside Malaysia and received in Malaysia is exempt from tax for all persons, except resident companies carrying on the business of banking, insurance, or sea or air transport.

Any person having queries about Malaysian taxation, or liability to tax in a jurisdiction other than Malaysia is advised to seek appropriate professional advice.

(b) Withholding Tax

In general, interest derived from Malaysia that is payable to a non-resident is subject to a Malaysian withholding tax of 15 per cent. Malaysian withholding tax will not apply to the profit paid on Sukuk Murabahah on the basis that profit paid on Sukuk Murabahah will not be derived from Malaysia, as responsibility for payment does not lie with a Malaysian Government or a Malaysian resident and the profit will not be charged as an outgoing or expense against any income accruing in or derived from Malaysia.

(c) Capital Gains Tax

There is no tax on capital gains from the disposition of Sukuk Murabahah.

8.2 BAHRAINI TAXATION

The following summary of the anticipated tax treatment in Bahrain in relation to the payments on Sukuk Murabahah is based on the taxation law and practice in force at the date of this Information Memorandum, and does not constitute legal or tax advice. Prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Sukuk Murabahah and the receipt of any payments in respect of such Sukuk Murabahah under the laws of the jurisdictions in which they may be liable to taxation.

There is at present no personal or corporate income tax, capital gains tax, withholding tax, stamp duty or value added tax in Bahrain except in the case of the exploitation of oil, petroleum, gas and petrochemicals.

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9. GENERAL INFORMATION

9.1 REGULATORY APPROVALS/ REQUIREMENTS

(a) Malaysian Law

See section 2 of this Information Memorandum, above.

(b) Bahraini Law

Pursuant to Article 138 of the Commercial Companies Law, the establishment of the Sukuk Murabahah Programme and issuance of Sukuk Murabahah have been duly authorised by a resolution issued by the ordinary general assembly of the Issuer on the recommendation submitted by the Board of Directors.

In addition to the above, the required approvals of both the CBB and the Ministry of Finance have been duly obtained for the establishment of the Sukuk Murabahah Programme and issuance of Sukuk Murabahah.

9.2 INTERNAL AUTHORISATION

The establishment of the Sukuk Murabahah Programme and the first issue of Sukuk Murabahah have been duly authorised by a resolution of the Board of Directors of the Issuer dated June 27, 2012 .

9.3 SIGNIFICANT OR MATERIAL CHANGE

As at the date of this Information Memorandum, there has been no significant or material adverse change in the financial position of the Issuer taken as a whole since 31 December 2011.

9.4 MATERIAL LITIGATION

Save for the below, the Issuer is not nor has the Issuer been involved in any litigation or arbitration or any other proceedings (including any injunctive proceedings against the Issuer) in the 12 months preceding the date of this Information Memorandum which may have or have in such period had a material adverse effect on the ability of the Issuer to carry on its business.

(a) On February 27, 2008, Alba filed suit in a US Federal District Court against Alcoa, Inc., Alcoa World Alumina LLC and members of its senior management (together, "**Alcoa**"). In the complaint, Alba alleged that Alcoa conspired to bribe certain former members of Alba's senior management and officials in the Government of Bahrain to induce Alba to cede a controlling equity interest and overpay for aluminium. Among other remedies, Alba is seeking damages in excess of USD 1.0 billion for illicit activities that took place from 1993 to 2008.

The US government filed an unopposed motion to intervene and to stay discovery on March 20, 2008, which motion was granted. On March 27, 2008, the court granted the US government leave to intervene in the matter for the limited purpose of moving for a stay of discovery. The purpose of the order is to allow the US government to conduct a criminal investigation into the allegations without the interference from the on-going civil litigation. The case is currently suspended pending the conclusion of the US government's investigation.

(b) On December 18, 2009, Alba filed suit in the US Federal District Court for the Southern District of Texas against Sojitz Corporation (Japan) and Sojitz Corporation of America (together, **Sojitz**). In the complaint, Alba alleged that Sojitz conspired to bribe certain former members of Alba's senior management and officials of the Government of Bahrain, which resulted in Sojitz obtaining an unfair and anti-competitive advantage in the US market for aluminium. Among other remedies, Alba is seeking compensatory damages in excess of USD 31.0 million for the illicit activities that are alleged to have taken place from 1993 to 2006. In May 2010, the US government filed an unopposed motion to intervene and stay discovery in this case.

The Group is involved in various other claims and legal proceedings arising in the ordinary course of business. Mumtalakat believes that adequate provisions have been recorded for such matters as appropriate or, for matters not requiring a provision, believes that they will not have a material adverse effect on the Group's consolidated financial statements based on information currently available.

9.5 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Issuer has not incurred or become subject to any liability or obligation (absolute or contingent) other than liabilities incurred in the ordinary course of business or which have not been reflected in the Group's consolidated financial statements.

9.6 RELATED PARTY TRANSACTIONS

In the ordinary course of its business, the Issuer enters into related party transactions. These transactions are done on an arm's length basis.

9.7 CONFLICT OF INTEREST

(a) Standard Chartered Saadiq Berhad

After making enquiries as were reasonable in the circumstances, Standard Chartered Saadiq Berhad is not aware of any circumstance that would give rise to a conflict of interest in its capacity as Lead Arranger in relation to the Sukuk Murabahah Programme.

(b) Deutsche Trustees Malaysia Berhad

After making enquiries as were reasonable in the circumstances, Deutsche Trustees Malaysia Berhad is not aware of any circumstance that would give rise to a conflict of interest in its capacity as the Sukuk Trustee in relation to the Sukuk Murabahah Programme.

(c) Messrs. Adnan Sundra & Low

After making enquiries as were reasonable in the circumstances, Messrs. Adnan Sundra & Low is not aware of any circumstance that would give rise to a conflict of interest in its capacity as the legal counsel to the Lead Arranger in relation to the Sukuk Murabahah Programme.

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APPENDIX 1 – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2011

Bahrain Mumtalakat Holding Company B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

BOARD OF DIRECTORS' REPORT

The Board of Bahrain Mumtalakat Holding Company (hereinafter referred to as the "Group") is pleased to present their report along with the audited consolidated financial statements for the year ended 31 December 2011.

Financial highlights

The Group registered a total comprehensive loss of BD 281 million with increase in revenue and gross margins of 8.4% and 5.5% respectively. The operating loss was BD 6 million and net loss after taking into consideration interest expense, fair value gain/(loss) on derivatives and impairment losses was BD 270.6 million compared to the net loss of BD 234.3 million for the year ended 31 December 2010.

The Group's total assets and equity attributable to shareholder of the parent as at 31 December 2011 were BD 4.2 billion and BD 2.3 billion respectively (2010: BD 5 billion and BD 3 billion respectively).

The movement in equity attributable to shareholder of Bahrain Mumtalakat Holding Company is as follows –

	BD '000
Balance as at December 31, 2010	3,028,384
Total comprehensive income/(loss)	(345,821)
Contribution by the shareholder	14,650
Distribution of assets to shareholder	(384,128)
Balance as at December 31, 2011	2,313,085

The increase in Group revenues was primarily due to strong performance of Alba, a key group company. The increase in LME price of aluminium coupled with operational and cost efficiencies helped Alba improve its prior year net income of BD 138 million in 2010 to BD 212 million in 2011. Several restructuring initiatives were undertaken at Gulf Air to reduce operating losses, achieve cost efficiencies and improve the quality of product offering and customer service. However, the regional geo-political situation significantly affected the operations of Gulf Air and resulted in a higher operating loss of BD 210.4 million in 2011 compared to BD 139.7 million in 2010 (excluding one-off restructuring charges of BD 48.4 million). The share of profit from associate companies declined by about 11% as a result of lower operating income in these companies. This coupled with higher impairment losses (BD 316.5 million in 2011 compared to BD 191.2 million in 2010) resulted in a net loss of BD 270.6 million in 2011.

Directors

The following is the list of directors who were in office as of the date of this report:

- H.E. Shaikh Khalid bin Abdulla Al Khalifa
- H.E. Shaikh Ahmed bin Mohammed Al Khalifa
- H.E. Shaikh Mohammed bin Essa Al-Khalifa
- H.E. Mr. Kamal bin Ahmed Mohammed
- H.E. Mr. Essam Abdulla Khalaf
- Mr. Mahmood Hashim Al Kooheji
- Dr. Esam Abdulla Fakhro
- Dr. Samer Al Jishi
- Mr. Redha Abdulla Faraj

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Company, for the year ending 31 December 2012 will be submitted to the Annual General Meeting.

By order of the Board of Directors

Director

Director

21 June, 2012

ERNST & YOUNG

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C.R. No. 6700

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c) (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2.1 to the Group's consolidated financial statements which describes the uncertainty related to Gulf Air G.S.C. (renamed Gulf Air B.S.C.(c) with effect from 20 February 2012) ("Gulf Air"). The Company owns 100% of the issued share capital of Gulf Air. As of the date of issue of the Group's consolidated financial statements, the audit of the financial statements of Gulf Air was still in progress due to uncertainties over the future funding of Gulf Air which is currently under consideration by the Government of the Kingdom of Bahrain. The Group's financial statements have been prepared on the assumption that Gulf Air continues as a going concern.

Report on other regulatory requirements

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

a) the Company has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ernst + Young

21 June 2012
Manama, Kingdom of Bahrain

Bahrain Mumtalakat Holding Company B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Note	2011 BD '000	2010 BD '000
ASSETS			
Cash and bank balances	3	**259,765**	498,384
Derivative financial instruments	4	**-**	2,352
Trade accounts receivable, prepayments and other assets	5	**160,598**	167,660
Inventories	6	**174,996**	168,831
Investments carried at fair value through statement of income	7	**62,664**	2,607
Assets held for distribution	8	**-**	333,673
Non-trading investments	9	**204,771**	222,339
Investment in associates	10	**859,762**	920,901
Investment properties	11	**213,588**	473,634
Property, plant and equipment	12	**1,340,745**	1,352,099
Other assets	13	**154,514**	139,775
Goodwill	14	**787,778**	787,778
TOTAL ASSETS		**4,219,181**	5,070,033
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	15	**1,014,210**	1,163,732
Derivative financial instruments	4	**64,970**	146,256
Trade accounts payable, accruals and other liabilities	16	**390,144**	303,691
Employees' end of service benefits	17	**13,230**	12,640
Obligations relating to acquired entities	18	**171,352**	196,103
Total liabilities		**1,653,906**	1,822,422
Equity attributable to shareholder of the parent			
Share capital	19	**1,845,635**	1,845,635
Capital contribution	19	**1,116,937**	1,486,415
Statutory reserve	20	**21,252**	21,252
Other reserves	21	**(9,637)**	368
Accumulated deficit		**(661,102)**	(325,286)
		2,313,085	3,028,384
Non-controlling interests	22	**252,190**	219,227
Total equity		**2,565,275**	3,247,611
TOTAL LIABILITIES AND EQUITY		**4,219,181**	5,070,033

Shaikh Mohammed bin Essa Al Khalifa
Director

Mahmood H. Al-Kooheji
Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2011

	Note	*2011* *BD '000*	2010 BD '000
Revenue	23	**1,291,223**	1,190,939
Direct costs	24	**1,150,862**	1,057,869
Gross profit		**140,361**	133,070
Dividend income		**978**	801
(Loss) gain on investments carried at fair value through statement of income		**(1,548)**	171
Other operating income	25	**54,440**	29,636
Selling and distribution expenses		**(92,458)**	(91,969)
Administrative expenses		**(100,176)**	(102,591)
Other operating expenses	26	**(7,539)**	(17,993)
Operating loss		**(5,942)**	(48,875)
Share of profit of associates	10	**41,955**	47,363
Interest income		**10,050**	5,475
Interest expense		**(37,080)**	(36,680)
Fair value gain (loss) on revaluation/settlement of derivatives (net)	4	**36,898**	(10,358)
Impairment losses	27	**(316,531)**	(191,253)
NET LOSS FOR THE YEAR		**(270,650)**	(234,328)
Attributable to:			
Shareholder of the parent		**(335,816)**	(265,106)
Non-controlling interests		**65,166**	30,778
		(270,650)	(234,328)

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	2011 BD '000	2010 BD '000
LOSS FOR THE YEAR	(270,650)	(234,328)
Other comprehensive income		
Movement in cumulative changes in fair values	(2,269)	8,991
Transfer to consolidated statement of income	2,417	3,538
Share of changes in equity of associates	(9,522)	3,976
Foreign currency translation	(578)	(3,275)
Total other comprehensive (loss) income for the year	(9,952)	13,230
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(280,602)	(221,098)
Attributable to:		
Shareholder of the parent	(345,821)	(251,951)
Non-controlling interests	65,219	30,853
	(280,602)	(221,098)

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Note	***2011*** ***BD '000***	*2010* *BD '000*
OPERATING ACTIVITIES			
Net loss for the year		**(270,650)**	(234,328)
Adjustments for:			
Depreciation		**108,274**	114,278
Fair value (gain) loss on derivatives	4	**(36,898)**	10,358
Loss (gain) on investments carried at fair value through statement of income		**1,548**	(171)
Gain on non-trading investments		**(762)**	(224)
(Gain) loss on sale of investment in associate		**(21,748)**	16,630
Share of profits of associates		**(41,955)**	(47,363)
Impairment loss on non-trading investments, investment in associates and investment properties	27	**316,531**	191,253
Provision for (write back of) impairment on trade accounts and other receivables		**3,230**	(4,833)
Loss on disposal and write-off of property, plant and equipment	26	**7,603**	1,613
Interest income		**(10,050)**	(5,398)
Interest expense		**37,079**	36,540
Employees' end of service benefits	17	**2,427**	1,926
Operating profit before changes in operating assets and liabilities		**94,629**	80,281
Changes in operating assets and liabilities:			
Inventories		**(5,361)**	4,879
Trade accounts receivable, prepayments and other assets		**10,587**	2,523
Trade accounts payable, accruals and other liabilities		**86,453**	(56,247)
Cash from operating activities		**186,308**	31,436
Interest paid		**(37,079)**	(37,261)
Derivative financial instruments		**(42,036)**	(22,706)
Employees' end of service benefits paid	17	**(1,837)**	(2,818)
Net cash from (used in) operating activities		**105,356**	(31,349)
INVESTING ACTIVITIES			
Investment in associates	10	**(15,105)**	(1,600)
Purchase of non-trading and other investments		**(62,151)**	(454)
Proceeds from sale of non-trading investments and other investments		**1,479**	1,126
Proceeds from sale of investment in associate		**-**	12,784
Purchase of property, plant and equipment	12	**(123,383)**	(94,393)
Investment in properties	11	**(150)**	(353)
Proceeds from disposal of property, plant and equipment		**19,244**	4,822
Other assets		**(15,045)**	(47,364)
Dividends from associates	10	**38,243**	41,691
Net cash used in investing activities		**(156,868)**	(83,741)

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2011

	Note	2011 BD '000	2010 BD '000
FINANCING ACTIVITIES			
Capital contribution		**14,650**	400,000
Proceeds from borrowings		**200,275**	575,915
Repayment of borrowings		**(343,175)**	(393,617)
Dividend paid to non-controlling interests		**(30,935)**	(16,639)
Acquisition of non-controlling interests		**(1,321)**	(17,271)
Amount received from non-controlling interests		**-**	122,366
Interest received		**4,478**	5,398
Margin deposits with brokers and other deposits		**(16,359)**	(4,763)
Obligations relating to acquired entities		**(24,751)**	(14,089)
Net cash (used in) from financing activities		**(197,138)**	657,300
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(248,650)**	542,210
Cash and cash equivalents at beginning of the year		**475,263**	(66,947)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**226,613**	475,263

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Attributable to shareholder of the parent						Non-controlling interests	Total equity
	Share capital BD '000	Capital contribution BD '000 (note 19)	Statutory reserve BD '000 (note 20)	Other reserves BD '000 (note 21)	Accumulated deficit BD '000 (i)	Total BD '000	BD '000	BD '000
Balance at 31 December 2009	1,845,635	992,326	21,252	(12,797)	(111,178)	2,735,238	150,926	2,886,164
(Loss) profit for the year	-	-	-	-	(265,106)	(265,106)	30,778	(234,328)
Other comprehensive income (loss)	-	-	-	13,165	(10)	13,155	75	13,230
Total comprehensive income (loss)	-	-	-	13,165	(265,116)	(251,951)	30,853	(221,098)
Contribution by the shareholder (note 19)	-	494,089	-	-	-	494,089	-	494,089
Dividend paid to non-controlling interests	-	-	-	-	-	-	(16,639)	(16,639)
Acquisition of non-controlling interests (note 22)	-	-	-	-	-	-	(17,271)	(17,271)
Amounts received from non-controlling interests (note 22)	-	-	-	-	51,008	51,008	71,358	122,366
Balance at 31 December 2010	1,845,635	1,486,415	21,252	368	(325,286)	3,028,384	219,227	3,247,611
(Loss) profit for the year					(335,816)	(335,816)	65,166	(270,650)
Other comprehensive income (loss)				(10,005)	-	(10,005)	53	(9,952)
Total comprehensive income (loss)	-	-	-	(10,005)	(335,816)	(345,821)	65,219	(280,602)
Contribution by the shareholder (note 19)	-	14,650	-	-	-	14,650	-	14,650
Distribution of assets to the shareholder (note 8 and 19)	-	(384,128)	-	-	-	(384,128)	-	(384,128)
Dividend paid to non-controlling interests	-	-	-	-	-	-	(30,935)	(30,935)
Acquisition of non-controlling interests (note 22)	-	-	-	-	-	-	(1,321)	(1,321)
Balance at 31 December 2011	**1,845,635**	**1,116,937**	**21,252**	**(9,637)**	**(661,102)**	**2,313,085**	**252,190**	**2,565,275**

(i) Accumulated deficit is net of BD 37,987 thousand (2010: BD 34,963 thousand) non-distributable reserves relating to subsidiaries.

The attached notes 1 to 34 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company"), a closed Bahraini Joint Stock Company, was incorporated in the Kingdom of Bahrain by Royal Decree number 64 of 2006 and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 61579, on 29 June 2006. The Company operates as an investment company. The postal address of the Company's registered office is P.O. Box 820, Manama, Kingdom of Bahrain.

The Company is fully owned by the Government of the Kingdom of Bahrain ("the shareholder") through the Ministry of Finance. The Company acts as the investment arm of the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 21 June 2012.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets at fair value through the statement of income and available for sale investments, which are carried at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are presented in Bahraini Dinars, being the functional and presentational currency of the Company and are rounded to the nearest thousand (BD '000).

2.1 Going concern

The Company owns 100% of Gulf Air G.S.C. (renamed Gulf Air B.S.C.(c) with effect from 20 February 2012) ("Gulf Air"). As of the date of issue of the Group's consolidated financial statements the audit of the financial statements of Gulf Air was still in progress due to uncertainties over the future funding of Gulf Air which is currently under consideration by the Government of the Kingdom of Bahrain. As per the draft Gulf Air consolidated financial statements, Gulf Air recorded a loss of BD 210,667 thousand (2010: BD 188,059 thousand) for the year ended 31 December 2011. The current liabilities exceeded the current assets by BD 124,549 thousand (2010: current assets exceeded the current liabilities by BD 138,759 thousand), and, as of that date, Gulf Air did not have enough liquidity to meet its obligations to third parties for the foreseeable future. This gives rise to a material uncertainty which may cast significant doubt on the ability of Gulf Air to continue as a going concern.

Pending a final decision by the Government of Kingdom of Bahrain on the future funding of Gulf Air, the financial statements of Gulf Air have been prepared on a going concern basis and incorporated in these consolidated financial statements of the Company.

However, if the future funding referred to above is not approved by the Government or is not forthcoming in a timely manner and/or insufficient amounts, Gulf Air may be unable to sustain its operations and meet its financial obligations in the normal course of its business, which in turn may have a material adverse effect on the consolidated financial statements of the Company.

2.2 Statement of compliance

The consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries (together "the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS), and in conformity with the Bahrain Commercial Companies Law.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The Company has the following subsidiaries:

Name	*Ownership at 31 December 2011*	*Date of effective control*	*Activity*
Aluminium Bahrain B.S.C.	69.38%	29 June 2006	Owns and operates a primary aluminium smelter and the related infrastructure.
Atbahrain B.S.C. (c)	100%	25 November 2008	Development of investment properties.
Awali Real Estate Company B.S.C. (c)	100%	2 September 2008	Developing, buying, selling and managing investment properties.
Bahrain Airport Company B.S.C. (c)	100%	17 January 2008	Managing airport facilities, airplanes ground services, airport surrounding area development etc.
Bahrain Food Holding Company S.P.C.	100%	20 July 2008	Investment holding company.
Bahrain International Circuit Company S.P.C.	100%	29 June 2006	Managing, operating and renting the car racing track in Bahrain.
Bahrain Real Estate Investment Company B.S.C. (c)	100%	29 June 2006	Developing, leasing and managing investment properties.
Gulf Aviation Academy B.S.C. (c)	100%	22 July 2009	Providing training for airline pilots, cabin crew and related services.
Gulf Air Company G.S.C.	100%	5 May 2007	Transportation of passengers and freight on a scheduled and charter basis.
Gulf Air Group Holding Company B.S.C. (c)	100%	19 March 2008	Investment holding company.
Gulf Technics Company B.S.C. (c)	100%	20 January 2010	Maintenance of aviation, equipment, fleet technical management, etc.
Falcon Group Holding Company B.S.C. (c)	100%	2 February 2010	Investment holding company.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

Bahrain Food Holding Company S.P.C. has the following subsidiaries:

Name	*Ownership at 31 December 2011*	*Date of effective control*	*Activity*
Hawar Island Development Company B.S.C. (c)	100%	27 February 2007	Developing, buying, selling, leasing and management of investment properties.
Tourism Project Company B.S.C.	100%	29 June 2006	Developing and managing tourism resorts.
Bahrain Flour Mills Company B.S.C.	65.70%	29 June 2006	Production and sale of flour and related products.
General Poultry Company B.S.C. (c)	100%	29 June 2006	Poultry farming and sale of eggs.

All of the subsidiaries above are incorporated in the Kingdom of Bahrain. There was no change in the Company's ownership in the subsidiaries during the year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All material intra-group balances and transactions, including material unrealised gains and losses on transactions, between Group companies have been eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in statement of income
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies

Changes in accounting policies
The accounting policies adopted by the Group are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS.

IAS 24 Related Party Disclosures (Amendment)
The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasize a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial statements of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)
The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given prorat to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group as the Company has not issued these types of instruments.

IFRS 7 Financial Instruments: Disclosures (Amendment)
These amendments introduced new disclosure requirements for transfers of financial assets, including disclosures for:

- financial assets that are not derecognised in their entirety; and
- financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

The amendment has had no effect on the disclosures made by the Group as the Group has not issued these types of instruments.

Improvements to IFRSs
In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation must be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- *IFRS 7 Financial Instruments – Disclosures*: An amendment was introduced to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. Other amendments added an explicit statement that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Changes in accounting policies (continued)

Improvements to IFRSs (continued)

- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income may be presented either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008);*
- *IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment award);*
- *IAS 27 Consolidated and Separate Financial Statements;*
- *IAS 34 Interim Financial Statements; and*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.*

New standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

IAS 1 Presentation of Financial Statements

The amendments becomes effective for annual periods beginning on or after 1 July 2012 and require that an entity present separately, the items of other comprehensive income that would be reclassified (or recycled) to profit or loss in the future if certain conditions are met (for example, upon derecognition or settlement), from those that would never be reclassified to profit or loss. The amendment affects presentation only, therefore, will have no impact on the Group's financial position or performance.

IAS 19 Employee Benefits

The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in the other comprehensive income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording. The Group is currently assessing the full impact of these amendments.

IFRS 9 Financial Instruments

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)
IFRS 9 Financial Instruments (continued)
For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the consolidated statement of income, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives*.

The IASB issued amendments to IRFS 9 that defer the mandatory effective date from 1 January 2013 to 1 January 2015 with early application continuing to be permitted. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets.

The Group will quantify the effect of adoption of this Standard, in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements
IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.

An investor controls an investee when:
- it is exposed or has rights to variable returns from its involvement with that investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

Control is re-assessed as facts and circumstances change.

IFRS 10 replaces IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The Group is currently assessing the full impact of this new standard.

IFRS 11 Joint Arrangements
IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement and improves on IAS 31 by establishing principles that are applicable to the accounting for all joint arrangements.

IFRS 11 classifies joint arrangements into two types – joint operations and joint ventures; and defines joint control as the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (i.e. activities that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control.

IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers. The Group does not expect this standard to have a significant impact on the Group's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)
***IFRS 12 Disclosure of Interests in Other Entities* (continued)**
IFRS 12 aims to provide information to enable users to evaluate:
- the nature of, and risks associated with, an entity's interests in other entities; and
- the effect of those interests on the entity's financial position, financial performance and cash flows.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IFRS 13 *Fair value measurement*
IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Group is currently assessing the full impact of this new standard.

IAS 27 *Separate Financial Statements (as revised in 2011)*
IAS 27 (2011) supersedes IAS 27 (2008). As a consequence of the new IFRS 10 and IFRS 12 aforementioned, IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

IAS 27 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Company does not present separate financial statements.

IAS 28 *Investments in Associates and Joint Ventures Separate Financial Statements (as revised in 2011)*
IAS 28 (2011) supersedes IAS 28 (2008). As a consequence of the new IFRS 11 and IFRS 12 (refer above), IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

IAS 28 (2011) is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The amendments will have no impact on the Group's financial position or performance.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of cash in hand, bank balances, treasury bills, deposits held at call with banks and other short-term deposits with an original maturity of three months or less, net of outstanding overdrafts.

Derivative financial instruments and hedging
The Group uses derivative financial instruments such as forward and future aluminium metal contracts and aluminium metal options to hedge its risk associated with aluminium price fluctuations, and option contracts to hedge against fuel costs. The Group also uses forward foreign exchange contracts and interest rate collars and swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Derivative financial instruments and hedging (continued)
The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either:

i) the changes in fair value of a recognised asset or liability (fair value hedge); or

ii) the future cash flows attributable to a recognised asset or liability or an unrecognised firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- at the inception of the hedge there is formal documentation of the hedging relationship and the enterprise's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the enterprise will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged transaction's cash flows that is attributable to the hedged risk;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;
- for cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported profit or loss;
- the effectiveness of the hedge can be reliably measured, that is, the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured; and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

Changes in fair values of derivative financial instruments that are designated, and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in 'other reserves' at that time remains in shareholders equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in 'other reserves' is immediately transferred to the consolidated statement of income.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and are classified as held for trading, are immediately recognised in the consolidated statement of income.

Investments and other financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through the statement of income, receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through statement of income, directly attributable transaction costs.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Investments and other financial assets (continued)
The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets carried at fair value through statement of income
Financial assets carried at fair value through statement of income represent financial assets designated upon initial recognition at fair value through statement of income. These assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at fair value through statement of income are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in gain or loss on investments carried at fair value through consolidated statement of income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Non-trading investments
These are classified as follows:

- Held to maturity
- Available-for-sale

Held to maturity investments
Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost using the effective interest method, less impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Investments and other financial assets (continued)
Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised in other comprehensive income as cumulative changes in fair values. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. When the investment is disposed of or derecognised or is impaired, the cumulative gain or loss previously recorded in other comprehensive income is recognised in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the consolidated statement of income as 'dividend income' when the right to receive the payment has been established. Losses arising from impairment of such investments are transferred from other comprehensive income to the consolidated statement of income and recognised as 'impairment losses'.

Fair values
For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities.

- For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.
- Derivatives which are not traded in an active market such as commodity options, interest rate collars and swaps etc. are determined by valuation techniques carried out by counterparties.
- Forward foreign exchange contracts are determined using forward exchange market rates at the statement of financial position date with the same maturity.

Impairment and uncollectability of financial assets
The Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the investment is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the investment does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in consolidated statement of income.

Trade accounts receivable
A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through the use of an allowance account. Impaired receivables are written off when they are assessed as uncollectable.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Impairment and uncollectability of financial assets (continued)
Available-for-sale-investments
For available-for-sale investments, the Group assess at each statement of financial position date whether there is objective evidence that an investment is impaired. In case of equity investments, classified as available for sale, objective evidence include a 'significant or prolonged' decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If an available-for-sale-investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in consolidated statement of income, is transferred from other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale-are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

Assets held for sale / distribution
Assets held for sale / distribution comprise of assets which are expected to be sold / distributed within twelve months from the date of the statement of financial position and are measured at the lower of their carrying amount and fair value less costs to sell or distribute.

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price, less any further costs expected to be incurred on completion and disposal.

Where necessary, an impairment provision is made for obsolete, slow moving and defective items.

Investment in associates
The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence normally comprising an interest of 20% - 50% in the voting capital and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the other comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Gains or losses on partial disposal of interest that does not result in a loss of significant influence on associates is recognised in the consolidated statement of income and a proportionate amount of gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of income.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Investment in associates (continued)
Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

The financial statements of the associates are prepared for the same reporting period as the Company.

Investment properties
Property that is held to earn long term rentals or for capital appreciation or both, and that is not occupied by any member of the Group is classified as investment property. Investment properties comprise land and buildings. Investment properties are initially measured at cost, including transaction costs.

After initial recognition, the investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight line basis over the estimated useful lives of 20 years. No depreciation is provided on freehold land.

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. All other expenses are included in the consolidated statement of income when incurred.

Investment property under construction is treated as investment property based on IAS 40 (revised).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Property, plant and equipment, and depreciation
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Land and assets in the process of completion are not depreciated.

Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Depreciation is calculated on a straight line basis over the estimated useful lives of property, plant and equipment as follows:

	Useful lives (years)
Buildings and leasehold improvements	25 - 35
Aircraft	5 - 18
Plant, machinery and equipment	3 - 25
Motor vehicles	5
Furniture and office equipment	5

Leased aircraft and components are recorded by the Group as per the terms of the underlying lease agreements as operating leases.

Freehold land is not depreciated as it is deemed to have an indefinite life.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Property, plant and equipment, and depreciation (continued)
Assets in the process of completion are transferred to property, plant and equipment when the asset is ready to be put into commercial use.

Except for owned aircraft, where the cost of aircraft is identified by the Group into the estimated values of the major components and embedded maintenance costs, expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property, plant and equipment. All other maintenance expenditure is recognised in the consolidated statement of income as the expense is incurred.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through consolidated statement of income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Impairment of non-financial assets
The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Property, plant and equipment
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable at the statement of financial position date. For the aircraft, the Group assesses impairment on the basis of independent external valuations.

Goodwill
The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Associates
After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each statement of financial position date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate and recognises the amount in the consolidated statement of income.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Financial liabilities
Obligations relating to acquired entities are assessed at each period end and adjusted accordingly.

Borrowings
Borrowings are recognised initially at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective yield.

Interest is charged as an expense based on effective yield, with unpaid amounts included in "accrued expenses".

Trade accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition of financial assets and financial liabilities
Financial assets
A financial asset (in whole or in part) is derecognised where:

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to cash flows from an asset and either (a) 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.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Employee benefits
End of service benefits
The expatriate employees of the Group are paid an end of service indemnity, which represents a defined benefit plan in accordance with the provisions of the labour law in their respective countries of employment. This liability, which is not funded, is provided for on the basis of the notional amount payable based on accrued service as at the statement of financial position date.

Other benefits
Employees' other benefits such as housing, annual leave, air passage and other short-term benefits are recognised as they accrue to the employees.

Bahraini nationals
For Bahraini nationals, the Group makes contributions to the Social Insurance Organisation (SIO) Scheme. This is a funded defined contribution scheme and the Group's contributions are charged to the consolidated statement of income in the year to which they relate. The Group's obligations are limited to the amounts contributed to the Scheme.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, whether fulfillment of arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases
Group as a lessee:
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated statement of income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases
Group as a lessee:
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor:
Assets leased out under operating leases are included in investment properties in the consolidated statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

Foreign currency translation
Transactions in foreign currencies are initially recorded in Bahraini Dinars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at exchange rate ruling at the statement of financial position date. All exchange gains and losses are taken to the consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Translation gains or losses on non-monetary available for sale items carried at fair value are included in other comprehensive income as part of the fair value adjustment on available for sale investments, unless part of an effective hedging strategy.

2 BASIS OF PREPARATION (continued)

2.4 Significant accounting policies (continued)

Foreign currency translation (continued)

The assets and liabilities of foreign operations are translated into Bahraini Dinars at the rate of exchange ruling at the statement of financial position date and their statement of income items are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts.

Passenger tickets and cargo bills

Sale of passenger tickets and cargo airway bills are recognised as revenue when the transportation service is provided.

Sale of passenger tickets and cargo airway bills are initially recorded as unearned revenue. The value of passenger and cargo tickets sold but which have remained unused for more than 24 months, or are otherwise not expected to be used based on customer usage statistics, is accounted for as income.

Sale of metal and other products

Revenue from the sale of finished metal and other goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Direct costs

Direct costs are recognised at the same time as the revenue to which they relate.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Interest income

Interest income is recognised based on effective interest rates

Government grants

The Group recognises revenue from government grants when there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants related to income shall be recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses, the related costs for which the grants are intended to compensate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

Taxes

There is no tax on corporate income in the Kingdom of Bahrain.

3 CASH AND BANK BALANCES

	2011 BD '000	2010 BD '000
Cash and current accounts with banks	**28,125**	102,420
Call deposits	**132,261**	44,086
Term deposits	**99,379**	351,878
Cash and bank balances	**259,765**	498,384
Bank balances under lien and term deposits with an original maturity of more than three months	**(32,949)**	(16,687)
Bank overdrafts (note 15)	**(203)**	(6,434)
Cash and cash equivalents as per the consolidated statement of cash flows	**226,613**	475,263

The majority of the cash and bank balances, and call and term deposits are denominated in Bahraini Dinars and US Dollars. As at 31 December 2011, the effective interest rate on call deposits was 0.19% (2010: 0.20%) and term deposits was 1.25% (2010: 1.57%).

4 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has a number of derivative financial instruments comprising interest rate collars, knockout swaps, forward foreign exchange contracts and commodity options. The fair value of the derivative financial instruments at the statement of financial position date and gains or losses for the year ended 31 December 2011 are as follows:

	At 31 December 2011		***Gains (losses) for the year ended 31 December 2011***		
	Positive fair value BD '000	***Negative fair value BD '000***	***Revaluation BD '000***	***Realised BD '000***	***Total BD '000***
Held as trading					
Commodity options and futures	**-**	**56,314**	**72,725**	**(34,511)**	**38,214**
Interest rate collars and knockout swaps	**-**	**8,318**	**5,212**	**(7,525)**	**(2,313)**
Forward foreign exchange contracts	**-**	**338**	**997**	**-**	**997**
Total	**-**	**64,970**	**78,934**	**(42,036)**	**36,898**

	At 31 December 2010		*Gains (losses) for the year ended 31 December 2010*		
	Positive fair value BD '000	*Negative fair value BD '000*	*Revaluation BD '000*	*Realised BD '000*	*Total BD '000*
Held as trading					
Commodity options and futures	2,352	131,391	11,431	(14,194)	(2,763)
Interest rate collars and knockout swaps	-	13,530	1,415	(8,685)	(7,270)
Forward foreign exchange contracts	-	1,335	(325)	-	(325)
Total	2,352	146,256	12,521	(22,879)	(10,358)

4 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group does not engage in proprietary trading activities in derivatives. However, the Group enters into derivative transactions to hedge economic risks under its risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

Interest rate collars and knockout swaps

The Group initially entered into an interest rate collar and knockout swap transactions for BD 565,500 thousand (US$ 1,500,000 thousand) floating rate borrowings for financing certain projects of Aluminium Bahrain B.S.C. to manage overall financing costs. These contracts expire on 17 February 2015.

The notional amounts outstanding as at 31 December 2011 were BD 193,438 thousand (US$ 513,097 thousand) and as at 31 December 2010 were BD 228,632 thousand (US$ 606,451 thousand).

Commodity options

The Group entered into commodity options to offset the premium payable on the interest rate collar. The exposure to the Group is that if the London Metal Exchange (LME) price of aluminium exceeds US$ 1,658 (2010: US$ 1,658) per metric tonne then the Group will pay the difference between the market price and the average contracted price of US$ 1,658 (2010: US$ 1,658) per metric tonne for certain tonnages of aluminium.

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	2011	*2010*
	BD '000	*BD '000*
Trade accounts receivable (net of provision for impairment)	**108,329**	126,935
Other receivables (net of write back)	**34,601**	27,968
Prepayments	**17,668**	12,757
	160,598	167,660

Trade receivables of BD 48,406 thousand (2010: BD 34,420 thousand) were assigned to financial institutions against short term borrowings of BD 13,084 thousand (2010: BD 6,813 thousand) and other term borrowings amounting to BD 35,322 thousand (2010: BD 27,607 thousand) (note 15).

Movements in the provision for impairment of trade receivables were as follows:

	2011	*2010*
	BD '000	*BD '000*
Balance at beginning of the year	**11,067**	13,843
Provided (written back) during the year, net	**3,230**	(2,533)
Amount written off during the year	**(875)**	(243)
Balance at end of the year	**13,422**	11,067

The ageing analysis of unimpaired trade accounts receivable is as follows:

			Past due but not impaired				
	Total	***Neither past due nor impaired***	***< 30 days***	***31 – 60 days***	***61 – 90 days***	***91 – 120 days***	***>120 days***
	BD '000	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***	***BD '000***
2011	**108,329**	**100,572**	**1,432**	**1,674**	**992**	**1,645**	**2,014**
2010	126,935	109,726	5,895	1,531	1,760	4,084	3,939

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS (continued)

Unimpaired trade accounts and other receivable are expected, on the basis of experience, to be fully recoverable.

6 INVENTORIES

	2011	*2010*
	BD '000	*BD '000*
Raw materials	**49,012**	38,116
Work in progress	**52,906**	48,766
Finished goods	**19,751**	26,084
Store, spare parts and consumables	**34,695**	35,825
Goods in transit	**20,257**	23,061
	176,621	171,852
Provision for impairment of inventories	**(1,625)**	(3,021)
	174,996	168,831

Movement in provision for impairment of inventories is as follows:

	2011	*2010*
	BD '000	*BD '000*
Balance at beginning of the year	**3,021**	3,103
Provided during the year	**402**	2,344
Inventories written off during the year	**(1,798)**	(2,426)
Balance at end of the year	**1,625**	3,021

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2011	*2010*
	BD '000	*BD '000*
Equities	**1,612**	1,746
Managed funds	**60,842**	614
Bonds	**210**	247
	62,664	2,607

Managed funds are fair valued based on NAVs provided by the fund managers.

8 ASSETS HELD FOR DISTRIBUTION

During 2010, the Group received a notification from the shareholder to transfer back certain properties which had been contributed by the shareholder in the past. In accordance with the requirements of "IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations", the Group reclassified properties with a carrying value BD 333,673 thousand as 'Assets held-for-distribution' as of 31 December 2010 (note 11). During the current year, the Group has received a notification from the shareholder to transfer back certain additional properties with a carrying value of BD 50,455 thousand. These properties with carrying values of BD 50,455 thousand (note 11) and BD 333,673 thousand, totaling BD 384,128 thousand have been transferred to the shareholder with a corresponding reduction in the capital contribution (note 19).

9 NON-TRADING INVESTMENTS

	2011			2010		
	Held to maturity BD '000	**Available for sale BD '000**	**Total BD '000**	*Held to maturity BD '000*	*Available for sale BD '000*	*Total BD '000*
Quoted investments						
Equities	-	**4,643**	**4,643**	-	4,537	4,537
Managed funds	-	**2,058**	**2,058**	-	1,538	1,538
	-	**6,701**	**6,701**	-	6,075	6,075
Unquoted investments						
Bonds	-	-	-	250	-	250
Equities	-	**198,070**	**198,070**	-	216,014	216,014
	-	**198,070**	**198,070**	250	216,014	216,264
	-	**204,771**	**204,771**	250	222,089	222,339

Available-for-sale investments include unquoted investments amounting to BD 448 thousand (2010: BD 5,255 thousand) which are carried at cost. The fair value of these securities cannot be reliably estimated due to the unpredictable nature of their future cash flows and the lack of suitable alternate methods for arriving at a reliable fair value. Impairment losses on available-for-sale investments recognised in the consolidated statement of income were BD 12,801 thousand (2010: BD 6,326 thousand) (note 27).

10 INVESTMENT IN ASSOCIATES

(i) The Group has the following principal associates at 31 December 2011:

	Country of incorporation	**2011 Ownership %**	*2010 Ownership %*
Bahrain Telecommunications Company B.S.C.	Kingdom of Bahrain	**36.67%**	36.67%
Durrat Al Khaleej Al Bahrain B.S.C. (c)	Kingdom of Bahrain	**50%**	50%
Gulf Aluminium Rolling Mill Company B.S.C. (c)	Kingdom of Bahrain	**37.3%**	37.3%
Hawar Holding Company *(note)*	Cayman Islands	**33.33%**	33.33%
McLaren Group Limited	United Kingdom	**50%**	42%
McLaren Automotive Limited	United Kingdom	**40.87%**	50.00%
National Bank of Bahrain B.S.C.	Kingdom of Bahrain	**49%**	49%

Note: This associate owns 20% of the issued share capital of Bahrain Telecommunications Company B.S.C. The 20% shares of Bahrain Telecommunications Company B.S.C. owned by the associate is pledged to financial institutions as a security against loans obtained by the associate for the purpose of financing the acquisition of the said shares. The loan outstanding as of 31 December 2011 was BD 113,100 thousand (US$ 300,000 thousand). The terms of the loan agreement require that in the event of default in payment by the associate, the shareholders of the associate will be liable to repay the loan amount. The loan is currently fully repayable on 12 January 2014.

During the year, McLaren Automotive Limited has increased its share capital by issuing new shares to the Company and other investors. Accordingly, the Company's ownership has been diluted from 50% at 31 December 2010 to 40.87% at 31 December 2011. The dilution in ownership has been treated as a deemed disposal and a gain of BD 23,673 thousand (note 10 (ii)) has been recognised in the consolidated statement of income. Foreign currency translation loss relating to the deemed disposal amounting to BD 1,925 thousand has been reclassified from other comprehensive income to the consolidated statement of income. The net gain of BD 21,748 thousand is included in other operating income (note 25).

10 INVESTMENT IN ASSOCIATES (continued)

(ii) The movement in investment in associates during the year comprises:

	2011 *BD '000*	*2010* *BD '000*
Balance at beginning of the year	**920,901**	1,092,683
Disposals during the year	**-**	(27,263)
Post acquisition share of profit	**41,955**	47,363
Investments made during the year	**15,105**	1,600
Share of change in equity of associates	**(9,522)**	3,976
Foreign currency translation	**(578)**	(3,275)
Impairment losses (note 27)	**(94,067)**	(151,887)
Dividends received	**(38,243)**	(41,691)
Gain on deemed disposal during the year	**23,673**	-
Other	**538**	(605)
Balance at end of the year	**859,762**	920,901

(iii) Impairment losses

The Group determines at each statement of financial position date whether there is any indication of impairment as defined in IAS 36 'Impairment of Assets'. Accordingly, the Group performed impairment tests on certain investments in associates at 31 December 2011. In order to reasonably assess the recoverable amount of the associate, the Group used a number of valuation techniques including value in use, market valuations and trading comparables which indicated a range to the enterprise value of these associates.

Value in use calculations are based on cash flow projections covering an initial period of one year. Cash flows for years 2 to 4 have been determined on the basis of management expectation of the business taking into account the prevailing global and GCC economic conditions in general and the the specific industry of the associate in particular. Based on the impairment tests, the carrying value of certain associates exceeded the recoverable amount and accordingly impairment losses of BD 94,067 thousand have been recognised in the consolidated statement of income (2010: 151,887 thousand).

(iv) Summarised financial information

	2011 *BD '000*	*2010* *BD '000*
Share of the associates' statement of financial position:		
Assets	**1,880,919**	1,785,106
Liabilities	**(1,397,842)**	(1,336,686)
Net assets	**483,077**	448,420

Share of associates' revenue and profit:

	2011 *BD '000*	*2010* *BD '000*
Revenue	**360,908**	326,302
Profit	**41,955**	47,363

10 INVESTMENT IN ASSOCIATES (continued)

(v) Fair values

National Bank of Bahrain B.S.C. and Bahrain Telecommunications Company B.S.C. are listed on the Bahrain Bourse. The fair values based on quoted prices at 31 December 2011 were BD 240,998 thousand (2010: BD 236,235 thousand) and BD 206,976 thousand (2010: BD 269,280 thousand) respectively.

11 INVESTMENT PROPERTIES

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2011 (net of impairment losses)	470,605	3,109	473,714
Additions	-	150	150
Transfer to assets held for distribution	(50,455)	-	(50,455)
Provided for the year 2011 (note 27)	(207,938)	(1,725)	(209,663)
At 31 December 2011	**212,212**	**1,534**	**213,746**
Depreciation:			
Balance at 1 January 2011	-	80	80
Charge for the year	-	78	78
At 31 December 2011	-	**158**	**158**
Net carrying amount:			
At 31 December 2011	**212,212**	**1,376**	**213,588**

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2010	816,726	431	817,157
Additions	-	353	353
Properties contributed by shareholder (note 19)	20,592	2,325	22,917
Transfer to assets held for distribution	(333,673)	-	(333,673)
Provided for the year 2010 (note 27)	(33,040)	-	(33,040)
At 31 December 2010	470,605	3,109	473,714
Depreciation:			
Balance at 1 January 2010	-	18	18
Charge for the year	-	62	62
At 31 December 2010	-	80	80
Net carrying amount:			
At 31 December 2010	470,605	3,029	473,634

11 INVESTMENT PROPERTIES (continued)

The Group has performed impairment assessments of the investment properties by using the services of independent external valuers. The approaches followed by independent external valuers are summrised below:

- Vacant land: measured based on residual method where there is potential economic development or recent comparable transaction prices

- Ground lease land: measured by taking into account the potential future income, as per lease agreements in place and the value of the asset to the Group on expiry of the lease. The income has been discounted to present value.

  The value of the property to the Group on expiry of the lease term has been assessed either assuming that the property would be in a fit state to generate rental income in which case a capital future income method is used or the property would be considered as a redevelopment site.

The investment properties comprise of diversified portfolio of properties. Since the valuations are based on various assumptions such as marketability, lease term, rentals, discount rate etc., computation of the sensitivity of the valuation to reasonably possible changes in the assumptions used is neither practicable nor relevant.

Based on the above assessment, the Group has recognised an impairment loss of BD 209,663 thousand on investment properties during the year (2010 : BD 33,040 thousand).

Investment properties are unencumbered at the statement of financial position date. The fair value of the investment properties, based on independent valuations performed by external property consultants, at 31 December 2011 was BD 218,839 thousand (2010: BD 510,551 thousand).

Investment properties of BD 128,772 thousand (2010: BD 304,756 thousand), are leased out under operating leases.

At 31 December 2011, all freehold land included in investment properties have been fully registered in the name of the Group. At 31 December 2010, freehold land amounting to BD 459,878 thousand was registered in the name of the Group and the title to the remaining freehold land amounting to BD 43,767 thousand were in the process of being registered.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land BD '000	*Buildings and leasehold improvements* BD '000	*Aircraft* BD '000	*Plant, machinery and equipment* BD '000	*Motor vehicles* BD '000	*Furniture and office equipment* BD '000	*Assets in the process of completion* BD '000	*Total* BD '000
Cost:								
At 1 January 2011	908	219,243	264,287	995,909	3,632	32,204	183,842	1,700,025
Additions	-	1,309	10,531	8,949	1,274	1,130	143,659	166,852
Transfers	(4)	2,080	69,081	47,502	523	1,950	(121,132)	-
Disposals	-	(692)	(76,468)	(39,751)	(1,217)	28,011	(63)	(90,180)
Write off	-	(150)	-	(1,298)	(71)	(285)	-	(1,804)
At 31 December 2011	**904**	**221,790**	**267,431**	**1,011,311**	**4,141**	**63,010**	**206,306**	**1,774,893**
Depreciation:								
At 1 January 2011	-	35,273	25,455	252,200	3,212	31,786	-	347,926
Charge for the year	-	8,797	22,670	71,696	1,301	3,393	-	107,857
Relating to transfers	-	-	-	-	-	-	-	-
Relating to disposals	-	(492)	(7,387)	(31,672)	(1,785)	21,458		(19,878)
Relating to write off	-	(122)		(1,287)	(71)	(277)	-	(1,757)
At 31 December 2011	-	**43,456**	**40,738**	**290,937**	**2,657**	**56,360**	-	**434,148**
Net carrying amount:								
At 31 December 2011	**904**	**178,334**	**226,693**	**720,374**	**1,484**	**6,650**	**206,306**	**1,340,745**

12 PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land BD '000	*Buildings and leasehold improvements BD '000*	*Aircraft BD '000*	*Plant, machinery and equipment BD '000*	*Motor vehicles BD '000*	*Furniture and office equipment BD '000*	*Assets in the process of completion BD '000*	*Total BD '000*
Cost:								
At 1 January 2010	908	219,163	267,647	995,197	4,198	25,286	156,001	1,668,400
Additions	-	213	39,544	1,581	167	1,256	94,806	137,567
Transfers	-	188	55,526	5,038	380	5,782	(66,914)	-
Disposals	-	(181)	(98,430)	(855)	(926)	(51)	-	(100,443)
Write off	-	(140)	-	(5,052)	(187)	(69)	(51)	(5,499)
At 31 December 2010	908	219,243	264,287	995,909	3,632	32,204	183,842	1,700,025
Depreciation:								
At 1 January 2010	-	26,505	43,808	195,837	2,545	21,669	-	290,364
Charge for the year	-	8,830	31,300	65,503	1,700	6,562	-	113,895
Relating to transfers	-	-	-	(3,659)	-	3,659	-	-
Relating to disposals	-	(107)	(49,666)	(773)	(874)	(41)	-	(51,461)
Relating to write off	-	45	13	(4,708)	(159)	(63)	-	(4,872)
At 31 December 2010	-	35,273	25,455	252,200	3,212	31,786	-	347,926
Net carrying amount:								
At 31 December 2010	908	183,970	238,832	743,709	420	418	183,842	1,352,099

12 PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Assets on lease

Gulf Air Company G.S.C.'s headquarters are situated on land belonging to the Government of Bahrain that has been made available on a rent free basis until 31 December 2010. During 2011, the Government of Bahrain began negotiating with Gulf Air to charge rent on the land. The final outcome of the negotiations has not yet been formalised in a rent agreement. However, a provision of BD 288 thousand has been made in the consolidated financial statements. In addition, Aluminium Bahrain B.S.C. uses land leased from the Government of Bahrain and from The Bahrain Petroleum Company B.S.C. (c). These leases are rent free. Bahrain Airport Company B.S.C. (c) uses the Bahrain Airport land leased from the Government of Bahrain at a rent of BD 1 per annum. In addition, Bahrain International Circuit Company S.P.C. uses the circuit and other facilities leased from the Government of Bahrain at a rent of BD 1 per annum.

During the year aircraft have been sold and leased back with a net book value of BD 43,505 thousand (2010: BD 43,174 thousand) which have been excluded from the purchases of property, plant and equipment in the consolidated statement of cash flows.

(ii) Secured assets

Assets acquired under finance leases included aircraft with a net carrying amount of BD 167,508 thousand (2010: BD 228,519 thousand) and plant and machinery and other equipment of BD 12,985 thousand (2010: nil) which are secured by charge on these assets. The items include both direct purchases through finance leases which are secured thereto, and aircraft and engines purchased under conditional sale agreements whereby the Group has possession of all the risks and rewards of ownership but where title remains with the seller until payment is made in full of the purchase price.

(iii) Assets in the process of completion

Assets in the process of completion include pre-delivery payments of BD 88,538 thousand (2010: BD 74,346 thousand) in respect of aircraft scheduled for delivery between 2012 and 2020 and other capital projects of BD 117,768 thousand (2010: BD 108,715 thousand). Interest capitalised during 2010 amounted to BD 1,771 thousand (2011: nil).

13 OTHER ASSETS

	2011	*2010*
	BD '000	*BD '000*
Deposits	**10,507**	11,232
Receivable from associates	**135,737**	121,931
Miscellaneous assets	**8,270**	6,612
	154,514	139,775

Deposits represent amounts placed with lessors for the lease of aircraft and engines and other security deposits. These deposits carry no interest and are repayable at various dates until 2019 (refer note 28, commitments, (ii)).

Receivable from associates include an amount receivable from Gulf Aluminium Rolling Mill Company B.S.C. (c) (GARMCO) of BD 17,191 thousand (2010: BD 20,630 thousand) and McLaren Automotive Limited of BD 117,530 thousand (2010: BD 100,099 thousand). The amount receivable from GARMCO was originally an overdue trade receivable and was converted into a long term loan during 2007. The loan is repayable in 16 half yearly installments with the first installment commencing 30 June 2009. Interest is payable half yearly on the outstanding balances at 6 month LIBOR plus a margin of 1%. The effective interest rate as of 31 December 2011 was 1.39% (2010: 1.75%).

The amount receivable from McLaren Automotive Limited represents loans provided by the Group to finance its expansion project. The effective interest rate as of 31 December 2011 was 4.67% (2010: 4.52%). The loans are partly secured by pledge of shares by the other shareholders of McLaren Automotive Limited.

Miscellaneous assets include a receivable of BD 3,670 thousand (2010: 3,793 thousand) which is secured against borrowings (note 15).

14 GOODWILL

	2011 BD '000	2010 BD '000
Balance at beginning and at the end of the year	**787,778**	787,778

Impairment testing of goodwill

Goodwill acquired through business combinations on 29 June 2006 has been allocated to two individual cash-generating units, for impairment testing as follows:

• Aluminium Bahrain B.S.C. [Alba]	**786,813**
• General Poultry Company B.S.C. (c) [General Poultry]	**965**
	787,778

In accordance with the requirements of IFRS, the Group has performed an impairment test as at 31 December 2011 in respect of the goodwill relating to Alba, using the services of an independent valuer.

The recoverable amount of the Alba cash generating unit has been determined based on value in use calculation. The forecasts use cash flow projections based on financial budgets approved by management covering an initial period of one year. Cash flows for years 2 to 4 have been determined on the basis of management's expectation of the business taking into account the prevailing global and GCC economic conditions in general and the aluminium industry in particular. In addition, a growth rate of 3% has been applied from year 5 into perpetuity which is in line with the long term average growth rates of the business in which the cash generating unit operates.

The cash flows are discounted using a discount rate of 12%, which reflects market specific risks relating to Alba.

Based on the independent valuation, there was no impairment at 31 December 2011 (2010: nil).

Sensitivity to changes in assumptions

With regard to the assessment of value in use, management believes that reasonably possible changes in the growth rate and EBITDA margins would not cause the carrying value of the unit to materially exceed its recoverable amount. However, an increase in the rate used to discount the projected cash flows by 1% would result in a reduction in the recoverable amount of the cash generating unit by BD 145,698 thousand.

15 BORROWINGS

	Effective interest rates		Total 2011	Total 2010
	2011	2010	**BD '000**	BD '000
Bank overdrafts (note 3)	**6.38%**	4.05%	**203**	6,434
Murabaha borrowings	**3.7%**	4.10%	**43,355**	43,355
Short term loans (i)	**0.92%-4.15%**	2.3%-6.75%	**54,214**	72,201
Working capital revolving credit	**1.5%-3.44%**	2.13%-3.44%	**60,160**	75,200
Aluminium Bahrain B.S.C. project loans	**0.78%-3.26%**	0.84%-2.86%	**197,933**	214,765
Aluminium Bahrain B.S.C. refinancing loan	**0.89%-1.27%**	0.65%-1.27%	**58,705**	99,065
Other term loans (ii)	**2.39%-6%**	2.06%-6%	**467,176**	459,787
Finance lease obligations (iii)	**3.10%**	4.09%	**131,770**	191,769
Loan from the shareholder (iv)	**5%**	5%	**694**	1,156
			1,014,210	1,163,732

(i) This includes short term loans of BD 13,084 thousand (2010: BD 6,813 thousand) availed from financial institutions in the Kingdom of Bahrain by the assignment of certain trade receivables.

15 BORROWINGS (continued)

(ii) Other term loans comprise of the following:

- Loans amounting to BD 35,322 thousand (2010: BD 27,607 thousand) which carry interest at floating rates and are secured by a charge over trade receivables of the Group. The effective interest rate at the year end was 4.18% (2010: 3.4%).
- Loans amounting to BD 6,876 thousand (2010: BD 8,032 thousand) which are secured against certain other receivables of the Group (note 13). The effective interest rate at the year end was 5.07% (2010: 5.02%).
- Unsecured loans amounting to BD 145,145 thousand (2010: BD 145,145 thousand). The effective interest rate at the year end was 2.56% (2010: 2.25%).
- US$ 750 million (BD 282,750 thousand) notes issued by the Company during 2010. The notes are unsecured, carry a coupon rate of 5% per annum and due for repayment in 2015. The carrying value of the notes at 31 December 2011 was BD 279,833 thousand (2010: BD 279,003 thousand).

(iii) Represents finance lease obligations which are secured against property, plant and equipment.

Future minimum lease payments under finance leases together with the present value of the minimum lease payments at 31 December are as follows:

	2011		*2010*	
	Minimum payments BD '000	***Present value of payments BD '000***	*Minimum payments BD '000*	*Present value of payments BD '000*
Within one year	**27,859**	**24,233**	43,385	35,950
After one year but not more than five years	**57,746**	**49,205**	110,134	97,942
After five years	**62,336**	**58,332**	61,151	57,877
	147,941	**131,770**	214,670	191,769
Less: Finance charges	**(16,171)**		(22,901)	-
Present value of minimum lease payments	**131,770**	**131,770**	191,769	191,769

(iv) Represents an unsecured loan obtained from the Government of the Kingdom of Bahrain for a capital project. The loan carries interest at a fixed rate of 5% per annum (2010: 5%).

16 TRADE ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2011 BD '000	*2010 BD '000*
Trade accounts payable *(i)*	**153,474**	99,113
Accrued expenses *(ii)*	**156,065**	128,912
Unearned revenue	**47,593**	51,194
Other payables	**33,012**	24,472
	390,144	303,691

(i) Details of payables to related parties included in trade accounts payable are disclosed in note 29.

(ii) Accrued expenses include BD 3,000 thousand (2010: BD 3,087 thousand) in respect of legal claims (refer note 28).

17 EMPLOYEES' END OF SERVICE BENEFITS

	2011 BD '000	2010 BD '000
Balance at beginning of the year	**12,640**	13,532
Provision for the year	**2,427**	1,926
Payments during the year	**(1,837)**	(2,818)
	13,230	12,640

18 OBLIGATIONS RELATING TO ACQUIRED ENTITIES

	2011 BD '000	2010 BD '000
Balance at beginning of the year	**196,103**	210,192
Movements during the year	**(24,751)**	(14,089)
	171,352	196,103

These obligations were assumed by Bahrain Mumtalakat Holding Company B.S.C. (c) on 29 June 2006 as an integral part of the acquisition of investments.

19 SHARE CAPITAL AND CAPITAL CONTRIBUTION

	2011 BD '000	2010 BD '000
Share capital		
Authorised:		
2,000,000,000 shares of BD 1 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,845,634,591 shares of BD 1 each	**1,845,635**	1,845,635

Capital contribution

During the year, the Group has transferred investment properties with a carrying value of BD 384,128 thousand to the shareholder with a corresponding reduction in capital contribution (note 8). The Group has received cash of BD 14,650 thousand from the shareholder as capital contribution during the year.

During 2010, the Group received investment properties comprising of land and buildings valued at BD 22,917 thousand and cash of BD 400,000 thousand from the shareholder as additional capital contribution. In addition, the shareholder had assumed certain of the Group's trade accounts payable amounting to BD 71,172 thousand.

The Company has resolved to increase the authorised share capital from 2,000,000,000 shares of BD 1 each to 5,000,000,000 shares of BD 1, in order to issue additional shares relating to the capital contribution. The legal formalities of registering the issue of shares for the additional capital are in progress at the statement of financial position date.

20 STATUTORY RESERVE

The statutory reserve has been created in accordance with the requirements of the Bahrain Commercial Companies Law and the Articles of Association of the Company. The Company transfers 10% of its annual net income to its statutory reserve until such time as the reserve equals 50% of the issued share capital of the Company. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law. No transfers have been made in the current and previous years as the Group reported losses.

21 OTHER RESERVES

	Available for sale reserve BD '000	*Cash flow hedges reserve BD '000 (i)*	*Foreign currency translation BD '000*	*Total BD '000*
Balance at 1 January 2011	**26,844**	**(584)**	**(25,892)**	**368**
Total other comprehensive income (loss) for the year	**(10,826)**	**(12)**	**833**	**(10,005)**
Balance at 31 December 2011	**16,018**	**(596)**	**(25,059)**	**(9,637)**
Balance at 1 January 2010	10,447	32	(23,276)	(12,797)
Total other comprehensive income (loss) for the year	16,397	(616)	(2,616)	13,165
Balance at 31 December 2010	26,844	(584)	(25,892)	368

(i) Cash flow hedges reserve represents the associates' change in fair value of derivatives during the year, where the hedges have been assessed as highly effective.

22 MOVEMENT IN NON-CONTROLLING INTERESTS

Acquisition of non-controlling interests
During the current year, Aluminium Bahrain B.S.C. (Alba) purchased a certain number of its shares as treasury shares for a net consideration of BD 1,321 thousand.

During 2010, (Alba) purchased 3% of its shares held by a minority shareholder for a consideration of BD 13,536 thousand. These shares were reissued to the Company and another minority shareholder, SABIC Industrial Investments Corporation. In addition, Alba purchased a certain number of its shares as treasury shares for a consideration of BD 3,735 thousand.

Amounts received from non-controlling interests
During November 2010, the Company sold a 10% stake in Alba through an Initial Public Offering (IPO) and received a net consideration of BD 122,366 thousand. This has been recorded as an equity transaction under International Accounting Standard (IAS) 27 (Revised), Consolidated and Separate Financial Statements and accordingly the carrying value of the non-controlling interest is adjusted to the extent of the change in the ownership amounting to BD 71,358 thousand. The difference between the amount received from non-controlling interests and the above adjustment amounting to BD 51,008 thousand is transferred to accumulated deficit.

23 REVENUE

	2011 BD '000	*2010 BD '000*
Metals and minerals	**882,514**	750,214
Transportation	**387,632**	418,096
Other	**21,077**	22,629
	1,291,223	1,190,939

24 DIRECT COSTS

	2011 BD '000	2010 BD '000
Raw materials, spares and consumables	**434,149**	352,116
Staff costs	**143,218**	124,948
Depreciation	**100,716**	104,607
Fuel	**188,829**	146,645
Operating lease rentals	**42,550**	37,864
Repairs and maintenance	**102,118**	102,530
Others	**139,282**	189,159
	1,150,862	1,057,869

In addition to the above staff costs, selling and distribution expenses and administrative expenses include staff costs of BD 12,347 thousand and BD 46,376 thousand respectively (2010: BD 11,725 thousand and BD 44,769 thousand respectively).

25 OTHER OPERATING INCOME

	2011 BD '000	2010 BD '000
Government subsidy	**11,637**	8,133
Gain on deemed disposal of investment in associate (note 10)	**21,748**	-
Miscellaneous	**21,055**	21,503
	54,440	29,636

The Government subsidy represents amounts received from the Ministry of Finance on behalf of the Government of the Kingdom of Bahrain by Bahrain Flour Mills Company B.S.C. to enable it to sell flour at a controlled price.

26 OTHER OPERATING EXPENSES

	2011 BD '000	2010 BD '000
Loss on sale of an associate	**-**	16,630
Loss on disposal and write-off of property, plant and equipment	**7,603**	1,613
Other	**(64)**	(250)
	7,539	17,993

27 IMPAIRMENT LOSSES

	2011 BD '000	2010 BD '000
Impairment losses on non-trading investments (note 9)	**12,801**	6,326
Impairment loss on investment in associates (note 10)	**94,067**	151,887
Impairment loss on investment properties (note 11)	**209,663**	33,040
	316,531	191,253

28 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

(i) *Capital expenditure*

At the statement of financial position date, the Group had the following capital expenditure commitments relating to the acquisition of property, plant and equipment.

	2011 BD '000	*2010* BD '000
Aircraft (note)	**1,746,096**	2,295,961
Other - Due within one to five years of the reporting date	**40,581**	43,476
	1,786,677	2,339,437

Note:

At 31 December 2011, aircraft commitments of BD 150,535 thousand (2010: BD 68,404 thousand) are due within one year, BD 576,362 thousand (2010: BD 104,206 thousand) are due within one to five years and BD1,019,199 thousand (2010: BD 2,123,351 thousand) are due after more than five years from the reporting date.

(ii) *Operating lease commitments*

Future minimum rentals payable under non-cancellable operating leases at 31 December 2011 are as follows:

	2011 BD '000	*2010* BD '000
Within one year	**42,122**	39,975
After one year but not more than five years	**79,976**	81,858
After five years	**21,859**	341
	143,957	122,174

(iii) *Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2011 were BD 20,837 thousand (2010: BD 6,701 thousand). The commitments are expected to be settled within one year.

In addition, the Group's bankers have issued letters of credit to counterparties for derivative transactions amounting to BD 11,290 thousand (2010: BD 24,440 thousand).

Contingencies

(i) *Guarantees*

The Group has issued guarantees to banks and other institutions amounting to BD 19,557 thousand (2010: BD 16,499 thousand).

(ii) *Law suits*

a) Law suits have been filed against Gulf Air Company G.S.C. in the Kingdom of Bahrain and in other jurisdictions where Gulf Air Company G.S.C. operates. These relate to claims which are in the normal course of business. In management's view, adequate provision has been made in these consolidated financial statements for liabilities that may arise from these law suits, and the possibility of incurring significant additional penalties or damages pending final judgment is expected to be remote [note 16 (ii)].

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingencies (continued)

b) A third party has initiated a claim against Aluminium Bahrain B.S.C. (Alba), towards damages caused to its business unit. ALBA is defending the claim and it is not practicable to estimate the liability and timing of any payments at this stage. Hence no provision has been recognised in these consolidated financial statements.

c) On 27 February 2008, ALBA filed a suit in a U.S. Federal District Court against Alcoa, Inc., Alcoa World Alumina LLC and members of its senior management (together, "Alcoa"). In the complaint, ALBA alleges that Alcoa conspired to bribe certain former members of its senior management and officials of the Government of the Kingdom of Bahrain to ensure that Alcoa continued to benefit from its alumina purchases at inflated prices. Among other remedies, ALBA is seeking damages in excess of US$ 1 billion (BD 377 million) for illicit activities that took place from 1993 to 2008.

The U.S. Government had in March 2008 been granted an unopposed motion to intervene and to stay discovery to allow the U.S. Government to conduct a criminal investigation into the allegations without interference from the ongoing civil litigation. The stay was lifted in November 2011 and the suit is still ongoing.

d) During 2009 ALBA filed a complaint with the Public Prosecutor, who initiated a criminal proceeding against three former employees of Alba Marketing (ALMA). ALBA joined the proceedings as a civil right claimant. In its submission ALBA claimed that the three former employees earned money from criminal activities and received commissions in contravention of the Bahrain Commercial Companies Law and the Prohibition of and Combating Money Laundering Law of Bahrain ("PCMLL"). In its civil right claim ALBA sought to oblige the defendants to pay the amount of US$ 17,499 thousand as interim relief, while preserving ALBA's civil right to have recourse against the defendants for all the damages which ALMA has incurred as a result of the acts committed by the three former employees. In November 2010, the Bahrain criminal court found the defendants guilty under the PCMLL. In its judgment, the court did not make any reference to the reservation of the ALBA's right to compensation pursuant to Article 3.2 of PCMLL. Therefore, it is not clear whether ALBA in fact will be able to collect any damages from the defendants. The criminal conviction was pardoned by a Royal Decree. However the ALBA's civil claim is still pending under a civil court proceeding.

e) On 18 December 2009, ALBA filed a suit in the U.S. Federal District Court for the Southern District of Texas against Sojitz Corporation (Japan) and Sojitz Corporation of America (together, "Sojitz"). In the complaint, ALBA alleges that Sojitz, a former customer of ALMA, conspired to bribe certain former members of ALBA's senior management in order to gain substantial price discounts. Among other remedies, ALBA is seeking compensatory damages in excess of US$ 31,000 thousand (BD 11,687 thousand) for the illicit activities that took place from 1993 to 2006. On 27 May 2010, the U.S. Government filed an unopposed motion to intervene and stay discovery in this case.

It is not practical to estimate the effects of the law suits (c) to (e) above on the consolidated financial statements of the Group at this stage.

29 RELATED PARTY TRANSACTIONS

Related parties represent the shareholder, profit oriented entities controlled by the shareholder, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the shareholder and the boards of directors of the various group companies.

In the ordinary course of business, the Group purchases supplies and services from entities related to the Government of the Kingdom of Bahrain, principally natural gas, jet fuel and public utility services. A royalty, based on the production of Aluminium Bahrain B.S.C., is also paid to the Government of the Kingdom of Bahrain.

Transactions with related parties included in the consolidated statement of income are as follows:

	2011			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associate BD '000***	***Total BD '000***
Income				
Revenue	**75**	**195**	**131,507**	**131,777**
Other operating income	**21,244**	**-**	**-**	**21,244**
Interest income	**-**	**-**	**6,940**	**6,940**
	21,319	**195**	**138,447**	**159,961**
Expenses				
Direct costs	**3,563**	**126,017**	**21,547**	**151,127**
Administrative expenses	**348**	**-**	**7,050**	**7,398**
Interest expense	**35**	**-**	**4,513**	**4,548**
	3,946	**126,017**	**33,110**	**163,073**

	2010			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Income				
Revenue	130	-	110,092	110,222
Other operating income	12,039	-	-	12,039
Interest income	-	-	3,802	3,802
	12,169	-	113,894	126,063
Expenses				
Direct costs	3,526	107,990	22,911	134,427
Administrative expenses	181	-	844	1,025
Interest expense	35	-	5,616	5,651
	3,742	107,990	29,371	141,103

Details of land leased from related parties, free of rent, are disclosed in note 12.

29 RELATED PARTY TRANSACTIONS (continued)

Balances with related parties included in the consolidated statement of financial position are as follows:

	2011			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associate BD '000***	***Total BD '000***
Assets				
Other assets (note 13)	**-**	**-**	**135,737**	**135,737**
Trade accounts receivable, prepayments and other assets	**1,050**	**334**	**15,835**	**17,219**
Cash and bank balances	**-**	**-**	**103,033**	**103,033**
	1,050	**334**	**254,605**	**255,989**
Liabilities				
Borrowings	**694**	**-**	**171,175**	**171,869**
Trade accounts payable, accrued expenses and other liabilities	**475**	**71,666**	**9,982**	**82,123**
	1,169	**71,666**	**181,157**	**253,992**

	2010			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Assets				
Other assets (note 13)	-	-	121,931	121,931
Trade accounts receivable, prepayments and other assets	977	73	10,150	11,200
Cash and bank balances	-	-	260,326	260,326
	977	73	392,407	393,457
Liabilities				
Borrowings	694	-	137,170	137,864
Trade accounts payable, accrued expenses and other liabilities	520	38,074	221	38,815
	1,214	38,074	137,391	176,679

Compensation of key management personnel

The remuneration of members of key management personnel for the year was BD 6,286 thousand (2010: BD 8,560 thousand).

Fees to the directors of the Group companies provided for during the year was BD 668 thousand (2010: BD 663 thousand).

30 FINANCIAL RISK MANAGEMENT

Overview
The Group has exposure to the following risks from a financial perspective:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note represents information about the Group's exposure to each of the above risks, the Group's approach to risk management and the management of capital. Quantitative disclosures about various risks are included in the respective sections. The Group's overall risk management approach is to moderate the effects of such risks on its financial performance. The Group uses derivatives in hedging specific exposures (note 4).

Risk Management Framework
The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management approach and for approving the risk management policies and procedures. These policies are established to identify and analyse risk faced by the Company and set appropriate risk limits and controls to monitor risks. These policies are reviewed regularly to reflect changes according to market condition and Group's activities. The Company, through its policies, procedures and processes aims to develop and maintain a robust control environment in which all employees understand their roles and responsibilities.

The Company assesses and manages risk through a committee structure. The existing committee structure for risk is designed to ensure a weekly review of risks, a sharing of knowledge about risks across all functions, an understanding of the relationships of the risks of the enterprise, and to ensure that each functional area remains accountable for the risks for which it is responsible.

Board Audit and Risk Committee
The Audit Committee oversees how the management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in these functions by the Internal Audit Function which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Board Investment Committee
The Board Investment Committee is responsible for assessing risks associated with investment/divestment decisions and monitoring risks associated with the existing portfolio. The Board Investment Committee is assisted by the Management Investment Committee in fulfilling its oversight responsibilities on policy, standards and procedures for investing in a responsible manner.

Management Executive Committee
The Management Executive Committee regularly reviews several aspects of Company's risks and is assisted by the Operating Committee in assessing, managing and monitoring operational risks.

(a) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risk on its bank balances including term deposits, loans and receivables, held to maturity investments and the positive fair value of derivatives. The Group places its deposits with reputable banks with a good credit rating. Derivative contracts are entered into with counterparties with strong credit ratings and are not subject to significant credit risk.

30 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit risk with respect to loans and receivables is managed by assessing the feasibility of the investment opportunity that is being funded, prior to advancing any funding.

The sale of passenger and cargo transportation is largely achieved through a large number of International Air Traffic Association (IATA) accredited sales agents. Unless expressly stated otherwise in the contract, receivables and payables among airlines are settled either bilaterally or via the IATA clearing house. For all other service relationships, depending on the nature and scope of the service rendered, collateral is required, credit reports/references are obtained and use is made of historical data from previous business relations, especially with regard to payment behavior, in order to avoid non-performance.

Credit risk with respect to receivables from customers is managed by granting credit terms and monitoring the exposure to customers on an ongoing basis. An impairment allowance is made for doubtful accounts whenever risks of default are identified.

The maximum credit risk exposure at the statement of financial position date is equal to the carrying value of the financial assets shown in the consolidated statement of financial position, which are net of impairment allowances.

The Group sells its products to a large number of customers. Its five largest customers account for 34% of the outstanding accounts receivable as of 31 December 2011 (2010: 31%).

(b) Liquidity risk

Liquidity risk (also referred to as funding risk) is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group limits its liquidity risk by managing cash and ensuring bank facilities are available. Trade payables are normally settled within 90 to 150 days of the date of invoice. The Group's cash flow from operations are normally adequate to meet expected liquidity requirements.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2011, based on contractual payment dates and current market interest rates.

31 December 2011	***Less than 3 months BD '000***	***3 to 12 months BD '000***	***1 to 5 years BD '000***	***More than 5 years BD '000***	***Total BD '000***
Borrowings	**135,117**	**137,453**	**774,057**	**63,315**	**1,109,942**
Derivatives	**8,122**	**24,363**	**36,383**	**-**	**68,868**
Trade accounts payable and other liabilities	**140,255**	**20,927**	**167**	**-**	**161,349**
Obligations relating to acquired entities	**18,529**	**11,330**	**144,554**	**33,012**	**207,425**
	302,023	**194,073**	**955,161**	**96,327**	**1,547,584**

31 December 2010	*Less than 3 months BD '000*	*3 to 12 months BD '000*	*1 to 5 years BD '000*	*More than 5 years BD '000*	*Total BD '000*
Borrowings	98,022	214,703	959,168	12,120	1,284,013
Derivatives	10,837	35,675	108,907	-	155,419
Trade accounts payable and other liabilities	72,909	30,106	-	-	103,015
Obligations relating to acquired entities	3,682	26,105	141,617	68,095	239,499
	185,450	306,589	1,209,692	80,215	1,781,946

Details of capital expenditure commitments are given in note 28.

30 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

Currency risk

Currency risk is the risk associated with fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Group's financial instruments are mainly denominated in Bahraini Dinars and US Dollars. The Group uses forward foreign exchange contracts to hedge against currency fluctuations (note 4).

As the Bahraini Dinar is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The table below indicates the Group's sensitivity to currency risk at 31 December 2011, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar currency rate against the Euro, Swiss Franc, Pound Sterling and Indian Rupee with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities). The effect of decreases in currency rate is expected to be equal and opposite.

	Change in currency rate	Foreign exchange position long (short) 2011 BD '000	2010 BD '000	Effect on consolidated statement of income 2011 BD '000	2010 BD '000
Euro	**10%**	**(21,154)**	8,898	**(2,115)**	890
Swiss Franc	**10%**	**-**	118	**-**	12
Pound Sterling	**10%**	**66,241**	46,623	**6,624**	4,662
Indian Rupee	**10%**	**2,078**	1,539	**208**	154

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of financial assets and liabilities. The majority of the financial assets and financial liabilities are variable interest rate based.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (call account, term deposits, margin deposits and borrowings). This risk is partly mitigated by interest rate derivatives (note 4).

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's net income for one year, based on the floating rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	Increase/ decrease in basis points	Effect before interest rate derivatives BD '000	Effect of interest rate derivatives BD '000	Effect on net income for the year BD '000
2011	**+100**	**(5,222)**	**(377)**	**(5,599)**
	-100	**5,222**	**377**	**5,599**
2010	+100	(2,576)	(633)	(3,209)
	-100	2,576	633	3,209

30 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Commodity price risk

Commodity price risk is the risk that future profitability is affected by change in commodity prices. The Group is exposed to commodity price risk as selling prices for aluminium are generally based on aluminium prices quoted on the London Metal Exchange (LME). The commodity price risk is managed by ALBA by hedging against fixed price sales commitments through commodity futures and other derivative products (note 4).

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in the LME price on derivatives outstanding as of 31 December 2011, with all other variables held constant.

	Increase/ decrease in LME price	*Effect on net income for the year BD '000*
2011	**10%**	**(5,631)**
	-10%	**5,631**
2010	10%	(12,904)
	-10%	12,904

Jet fuel price risk

The Group's earnings are affected by changes in the price of jet fuel relating to Gulf Air. Gulf Air's strategy for managing the risk on fuel price aims to provide Gulf Air with protection against sudden and significant increase in jet fuel prices. In meeting these objectives, Gulf Air uses options with approved counterparties and within approved credit limits.

A 10% change in the price of jet fuel affects the Group's annual fuel cost by BD 19,393 thousand (2010: BD 16,544 thousand), assuming there is no change in the volume of fuel consumed.

Equity price risk

Equity price risk is the risk that the fair value of equity securities will fluctuate as a result of changes in equity prices or indices, or fair value in case of unquoted equities. Equity price risk arises from the Group's investment in equities and managed funds included in non–trading investments and investments carried at fair value through statement of income. The Group manages the risk through a process of diversification of its investments in terms of industry concentration.

The majority of the Group's investments carried at fair value through statement of income are investments in managed funds. The Group's non-trading investment portfolio is mainly comprised of unquoted investment which is re-measured to fair value using different valuation techniques.

FVTPL investments

A 10% (2010: 10%) increase in the net asset values of funds will decrease the net loss by BD 6,266 thousand (2010: BD 261 thousand). The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

Non-trading investments

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

30 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Equity price risk (continued)

	% Change in equity price	*Effect on equity 2011 BD*	*Effect on equity 2010 BD*
Unquoted investments	**+ 10%**	**20,432**	21,686

(d) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure dynamically and makes necessary adjustments, in light of the macro economic conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2011 and the comparative period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity.

	2011 BD '000	*2010 BD '000*
Borrowings	**1,014,210**	1,163,732
Derivative financial instruments	**64,970**	146,256
Total debt	**1,079,180**	1,309,988
Less: cash and bank balances (note 3)	**(259,765)**	(498,384)
Net debt	**819,415**	811,604
Equity attributable to shareholder of the parent	**2,565,275**	3,028,384
Gearing ratio	**32%**	27%

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivative financial instruments.

Financial assets comprise of investments, deposits, bank balances, loans and accounts receivable. Financial liabilities comprise of borrowings, obligations relating to acquired entities and trade and other payables.

With the exception of certain unquoted available-for-sale-investments which are carried at cost and details of which are disclosed in note 9 and deposits which are interest free and details of which are disclosed in note 13, the fair values of financial assets and financial liabilities are not materially different from their carrying values at the statement of financial position date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2011	***Level 1 BD '000***	***Level 2 BD '000***	***Level 3 BD '000***	***Total BD '000***
Investments carried at fair value through statement of income	**-**	**62,664**		**62,664**
Non-trading investments	**6,701**	**-**	**197,622**	**204,323**
Derivative financial instruments (liabilities)		**64,970**		**64,970**

31 December 2010	*Level 1 BD '000*	*Level 2 BD '000*	*Level 3 BD '000*	*Total BD '000*
Derivative financial instruments (assets)	-	2,352	-	2,352
Investments carried at fair value through statement of income	-	2,607	-	2,607
Non-trading investments	6,075	-	210,759	216,834
Derivative financial instruments (liabilities)	-	146,256	-	146,256

During the years 2011 and 2010 there have been no transfers between Level 1 and Level 2 and no transfers into and out of Level 3. Unquoted investments carried at cost are not included in the above hierarchy.

For level 3 measurements, changing inputs to reasonably possible alternative assumptions will not result in significant change in fair values.

Movements in level 3 financial instruments measured at fair value are as follows:

	2011 BD '000	*2010 BD '000*
At beginning of the year	**210,759**	203,957
Sale during the year	**(315)**	-
Fair value changes	**(4,962)**	12,636
Impairment loss	**(12,663)**	(6,149)
Instruments transferred from cost to fair value	**4,803**	315
Balance at end of the year	**197,622**	210,759

32 OPERATING SEGMENT INFORMATION

For management purposes the Group is organised into the following major business segments:

Metals and minerals - Comprising of manufacture of aluminium.

Transportation - Principally handling air transportation.

Banking and finance - Comprising of investment in banking and financial services.

Real estate - Comprising of investment in real estate.

Telecom - Comprising of investment in telecommunications.

Other - Includes all other segements not included above.

There are no material transfers between operating segments.

32 OPERATING SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2011 was as follows:

2011	***Metals and minerals BD '000***	***Transport-ation BD '000***	***Banking and finance BD '000***	***Real estate BD '000***	***Telecom BD '000***	***Other BD '000***	***Total BD '000***
Revenue	**882,514**	**396,762**	**-**	**2,224**	**-**	**9,723**	**1,291,223**
Share of results of associates	**1,075**	**(10,277)**	**21,134**	**(6,843)**	**32,335**	**4,531**	**41,955**
Impairment losses	**(2,853)**	**(8,540)**	**(2,091)**	**(209,663)**	**(91,174)**	**(2,210)**	**(316,531)**
Net income (loss)	**207,832**	**(187,701)**	**19,043**	**(216,942)**	**(58,839)**	**(34,043)**	**(270,650)**
Investment in associates	**12,200**	**125,858**	**290,568**	**94,966**	**302,990**	**33,180**	**859,762**
Total assets	**2,091,236**	**781,928**	**467,082**	**254,322**	**308,130**	**316,483**	**4,219,181**

2010	*Metals and minerals BD '000*	*Transport-ation BD '000*	*Banking and finance BD '000*	*Real estate BD '000*	*Telecom BD '000*	*Other BD '000*	*Total BD '000*
Revenue	750,214	427,976	-	4,901	-	7,848	1,190,939
Share of results of associates	754	(7,748)	20,477	(5,314)	34,822	4,372	47,363
Impairment losses	-	-	-	(33,040)	(151,887)	(6,326)	(191,253)
Net income (loss)	139,083	(194,968)	20,477	(53,660)	(117,065)	(28,195)	(234,328)
Investment in associates	15,769	97,935	284,800	96,958	390,884	34,555	920,901
Total assets	2,112,436	879,857	468,238	851,232	393,059	365,211	5,070,033

Geographic information

An analysis of the revenue by geographic location is as follows:

	2011 BD '000	*2010* BD '000
Kingdom of Bahrain	**518,895**	458,071
Asia	**206,672**	215,494
Rest of Middle East and North Africa	**341,116**	343,726
Rest of the world	**224,540**	173,648
	1,291,223	1,190,939

32 OPERATING SEGMENT INFORMATION (continued)

Customers

Revenue from two customers of the Group amounted to BD 301,733 thousand, each being more than 10% of the consolidated revenue of the Group ((2010: revenue from a customer amounted to BD 153,367 thousand being more than 10% of the consolidated revenue of the Group).

33 CURRENT AND NON CURRENT ASSETS AND LIABILITIES

The table below provides the analysis of current and non current assets and liabilities:

	Less than one year		*Over one year*	
	2011	*2010*	***2011***	*2010*
	BD '000	*BD '000*	***BD '000***	*BD '000*
ASSETS				
Cash and bank balances	**259,765**	498,384	**-**	-
Derivative financial instruments	**-**	2,352	**-**	-
Trade accounts receivable, prepayments and other assets	**154,558**	159,086	**6,040**	8,574
Inventories	**174,996**	168,831	**-**	-
Investments carried at fair value through statement of income	**60,271**	-	**2,393**	2,607
Assets held for distribution	**-**	333,673	**-**	-
Non-trading investments	**-**	250	**204,771**	222,089
Investment in associates	**-**	-	**859,762**	920,901
Investment properties	**-**	-	**213,588**	473,634
Proprety, plant and equipment	**-**	-	**1,340,745**	1,352,099
Other assets	**6,163**	6,152	**148,351**	133,623
Goodwill	**-**	-	**787,778**	787,778
	655,753	1,168,728	**3,563,428**	3,901,305
LIABILITIES				
Borrowings	**243,307**	282,446	**770,903**	881,286
Derivative financial instruments	**30,646**	43,514	**34,324**	102,742
Trade accounts payable, accruals and other liabilities	**331,317**	242,521	**520**	360
Employees' end of service benefits	**-**	-	**13,230**	12,640
Obligations relating to acquired entities	**28,247**	28,178	**143,105**	167,925
	633,517	596,659	**962,082**	1,164,953
Liquidity gap	**22,236**	572,069	**2,601,346**	2,736,352

Note :Trade accounts payable exclude the effect of unearned income and deferred income of BD 45,692 thousand and BD 12,615 thousand (2010: BD 48,688 thousand and BD 12,122 thousand) respectively as these do not represent financial liabilities.

34 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating lease commitments – group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment
The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Impairment of aircraft
In case of aircraft, impairment is recognised when events and circumstances indicate that the aircraft may be impaired and the carrying amounts of the aircraft exceed the recoverable amounts. In determining the recoverable amounts of the aircraft, certain estimates regarding the current fair market value and the base value (value in use) of the aircraft are made. The current fair market and the base values are determined based on independent valuations carried out by an industry expert.

Classification of investments
The Group's management determines the classification of investments as either fair value through statement of income, held to maturity, or available for sale. This classification is based on management's investment strategy taking into account their evaluation of performance, the intention and ability to hold investments for certain time periods and their assessment of investments which are available to be sold.

Impairment of non-financial assets
When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including key assumptions, are given in notes 11 and 14.

Impairment of available for sale financial assets
The Group classifies certain assets as available for sale and recognises movements in their fair value in the statement of comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in the consolidated statement of income. At 31 December 2011, an impairment loss of BD 12,801 thousand (2010: BD 6,326 thousand) has been recognised for available for sale assets. The carrying amount of available for sale assets was BD 204,771 thousand (2010: BD 222,089 thousand).

APPENDIX 2 – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010

Bahrain Mumtalakat Holding Company B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

BOARD OF DIRECTORS' REPORT

The Board of Bahrain Mumtalakat Holding Company (hereinafter referred to as the "Group") is pleased to present their report along with the audited consolidated financial statements for the year ended 31 December 2010.

Financial highlights

The Group registered a total comprehensive loss of BD 221 million with increase in revenue and gross margins of 15% and 168% respectively. The operating loss was BD 49 million and net loss after taking into consideration interest expense, fair value loss on derivatives and impairment losses was BD 234 million compared to the net loss of BD 183 million for the year ended 31 December 2009.

The Group's total assets and equity attributable to shareholder of the parent as at 31 December 2010 were BD 5 billion and BD 3 billion respectively. The increase in equity was mainly due to BD 471 million capital contribution from the shareholder to Gulf Air.

The movement in equity attributable to shareholder of Bahrain Mumtalakat Holding Company was as follows –

	BD '000
Balance as at December 31, 2009	2,735,238
Total comprehensive income/(loss)	(251,951)
Contribution by the shareholder	494,089
Other movement	51,008
Balance as at December 31, 2010	3,028,384

The increase in Group revenues was primarily due to an increase in the LME price of aluminium. The strong recovery in LME price of aluminium helped Alba, a key group company, reverse its prior year losses by registering a net income of BD138 million. Several restructuring initiatives were undertaken at Gulf Air to reduce operating losses, achieve cost efficiencies and improve the quality of product offering and customer service. With such initiatives Gulf Air registered a lower operating loss of BD 139.6 million in 2010 (excluding one-off restructuring charges of BD 48.7 million) compared to BD190 million in 2009. The share of profit from associate companies declined by about 42% as a result of lower operating income in these companies. This coupled with higher impairment losses (BD191.2 million in 2010 compared to BD 42.7million in 2009) resulted in a net loss of BD 234.2 million in 2010.

Directors

The following Directors served during the year ended 31 December 2010 and to the date of this report:

- H.E. Sheikh Ahmed bin Mohammed Al-Khalifa
- Sheikh Mohammed bin Isa Al Khalifa
- Talal Ali Al-Zain
- Dr. Esam Abdulla Fakhro
- Murad Ali Murad
- Sabah K. Almoayyed
- Dr. Zakaria Ahmed Hejres
- Dr. Samer Al Jishi
- Jawad Habib Jawad

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Company, for the year ending 31 December 2011 will be submitted to the Annual General Meeting.

By order of the Board of Directors

Director

Director

1 June, 2011

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c)

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c) (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

We also confirm that, in our opinion, proper accounting records have been kept by the Company and the consolidated financial statements, and the contents of the Report of the Board of Directors relating to these consolidated financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the memorandum and articles of association of the Company have occurred during the year ended 31 December 2010 that might have had a material adverse effect on the business of the Company or on its financial position.

Ernst + Young

1 June 2011
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	**2010 BD '000**	2009 BD '000
ASSETS			
Cash and bank balances	3	**498,384**	117,653
Derivative financial instruments	4	**2,352**	16,875
Trade accounts receivable, prepayments and other assets	5	**167,660**	165,350
Inventories	6	**168,831**	173,105
Investments carried at fair value through statement of income	7	**2,607**	2,386
Assets held for distribution	8	**333,673**	-
Non-trading investments	9	**222,339**	216,634
Investment in associates	10	**920,901**	1,092,683
Investment properties	11	**473,634**	817,139
Property, plant and equipment	12	**1,352,099**	1,378,036
Other assets	13	**139,775**	93,544
Goodwill	14	**787,778**	787,778
TOTAL ASSETS		**5,070,033**	4,861,183
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	15	**1,163,732**	1,147,675
Derivative financial instruments	4	**146,256**	173,127
Trade accounts payable, accruals and other liabilities	16	**303,691**	430,493
Employees' end of service benefits	17	**12,640**	13,532
Obligations relating to acquired entities	18	**196,103**	210,192
Total liabilities		**1,822,422**	1,975,019
Equity attributable to shareholder of the parent			
Share capital	19	**1,845,635**	1,845,635
Capital contribution	19	**1,486,415**	992,326
Statutory reserve	20	**21,252**	21,252
Other reserves	21	**368**	(12,797)
Accumulated deficit		**(325,286)**	(111,178)
		3,028,384	2,735,238
Non-controlling interests	22	**219,227**	150,926
Total equity		**3,247,611**	2,886,164
TOTAL LIABILITIES AND EQUITY		**5,070,033**	4,861,183

Shaikh Mohammed bin Essa Al Khalifa
Director

Talal Ali Al Zain
Chief Executive Officer

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

	Note	*2010* BD '000	*2009* BD '000
Revenue	23	**1,190,939**	1,037,746
Direct costs	24	**1,057,869**	988,025
Gross profit		**133,070**	49,721
Dividend income		**801**	1,430
Gain (loss) on investments carried at fair value through statement of income		**171**	(100)
Other operating income	25	**29,636**	31,993
Selling and distribution expenses		**(91,969)**	(95,296)
Administrative expenses		**(102,591)**	(84,970)
Other operating expenses	26	**(17,993)**	(26,221)
Operating loss		**(48,875)**	(123,443)
Share of profit of associates	10	**47,363**	82,524
Interest income		**5,475**	3,253
Interest expense		**(36,680)**	(38,668)
Fair value loss on revaluation/settlement of derivatives (net)	4	**(10,358)**	(64,162)
Impairment losses	27	**(191,253)**	(42,736)
NET LOSS FOR THE YEAR		**(234,328)**	(183,232)
Attributable to:			
Shareholder of the parent		**(265,106)**	(166,542)
Non-controlling interests		**30,778**	(16,690)
		(234,328)	(183,232)

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010 BD '000	2009 BD '000
LOSS FOR THE YEAR	**(234,328)**	(183,232)
Other comprehensive income		
Movement in cumulative changes in fair values	**8,991**	9,124
Transfer to consolidated statement of income	**3,538**	(1,988)
Share of changes in equity of associates	**3,976**	10,469
Foreign currency translation	**(3,275)**	9,275
Total other comprehensive income for the year	**13,230**	26,880
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(221,098)**	(156,352)
Attributable to:		
Shareholder of the parent	**(251,951)**	(139,460)
Non-controlling interests	**30,853**	(16,892)
	(221,098)	(156,352)

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Note	*2010* *BD '000*	*2009* *BD '000*
OPERATING ACTIVITIES			
Net loss for the year		**(234,328)**	(183,232)
Adjustments for:			
Depreciation		**114,278**	121,852
Fair value loss on derivatives	4	**10,358**	64,162
Loss on investments carried at fair value through statement of income		**(171)**	100
(Gain) loss on non-trading investments		**(224)**	1,142
Loss on sale of investment in associate		**16,630**	849
Share of profits of associates		**(47,363)**	(82,524)
Impairment loss on non-trading investments, investment in associates and investment properties	27	**191,253**	42,736
(Write back) provision for impairment on trade accounts and other receivables		**(4,833)**	2,279
Loss on disposal and write-off of property, plant and equipment	26	**1,613**	24,649
Interest income		**(5,398)**	(3,253)
Interest expense		**36,540**	38,668
Employees' end of service benefits	17	**1,926**	1,437
Operating profit before changes in operating assets and liabilities		**80,281**	28,865
Changes in operating assets and liabilities:			
Inventories		**4,879**	62,446
Trade accounts receivable, prepayments and other assets		**2,523**	61,284
Trade accounts payable, accruals and other liabilities		**(56,247)**	(40,511)
Cash from operating activities		**31,436**	112,084
Interest paid		**(37,261)**	(38,668)
Derivative financial instruments		**(22,706)**	(3,160)
Employees' end of service benefits paid	17	**(2,818)**	(1,825)
Net cash (used in) from operating activities		**(31,349)**	68,431
INVESTING ACTIVITIES			
Investment in associates	10	**(1,600)**	(350)
Purchase of non-trading and other investments		**(454)**	(72,480)
Proceeds from sale of non-trading investments and other investments		**1,126**	2,327
Proceeds from sale of investment in associate		**12,784**	1,521
Purchase of property, plant and equipment	12	**(94,393)**	(176,583)
Investment in properties	11	**(353)**	(307)
Proceeds from disposal of property, plant and equipment		**4,822**	99,235
Other assets		**(47,364)**	(50,899)
Dividends from associates	10	**41,691**	39,746
Net cash used in investing activities		**(83,741)**	(157,790)

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2010

	Note	*2010* *BD '000*	*2009* *BD '000*
FINANCING ACTIVITIES			
Capital contribution		**400,000**	13,025
Proceeds from borrowings		**575,915**	222,007
Repayment of borrowings		**(393,617)**	(189,509)
Dividend paid to non-controlling interests		**(16,639)**	(6,348)
Acquisition of non-controlling interests		**(17,271)**	-
Amount received from non controlling interests		**122,366**	-
Interest received		**5,398**	3,253
Margin deposits with brokers and other deposits		**(4,763)**	(7,221)
Obligations relating to acquired entities		**(14,089)**	(102,947)
Net cash from (used in) financing activities		**657,300**	(67,740)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**542,210**	(157,099)
Cash and cash equivalents at beginning of the year		**(66,947)**	90,152
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**475,263**	(66,947)

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Attributable to shareholder of the parent						*Non-controlling interests*	*Total equity*
	Share capital BD '000	*Capital contribution BD '000 (note 19)*	*Statutory reserve BD '000 (note 20)*	*Other reserves BD '000 (note 21)*	*Accumulated deficit BD '000 (i)*	*Total BD '000*	*BD '000*	*BD '000*
Balance at 31 December 2008	1,845,635	816,050	21,252	(39,665)	55,150	2,698,422	154,203	2,852,625
Loss for the year	-	-	-	-	(166,542)	(166,542)	(16,690)	(183,232)
Other comprehensive income	-	-	-	26,868	214	27,082	(202)	26,880
Total comprehensive income	-	-	-	26,868	(166,328)	(139,460)	(16,892)	(156,352)
Net contribution by the shareholder (note 19)	-	176,276	-	-	-	176,276	-	176,276
Dividend paid to non-controlling interests	-	-	-	-	-	-	(6,348)	(6,348)
Transfer from other liabilities	-	-	-	-	-	-	19,963	19,963
Balance at 31 December 2009	1,845,635	992,326	21,252	(12,797)	(111,178)	2,735,238	150,926	2,886,164
Loss for the year	-	-	-	-	(265,106)	(265,106)	30,778	(234,328)
Other comprehensive income	-	-	-	13,165	(10)	13,155	75	13,230
Total comprehensive income	-	-	-	13,165	(265,116)	(251,951)	30,853	(221,098)
Contribution by the shareholder (note 19)	-	494,089	-	-	-	494,089	-	494,089
Dividend paid to non-controlling interests	-	-	-	-	-	-	(16,639)	(16,639)
Acquisition of non-controlling interests (note 22)	-	-	-	-	-	-	(17,271)	(17,271)
Amounts received from non-controlling interests (note 22)	-	-	-	-	51,008	51,008	71,358	122,366
Balance at 31 December 2010	**1,845,635**	**1,486,415**	**21,252**	**368**	**(325,286)**	**3,028,384**	**219,227**	**3,247,611**

(i) Accumulated deficit is net of BD 34,963 thousand (2009: BD 23,897 thousand) non-distributable reserves relating to subsidiaries.

The attached notes 1 to 33 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company"), a closed Bahraini Joint Stock Company, was incorporated in the Kingdom of Bahrain by Decree number 64 of 2006 and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 61579, on 29 June 2006. The Company operates as an investment company. The postal address of the Company's registered office is P.O. Box 820, Manama, Kingdom of Bahrain.

The Company is fully owned by the Government of the Kingdom of Bahrain ("the shareholder") through the Ministry of Finance. The Company acts as the investment arm of the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 1 June 2011.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets at fair value through the statement of income and available for sale investments, which are carried at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Company and are rounded to the nearest thousand (BD '000).

Statement of compliance
The consolidated financial statements of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries (together "the Group") have been prepared in accordance with International Financial Reporting Standards (IFRS), and in conformity with the Bahrain Commercial Companies Law.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The Company has the following subsidiaries:

Name	*Ownership at 31 December 2010*	*Date of effective control*	*Activity*
Aluminium Bahrain B.S.C. (c)	69.38% (2009: 77%)	29 June 2006	Owns and operates a primary aluminium smelter and the related infrastructure.
Awali Real Estate Company B.S.C. (c)	100%	2 September 2008	Developing, buying, selling and management of investment properties.
Bahrain Airport Company B.S.C. (c)	100%	17 January 2008	Managing airport facilities, airplanes ground services, airport surrounding area development etc.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Name	*Ownership at 31 December 2010*	*Date of effective control*	*Activity*
Bahrain Food Holding Company S.P.C.	100%	20 July 2008	Investment holding company.
Bahrain International Circuit Company S.P.C.	100%	29 June 2006	Managing, operating and renting the car racing track in Bahrain.
Bahrain Real Estate Investment Company B.S.C. (c)	100%	29 June 2006	Development, leasing and managing investment properties.
Gulf Air Company G.S.C.	100%	5 May 2007	Transportation of passengers and freight on a scheduled and charter basis.
Gulf Air Group Holding Company B.S.C. (c)	100%	19 March 2008	Investment holding company.
Hawar Island Development Company B.S.C. (c)	100%	27 February 2007	Development, buying, selling, leasing and management of investment properties.
Tourism Project Company B.S.C.	100%	29 June 2006	Developing and managing tourism resorts.
ATBAHRAIN B.S.C. (c) formerly Sakhir City Development Holding Company B.S.C. (c)	100%	25 November 2008	Development of investment properties
Gulf Aviation Academy B.S.C. (c)	100%	22 July 2009	Providing training for airline pilots, cabin crew and related services.
Gulf Technics Company B.S.C. (c)	100%	20 January 2010	Maintenance of aviation, repair, fleet technical management, etc.
Falcon Group Holding Company B.S.C. (c)	100%	2 February 2010	Investment holding company.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)
Bahrain Food Holding Company S.P.C. has the following subsidiaries:

Name	*Ownership at 31 December 2009*	*Date of effective control*	*Activity*
General Poultry Company B.S.C. (c)	100%	29 June 2006	Poultry farming and sale of eggs.
Bahrain Flour Mills Company B.S.C.	65.70%	29 June 2006	Production and sale of flour and related products.

All of the subsidiaries above are incorporated in the Kingdom of Bahrain.

Gulf Technics B.S.C. (c) and Falcon Group B.S.C. (c) were incorporated by the Group during the current year. Gulf Aviation Academy B.S.C. (c) was incorporated by the Group during the previous year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All material intra-group balances and transactions, including material unrealised gains and losses on transactions, between Group companies have been eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the parent shareholder's equity. Losses within a subsidiary are attributed to the non controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group losses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate

2.2 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies
The accounting policies adopted by the Group are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS.

IFRS 2 Share- based Payment (Revised)
The IASB issued an amendment to IFRS2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS27 Consolidated and Separate Financial Statements (Amended)
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. This also covers the designation of inflation as a hedged risk or portion thereof in particular situations. The amendment has no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRS (issued April 2009)
In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

IFRS 8 Operating Segment Information: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies (continued)
IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment had no impact on the consolidated cash flows of the Group.

IAS 36 Impairment of Assets: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

New standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after 1 January 2013. The Group is assessing the impact and timing of the application of IFRS 9 on the Group's financial statements.

Cash and cash equivalents
For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise of cash in hand, bank balances, treasury bills, deposits held at call with banks and other short-term deposits with an original maturity of three months or less, net of outstanding overdrafts.

Derivative financial instruments and hedging
The Group uses derivative financial instruments such as forward and future aluminium metal contracts and aluminium metal options to hedge its risk associated with aluminium price fluctuations, and option contracts to hedge against fuel costs. The Group also uses forward foreign exchange contracts and interest rate collars and swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either:

i) the changes in fair value of a recognised asset or liability (fair value hedge); or

ii) the future cash flows attributable to a recognised asset or liability or an unrecognised firm commitment (cash flow hedge).

The Group's criteria for a derivative financial instrument to be accounted for as a hedge include:

- at the inception of the hedge there is formal documentation of the hedging relationship and the enterprise's risk management objective and strategy for undertaking the hedge. That documentation should include identification of the hedging instrument, the related hedged item or transaction, the nature of the risk being hedged, and how the enterprise will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or the hedged transaction's cash flows that is attributable to the hedged risk;
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistent with the originally documented risk management strategy for that particular hedging relationship;

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

- for cash flow hedges, a forecasted transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect reported profit or loss;
- the effectiveness of the hedge can be reliably measured, that is, the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured; and
- the hedge must be assessed on an ongoing basis and determined to have actually been highly effective throughout the financial reporting period.

Changes in fair values of derivative financial instruments that are designated, and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are recognised in the consolidated statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in 'other reserves' at that time remains in shareholders equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders equity is immediately transferred to the consolidated statement of income.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting and are classified as held for trading, are immediately recognised in the consolidated statement of income.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through the statement of income, receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through the statement of income, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets carried at fair value through statement of income

Financial assets carried at fair value through statement of income represent financial assets designated upon initial recognition at fair value through statement of income. These assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at fair value through statement of income are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in gain or loss on financial assets at fair value through statement of income.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Non-trading investments
These are classified as follows:

- Held to maturity
- Available-for-sale

Held to maturity investments
Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost using the effective interest method, less impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognised in the consolidated statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised in other comprehensive income as cumulative change in fair value. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any. When the investment is disposed of or derecognised or is impaired, the cumulative gain or loss previously recorded in other comprehensive income is recognised in the consolidated statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the consolidated statement of income as 'Dividend income' when the right of payment has been established. Losses arising from impairment of such investments are transferred from other comprehensive income to the statement of income and recognised as "impairment losses".

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method, less impairment. Gains and losses are recognised in the consolidated statement of income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair values
For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities.

- For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

- Derivatives which are not traded in an active market such as commodity options, interest rate collars and swaps etc are determined by valuation techniques carried out by counterparties.

- Forward foreign exchange contracts are determined using forward exchange market rates at the statement of financial position date with the same maturity.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectability of financial assets
The Group assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the investment is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the investment does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in consolidated statement of income.

Trade accounts receivable
A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired receivables are written off when they are assessed as uncollectable.

Available for sale investments
For available for sale investments, the Group assess at each statement of financial position date whether there is objective evidence that an investment is impaired. In case of equity investments, classified as available for sale, objective evidence include a 'significant or prolonged' decline in the fair value of the investment below its cost.

If an available for sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in income, is transferred from other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available for sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

Assets held for sale / distribution
Assets held for sale / distribution comprise of assets which are expected to be sold / distributed within twelve months from the date of the statement of financial position and are measured at the lower of their carrying amount and fair value less costs to sell.

Inventories
Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition.

Net realisable value is based on estimated selling price, less any further costs expected to be incurred on completion and disposal.

Where necessary, an impairment provision is made for obsolete, slow moving and defective items.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates
The Group's investment in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence normally comprising an interest of 20% - 50% in the voting capital and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the comprehensive income of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in consolidated statement of income.

The financial statements of the associates are prepared for the same reporting period as the Company.

Investment properties
Property that is held to earn long term rentals or for capital appreciation or both, and that is not occupied by any member of the Group is classified as investment property. Investment property comprises land and buildings. Investment property is initially measured at cost, including transaction costs.

After initial recognition, the investment property is measured at cost less accumulated depreciation and any accumulated impairment loss. Depreciation is calculated on a straight line basis over the estimated useful lives of 20 years. No depreciation is provided on freehold land.

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. All other expenses are included in the consolidated statement of income when incurred.

Investment property under construction is treated as investment property based on IAS 40 (revised).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of income in the year of retirement or disposal.

Property, plant and equipment, and depreciation
Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Land and assets in the process of completion are not depreciated.

Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment, and depreciation (continued)
Depreciation is calculated on a straight line basis over the estimated useful lives of property, plant and equipment as follows:

	Useful lives (years)
• Buildings and leasehold improvements	25 - 35
• Aircraft	5 - 18
• Plant, machinery and equipment	3 - 25
• Motor vehicles	5
• Furniture and office equipment	5

Leased aircraft and components are recorded by the Group as per the terms of the underlying lease agreements as operating leases.

Freehold land is not depreciated as it is deemed to have an indefinite life.

Assets in the process of completion are transferred to property, plant and equipment when the asset is ready to be put to commercial use.

Except for owned aircraft, where the cost of aircraft is identified by the Group into the estimated values of the major components and embedded maintenance costs, expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property, plant and equipment. All other maintenance expenditure is recognised in the consolidated statement of income as the expense is incurred.

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Property, plant and equipment
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable at the statement of financial position date. For the aircraft, the Group assesses impairment on the basis of independent external valuations.

Goodwill
The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

Goodwill (continued)
Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Associates
After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each statement of financial position date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the recoverable amount and the carrying value of the associate and recognises the amount in the consolidated statement of income.

Financial liabilities
Obligations relating to acquired entities are assessed at each period end and adjusted accordingly.

Borrowings
Borrowings are recognised initially at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, borrowings are carried at amortised cost.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective yield.

Interest is charged as an expense based on effective yield, with unpaid amounts included in "accrued expenses".

Trade accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Derecognition of financial assets and liabilities

Financial assets
A financial asset (in whole or in part) is derecognised where:

- the right to receive cash flows from the asset has expired;
- the Group has transferred its rights to cash flows from an asset and either (a) 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.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Employee benefits

End of service benefits

The expatriate employees of the Group are paid an end of service indemnity, which represents a defined benefit plan in accordance with the provisions of the labour law in their respective countries of employment. This liability, which is not funded, is provided for on the basis of the notional amount payable based on accrued service as at the statement of financial position date.

Other benefits

Employees' other benefits such as housing, annual leave, air passage and other short-term benefits are recognised as they accrue to the employees.

Bahraini nationals

For Bahraini nationals, the Group makes contributions to the Social Insurance Organisation (SIO) Scheme. This is a funded defined contribution scheme and the Group's contributions are charged to the consolidated statement of income in the year to which they relate. The Group's obligations are limited to the amounts contributed to the Scheme.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Operating leases

Group as a lessee:

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor:

Assets leased out under operating leases are included in investment properties in the consolidated statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

Transactions in foreign currencies are initially recorded in Bahraini Dinars at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at exchange rate ruling at the statement of financial position date. All exchange gains and losses are taken to the consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non monetary transactions measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Translation gains or losses on non-monetary available for sale items carried at fair value are included in equity as part of the fair value adjustment on available for sale investments, unless part of an effective hedging strategy.

The assets and liabilities of foreign operations are translated into Bahraini Dinars at the rate of exchange ruling at the statement of financial position date and their statement of income items are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts.

Passenger tickets and cargo bills

Sale of passenger tickets and cargo airway bills are recognised as revenue when the transportation service is provided.

Sale of passenger tickets and cargo airway bills are initially recorded as unearned revenue. The value of passenger and cargo tickets sold but which have remained unused for more than 24 months, or are otherwise not expected to be used based on customer usage statistics, is accounted for as income.

Sale of metal and other products

Revenue from the sale of finished metal and other goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Direct costs

Direct costs are recognised at the same time as the revenue to which they relate.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

Taxes

There is no tax on corporate income in the Kingdom of Bahrain.

3 CASH AND BANK BALANCES

	2010	*2009*
	BD '000	*BD '000*
Cash and current accounts with banks	**102,420**	18,510
Call deposits	**44,086**	44,111
Term deposits	**351,878**	55,032
Cash and bank balances	**498,384**	117,653
Bank balances under lien and term deposits with an original maturity of more than three months	**(16,687)**	(11,925)
Bank overdrafts (note 15)	**(6,434)**	(172,675)
Cash and cash equivalents as per the consolidated statement of cash flows	**475,263**	(66,947)

The majority of the cash and bank balances, and call and term deposits are denominated in Bahraini Dinars and US Dollars. As at 31 December 2010, the effective interest rate of call deposits was 0.20% (2009: 0.16%) and term deposits was 1.57% (2009: 2.38%).

4 DERIVATIVE FINANCIAL INSTRUMENTS

The Group has a number of derivative financial instruments comprising interest rate collars, knockout swaps, forward foreign exchange contracts and commodity options. The fair value of the derivative financial instruments at the statement of financial position date and gains (losses) for the year ended 31 December 2010 are as follows:

	At 31 December 2010		***Gains (losses) for the year ended 31 December 2010***		
	Positive fair value BD '000	***Negative fair value BD '000***	***Revaluation BD '000***	***Realised BD '000***	***Total BD '000***
Held as trading					
Commodity options and futures	**2,352**	**131,391**	**11,431**	**(14,194)**	**(2,763)**
Interest rate collars and knockout swaps	**-**	**13,530**	**1,415**	**(8,685)**	**(7,270)**
Forward foreign exchange contracts	**-**	**1,335**	**(325)**	**-**	**(325)**
Total	**2,352**	**146,256**	**12,521**	**(22,879)**	**(10,358)**

	At 31 December 2009		*Gains (losses) for the year ended 31 December 2009*		
	Positive fair value BD '000	*Negative fair value BD '000*	*Revaluation BD '000*	*Realised BD '000*	*Total BD '000*
Held as trading					
Commodity options and futures	16,875	156,865	(66,072)	(5,067)	(71,139)
Interest rate collars and knockout swaps	-	15,252	6,228	(150)	6,078
Forward foreign exchange contracts	-	1,010	899	-	899
Total	16,875	173,127	(58,945)	(5,217)	(64,162)

4 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group does not engage in proprietary trading activities in derivatives. However, the Group enters into derivative transactions to hedge economic risks under its risk management guidelines that may not qualify for hedge accounting under IAS 39. Consequently, gains or losses resulting from the re-measurement to fair value of these derivatives are taken to the consolidated statement of income.

Interest rate collars and knockout swaps
The Group initially entered into an interest rate collar and knockout swap transactions for BD 565,500 thousand (US$ 1,500,000 thousand) floating rate borrowings for financing certain projects of Aluminium Bahrain B.S.C. (c) to manage overall financing costs. These contracts expire on 17 February 2015.

The notional amounts outstanding as at 31 December 2010 (note 15) were BD 228,632 thousand (US$ 606,451 thousand) and as at 31 December 2009 were BD 307,925 thousand (US$ 816,776 thousand).

Commodity options
The Group entered into commodity options to offset the premium payable on the interest rate collar. The exposure to the Group is that if the London Metal Exchange (LME) price of aluminium exceeds US$ 1,658 (2009: US$ 1,780) per metric tonne then the Group will pay the difference between the market price and the average contracted price of US$ 1,658 (2009: US$ 1,780) per metric tonne for certain tonnages of aluminium.

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	2010	*2009*
	BD '000	*BD '000*
Trade accounts receivable (net of provision for impairment)	**126,935**	126,270
Other receivables (net of write back)	**27,968**	24,243
Prepayments	**12,757**	14,837
	167,660	165,350

Certain trade receivables were assigned to a financial institution for the purpose of obtaining short term loans. The balance of short term loans outstanding at 31 December 2010 was BD 6,813 thousand (2009: BD 8,823 thousand) (note 15).

Movements in the provision for impairment of trade receivables were as follows:

	2010	*2009*
	BD '000	*BD '000*
Balance at beginning of the year	**13,843**	14,555
Written back during the year, net	**(2,533)**	(625)
Amount written off during the year	**(243)**	(87)
Balance at end of the year	**11,067**	13,843

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS (continued)

The ageing analysis of unimpaired trade accounts receivable is as follows:

			Past due but not impaired				
	Total	*Neither past due nor impaired*	*< 30 days*	*31 – 60 days*	*61 – 90 days*	*91 – 120 days*	*>120 days*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
2010	**126,935**	**109,726**	**5,895**	**1,531**	**1,760**	**4,084**	**3,939**
2009	126,270	112,396	7,472	3,121	230	2,168	883

Unimpaired trade accounts receivable are expected, on the basis of experience, to be fully recoverable.

6 INVENTORIES

	2010	*2009*
	BD '000	*BD '000*
Raw materials	**38,116**	48,938
Work in progress	**48,766**	55,614
Finished goods	**26,084**	27,879
Store, spare parts and consumables	**35,825**	26,886
Goods in transit	**23,061**	16,891
	171,852	176,208
Provision for impairment of inventories	**(3,021)**	(3,103)
	168,831	173,105

Movement in provision for impairment of inventories is as follows:

	2010	*2009*
	BD '000	*BD '000*
Balance at beginning of the year	**3,103**	3,405
Provided during the year	**2,344**	369
Inventories written off during the year	**(2,426)**	(671)
	3,021	3,103

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2010	*2009*
	BD '000	*BD '000*
Equities	**1,746**	1,587
Managed funds	**614**	557
Bonds	**247**	242
	2,607	2,386

8 ASSETS HELD FOR DISTRIBUTION

During the year the Group has received a notification from the shareholder to transfer back certain properties which have been contributed by the shareholder in the past. Subject to certain legal formalities being completed and an agreement reached with the shareholder on contribution of new properties in lieu of properties returned, the Group expects the distribution of the properties to be completed in 2011. Therefore, in accordance with the requirements of "IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations", the Group has reclassified properties with a carrying value BD 333,673 thousand as 'Assets held-for-distribution' (note 11). The Group expects to receive new parcels of land, or other properties acceptable to the Group and the Shareholder, of value equivalent to the value of properties returned to the Shareholder.

9 NON-TRADING INVESTMENTS

	2010			*2009*		
	Held to maturity BD '000	***Available for sale BD '000***	***Total BD '000***	*Held to maturity BD '000*	*Available for sale BD '000*	*Total BD '000*
Quoted investments						
Equities	**-**	**4,537**	**4,537**	-	5,155	5,155
Managed funds	**-**	**1,538**	**1,538**	-	1,184	1,184
	-	**6,075**	**6,075**	-	6,339	6,339
Unquoted investments						
Bonds	**250**	**-**	**250**	658	-	658
Equities	**-**	**216,014**	**216,014**	-	209,637	209,637
	250	**216,014**	**216,264**	658	209,637	210,295
	250	**222,089**	**222,339**	658	215,976	216,634

Available for sale investments include unquoted investments amounting to BD 5,255 thousand (2009: BD 5,680 thousand) which are carried at cost. The fair value of these securities cannot be reliably estimated due to the unpredictable nature of their future cash flows and the lack of suitable alternate methods for arriving at a reliable fair value. Impairment losses on available for sale investments recognised in the consolidated statement of income were BD 6,326 thousand (2009: BD 24,013 thousand) (note 27).

10 INVESTMENT IN ASSOCIATES

(i) The Group has the following principal associates at 31 December 2010:

	Country of incorporation	*Ownership %*
Bahrain Telecommunications Company B.S.C.	Kingdom of Bahrain	36.67%
Durrat Al Khaleej Al Bahrain B.S.C. (c)	Kingdom of Bahrain	50%
Gulf Aluminium Rolling Mill Company B.S.C. (c)	Kingdom of Bahrain	37.3%
Hawar Holding Company *(note)*	Cayman Islands	33.33%
McLaren Group Limited	United Kingdom	42%
McLaren Automotive Limited	United Kingdom	50%
National Bank of Bahrain B.S.C.	Kingdom of Bahrain	49%

Note: This associate owns 20% of the issued share capital of Bahrain Telecommunications Company B.S.C. The 20% shares of Bahrain Telecommunications Company B.S.C. owned by the associate is pledged to financial institutions as a security against loans obtained by the associate for the purpose of financing the acquisition of the said shares.

10 INVESTMENT IN ASSOCIATES (continued)

(ii) The movement in investment in associates during the year comprises:

	2010 *BD '000*	*2009* *BD '000*
Balance at beginning of the year	**1,092,683**	1,048,609
Disposals during the year	**(27,263)**	(2,371)
Post acquisition share of profit	**47,363**	82,524
New acquisitions during the year	**1,600**	350
Share of change in equity of associates	**3,976**	10,469
Foreign currency translation	**(3,275)**	9,275
Impairment losses (note 27)	**(151,887)**	(18,723)
Dividends received	**(41,691)**	(39,746)
Other	**(605)**	2,296
	920,901	1,092,683

(iii) Disposal during the year

During the year, the Group disposed of its investment in Lulu Tourism Company B.S.C (c). A realised loss amounting to BD 16,630 thousand is included in other operating expenses (note 26). During 2009, the Group disposed of its 37.4% investment in BBIC Limited. A realised loss amounting to BD 849 thousand is included in other operating expenses (note 26).

(iv) Impairment losses

The impairment losses on associates arose mainly due to the depressed market conditions.

(v) Summarised financial information

	2010 *BD '000*	*2009* *BD '000*
Share of the associates' statement of financial position:		
Assets	**1,785,106**	1,728,726
Liabilities	**(1,336,686)**	(1,273,250)
Net assets	**448,420**	455,476

Share of associates' revenue and profit:

	2010 *BD '000*	*2009* *BD '000*
Revenue	**326,302**	327,174
Profit	**47,363**	82,524

(vi) Fair values

National Bank of Bahrain B.S.C. and Bahrain Telecommunications Company B.S.C. are listed on the Bahrain Stock Exchange. The fair values based on quoted prices at 31 December 2010 were BD 236,235 thousand (2009: BD 224,804 thousand) and BD 269,280 thousand (2009: BD 311,520 thousand) respectively.

11 INVESTMENT PROPERTIES

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2010	816,726	431	817,157
Additions	-	353	353
Properties contributed by shareholder (note 19)	20,592	2,325	22,917
Transfer to assets held for distribution	(333,673)	-	(333,673)
At 31 December 2010	**503,645**	**3,109**	**506,754**
Depreciation:			
Balance at 1 January 2010	-	18	18
Charge for the year	-	62	62
At 31 December 2010	**-**	**80**	**80**
Impairment losses			
Provided for the year 2010 (note 27)	**33,040**	**-**	**33,040**
Net carrying amount:			
At 31 December 2010	**470,605**	**3,029**	**473,634**

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2009	815,926	498	816,424
Additions		307	307
Disposals	-	(374)	(374)
Properties contributed by shareholder (note 19)	800	-	800
At 31 December 2009	816,726	431	817,157
Depreciation:			
Balance at 1 January 2009	-	55	55
Relating to disposals	-	(43)	(43)
Charge for the year	-	6	6
At 31 December 2009	-	18	18
Net carrying amount:			
At 31 December 2009	816,726	413	817,139

Investment properties are unencumbered at the statement of financial position date. The fair value of the investment properties, based on independent valuations performed by external property consultants using comparable market transactions, at 31 December 2010 was BD 510,551 thousand (2009: BD 835,418 thousand).

Investment properties, with a cost of BD 304,756 thousand (2009: BD 641,143 thousand), are leased out under operating leases.

Freehold land included in investment properties of BD 459,878 thousand (2009: BD 400,905 thousand) have been registered in the name of the Group and the title to the remaining freehold land are in the process of being registered.

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land BD '000	*Buildings and leasehold improvements BD '000*	*Aircrafts BD '000*	*Plant, machinery and equipment BD '000*	*Motor vehicles BD '000*	*Furniture and office equipments BD '000*	*Assets in the process of completion BD '000*	*Total BD '000*
Cost:								
At 1 January 2010	908	219,163	267,647	995,197	4,198	25,286	156,001	1,668,400
Additions	-	213	39,544	1,581	167	1,256	94,806	137,567
Transfers	-	188	55,526	5,038	380	5,782	(66,914)	-
Disposals	-	(181)	(98,430)	(855)	(926)	(51)	-	(100,443)
Write off	-	(140)	-	(5,052)	(187)	(69)	(51)	(5,499)
At 31 December 2010	**908**	**219,243**	**264,287**	**995,909**	**3,632**	**32,204**	**183,842**	**1,700,025**
Depreciation:								
At 1 January 2010	-	26,505	43,808	195,837	2,545	21,669	-	290,364
Charge for the year	-	8,830	31,300	65,503	1,700	6,562	-	113,895
Relating to transfers	-	-	-	(3,659)	-	3,659	-	-
Relating to disposals	-	(107)	(49,666)	(773)	(874)	(41)	-	(51,461)
Relating to write off	-	45	13	(4,708)	(159)	(63)	-	(4,872)
At 31 December 2010	**-**	**35,273**	**25,455**	**252,200**	**3,212**	**31,786**	**-**	**347,926**
Net carrying amount:								
At 31 December 2010	**908**	**183,970**	**238,832**	**743,709**	**420**	**418**	**183,842**	**1,352,099**

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold land BD '000	*Buildings and leasehold improvements BD '000*	*Aircraft BD '000*	*Plant, machinery and equipment BD '000*	*Motor vehicles BD '000*	*Furniture and office equipment BD '000*	*Assets in the process of completion BD '000*	*Total BD '000*
Cost:								
At 1 January 2009	908	215,417	274,512	973,311	5,509	23,540	128,304	1,621,501
Additions	-	412	103,225	4,393	317	1,120	120,489	229,956
Transfers	-	5,473	48,108	36,407	1,562	1,196	(92,746)	-
Disposals	-	(852)	(158,198)	(2,880)	(2,711)	(236)	(46)	(164,923)
Write off	-	(1,287)	-	(16,034)	(479)	(334)	-	(18,134)
At 31 December 2009	908	219,163	267,647	995,197	4,198	25,286	156,001	1,668,400
Depreciation:								
At 1 January 2009	-	18,898	49,160	143,489	2,895	13,549	-	227,991
Charge for the year	-	8,794	36,618	64,882	2,697	8,555	-	121,546
Relating to disposals	-	(796)	(41,970)	(2,425)	(2,631)	(197)	-	(48,019)
Relating to write off	-	(391)	-	(10,109)	(416)	(238)	-	(11,154)
At 31 December 2009	-	26,505	43,808	195,837	2,545	21,669	-	290,364
Net carrying amount:								
At 31 December 2009	908	192,658	223,839	799,360	1,653	3,617	156,001	1,378,036

12 PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Assets on lease

Gulf Air Company G.S.C.'s headquarters are situated on land belonging to the shareholder that has been made available on a rent free basis for an indefinite duration. In addition, Aluminium Bahrain B.S.C. (c) uses land leased from the Government of Bahrain and from The Bahrain Petroleum Company B.S.C. (c). These leases are rent free. Bahrain Airport Company B.S.C. (c) uses the Bahrain Airport land leased from the Government of Bahrain at a rent of BD 1 per annum. In addition, Bahrain International Circuit Company S.P.C. uses circuit and other facilities leased from the Government of Bahrain at a rent of BD 1 per annum. During the year aircrafts have been sold and leased back with a net book value of BD 43,174 thousand (2009: nil) which have been excluded from the purchases of property, plant and equipment in the consolidated statement of cash flows.

(ii) Secured assets

The net carrying amount of aircraft includes an amount of BD 228,519 thousand (2009: BD 179,479 thousand) in respect of assets acquired under term loans and finance leases which are secured by a charge on these assets. The items include both direct purchases financed by term loans and finance leases which are secured thereto, and aircraft and engines purchased under conditional sale agreements whereby Gulf Air Company G.S.C. has possession of all the risks and rewards of ownership but where title remains with the seller until payment in full of the purchase price.

(iii) Assets in the process of completion

Assets in the process of completion include pre-delivery payments of BD 74,346 thousand (2009: BD 84,549 thousand) in respect of aircraft scheduled for delivery between 2010 and 2014 and other capital projects of BD 108,715 thousand (2009: BD 71,452 thousand). Interest is capitalised during the year amounted to BD 1,771 thousand (2009: BD 2,468 thousand).

13 OTHER ASSETS

	2010 *BD '000*	*2009* *BD '000*
Deposits	**11,232**	19,561
Receivable from associates	**121,931**	68,955
Miscellaneous assets	**6,612**	5,028
	139,775	93,544

Deposits represent amounts placed with lessors for the lease of aircraft and engines and other security deposits. These deposits carry no interest and are repayable at various dates till 2015 (refer note 28, commitments, (ii)).

Receivable from associates include an amount receivable from Gulf Aluminium Rolling Mill Company B.S.C. (c) (GARMCO) of BD 20,630 thousand (2009: BD 24,068 thousand) and McLaren Automotive Limited of BD 100,099 thousand (2009: BD 44,887 thousand). The amount receivable from GARMCO was originally an overdue trade receivable and was converted into a long term loan during 2007. The loan is repayable in 16 half yearly installments with the first installment commencing 30 June 2009. Interest is payable half yearly on the outstanding balances at 6 month LIBOR plus a margin of 1%. The effective interest rate as of 31 December 2010 was 1.75% (2009: 2.11%).

The amount receivable from McLaren Automotive Limited represents loans provided by the Group to finance its expansion project. The effective interest rate as of 31 December 2010 was 4.52% (2009: 3.57%). The loans are partly secured by pledge of shares by the other shareholders of McLaren Automotive Limited.

Miscellaneous assets include a receivable of BD 3,793 thousand (2009: 3,906 thousand) which is secured against borrowings (note 15).

14 GOODWILL

	2010	*2009*
	BD '000	*BD '000*
Balance at beginning and at the end of the year	**787,778**	787,778

Impairment testing of goodwill

Goodwill acquired through business combinations on 29 June 2006 have been allocated to two individual cash-generating units, for impairment testing as follows:

• Aluminium Bahrain B.S.C. (c) [Alba]	**786,813**
• General Poultry Company B.S.C. (c) [General Poultry]	**965**
	787,778

In accordance with the requirements of IFRS, the Group has performed an impairment test as at 31 December 2010 in respect of the goodwill relating to Alba, using the services of an independent valuer.

The recoverable amount of the Alba cash generating unit has been determined based on value in use calculation. The forecasts use cash flow projections based on financial budgets approved by management covering an initial period of one year. Cash flows for years 2 to 4 have been determined on the basis of management's expectation of the business taking into account the prevailing global and GCC economic condition in general and the aluminium industry in particular. In addition, a growth rate of 2.5% has been applied from year 5 into perpetuity which is in line with the long term average growth rates of the business in which the cash generating unit operates.

The cash flows are discounted using a discount rate of 12%, which reflects market specific risks relating to Alba.

Based on the independent valuation, there was no impairment at 31 December 2010.

Sensitivity to changes in assumptions

With regard to the assessment of value in use, management believes that reasonably possible change in any of the above key assumptions would not cause the carrying value of the unit to materially exceed its recoverable amount.

15 BORROWINGS

	Effective interest rates		***Total 2010***	*Total 2009*
	2010	*2009*	***BD '000***	*BD '000*
Bank overdrafts (note 3)	**4.05%**	3.81%	**6,434**	172,675
Murabaha borrowings	**4.10%**	2.15%-2.98%	**43,355**	81,436
Short term loans (i)	**2.3%-6.75%**	2%-4.5%	**72,201**	77,687
Working capital revolving credit	**2.13%-3.44%**	2.14%-3.25%	**75,200**	86,480
Aluminium Bahrain B.S.C. (c) project loans	**0.84%-2.86%**	0.74%-1.61%	**214,765**	230,701
Aluminium Bahrain B.S.C. (c) refinancing loan	**0.65%**	0.65%	**99,065**	139,351
Other term loans (ii)	**2.06%-6%**	2.15%-6%	**459,787**	226,058
Finance lease obligations (iii)	**4.09%**	4.99%	**191,769**	131,669
Loan from the shareholder (iv)	**5.00%**	5%	**1,156**	1,618
			1,163,732	1,147,675

(i) This includes short term loan of BD 6,813 thousand (2009: BD 8,823 thousand) availed from a financial institution in the Kingdom of Bahrain by the assignment of certain trade receivables.

15 BORROWINGS (continued)

(ii) Other term loans comprise of the following:

- Loans amounting to BD 27,607 thousand (2009: BD 70,651 thousand) which carry interest at floating rates and are secured by a charge over certain assets of the Group. The effective interest rate at the year end was 3.4% (2009: 5.4%).
- Loans amounting to BD 8,032 thousand (2009: BD 5,446 thousand) which are secured against certain other receivables of the Group (note 13). The effective interest rate at the year end was 5.02% (2009: 5.27%).
- Unsecured loans amounting to BD 145,145 thousand (2009: BD 145,885 thousand). The effective interest rate at the year end was 2.25% (2009: 2.38%).
- US$ 750 million (BD 282,750 thousand) notes issued by the Company during 2010. The notes are unsecured, carry a coupon rate of 5% per annum and due for repayment in 2015. The carrying value of the notes at 31 December 2010 was BD 279,003 thousand.

(iii) Represents finance lease obligations which are secured against property, plant and equipment.

Future minimum lease payments under finance leases together with the present value of the minimum lease payments at 31 December are as follows:

	2010		*2009*	
	Minimum payments BD '000	***Present value of payments BD '000***	*Minimum payments BD '000*	*Present value of payments BD '000*
Within one year	**43,385**	**35,950**	27,342	22,498
After one year but not more than five years	**110,134**	**97,942**	90,816	76,960
After five years	**61,151**	**57,877**	34,094	32,211
	214,670	**191,769**	152,252	131,669
Less: Finance charges	**(22,901)**	**-**	(20,583)	-
Present value of minimum lease payments	**191,769**	**191,769**	131,669	131,669

(iv) Represents an unsecured loan obtained from the Government of the Kingdom of Bahrain for a capital project. The loan carries interest at a fixed rate of 5% per annum (2009: 5%).

16 TRADE ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2010 BD '000	*2009 BD '000*
Trade accounts payable *(i)*	**99,113**	231,465
Accrued expenses *(ii)*	**128,912**	142,907
Unearned revenue	**51,194**	31,829
Other payables	**24,472**	24,292
	303,691	430,493

(i) Details of payables to related parties included in trade accounts payable are disclosed in note 29.

(ii) Accrued expenses include BD 3,087 thousand (2009: BD 3,087 thousand) in respect of legal claims.

17 EMPLOYEES' END OF SERVICE BENEFITS

	2010 BD '000	2009 BD '000
Balance at beginning of the year	**13,532**	13,920
Provision for the year	**1,926**	1,437
Payments during the year	**(2,818)**	(1,825)
	12,640	13,532

18 OBLIGATIONS RELATING TO ACQUIRED ENTITIES

	2010 BD '000	2009 BD '000
Balance at beginning of the year	**210,192**	475,590
Transfer to capital contribution	**-**	(162,451)
Other movement during the year	**(14,089)**	(102,947)
	196,103	210,192

These obligations were assumed by Bahrain Mumtalakat Holding Company B.S.C. (c) on 29 June 2006 as an integral part of the acquisition of investments. During 2009, the shareholder had assumed part of the obligations amounting to BD 162,451 thousand and the amount was transferred to capital contribution from the shareholder (note 19).

19 SHARE CAPITAL AND CAPITAL CONTRIBUTION

	2010 BD '000	2009 BD '000
Share capital		
Authorised:		
2,000,000,000 shares of BD 1 each	**2,000,000**	2,000,000
Issued and fully paid:		
1,845,634,591 shares of BD 1 each	**1,845,635**	1,845,635

Capital contribution

During the year, the Group has received investment properties comprising of land and buildings valued at BD 22,917 thousand and cash of BD 400,000 thousand from the shareholder as additional capital contribution. In addition, the shareholder has assumed certain of the Group's trade accounts payable amounting to BD 71,172 thousand.

During 2009, the shareholder had assumed certain of the Group's obligations on entities acquired amounting to BD 162,451 thousand (note 18).

The Company has resolved to increase the authorised share capital from 2,000,000,000 shares of BD1 each to 5,000,000,000 shares of BD1, in order to issue additional shares relating to the capital contribution. The legal formalities of registering the issue of shares for the additional capital are in progress at the statement of financial position date.

20 STATUTORY RESERVE

The statutory reserve has been created in accordance with the requirements of the Bahrain Commercial Companies Law and the Articles of Association of the Company. The Company transfers 10% of its annual net income to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Company. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law.

21 OTHER RESERVES

	Available for sale reserve BD '000	*Cash flow hedges reserve BD '000 (i)*	*Foreign currency translation BD '000*	*Total BD '000*
Balance at 1 January 2010	**10,447**	**32**	**(23,276)**	**(12,797)**
Total other comprehensive income for the year	**16,397**	**(616)**	**(2,616)**	**13,165**
Balance at 31 December 2010	**26,844**	**(584)**	**(25,892)**	**368**
Balance at 1 January 2009	(3,422)	(3,240)	(33,003)	(39,665)
Total other comprehensive income for the year	13,869	3,272	9,727	26,868
Balance at 31 December 2009	10,447	32	(23,276)	(12,797)

(i) Cash flow hedges reserve represents the associates' change in fair value of derivatives during the year, where the hedges have been assessed as highly effective.

22 MOVEMENT IN NON-CONTROLLING INTERESTS

Acquisition of non-controlling interests
During 2010, Aluminium Bahrain B.S.C. (c) (ALBA) purchased 3% of its shares held by a minority shareholder for a consideration of BD 13,536 thousand. These shares were reissued to the Company and another minority shareholder, SABIC Industrial Investments Corporation. In addition, ALBA has purchased certain of its shares as treasury shares for a consideration of BD 3,735 thousand.

Amounts received from non-controlling interests
During November 2010, the Company sold a 10% stake in ALBA through an Initial Public Offering (IPO) and received a net consideration of BD 122,366 thousand. This has been recorded as an equity transaction under International Accounting Standard (IAS) 27 (Revised), Consolidated and Separate Financial Statements and accordingly the carrying value of the non-controlling interest is adjusted to the extent of the change in the ownership amounting to BD 71,358 thousand. The difference between the amount received from non-controlling interests and the above adjustment amounting to BD 51,008 thousand is transferred to accumulated deficit.

23 REVENUE

	2010 BD '000	*2009 BD '000*
Metals and minerals	**750,214**	581,162
Transportation	**418,096**	431,087
Other	**22,629**	25,497
	1,190,939	1,037,746

24 DIRECT COSTS

	2010 BD '000	2009 BD '000
Raw materials, spares and consumables	**352,116**	321,007
Staff costs	**124,948**	135,734
Depreciation	**104,607**	118,352
Fuel	**146,645**	144,778
Operating lease rentals	**37,864**	66,618
Repairs and maintenance	**102,530**	114,309
Others	**189,159**	87,227
	1,057,869	988,025

In addition to the above staff costs, selling and distribution expenses and administrative expenses include staff costs of BD 11,725 thousand and BD 44,769 thousand respectively (2009: BD 11,557 thousand and BD 34,852 thousand respectively).

25 OTHER OPERATING INCOME

	2010 BD '000	2009 BD '000
Government subsidy	**8,133**	9,354
Miscellaneous	**21,503**	22,639
	29,636	31,993

The Government subsidy represents amounts received from the Ministry of Finance on behalf of the Government of the Kingdom of Bahrain by Bahrain Flour Mills Company B.S.C. to enable it to sell flour at a controlled price.

26 OTHER OPERATING EXPENSES

	2010 BD '000	2009 BD '000
Loss on sale of an associate (note 10)	**16,630**	849
Loss on disposal and write-off of property, plant and equipment	**1,613**	24,649
Other	**(250)**	723
	17,993	**26,221**

27 IMPAIRMENT LOSSES

	2010 BD '000	2009 BD '000
Impairment losses on non-trading investments (note 9)	**6,326**	24,013
Impairment loss on investment in associates (note 10)	**151,887**	18,723
Impairment loss on investment properties (note 11)	**33,040**	-
	191,253	42,736

28 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

(i) *Capital expenditure*

At the statement of financial position date, the Group had the following capital expenditure commitments relating to the acquisition of property, plant and equipment.

	2010	*2009*
	BD '000	BD '000
Aircraft (note)	**2,295,961**	2,816,366
Other - Due within one to five years of the reporting date	**43,476**	50,963
	2,339,437	2,867,329

Note:

At 31 December 2010, aircraft commitments of BD 68,404 thousand (2009: BD 164,046 thousand) are due within one year, BD 104,206 thousand (2009: BD 1,020,410 thousand) are due within one to five years and BD 2,123,351 thousand (2009: BD 1,631,910 thousand) are due after more than five years from the reporting date.

(ii) *Operating lease commitments*

Future minimum rentals payable under non-cancellable operating leases at 31 December 2010 are as follows:

	2010	*2009*
	BD '000	*BD '000*
Within one year	**105,413**	36,717
After one year but not more than five years	**217,699**	101,556
After five years	**341**	5,044
	323,453	143,317

(iii) *Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2010 were BD 6,701 thousand (2009: BD 1,605 thousand). The commitments are expected to be settled within one year.

In addition, the Group's bankers have issued letters of credit to counterparties for derivative transactions amounting to BD 24,440 thousand (2009: BD 41,360 thousand).

Contingencies

(i) *Guarantees*

The Group has issued guarantees to banks and other institutions amounting to BD 16,499 thousand (2009: BD 10,909 thousand).

(ii) *Law suits*

a) Law suits have been filed against Gulf Air Company G.S.C. in the Kingdom of Bahrain and in other jurisdictions where Gulf Air Company G.S.C. operates. These relate to claims which are in the normal course of business. In management's view, adequate provision has been made in these consolidated financial statements for liabilities that may arise from these law suits, and the possibility of incurring significant additional penalties or damages pending final judgment is expected to be remote [note 16 (ii)].

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingencies (continued)

b) A third party has initiated a claim against Aluminium Bahrain B.S.C. (c) (ALBA), towards damages caused to its business unit. ALBA is defending the claim and it is not practicable to estimate the liability and timing of any payments at this stage. Hence no provision has been recognised in these consolidated financial statements.

c) On 27 February 2008, ALBA filed a suit in a U.S. Federal District Court against Alcoa, Inc., Alcoa World Alumina LLC and members of its senior management (together, "Alcoa"). In the complaint, ALBA alleges that Alcoa conspired to bribe certain former members of its senior management and officials of the Government of the Kingdom of Bahrain to ensure that Alcoa continued to benefit from its alumina purchases at inflated prices. Among other remedies, ALBA is seeking damages in excess of US$ 1 billion (BD 377 million) for illicit activities that took place from 1993 to 2008.

The U.S. Government filed an unopposed motion to intervene and to stay discovery on 30 March 2008, which motion was granted. On 27 March 2008, the Court granted the United States leave to intervene in the matter for the limited purpose of moving for a stay of discovery. The purpose of the order is to allow the U.S. Government to conduct a criminal investigation into the allegations without the interference from the ongoing civil litigation. The case is currently suspended pending the conclusion of the U.S. Government's investigation.

d) During 2009 ALBA on behalf of ALBA Marketing (ALMA), has filed law suits against 3 former employees of ALMA. In the complaint, ALBA alleged that three former employees earned money from criminal activities and received commissions in contravention of the Bahrain Commercial Companies Law and the Prohibition of and Combating Money Laundering Law of Bahrain ("PCMLL"). ALBA has filed a civil right claim in the case to oblige the defendants to pay the amount of US$ 17,499 thousand (BD 6,597 thousand) as interim relief, while preserving the ALBA's civil right to have recourse against the defendants for all the damages which ALMA has incurred as a result of the acts committed by the 3 former employees. On November 2010, the Bahrain criminal court found the defendants guilty under the PCMLL. In its judgment, the court did not make any reference to the reservation of ALBA's right to compensation pursuant to Article 3.2 of PCMLL. Therefore, it is not clear whether ALBA in fact will be able to collect any damages from the defendants. The defendants have appealed their criminal convictions.

e) On 18 December 2009, ALBA filed a suit in the U.S. Federal District Court for the Southern District of Texas against Sojitz Corporation (Japan) and Sojitz Corporation of America (together, "Sojitz"). In the complaint, ALBA alleges that Sojitz, a former customer of ALMA, conspired to bribe certain former members of ALBA's senior management in order to gain substantial price discounts. Among other remedies, ALBA is seeking compensatory damages in excess of US$ 31,000 thousand (BD 11,687 thousand) for the illicit activities that took place from 1993 to 2006. On 27 May 2010, the U.S. Government filed an unopposed motion to intervene and stay discovery in this case.

It is not practical to estimate the effects of the law suits (c) to (e) above on the consolidated financial statements of the Group at this stage.

29 RELATED PARTY TRANSACTIONS

Related parties represent the shareholder, profit oriented entities controlled by the shareholder, associates, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the shareholder and the boards of directors of the various group companies.

In the ordinary course of business, the Group purchases supplies and services from entities related to the Government of the Kingdom of Bahrain, principally natural gas and public utility services. A royalty, based on the production of Aluminium Bahrain B.S.C. (c), is also paid to the Government of the Kingdom of Bahrain.

Transactions with related parties included in the consolidated statement of income are as follows:

	2010			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associate BD '000***	***Total BD '000***
Income				
Revenue	**130**	-	**110,092**	**110,222**
Other operating income	**12,039**	-	**773**	**12,812**
	12,169	-	**110,865**	**123,034**
Expenses				
Direct costs	**3,526**	**107,990**	**22,911**	**134,427**
Administrative expenses	**181**	-	**844**	**1,025**
Interest expense	-	-	**5,616**	**5,616**
	3,707	**107,990**	**29,371**	**141,068**

	2009			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Income				
Revenue	-	298	79,240	79,538
Other operating income	9,354	-	768	10,122
	9,354	298	80,008	89,660
Expenses				
Direct costs	3,514	101,263	23,108	127,885
Administrative expenses	38	-	791	829
Interest expense	-	-	6,937	6,937
	3,552	101,263	30,836	135,651

Details of land leased from related parties, free of rent, are disclosed in note 12.

29 RELATED PARTY TRANSACTIONS (continued)

Balances with related parties included in the consolidated statement of financial position are as follows:

	2010			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associate BD '000***	***Total BD '000***
Assets				
Other assets (note 13)	-	-	**121,931**	**121,931**
Trade accounts receivable, prepayments and other assets	**977**	**73**	**10,150**	**11,200**
Cash and bank balances	-	-	**260,326**	**260,326**
	977	**73**	**392,407**	**393,457**
Liabilities				
Borrowings	-	-	**137,170**	**137,170**
Trade accounts payable, accrued expenses and other liabilities	**520**	**38,074**	**221**	**38,815**
	520	**38,074**	**137,391**	**175,985**

	2009			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Assets				
Other assets (note 13)	-	-	68,955	68,955
Trade accounts receivable, prepayments and other assets	2,506	-	31,167	33,673
Cash and bank balances	-	-	25,265	25,265
	2,506	-	125,387	127,893
Liabilities				
Borrowings	1,618	-	249,845	251,463
Trade accounts payable, accrued expenses and other liabilities	-	131,923	6,860	138,783
	1,618	131,923	256,705	390,246

Compensation of key management personnel

The remuneration of members of key management personnel for the year was BD 8,560 thousand (2009: BD 8,258 thousand).

Fees to the directors of the Group companies provided for during the year was BD 663 thousand (2009: BD 347 thousand).

30 FINANCIAL RISK MANAGEMENT

Overview
The Group has exposure to the following risks from a financial perspective:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note represents information about the Group's exposure to each of the above risks, the Group's approach to risk management and the management of capital. Quantitative disclosures about various risks are included in the respective sections. The Group's overall risk management approach is to moderate the effects of such risks on its financial performance. The Group uses derivatives in hedging specific exposures (note 4).

Risk Management Framework
The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management approach and for approving the risk management policies and procedures. These policies are established to identify and analyse risk faced by the Company and set appropriate risk limits and controls to monitor risks. These policies are reviewed regularly to reflect changes according to market condition and Group's activities. The Company, through its policies, procedures and processes aims to develop and maintain a robust control environment in which all employees understand their roles and responsibilities.

The Company assesses and manages risk through a committee structure. The existing committee structure for risk is designed to ensure a weekly review of risks, a sharing of knowledge about risks across all functions, an understanding of the relationships of the risks of the enterprise, and to ensure that each functional area remains accountable for the risks for which it is responsible.

Board Audit Committee
The Audit Committee oversees how the management monitors compliance with the Company risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Audit Committee is assisted in these functions by the Internal Audit Function which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Board Investment Committee
The Board Investment Committee is responsible for assessing risks associated with investment/divestment decisions and monitoring risks associated with existing portfolio. The Board Investment Committee is assisted by the Management Investment Committee in fulfilling its oversight responsibilities on policy, standards and procedures for investing in a responsible manner.

Management Executive Committee
The Management Executive Committee regularly reviews several aspects of Company's risk and is assisted by the Operating Committee in assessing, managing and monitoring operational risks.

30 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to credit risk on its bank balances including term deposits, loans and receivables, held to maturity investments and the positive fair value of derivatives. The Group places its deposits with banks with a good credit rating. Derivative contracts are entered into with counter parties with strong credit ratings and are not subject to significant credit risk.

Credit risk with respect to loans and receivables is managed by assessing the feasibility of the investment opportunity that is being funded, prior to advancing any funding.

The sale of passenger and cargo transportation is largely achieved through a large number of International Air Traffic Association (IATA) accredited sales agents. Unless expressly stated otherwise in the contract, receivables and payables among airlines are settled either bilaterally or via the IATA clearing house. For all other service relationships, depending on the nature and scope of the service rendered, collateral is required, credit reports/references are obtained and use is made of historical data from previous business relations, especially with regard to payment behavior, in order to avoid non-performance.

Credit risk with respect to receivables from customers is managed by granting credit terms and monitoring the exposure to customers on an ongoing basis. An impairment allowance is made for doubtful accounts whenever risks of default are identified.

The maximum credit risk exposure at the statement of financial position date is equal to the carrying value of the financial assets shown in the consolidated statement of financial position, which are net of impairment allowances.

(b) Liquidity risk

Liquidity risk (also referred to as funding risk) is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Group limits its liquidity risk by ensuring bank facilities are available. Trade payables are normally settled within 90 to 150 days of the date of invoice. The Group's cash flow from operations are normally adequate to meet expected liquidity requirements.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2010, based on contractual payment dates and current market interest rates.

31 December 2010	*Less than 3 months BD '000*	*3 to 12 months BD '000*	*1 to 5 years BD '000*	*More than 5 years BD '000*	*Total BD '000*
Borrowings	**98,022**	**214,703**	**959,168**	**12,120**	**1,284,013**
Derivatives	**10,837**	**35,675**	**108,907**	**-**	**155,419**
Trade accounts payable and other liabilities	**72,909**	**30,106**	**-**	**-**	**103,015**
Obligations relating to acquired entities	**3,682**	**26,105**	**141,617**	**68,095**	**239,499**
	185,450	**306,589**	**1,209,692**	**80,215**	**1,781,946**

30 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

31 December 2009	*Less than 3 months BD '000*	*3 to 12 months BD '000*	*1 to 5 years BD '000*	*More than 5 years BD '000*	*Total BD '000*
Borrowings	258,598	291,435	643,445	21,560	1,215,038
Derivatives	7,317	38,266	122,428	15,179	183,190
Trade accounts payable and other liabilities	216,450	15,496	3,434	-	235,380
Obligations relating to acquired entities	3,723	11,169	139,460	131,624	285,976
	486,088	356,366	908,767	168,363	1,919,584

Details of capital expenditure commitments are given in note 28.

(c) Market risk

Currency risk

Currency risk is the risk associated with fluctuations in the value of a financial instrument due to changes in foreign exchange rates. The Group's financial instruments are mainly denominated in Bahraini Dinars and US Dollars. The Group uses forward foreign exchange contracts to hedge against currency fluctuations (note 4).

As the Bahraini Dinar is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The table below indicates the Group's sensitivity to currency risk at 31 December 2010, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Bahraini Dinar currency rate against the Euro, Swiss Franc, Pound Sterling and Indian Rupee with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities). The effect of decreases in currency rate is expected to be equal and opposite.

	Change in currency rate	***Foreign exchange position long (short)***		***Effect on consolidated statement of income***	
		2010 BD '000	*2009 BD '000*	***2010 BD '000***	*2009 BD '000*
Euro	**10%**	**8,898**	(30,857)	**890**	(3,086)
Swiss Franc	**10%**	**118**	(47)	**12**	(5)
Pound Sterling	**10%**	**46,623**	47,264	**4,662**	4,726
Indian Rupee	**10%**	**1,539**	1,845	**154**	185

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the future profitability or the fair value of financial assets and liabilities. The majority of the financial assets and financial liabilities are variable interest rate based.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (call account, term deposits, margin deposits and borrowings). This risk is partly mitigated by interest rate derivatives.

30 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the Group's net income for one year, based on the floating rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates, with all other variables held constant.

	Increase/ decrease in basis points	*Effect before interest rate derivatives BD '000*	*Effect of interest rate derivatives BD '000*	*Effect on net income for the year BD '000*
2010	**+100**	**(2,576)**	**(633)**	**(3,209)**
	-100	**2,576**	**633**	**3,209**
2009	+100	(8,702)	2,790	(5,912)
	-100	8,702	(2,790)	5,912

Commodity price risk

Commodity price risk is the risk that future profitability is affected by change in commodity prices. The Group is exposed to commodity price risk as selling prices for aluminium are generally based on aluminium prices quoted on the London Metal Exchange (LME). The commodity price risk is managed by ALBA by hedging against fixed price sales commitments through commodity futures and other derivative products (note 4).

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in the LME price on derivatives outstanding as of 31 December 2010, with all other variables held constant.

	Increase/ decrease in LME price	*Effect on net income for the year BD '000*
2010	**10%**	**(12,904)**
	-10%	**12,904**
2009	10%	(14,047)
	-10%	14,047

Jet fuel price risk

The Group's earnings are affected by changes in the price of jet fuel relating to Gulf Air. Gulf Air's strategy for managing the risk on fuel price aims to provide Gulf Air with protection against sudden and significant increase in jet fuel prices. In meeting these objectives, Gulf Air uses options with approved counterparties and within approved credit limits.

A 10% change in price of jet fuel affects the Group's annual fuel cost by BD 16,544 thousand (2009: BD 14,849 thousand), assuming no change in the volume of fuel consumed.

30 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

Equity price risk
Equity price risk is the risk that the fair value of quoted securities will fluctuate because of changes in market prices.

There is no significant risk associated with changes in equity prices.

(d) Capital management
The primary objective of the Group's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure dynamically and makes necessary adjustments, in light of the macro economic conditions. No changes were made in the objectives, policies or processes during the year ended 31 December 2010 and the comparative period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity.

	2010	*2009*
	BD '000	BD '000
Borrowings	**1,163,732**	1,147,675
Derivative financial instruments	**146,256**	173,127
Total debt	**1,309,988**	1,320,802
Less: cash and bank balances (note 3)	**(498,384)**	(117,653)
Net debt	**811,604**	1,203,149
Equity attributable to shareholder of the parent	**3,028,384**	2,735,238
Gearing ratio	**27%**	44%

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivative financial instruments.

Financial assets comprise of investments, deposits, bank balances, loans and accounts receivable. Financial liabilities comprise of borrowings, obligations relating to acquired entities and trade and other payables.

With the exception of certain unquoted available for sale investments which are carried at cost and details of which are disclosed in note 9 and deposits which are interest free and details of which are disclosed in note 13, the fair values of financial assets and financial liabilities are not materially different from their carrying values at the statement of financial position date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3 : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

31 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2010	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Derivative financial instruments (assets)	**-**	**2,352**	**-**	**2,352**
Investments carried at fair value through statement of income	**2,360**	**247**	**-**	**2,607**
Non-trading investments	**6,075**	**-**	**210,759**	**216,834**
Derivative financial instruments (liabilities)	**-**	**146,256**	**-**	**146,256**

31 December 2009	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*
Derivative financial instruments (assets)	-	16,875	-	16,875
Investments carried at fair value through statement of income	2,144	242	-	2,386
Non-trading investments	6,339	-	203,957	210,296
Derivative financial instruments (liabilities)	-	173,127	-	173,127

During the years 2010 and 2009 there have been no transfers between Level 1 and Level 2 and no transfers into and out of Level 3. Unquoted investments carried at cost are not included in the above hierarchy.

For level 3 measurements, changing inputs to reasonably possible alternative assumptions will not result in significant change in fair values.

Movements in level 3 financial instruments measured at fair value:

	2010	*2009*
	BD '000	*BD '000*
At 1 January	**203,957**	148,930
Additions	**-**	72,322
Fair value changes	**12,636**	6,718
Impairment loss	**(6,149)**	(24,013)
Instruments transferred from cost to fair value	**315**	-
Balace at 31 December	**210,759**	203,957

32 OPERATING SEGMENT INFORMATION

For management purposes the Group is organised into the following major business segments:

Metals and minerals - Comprising of product manufacture of aluminium and other metals.

Transportation - Principally handling air transportation.

Banking and finance - Comprising of investment in banking and financial services.

Real estate - Comprising of investment in real estate.

Telecom - Comprising of investment in telecommunications.

There are no material transfers between operating segments.

32 OPERATING SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2010 was as follows:

2010	***Metals and minerals BD '000***	***Transport-ation BD '000***	***Banking and finance BD '000***	***Real estate BD '000***	***Telecom BD '000***	***Other BD '000***	***Total BD '000***
Revenue	**750,214**	**427,976**	**-**	**4,901**	**-**	**7,848**	**1,190,939**
Share of results of associate	**754**	**(7,748)**	**20,477**	**(5,314)**	**34,822**	**4,372**	**47,363**
Net income (loss)	**139,083**	**(194,968)**	**20,477**	**(53,660)**	**(117,065)**	**(28,195)**	**(234,328)**
Total assets	**2,112,436**	**879,857**	**468,238**	**851,232**	**393,059**	**365,211**	**5,070,033**

2009	*Metals and minerals BD '000*	*Transport-ation BD '000*	*Banking and finance BD '000*	*Real estate BD '000*	*Telecom BD '000*	*Other BD '000*	*Total BD '000*
Revenue	584,828	432,531	-	5,879	-	14,508	1,037,746
Share of results of associate	568	11,128	20,110	2,395	43,064	5,259	82,524
Net income (loss)	(91,206)	(118,231)	20,110	(7,884)	43,064	(29,085)	(183,232)
Total assets	2,179,970	636,102	452,059	885,465	536,349	171,238	4,861,183

Geographic information

An analysis of the revenue by geographic location is as follows:

	2010 BD '000	*2009* BD '000
Kingdom of Bahrain	**458,071**	322,378
Asia	**215,494**	291,008
Rest of Middle East and North Africa	**343,726**	293,555
Rest of the world	**173,648**	130,805
	1,190,939	1,037,746

33 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

33 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Operating Lease Commitments – Group as Lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment
The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

In case of aircraft, impairment is recognised when events and circumstances indicate that the aircraft may be impaired and the carrying amounts of the aircraft exceed the recoverable amounts. In determining the recoverable amounts of the aircraft, certain estimates regarding the current fair market value and the base value (value in use) of the aircraft are made. The current fair market and the base values are determined based on independent valuations carried out by an industry expert.

Classification of investments
The Group's management determines the classification of investments as either fair value through the statement of income, held to maturity, or available for sale. This classification is based on management's investment strategy taking into account their evaluation of performance, the intention and ability to hold investments for certain time periods and their assessment of investments which are available to be sold.

Impairment of non-financial assets
When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including key assumptions, are given in note 14.

Impairment of available for sale financial assets
The Group classifies certain assets as available for sale and recognises movements in their fair value in comprehensive income. When the fair value declines, management makes assumptions about the decline in value to determine whether it is an impairment that should be recognised in profit or loss. At 31 December 2010 an impairment loss of BD 6,326 thousand (2009: BD 24,013 thousand) has been recognised for available for sale assets. The carrying amount of available for sale assets was BD 222,089 thousand (2009: BD 215,976 thousand).

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