Mumtalakat
INVESTING FOR BAHRAIN

Mumtalakat Sukuk Holding Company

(incorporated with limited liability under the laws of the Cayman Islands)

U.S.$1,000,000,000 Multicurrency Trust Certificate Issuance Programme

Under the U.S.$1,000,000,000 multicurrency trust certificate issuance programme (the "**Programme**") described in this Base Prospectus (the "**Base Prospectus**"), Mumtalakat Sukuk Holding Company (in its capacity as issuer and trustee, the "**Trustee**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the "**Certificates**") denominated in any currency agreed between the Trustee and the relevant Dealer(s) (as defined below).

Certificates may only be issued in registered form. The maximum aggregate nominal amount of all Certificates from time to time outstanding under the Programme will not exceed U.S.$1,000,000,000 (or its equivalent in other currencies, calculated as provided for in the Dealer Agreement described herein), subject to increase as described herein.

The Certificates may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer(s) (each a "**Dealer**" and together, the "**Dealers**") appointed under the Programme from time to time by the Trustee and Bahrain Mumtalakat Holding Company B.S.C. (c) (the "**Obligor**" or "**Mumtalakat**")), which appointment may be for a specific issue of Certificates or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer(s)**" shall, in the case of an issue of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Certificates.

An investment in Certificates issued under the Programme involves certain risks. For a discussion of the principal risk factors that may affect the ability of the Trustee to fulfil its obligations under the Certificates, see "*Risk Factors*".

The Certificates to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Certificates offered should conduct their own due diligence on the Certificates. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

Each Series (as defined herein) of Certificates issued under the Programme will be constituted by: (i) a master declaration of trust (the "**Master Declaration of Trust**") dated 30 October 2014 entered into by the Trustee, the Obligor and Citibank, N.A., London Branch as delegate of the Trustee (in such capacity, the "**Delegate**"); and (ii) a supplemental declaration of trust (each a "**Supplemental Declaration of Trust**") in relation to the relevant Series. Certificates of each Series confer on the holders of the Certificates from time to time (the "**Certificateholders**") the right to receive payments (as more particularly described herein) arising from the assets of a trust declared by the Trustee in relation to the relevant Series (the "**Trust**").

This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC, as amended (which includes amendments made by Directive 2010/73/EU), to the extent that such amendments have been implemented in the relevant member state of the European Economic Area (an "**EU Member State**") (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and European Union (the "**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc for the Certificates issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). Such approval relates only to the Certificates which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments ("**MiFID**") and/or which are to be offered to the public in any EU Member State.

References in this Base Prospectus to Certificates being listed (and all related references) shall mean that such Certificates have been admitted to listing on the Official List and to trading on the Main Securities Market or, as the case may be, another MiFID regulated market as may be specified in the applicable final terms relating to the relevant Series (the "**applicable Final Terms**"). The Main Securities Market is a regulated market for the purposes of MiFID. However, unlisted Certificates may be issued pursuant to the Programme. The Final Terms in respect of the issue of any Certificates will specify whether or not such Certificates will be listed on the Official List and admitted to trading on the Main Securities Market (or any other stock exchange).

Each Series of Certificates will initially be represented by a global certificate in registered form (a "**Global Certificate**"). Global Certificates will be deposited on the relevant issue date with, and registered in the name of a nominee for, a common depositary (the "**Common Depositary**") on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The provisions governing the exchange of interests in Global Certificates for definitive Certificates are described in "*Summary of Provisions relating to the Certificates while in Global Form*".

The Programme has been rated BBB by Standard & Poor's Credit Market Services Europe Limited, a division of the McGraw-Hill Companies Inc. ("**Standard & Poor's**") and BBB by Fitch Ratings Ltd.("**Fitch**"). Both Standard & Poor's and Fitch are established in the EU and registered under Regulation (EC) No 1060/2009, as amended (the "**CRA Regulation**").

Series of Certificates (as defined in "*Overview of the Programme – Method of Issue*") to be issued under the Programme will be rated or unrated. Where a Series of Certificates is to be rated, such rating will not necessarily be the same as the rating assigned to the Programme or Certificates already issued. Where a Series of Certificates is rated, the applicable rating(s) will be specified in the applicable Final Terms. Whether or not a rating in relation to any Series of Certificates will be treated as having been issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, reduction, suspension or withdrawal at any time by the assigning rating agency.

The transaction structure relating to the Certificates (as described in this Base Prospectus) has been approved by the Executive Shariah Committee of HSBC Saudi Arabia Limited, the Sharia Supervisory Committee of BNP Paribas, Dr Hussein Hamid Hassan, the Shari'a advisor of Deutsche Bank AG, London Branch and the Shari'a Supervisory Committee of Standard Chartered Bank. Prospective Certificateholders should not rely on such approvals in deciding whether to make an investment in the Certificates and should consult their own Shariah advisers as to whether the proposed transaction described in such approvals is in compliance with their individual standards of compliance with Shariah principles.

Dealers

HSBC Bank plc, BNP PARIBAS, Deutsche Bank, MUFG, Standard Chartered Bank

Arranger for the Programme

HSBC Bank plc

The date of this Base Prospectus is 30 October 2014

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Trustee, the Obligor, the Obligor and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Certificates which, according to the particular nature of the Trustee, the Obligor, the Group and the Certificates, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Trustee and the Obligor.

The Trustee and the Obligor accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Trustee and the Obligor (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. This Base Prospectus should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Final Terms.

No person has been authorised to give any information or to make any representation other than those contained in this Base Prospectus in connection with the Programme or the issue or sale of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorised by the Trustee, the Obligor, the Arranger or any of the Dealers. Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Trustee or the Obligor since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Trustee or the Obligor since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

In the case of any Certificates which are to be admitted to trading on a regulated market within the European Economic Area (the "**EEA**") or offered to the public in an EU Member State in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Certificates).

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offering or sale of the Certificates in certain jurisdictions may be restricted by law. The Trustee, the Obligor, the Arranger and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that the Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, the Obligor, the Arranger or the Dealers which is intended to permit a public offering of the Certificates or the distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations Persons into whose possession this Base Prospectus comes are required by the Trustee, the Obligor, the Arranger and the Dealers to inform themselves about and to observe any such restrictions.

In particular, the Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Subject to certain exceptions, Certificates may not be offered, sold or delivered within the United States or to or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) , except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Each purchaser of the Certificates is hereby notified that the offer and sale of Certificates to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S. There are also restrictions on the distribution of this Base Prospectus and the offer or sale of Certificates in the United Kingdom, the UAE (excluding the Dubai International Financial Centre), the

Dubai International Financial Centre, the Kingdom of Bahrain, Saudi Arabia, Qatar, Kuwait, Japan, Hong Kong, Malaysia, Singapore and the Cayman Islands (see "*Subscription and Sale*").

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of the Trustee, the Obligor, the Arranger or the Dealers to subscribe for, or purchase, any Certificates. None of the Dealers, the Arranger, the Trustee or the Obligor makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period of time.

To the fullest extent permitted by law, none of the Arranger or the Dealers accept any responsibility for the contents of this Base Prospectus or for any other statement made, or purported to be made, by the Arranger or a Dealer or on its behalf in connection with the Trustee, the Obligor or the issue and offering of the Certificates. The Arranger and each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Base Prospectus or any such statement. Neither this Base Prospectus nor any other such statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Trustee, the Obligor, the Arranger or the Dealers that any recipient of this Base Prospectus or any other such statements should purchase the Certificates. Each potential purchaser of Certificates should determine for itself the relevance of the information contained in this Base Prospectus and its purchase of Certificates should be based upon such investigation as it deems necessary. None of the Arranger or the Dealers undertakes to review the financial condition or affairs of the Trustee or the Obligor during the life of the arrangements contemplated by this Base Prospectus nor to advise any investor or potential investor in the Certificates of any information coming to the attention of the Arranger or any of the Dealers.

The Certificates may not be a suitable investment for all investors. Each potential investor in any Certificates must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Certificates, the merits and risks of investing in the relevant Certificates and the information contained in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Certificates and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Certificates, including where any Dissolution Distribution Amount or Periodic Distribution Amount (each as defined herein) payments are payable in one or more currencies, or where the currency for Dissolution Distribution Amount or Periodic Distribution Amount payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Certificates and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Certificates are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Certificates which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of such Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL AND BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES. IN PARTICULAR,

PROSPECTIVE INVESTORS SHOULD DETERMINE WHETHER AND TO WHAT EXTENT (I) THE CERTIFICATES ARE LEGAL INVESTMENTS FOR THEM, (II) THE CERTIFICATES CAN BE USED AS COLLATERAL FOR VARIOUS TYPES OF BORROWING AND (III) OTHER RESTRICTIONS APPLY TO THEIR PURCHASE OR PLEDGE OF ANY CERTIFICATES. FINANCIAL INSTITUTIONS SHOULD CONSULT THEIR LEGAL ADVISERS OR THE APPROPRIATE REGULATORS TO DETERMINE THE APPROPRIATE TREATMENT OF THE CERTIFICATES UNDER ANY APPLICABLE RISK-BASED CAPITAL OR SIMILAR RULES.

A copy of this Base Prospectus has been submitted and filed with the Central Bank of Bahrain. Filing of this Base Prospectus with the Central Bank of Bahrain does not imply that any Bahraini legal or regulatory requirements have been complied with. The Central Bank of Bahrain has not in any way considered the merits of the Certificates to be offered for investment whether in or outside of Bahrain. Neither the Central Bank of Bahrain nor the Bahrain Bourse assumes responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and each expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus. The Obligor, together with any local agent or adviser, accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Obligor (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

In connection with the issue of any Series (as defined in "*Overview of the Programme – Method of Issue*"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager(s)") (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the issue date of the relevant Series and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series and 60 days after the date of the allotment of the relevant Series. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This Base Prospectus contains "**forward-looking statements**" – that is, statements related to future, not past, events. In this context, forward-looking statements often address the Obligor's and the Group's expected future business and financial performance, and often contain words such as "expect", "anticipate", "intend", "may", "plan", "believe", "seek" or "will". Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For the Group, particular uncertainties that could adversely affect its future results include: the behaviour of financial markets and macro-economic conditions, including fluctuations in interest, profit and exchange rates, commodity and equity prices and the value of financial assets; continued volatility and further deterioration of the capital markets; the commercial and consumer credit environment including credit risks and, in particular, the impact of a higher level of credit defaults arising from adverse economic conditions, the impact of provisions and impairments and concentration of the Obligor's portfolio of financing and investment assets; liquidity risks, including the ability of the Obligor to meet its contractual and contingent cash flow obligations or the inability to fund its operations; the impact of laws and regulation (including any change thereto) and regulatory, investigative and legal actions; strategic actions, including acquisitions, disposals and future integration of acquired businesses and government policy affecting the Obligor's business activities; future financial performance of the banking, financial services and Islamic finance industries; and numerous other matters of national, regional and global scale, including those of a political, economic (in particular, the economic outlook of Bahrain), business and competitive nature. These uncertainties may cause the Obligor's actual future results to be materially different than those expressed in its forward-looking statements. Although the Obligor believes that the expectations, estimates and projections reflected in the Obligor's forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise including those which the Obligor has identified in this Base Prospectus, or if any of the Obligor's underlying assumptions prove to be incomplete or inaccurate, the Obligor's actual future results may be materially different than those expressed in its forward-looking statements.

The forward-looking statements in this Base Prospectus speak only as at the date of this Base Prospectus. Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*". Without prejudice to any requirements under applicable laws and regulations, the Obligor expressly disclaims any obligation or undertaking to disseminate after the date of this Base Prospectus 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.

CERTAIN PUBLICLY AVAILABLE INFORMATION

This Base Prospectus includes a map of Bahrain, statistical data and macroeconomic information regarding Bahrain for the periods indicated (comprising information on unemployment levels, the national income, the real Gross Domestic Product ("**GDP**"), the consumer price index and inflation, price levels, average monthly wage rates, foreign direct investment levels, the balance of payments, the crude oil and oil refining industries, the banking industry, foreign reserves, the budget, domestic liquidity, Bahrain Bourse transactions and the Government's equity holdings in local and foreign companies) and information regarding clearing and settlement of the Certificates under the following headings: "*Overview of Bahrain*", "*Economy of Bahrain*" and "*Public Finance*". This information has been extracted from public information and information provided by the following and, in each case, the relevant source of such information is specified where it appears under those headings:

(a) the International Monetary Fund (in the case of "*Economy of Bahrain*");

(b) the Ministry of Finance (in the case of "*Economy of Bahrain*" and "*Public Finance*");

(c) the Central Informatics Organisation (in the case of "*Economy of Bahrain*");

(d) the CBB (in the case of "*Economy of Bahrain*");

(e) the General Organisation for Social Insurance and Civil Service Bureau (in the case of "*Economy of Bahrain*");

(f) the National Oil and Gas Authority (in the case of "*Economy of Bahrain*"); and

(g) the Survey & Land Registration Bureau (in the case of "*Overview of Bahrain*").

The Obligor and the Trustee confirm that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by each of the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. None of the sources and websites referred to form part of this Base Prospectus.

Information contained in this Base Prospectus relating to publicly listed portfolio companies of the Obligor has been obtained primarily from publicly available information. The information included in relation to these portfolio companies has been obtained from public sources, including the websites of the portfolio companies and their subsidiaries and the annual reports of such companies. The websites and sources from which such information has been obtained do not form part of this Base Prospectus. The Obligor and the Trustee confirm 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.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Trustee is an exempted company established in the Cayman Islands. No financial statements for any period have been prepared in respect of the Trustee.

The audited consolidated financial statements of the Obligor contained in this Base Prospectus for the financial years ended 31 December 2013, 31 December 2012 and 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**"). The unaudited interim condensed financial information of the Obligor for the six month period ended 30 June 2014 contained in this Base Prospectus (have been prepared in accordance with the International Accounting Standard 34 (IAS34) . Certain financial information (including percentages) included in this Base Prospectus has been rounded and, as a result, the totals of the information presented may vary slightly from the actual arithmetic totals of such information.

In this Base Prospectus, unless otherwise specified or the context otherwise requires, references to "**$**", "**U.S.$**", "**USD**" and "**dollars**" are to U.S. dollars and references to "**Bahraini dinars**" and "**BD**" are to the lawful currency for the time being of Bahrain. This Base Prospectus contains a conversion of certain BD amounts into dollars at specified rates solely for the convenience of the reader. The Bahraini dinar has been pegged to the U.S. dollar at a fixed exchange rate of BD 0.376 = U.S.$1.00 and, accordingly, unless otherwise indicated, dollar amounts in this Base Prospectus have been converted from BD at this exchange rate.

Presentation of Other Information

In this Base Prospectus, references to:

"**Bahrain**" are to the Kingdom of Bahrain;

"**CBB**" are to the Central Bank of Bahrain;

"**GCC**" are to the Gulf Cooperation Council;

"**Kuwait**" are to the State of Kuwait;

"**MENA region**" are to the Middle East and North Africa region;

"**Oman**" are to the Sultanate of Oman;

"**Qatar**" are to the State of Qatar;

"**Saudi Arabia**" are to the Kingdom of Saudi Arabia; and

"**UAE**" are to the United Arab Emirates.

SUPPLEMENTARY PROSPECTUS

If at any time the Trustee and the Obligor shall be required to prepare a supplementary prospectus pursuant to Regulation 51 of Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland (S.I. No. 324 of 2005) (the "**Irish Prospectus Regulations**"), the Trustee and the Obligor will prepare and make available a supplement to this Base Prospectus which, in respect of any subsequent issue of Certificates to be listed on the Official List and admitted to trading on the Main Securities Market, shall constitute a supplementary prospectus as required by Regulation 51 of the Irish Prospectus Regulations.

Each of the Trustee and the Obligor has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Base Prospectus which is capable of affecting the assessment of any Certificates and whose inclusion in or removal from this Base Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of each of the Trustee and the Obligor, and the rights attaching to the Certificates, the Trustee and the Obligor shall prepare a supplement to this Base Prospectus or publish a replacement base prospectus for use in connection with any subsequent offering of the Certificates and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

NOTICE TO RESIDENTS OF BAHRAIN

In relation to investors in Bahrain, securities issued in connection with this Base Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the CBB in Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in other currency or such other amount as the CBB may determine.

This offer does not constitute an offer of securities in Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Base Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Certificates may be offered, sold or made the subject of an invitation for subscription or purchase nor will this Base Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase Certificates, whether directly or indirectly, to persons in Bahrain, other than to accredited investors for an offer outside Bahrain.

The Central Bank of Bahrain has not reviewed, approved or registered this Base Prospectus or related offering documents and it has not in any way considered the merits of the Certificates to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the Central Bank of Bahrain assumes no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the content of this Base Prospectus. No offer of Certificates will be made to the public in the Kingdom of Bahrain and this Base Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally. The Obligor, together with any local agent or adviser, accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge of the Obligor (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

Any Certificates to be issued under the Programme which do not constitute ''alternative finance investment bonds'' (''**AFIBs**'') within the meaning of Article 77A of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2010 will represent interests in a collective investment scheme (as defined in the Financial Services and Markets Act 2000 (the ''**FSMA**'')) which has not been authorised, recognised or otherwise approved by the Financial Conduct Authority. Accordingly, this Base Prospectus is not being distributed to, and must not be passed on to, the general public in the United Kingdom.

The distribution in the United Kingdom of this Base Prospectus, any Final Terms and any other marketing materials relating to the Certificates is being addressed to, or directed at: (A) if the Certificates are AFIBs and the distribution is being effected by a person who is not an authorised person under the FSMA, only the following persons: (i) persons who are Investment Professionals as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the ''**Financial Promotion Order**''), (ii) persons falling within any of the categories of persons described in Article 49 (High net worth companies, unincorporated associations, etc.) of the Financial Promotion Order; and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Financial Promotion Order; and (B) if the Certificates are not AFIBs and the distribution is effected by a person who is an authorised person under the FSMA, only the following persons: (i) persons falling within one of the categories of Investment Professional as defined in Article 14(5) of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 (the ''**Promotion of CISs Order**''), (ii) persons falling within any of the categories of person described in Article 22 (High net worth companies, unincorporated associations, etc.) of the Promotion of CISs Order and (iii) any other person to whom it may otherwise lawfully be made in accordance with the Promotion of CISs Order.

Persons of any other description in the United Kingdom may not receive and should not act or rely on this Base Prospectus, any Final Terms or any other marketing materials in relation to the Certificates.

Potential investors in the United Kingdom in any Certificates which are not AFIBs are advised that all, or most, of the protections afforded by the United Kingdom regulatory system will not apply to an investment in such Certificates and that compensation will not be available under the United Kingdom Financial Services Compensation Scheme. Any individual intending to invest in any investment described in this Base Prospectus should consult his professional adviser and ensure that he fully understands all the risks associated with making such an investment and that he has sufficient financial resources to sustain any loss that may arise from such investment.

NOTICE TO RESIDENTS OF SAUDI ARABIA

This Base Prospectus may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of Saudi Arabia (the "**Capital Market Authority**"). The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Certificates should conduct their own due diligence on the accuracy of the information relating to the Certificates. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

NOTICE TO RESIDENTS OF QATAR

Any Certificates to be issued under the Programme will not be offered, sold or delivered at any time, directly or indirectly, in Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Base Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Financial Markets Authority, the Qatar Central Bank, the Qatar Exchange or the Qatar Financial Centre Regulatory Authority. The Certificates are not and will not be traded on the Qatar Exchange. The Certificates and interests therein will not be offered to investors domiciled or resident in Qatar and do not constitute debt financing in Qatar under the Commercial Companies Law No. (5) of 2002 or otherwise under the laws of Qatar.

NOTICE TO RESIDENTS OF MALAYSIA

Any Certificates to be issued under the Programme may not be offered for subscription or purchase and no invitation to subscribe for or purchase such Certificates in Malaysia may be made, directly or indirectly, and this Base Prospectus or any document or other materials in connection therewith may not be distributed in Malaysia other than to persons falling within categories set out in Schedule 6 or Section 229(1)(b), Schedule 7 or Section 230(1)(b) and Schedule 8 or Section 257(3) of the Capital Market and Services Act 2007 of Malaysia ("**CMSA**").

The Securities Commission of Malaysia shall not be liable for any non-disclosure on the part of the Trustee or the Obligor and assumes no responsibility for the correctness of any statements made or opinions or reports expressed in this Base Prospectus.

NOTICE TO RESIDENTS OF THE CAYMAN ISLANDS

No invitation, whether directly or indirectly, may be made to the public in the Cayman Islands to subscribe for any Certificates issued under the Programme and this Base Prospectus shall not be construed as an invitation to any member of the public of the Cayman Islands to subscribe for any Certificates issued under the Programme.

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RISK FACTORS

Each of the Trustee and the Obligor believes that the following factors may affect both the Trustee's ability to pay amounts owing under a Series of Certificates and the Obligor's ability to satisfy its obligations under the relevant Transaction Documents relating to any such Series of Certificates. All of these factors are contingencies which may or may not occur and neither the Trustee nor the Obligor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which each of the Trustee and the Obligor believes may be material for the purpose of assessing the market risks associated with Certificates issued under the Programme are also described below.

Each of the Trustee and the Obligor believes that the factors described below represent the principal risks inherent in investing in Certificates issued under the Programme, but the Trustee may be unable to pay Periodic Distribution Amounts, Dissolution Distribution Amounts or other amounts on or in connection with any Certificates for other reasons and neither the Trustee nor the Obligor represents that the statements below regarding the risks of holding any Certificates are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.

Factors that may affect the Trustee's ability to fulfil its obligations under or in connection with the Certificates issued under the Programme

The Trustee has no operating history and no material assets and will depend on receipt of payments from the Obligor to make payments to Certificateholders

The Trustee was incorporated under the laws of the Cayman Islands on 16 September 2014 as an exempted company with limited liability and has no operating history. The Trustee has not and will not engage in any business activity other than the issuance of Certificates under the Programme, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee, the issuance of shares in its capital and other activities incidental or related to the foregoing as required under the Transaction Documents. Because the Trustee is a Cayman Islands company, it may not be possible for Certificateholders to effect service of process on it outside the Cayman Islands.

The Trustee's only material assets, which will be held on trust for Certificateholders, will be the Trust Assets relating to each Series of Certificates, including the obligation of the Obligor to make payments to the Trustee under the Transaction Documents to which it is a party. Therefore, the Trustee is subject to all the risks to which the Obligor is subject to the extent that such risks could limit the Obligor's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

The ability of the Trustee to pay amounts due on the Certificates will therefore be dependent upon receipt by the Trustee from the Obligor of amounts to be paid pursuant to the Transaction Documents (which in aggregate may not be sufficient to meet all claims under the Certificates and the Transaction Documents). See "*—Factors that may affect Mumtalakat's ability to fulfil its obligations under the Transaction Documents*".

Factors that may affect Mumtalakat's ability to fulfil its obligations under the Transaction Documents

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.

Ongoing global geopolitical tensions, particularly those within the Middle East region, 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, 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.

Further, Bahrain's economy is closely aligned and dependent on the economies of Saudi Arabia in particular as well as the other countries of the GCC. This includes trade relations, economic and monetary policy coordination, cooperation on security matters, infrastructure development, immigration policy and energy policies within the GCC. Accordingly, the economy of Bahrain may be adversely affected by any material changes in any such coordination amongst GCC countries. In addition, Bahrain's economy is dependent upon the social, political and economic conditions in Saudi Arabia and other GCC countries. Adverse developments in such conditions could have a material adverse effect on the economy and financial condition of Bahrain.

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**"). The Government 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 to work on important strategic projects for Bahrain, which are expected to contribute to the overall economy of Bahrain, but which may not be expected to deliver suitable investment returns for Mumtalakat. While such projects are likely to receive some financial support directly from the Government, 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 will not exercise significant influence over the commercial affairs of Mumtalakat. The Government's interests may also conflict with those of Mumtalakat or the Certificateholders. 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 state funding in the case of Gulf Air B.S.C. (c) ("**Gulf Air**"). Thus, the outcome from any such decision making processes may not always be 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.

The Government may alter its economic development strategy or its relationship with Mumtalakat

The Government has set out a comprehensive economic vision for Bahrain ("**Vision 2030**") to outline a path for the development of Bahrain's economy, as described in "*Overview of Bahrain — Vision 2030*". A primary objective of Vision 2030 is to shift Bahrain's economy from an oil-driven economy to a diversified, competitive economy driven by the private sector across a variety of sectors and industries. Although Mumtalakat, as the holding company for the Government's non-oil and gas commercial assets, is central to the implementation of various elements of Vision 2030, the Government could alter the scope of Vision 2030 or appoint one or more other entities to implement aspects of Vision 2030. Any action by the Government which limits Mumtalakat's mandate, limits the amount of financial support Mumtalakat receives from, or assets granted by, the Government, and/or leads the Government to reclaim assets previously granted to Mumtalakat without the payment of any compensation for such reclaimed assets 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, the Certificates and the Transaction Documents.

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 under the Certificates, depends on the dividends and distributions it receives from its portfolio companies. Dividends from Aluminium Bahrain B.S.C. ("**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 2013. The ongoing 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 and Batelco, 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. Further, Alba has completed a feasibility study to assess the commercial viability of expanding its production capacity by supplementing its five existing potlines with an additional potline, Line 6. The preliminary capital expenditure estimate for constructing potline Line 6, replacing and expanding the power capacity of the existing power plant facilities is expected to be not less than U.S.$2.5 billion (See "*Portfolio Companies — Alba — Strategy*"), which would reduce the amounts available for Alba to pay dividends to its shareholders. 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, liquidity position and prospects, and Mumtalakat may not be able to meet its payment obligations. 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 perform its payment obligations.

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, the Chief Financial Officer and the Chief Operating 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 (U.S.$66.5 million) that is consistent with its approved investment budget.

Mumtalakat's Board Investment Committee approves investments or divestments in excess of BD 25 million (U.S.$66.5 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 their 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 financial condition may be impacted in a material adverse manner which could affect its ability to perform its ongoing financial obligations and its obligations under the Transaction Documents and the Certificates could be adversely affected.

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 a 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.

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.

Almost all of Mumtalakat's current investment portfolio is illiquid, which may adversely affect Mumtalakat's ability to divest its investments or generate required liquidity

Mumtalakat is a key vehicle for the 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 illiquid nature 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.

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 other capital raisings.

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. Contractual protections 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 hold 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.

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 needs, the Group's business and financial performance may suffer. If talented employees were to 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 the Transaction Documents and to satisfy its financial obligations to the Certificateholders.

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 B.S.C. (c) ("**Bapco**"). In 2011, Bapco announced a 50 per cent. increase in the price of gas for all of its customers in Bahrain, effective 1 January 2012. Alba expects to remain highly competitive globally even after taking into account this gas price increase due to a reduction in its production costs through efficiency improvement programmes, an increase in production volumes and maximising output of value-added products that attract higher premiums. However, 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;

- regulatory changes and competition in the telecommunications industry in Bahrain may result in new entrants, a decrease in market share, 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;

- political tensions in the MENA region, coupled with high fuel prices and increased competition from regional competitors in the GCC region, may exert 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;

- the implementation of real estate projects by Bahrain Real Estate Investment (Edamah) 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.

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

The Government is an indirect shareholder of Gulf Air through its shareholdings in Mumtalakat. Mumtalakat owns 100 per cent. of Gulf Air Group Holding B.S.C. (c), which, in turn, owns 100 per cent. of Gulf Air. Gulf Air has historically relied on material financial support from Mumtalakat as its shareholder to cover its operating losses and various funding needs. In 2010, Gulf Air commenced a significant operational and strategic restructuring with the objective of placing Gulf Air on the path to sustainability. In connection with the operational and strategic restructuring, Gulf Air has required material financial support through recapitalisation. Since January 2012, Mumtalakat and the Government have been working with Gulf Air and its strategic advisers to review and reformulate its strategy and to implement a strategy focused on reducing costs and rationalising business operations. See "*Portfolio Companies — Gulf Air — Change in Business Strategy*".

There can be no assurance that the operational and strategic restructuring of Gulf Air will (i) succeed and improve Gulf Air's financial performance or (ii) not be modified as the restructuring develops; such modification could result in a further need for additional direct material financial support or any other form of credit support to be extended by the Government to Gulf Air. If the operational and strategic restructuring of Gulf Air fails to succeed and improve Gulf Air's financial performance, there can be no assurance that Gulf Air will repay to the Government or Mumtalakat any direct material financial support or any other form of credit support that it receives 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 payment obligations to the Certificateholders. See "*Portfolio Companies — Gulf Air*".

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 undertake 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.

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

Mumtalakat's portfolio companies are susceptible to economic recessions or downturns and during periods of adverse economic conditions, the portfolio companies may experience decreased revenues, increased operating expenses, financial losses, difficulty in obtaining access to financing, increased funding costs and asset price deflation. During such periods, the portfolio companies may also have difficulty in expanding their businesses and operations and be unable to meet their debt service obligations or their expenses as they become due. Any of the foregoing could cause the value of Mumtalakat's affected investments to decline. In addition, 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 to the financial markets, 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 and on its ability to make payments on the Certificates.

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.

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

A significant majority 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.

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.

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 or 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 financial obligations.

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 BD168.9 million (U.S.$449.2 million) in 2008 and BD196.7 million (U.S.$523.1 million) in 2009. In 2010, the Government provided Gulf Air with BD400.0 million (U.S.$1,063.8 million) of financial support in the form of an equity injection. In addition, certain of Gulf Air's liabilities owing to other Government-controlled entities in the amount of BD71.2 million (U.S.$189.4 million) were settled as an equity contribution. The Government provided an additional BD185.0 million (U.S.$492.0 million) and BD 95 million (U.S.$252.7 million) in 2012 and 2013 respectively as government grants to support the airline in repaying its liabilities, financing interim working capital requirements and settling certain capital expenditure payments. In 2012, Gulf Air also received further liquidity assistance from Mumtalakat in the form of a shareholder loan amounting to BD 30.0 million (U.S.$79.8 million). Gulf Air will require additional financial support to cover ongoing and expected future operating losses and costs of restructuring initiatives. The Government has budgeted BD 75.0 million (U.S.$199.5 million) as funding for the year 2014 (of which BD 37.5 million (U.S.$99.7 million) has been paid to the airline as at 30 June 2014). 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 financial obligations and its obligations under the Transaction Documents and the Certificates.

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 at 30 June 2014, the Group had BD 744.5 million (U.S.$ 1,980.1 million) in outstanding borrowings, and the Group had incurred interest expenses of BD 16.5 million (U.S.$ 43.9 million) for the six month period ended 30 June 2014.

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 total liabilities to tangible net worth ratio. 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 78.2 million (U.S.$ 208.0) as at 30 June 2014. 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 financial obligations to the Certificateholders.

The Group is exposed to interest rate risk

The Group is exposed to interest rate movements through its floating rate financing arrangements. As at 31 December 2013 the Group had BD 462.1 million (U.S.$ 1,229.0) 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 GCC 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 financial obligations including to make payments on the Certificates.

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 perform its financial obligations including to make payments on the Certificates and its ability to capitalise on investment opportunities.

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.

Mumtalakat's financial obligations, including its obligations under the Certificates are not guaranteed by the Government absent an explicit guarantee

Although Mumtalakat is wholly-owned by the Government, Mumtalakat's obligations under the Certificates 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 Certificates, are not and should not be regarded as, obligations of the Government. Mumtalakat's ability to meet its financial obligations under the Certificates 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 financial obligations including to make payments on the Certificates.

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

Although currently almost all of its portfolio is derived from companies based in Bahrain, 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.

Mumtalakat's business may be adversely affected if the Bahraini Dinar-U.S. Dollar peg were to be removed.

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 including to make payments on the Certificates.

Factors which are material for the purpose of assessing the market risks associated with Certificates issued under the Programme

The Certificates are limited recourse obligations of the Trustee

The Certificates are not debt obligations of the Trustee, instead, each Certificate represents an undivided ownership interest in the Trust Assets relating to that Series. Recourse to the Trustee is limited to the Trust Assets of the relevant Series and the proceeds of the Trust Assets of the relevant Series are the sole source of payments on the Certificates of that Series. Upon the occurrence of a Dissolution Event, the sole rights of the Trustee and/or the Delegate (acting on behalf of the Certificateholders of the relevant Series of Certificates) will be against the Obligor to perform its obligations under the Transaction Documents to which it is a party.

Certificateholders will have no recourse to any assets of the Trustee (other than the Trust Assets) or the Delegate in respect of any shortfall in the expected amounts due on the Certificates. The Obligor is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Trustee and/or the Delegate will have direct recourse against the Obligor to recover such payments due to the Trustee pursuant to the Transaction Documents.

After enforcing or realising the rights in respect of the Trust Assets in respect of a Series of Certificates and distributing the net proceeds of such Trust Assets in accordance with Condition 5(b), the obligations of the Trustee in respect of that Series of Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates of the relevant Series and the right to receive from the Trustee any such sums unpaid shall be extinguished.

Furthermore, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than as contemplated in the Transaction Documents. The sole right of the Trustee, the Delegate and the Certificateholders against the Obligor shall be to enforce the performance of the Obligor's obligations under the Transaction Documents.

Risks related to the structure of a particular issue of Certificates

A wide range of Certificates may be issued under the Programme. A number of these Certificates may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

The Certificates may be subject to optional redemption by the Obligor

If Optional Dissolution Right is specified as applicable in the applicable Final Terms, a Series may be redeemed early at the option of the Obligor pursuant to Condition 8(c). Any such optional redemption feature that any Certificates may include is likely to limit their market value. The Obligor may be expected to redeem Certificates when its cost of borrowing is lower than the profit rate on the Certificates. At those times, an investor generally would not be able to reinvest the redemption proceeds in a comparable security with a similar rate of return, which may have an adverse effect on the position of such investor. During any period when the Obligor may elect to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the Dissolution Distribution Amount. Potential investors should consider re-investment risk in light of other investments available at that time.

The Certificates may be redeemed prior to their final maturity date for tax reasons

If the Trustee or the Obligor becomes obliged to pay any additional amounts in respect of the Certificates of any Series as provided or referred to in Condition 8(b) as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Bahrain, as the case may be, or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the relevant Series, the Obligor may require the Trustee to redeem all but not some only of the outstanding Certificates of such Series in accordance with Condition 8 of the Certificates.

In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security with a similar rate of return, which may have an adverse effect on the position of such investor. During any period when the Obligor may elect to redeem the Certificates, the market value of the Certificates generally will not rise substantially above the Dissolution Distribution Amount. Potential investors should consider re-investment risk in light of other investments available at that time.

No third-party guarantees

Investors should be aware that no guarantee is or will be given in relation to the Certificates by the shareholder of the Obligor or any other person.

Investors must make their own determination as to Shariah compliance

The Executive Shariah Committee of HSBC Saudi Arabia Limited, the Sharia Supervisory Committee of BNP Paribas, Dr Hussein Hamid Hassan, the Shari'a advisor of Deutsche Bank AG, London Branch and the Shari'a Supervisory Committee of Standard Chartered Bank have each confirmed that the Transaction Documents are, in their view, in compliance with Shariah principles. However, there can be no assurance that the Transaction Documents or any issue and trading of Certificates will be deemed to be Shariah compliant by any other Shariah board or Shariah scholars. None of the Trustee, the Obligor, the Delegate, the Arranger or the Dealers makes any representation as to the Shariah compliance of any Series and potential investors are reminded that, as with any Shariah views, differences in opinion are possible. Potential investors should obtain their own independent Shariah advice as to whether the Transaction Documents and any issue of Certificates will meet their individual standards of compliance and should also make their own determination as to the future tradeability of the Certificates on any secondary market. Questions as to the Shariah permissibility of the Transaction Documents or the issue and the trading of the Certificates may limit the liquidity and adversely affect the market value of the Certificates.

In addition, prospective investors are reminded that the enforcement of any obligations of any of the parties under the Transaction Documents would be, if in dispute, either the subject of arbitration under English law or court proceedings under the laws of England and Wales. In such circumstances, the arbitrator or judge (as applicable) will first apply the governing law of the relevant Transaction Document, rather than Shariah principles in determining the obligations of the parties.

There can be no assurance as to the impact of a change in the laws governing the Certificates or the Transaction Documents

The structure of each issue of Certificates under the Programme is based on English law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to the laws of England and Wales or administrative practices in England and Wales after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Obligor to make payments under the Transaction Documents to which it is a party and/or the Trustee to make payments under any Series of Certificates or the ability of the Trustee or the Obligor to otherwise comply with their respective obligations under the Transaction Documents to which they are a party.

Risks related to Certificates generally

Set out below is a brief description of certain risks relating to the Certificates generally:

Certificates are subject to modification by a majority of the Certificateholders of a Series without the consent of all of the Certificateholders

The Master Declaration of Trust contains provisions for calling meetings of the Certificateholders of one or more Series to consider matters affecting their interests generally and to obtain Written Resolutions (as defined therein) on matters relating to the Certificates from holders without calling a meeting. A Written Resolution signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates of the relevant Series then outstanding shall, for all purposes, take effect as an Extraordinary Resolution (as defined in the Master Declaration of Trust).

In certain circumstances, where the Certificates are held in global form in the clearing systems, the Trustee, the Obligor and the Delegate (as the case may be) will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Trustee, the Obligor and the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates of the relevant Series for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Trustee, the Obligor and the Delegate (as the case may be) by accountholders in the clearing systems with entitlements to such global certificate or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Trustee, the Obligor and the Delegate (as the case may be) have obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A Written Resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Certificateholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Certificateholders satisfying the special quorum in accordance with the provisions of the Master Declaration of Trust, and shall for all purposes take effect as an Extraordinary Resolution (as defined in the Master Declaration of Trust) passed at a meeting of Certificateholders duly convened and held.

These provisions permit defined majorities to bind all of the Certificateholders of the relevant Series (including Certificateholders who did not attend or vote at the relevant meeting as well as Certificateholders who voted in a manner contrary to the majority).

The Master Declaration of Trust also provides that the Delegate may, without the consent or sanction of Certificateholders, (i) agree to any modification of any of the provisions of the Master Declaration of Trust or the Transaction Documents that is of a formal, minor or technical nature or is made to correct a manifest error, or; (ii) (a) subject to the detailed provisions of the Master Declaration of Trust agree to any other modification, or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Master Declaration of Trust or the Transaction Documents or (b) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such provided that such modification, waiver, authorisation or determination is in the opinion of the Delegate not materially prejudicial to the interests of the Certificateholders and not in contravention of any express direction by Extraordinary Resolution or request in writing by the holders of at least 20 per cent. of the outstanding aggregate face amount of the relevant Series and, in the case of modifications referred to in paragraph (a) above, other than in respect of a matter which requires a special quorum resolution (as defined in the Master Declaration of Trust). Any such modification, authorisation, determination or waiver shall be binding on the Certificateholders and, unless the Delegate agrees otherwise, such modification shall be notified by the Trustee to the Certificateholder as soon as practicable thereafter.

European Monetary Union may cause certain Certificates to be re-denominated

If Certificates are issued under the Programme which are denominated in the currency of a country which, at the time of issue, is not a member of the European Monetary Union which has adopted the euro as its sole currency and, before the relevant Certificates are redeemed, the euro becomes the sole currency of that country, a number of consequences may follow. In that event (i) all amounts payable in respect of such Certificates may become payable in euro; (ii) the law may allow or require such Certificates to be re-denominated into euro and additional measures to be taken in respect of such Certificates; and (iii) there may no longer be available published or displayed rates for deposits used to determine the rates of interest on such Certificates or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment, which could adversely affect investors in the Certificates.

Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade

In relation to any Certificates of a Series which have a denomination consisting of the minimum Specified Denomination (as defined in the Conditions) plus a higher integral multiple of another smaller amount, it is possible that the Certificates may be traded in amounts in excess of such minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a Certificateholder who, as a result of trading such amounts, holds a face amount of less than the minimum Specified Denomination, would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

A Certificateholder who holds an amount which is less than the minimum Specified Denomination in his/her account with the relevant clearing system at the relevant time may not receive a definitive Certificate in respect of such holding (should definitive Certificates be printed) and would need to purchase a face amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be eligible to receive a definitive Certificate. If definitive Certificates are issued, holders should be aware that definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may also be illiquid and difficult to trade.

Investors in the Certificates must rely on Euroclear and Clearstream, Luxembourg procedures

Certificates issued under the Programme will be represented on issue by a Global Certificate that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the limited circumstances described in each Global Certificate, investors will not be entitled to receive Certificates in definitive form. Each of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Certificate held through it. While the Certificates are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Certificates are represented by a Global Certificate, the Trustee will discharge its payment obligations under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the Certificates so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Risks related to the market generally

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally

Certificates may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Certificates easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Certificates that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Certificates generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severe adverse effect on the market value of the Certificates.

Exchange rate risks and exchange controls

The Trustee will pay all amounts due on any Certificates, and the Obligor will make any payments pursuant to the Transaction Documents, in the Specified Currency (as defined in the Conditions). This presents 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 the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Certificates; (ii) the Investor's Currency equivalent value of the Dissolution Distribution Amount payable on the Certificates; and (iii) the Investor's Currency equivalent market value of the Certificates.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less than expected, or no payment at all.

Interest rate risks

As the Certificates are fixed rate Certificates, investment in them involves the risk that subsequent changes in market interest rates may adversely affect the value of the Certificates.

Credit ratings assigned to the Obligor or any Certificates may not reflect all the risks associated with an investment in those Certificates

One or more independent credit rating agencies may assign credit ratings to the Obligor or an issue of Certificates. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Certificates.

A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. In general, European regulated investors are restricted under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Base Prospectus.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Certificates are legal investments for it; (ii) Certificates can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Certificates. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Certificates under any applicable risk-based capital or similar rules.

Investing in securities involving emerging markets generally involves a higher degree of risk, and the Certificates may not be a suitable investment for all investors

Investing in securities involving emerging markets, such as Bahrain, generally involves a higher degree of risk than investments in securities of issues from more developed countries. These higher risks include, but are not limited to, higher volatility, limited liquidity and changes in the legal, economic and political environment.

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. A potential investor should not invest in the Certificates unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Certificates will perform under changing conditions, the resulting effects on the value of the Certificates and the impact this investment will have on the potential investor's overall investment portfolio.

Risks relating to the Trust Assets

Murabaha Contracts risk

Taxation risk

Pursuant to the terms of the Master Murabaha Agreement, in connection with each Series of Certificates outstanding from time to time under the Programme, the Trustee (as Seller) shall enter into a Commodity Murabaha Investment with Mumtalakat (as Buyer) using no more than 49 per cent. of the issue proceeds of the relevant Series. Upon the receipt of and pursuant to a purchase order from the Buyer, the Seller will purchase certain commodities from certain suppliers at the spot price and the Buyer will irrevocably undertake to purchase such commodities from the Seller in consideration for a deferred sale price.

Upon purchasing and prior to on-selling any commodities, the Buyer will for a limited period assume the legal and beneficial title to such commodities. It is possible that the acquisition of the commodities, or the disposal thereof, may be, or may by virtue of a change in law become, subject to increased taxation. To the extent that taxation costs arise in respect of the Buyer's acquisition, ownership or disposition of the commodities, there may be a material adverse effect on the Buyer's ability to perform its obligations (including payment obligations) under the Master Murabaha Agreement and, in turn, in respect of the Certificates.

Price fluctuation risk

The price at which a commodity changes hands is determined as a function of its market as a whole, and both under-supply and over-supply of a commodity can have significant implications for the price at which it is traded. If, after the Buyer has purchased any commodities, the market for the commodities becomes over-supplied or flooded, the price at which the commodities can be on-sold or traded subsequently may be adversely affected. Similarly, if after the Buyer has purchased the commodities, additional governmental or import or export licences become applicable to the market for the commodities, the price at which the commodities can be sold or traded subsequently may also be adversely affected. The effect of such price fluctuations may have a material adverse impact on the Buyer's ability to secure satisfactory on-sale prices for the commodities and, in turn, have a material adverse effect on the Buyer's ability to perform its obligations (including payment obligations) under the Master Murabaha Agreement and, in turn in respect of the Certificates.

Commodity risk

Upon purchasing commodities from the Seller and prior to selling the commodities to an independent third party purchaser, the Buyer will for a limited period assume the operational risks associated with taking ownership of the commodities. These risks include, without limitation, that:

(a) the commodities may suffer damage of a nature that reduces their value whilst in storage or during transit;

(b) the Buyer's storage and/or transfer of the commodities may cause environmental damage, such as pollution, leakage or contamination, which may breach environmental laws or regulations making the Buyer susceptible to legal or financial recourse;

(c) the commodities may be liable to theft and or vandalism; and

(d) the commodities may be damaged by terrorist attacks, natural disasters, fire or other catastrophic events that are beyond the control of the Buyer.

To the extent that these risks are not mitigated, or fully covered, by any insurance taken out in respect of the commodities, the occurrence of any of these events may have a material adverse effect on the value of the commodities and/or the Buyer's ability to on-sell the commodities which may, in turn, affect the Buyer's ability to perform its obligations (including payment obligations) under the Master Murabaha Agreement and, in turn in respect of the Certificates.

Ownership of the Shares comprising the Share Portfolio

In order to comply with the requirements of Shariah, an ownership interest (in the form of Share Interests) in the Shares comprising the Share Portfolio for a Series will be assigned, transferred and conveyed to the Trustee under the Master Assignment Agreement, as supplemented by the Supplemental Assignment Agreement (together, the "**Assignment Agreement**"). The Trustee will declare a trust in respect of the Share Interests owned by the Trustee relating to such Shares and the other relevant Trust Assets in favour of the Certificateholders of the relevant Series pursuant to the Master Declaration of Trust, as supplemented by the relevant Supplemental Declaration of Trust (together, the "**Declaration of Trust**"). Accordingly, Certificateholders will (through the ownership interest of the Trustee) have an undivided beneficial ownership interest in the relevant Share Interests unless the transfer of Share Interests relating to such Shares is prohibited by, or ineffective under, any applicable law (see "*Transfer of the Share Interests relating to the Shares*" below).

No investigation or enquiry will be made and no due diligence will be conducted in respect of the Shares comprised in the relevant Share Portfolio for any Series. The Shares will be selected by the Obligor, and the

Certificateholders, the Trustee and the Delegate will have no ability to influence such selection. Only limited representations will be obtained from the Obligor in respect of such Shares in the Assignment Agreement and the transfer agreements to be entered into pursuant to the Purchase Undertaking and the Substitution Undertaking (in particular, precise terms relating to any restrictions on transfer or future obligations required to be performed by the Obligor to give effect to the transfer will not be known). No steps will be taken to register or perfect (in any way) the assignment, transfer and conveyance of such Share Interests (notwithstanding that such registration or perfection may be required under applicable law).

Transfer of the Share Interests relating to the Shares comprising the Share Portfolio

No investigation has been or will be made as to whether the Share Interests relating to any Shares may be transferred as a matter of the law governing the relevant Transaction Documents pursuant to which any such transfer is made, the law of the jurisdiction where such Shares are located or any other relevant law. No investigation will be made to determine if the Assignment Agreement will have the effect of transferring the Share Interests relating to the relevant Share Portfolio.

Nevertheless, upon any Dissolution Event, the Certificateholders will not have any rights of enforcement as against the particular Shares comprised in the relevant Share Portfolio. Their rights are limited to: (i) enforcement against the Obligor of its obligation to purchase the Share Interests relating to the Share Portfolio pursuant to the terms of the Purchase Undertaking; and (ii) upon any failure to comply with its obligations under the Transaction Documents as described in this Prospectus, a *pro rata* share of the proceeds of the enforcement thereof.

Accordingly, any such restriction on the ability of the Obligor to perfect the sale of the relevant Shares to the Trustee is likely to be of limited consequence to the rights of the Certificateholders.

By way of further assurance, the Obligor has covenanted in the Purchase Undertaking and the Declaration of Trust that to the extent that any transfer of any of the Share Interests relating to the relevant Shares is not effective in any jurisdiction for any reason, it will make restitution in respect of those Shares, will fully accept title to the Shares on the basis of the title interest which the Trustee may have in the same and, if that interest is disputed or challenged, will fully indemnify the Trustee for the purpose of redemption in full or in part, as the case may be, of the Certificates and, accordingly, the amount payable under such indemnity will equal the relevant Exercise Price, Certificateholder Put Right Exercise Price or Change of Control Exercise Price, as the case may be (see "*Summary of the Principal Transaction Documents — Purchase Undertaking*" and "*Summary of the Principal Transaction Documents — Declaration of Trust*").

The Obligor has agreed under the terms of the Declaration of Trust to submit to the exclusive jurisdiction of, at the option of the Delegate, the courts of England in respect of any dispute, claim, difference or controversy arising out of or in connection with the Declaration of Trust, subject to the right of the Trustee (or the Delegate on behalf of the Certificateholders) to elect to bring proceedings in any other court or courts of competent jurisdiction.

If the Obligor fails to purchase the Share Interests relating to the Share Portfolio of any Series in accordance with the Purchase Undertaking, the Delegate (on behalf of the Certificateholders) may, subject to the matters set out in Condition 12 and the terms of the Declaration of Trust, seek to enforce, *inter alia*, the provisions of the Purchase Undertaking and the Declaration of Trust against the Obligor by commencing proceedings in the English courts. To the extent that it obtains an English judgment in its favour, it may seek to enforce that judgment or award in a Bahraini court. The Bahraini courts should respect the choice of English law as the governing law of the Declaration of Trust, although see "*Risks associated with enforcing arbitral awards and foreign judgments in Bahrain*".

The Shares are valued at cost and the purchase price may not reflect the current market value

The purchase price payable by the Trustee (as Purchaser) to Mumtalakat (as Seller) in consideration for the assignment, transfer and conveyance of Share Interests relating to the Shares comprising the Initial Share Portfolio relating to any Series are based on the total amount raised from the issuance of the Certificates of such Series. The current market value of such Shares may be higher or lower than the purchase price being paid by the Purchaser. In the event of default by the Obligor in performing its purchase and/or payment obligations under the Purchase Undertaking, the Trustee may require the Obligor to purchase its Share Interests (over which a trust is declared in favour of the Certificateholders as described above) relating to the Shares comprising the Share Portfolio.

There can be no assurance that the net proceeds realisable from such sale of Share Interests (and any other property comprised in the Trust Assets) will be sufficient to make all payments due in respect of the Certificates. Any shortfall following such disposal will be recoverable only by subsequent proceedings against the Obligor.

Risks relating to taxation

The value of the Certificates could be adversely affected by a change in tax law

Statements in this Base Prospectus concerning the taxation of investors are of a general nature and are based upon current law and practice in the jurisdictions stated. Such law and practice is, in principle, subject to change, possibly with retrospective effect, and this could adversely affect investors.

In addition, any change in legislation or in practice in a relevant jurisdiction could adversely impact (i) the ability of the Obligor to make payments under the Transaction Documents to which it is a party and/or the Trustee to make payments under any Series of Certificates; and (ii) the market value of the Certificates.

EU Directive on the Taxation of Savings Income

EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**") requires EU Member States to provide to the tax authorities of other EU Member States details of certain payments of interest and other similar income paid or secured by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

A number of third countries and territories including Switzerland have adopted similar measures to the Savings Directive. The precise scope of what constitutes interest or similar income for the purposes of the Savings Directive is unclear and accordingly it is possible that certain payments which are made in respect of the Certificates (such as the Periodic Distribution Amounts) could be within the scope of the Savings Directive.

On 24 March 2014, the Council of the European Union adopted a Directive (the "**Amending Directive**") which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation; or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the Economic and Financial Affairs Council (the "**ECOFIN Council**") meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Trustee nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Certificate as a result of the imposition of such withholding tax. Furthermore, once the Amending

Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above.

The Trustee is required to maintain a Paying Agent with a specified office in an EU Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000, which may mitigate an element of this risk if the Certificateholder is able to arrange for payment through such a Paying Agent. However, investors should choose their custodians and intermediaries with care, and provide each custodian and intermediary with any information that may be necessary to enable such persons to make payments free from withholding and in compliance with the Savings Directive, as amended.

Investors who are in any doubt as to their position should consult their professional advisers.

Payments made on or with respect to the Certificates may be subject to U.S. withholding tax

In certain circumstances payments made on or with respect to the Certificates after 31 December 2016 may be subject to U.S. withholding tax under Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as the Foreign Account Tax Compliance Act or "**FATCA**"). As a general matter, the FATCA rules are designed to require U.S. persons' direct and indirect ownership of non-U.S. accounts and non- U.S. entities to be reported to the U.S. Internal Revenue Service (the "**IRS**"). The 30 per cent. withholding tax regime applies if there is a failure to provide required information regarding U.S. ownership or otherwise establish an exemption from the withholding. This withholding does not apply to payments on Certificates that are issued prior to 1 July 2014 (or, if later, the date that is six months after the date on which the final regulations that define "foreign passthru payments" are published) unless the Certificates are "materially modified" after that date or are characterised as equity for U.S. federal income tax purposes.

Whilst the Certificates are in global form and held within Euroclear and Clearstream, Luxembourg (together, the International Central Securities Depository or "**ICSDs**"), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs (see "*Taxation — Foreign Account Tax Compliance Act*"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Trustee's obligations under the Certificates are discharged once it has paid the common depositary for the ICSDs (as holder of the Certificates) and therefore, neither the Trustee nor the Obligor shall have any responsibility for any amount thereafter transmitted through the hands of the ICSDs and custodians or intermediaries.

Risks relating to Bahrain and the GCC

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 conflict in Syria, Iraq and 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 financial obligations.

Political considerations relating to Bahrain

Parliamentary elections were held in October 2010 despite some domestic political tension. Approximately 67 per cent. of eligible voters cast their vote, which was a significantly higher turn-out rate than in previous parliamentary elections. 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.

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.

On 14 March 2011, amid growing domestic unrest, the GCC deployed the Peninsula Shield, which was formed in 1981 as a measure for co-ordinating 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 a period of three months. This period was scheduled to end on 15 June 2011. On 1 June 2011, and ahead of the scheduled date, His Majesty, King Hamad bin Isa Al Khalifa declared an end to the period of National Safety with the goal of encouraging national dialogue and reconciliation.

Following on from this period of unrest, the National Consensus Dialogue (the "**Dialogue**"), which included participants from across Bahrain's political, social and religious spectrum, including representatives of a range of different expatriate and religious groups, took place in July 2011. 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 His Majesty, King Hamad bin Isa Al Khalifa on 3 May 2012. Due to the withdrawal of the Coalition of Six Societies, the remaining participants agreed to suspend the Dialogue sessions while keeping the door open to resume the Dialogue when the Coalition of Six Societies decide to return to the Dialogue.

The Bahrain Independent Commission of Inquiry (the "**BICI**") was established by Royal Order in June 2011 and produced a report on 23 November 2011, setting out detailed narrative regarding the events that had taken place during the February – March 2011 Protests 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. In a report dated 20 March 2012, a high level National Commission formed to monitor the Government's progress 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. In December 2013 and February 2014, the Government issued follow up reports outlining the further implementation of the BICI recommendations.

Although there has continued to be sporadic unrest since 2011, the level of unrest has continued to decline. However, there can be no assurance there will not be further protests and domestic unrest in the future, nor can there be any assurance that further unrest, or concerns about potential future unrest, will not have a material adverse impact on foreign direct investment in Bahrain, Bahrain's reputation as a regional leader in the financial services sector or its reputation generally.

Political instability in Bahrain and in the region may have a material adverse effect on Bahrain's economy and adversely affect the trading price of the Certificates.

Risks relating to enforcement in Bahrain

Risks associated with enforcing arbitral awards and foreign judgments in Bahrain

The payments under the Certificates are dependent upon the Obligor making payments to the Trustee in the manner contemplated under the Transaction Documents. If the Obligor fails to do so, it may be necessary to bring an action against the Obligor to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time consuming.

The Conditions are governed by English law. Under the Conditions, any dispute arising out of or in connection with the Certificates shall be referred to and, subject to the terms of the Certificates, may be finally resolved by arbitration. Bahrain has ratified the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 and the party seeking to enforce the arbitration award in Bahrain 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:

(i) 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 law of Bahrain;

(ii) 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;

(iii) 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 if 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;

(iv) 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

(v) 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:

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

(ii) 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 courts of Bahrain (the "**Bahraini Courts**") unless they are submitted in Arabic or accompanied by a duly authenticated Arabic translation approved by the Official Translator of the Bahraini Courts, which will be the official text.

The Delegate (on behalf of the relevant Certificateholders) may, in the alternative and at its sole discretion, opt to resolve a dispute with the courts, in which case the court of England and Wales have exclusive jurisdiction to settle disputes, except that the Delegate may take proceedings relating to a dispute arising out of or in connection with the Certificates in any other courts with jurisdiction.

The Obligor is a Bahraini company and it may be difficult for Certificateholders to enforce court judgments against it

Notwithstanding that a judgment may be obtained in an English court, there is no assurance that the Obligor has or would at the relevant time have assets in the United Kingdom against which such a judgment could be enforced since almost all of the Obligor's operations and assets are currently located in Bahrain.

Accordingly, there may be insufficient assets of the Obligor to satisfy in whole or part any judgment obtained from an English court relating to amounts owing under the Certificates.

As there has been no reciprocity between England and Bahrain, the Bahraini Courts are unlikely to enforce an English judgment without requesting that a fresh case is filed in the Bahraini Courts which may lead to the possibility that the Bahraini Courts may re-examine the merits of the claim although the Bahraini Courts may also accept the English court judgment as evidence of a debt. The choice by the parties of English law as the governing law of the transaction will be recognised by the Bahraini Courts provided that the provisions thereof are (i) proved, as a matter of evidence, by the party relying on it; and (ii) not contrary to Bahraini public order and morality.

Judicial precedents in Bahrain generally do not have binding effect on subsequent decisions except as a directive for decisions of the Constitutional Court (the "**Constitutional Court**"). Although decisions rendered by the Court of Cassation (the "**Court of Cassation**") do not have binding effect on lower courts, the present practice is for the lower courts to adhere to the precedents and principles laid down by the Court of Cassation. There is no formal system of reporting court decisions in Bahrain except for those decisions of the Court of Cassation and the Constitutional Court.

In addition, there is limited reciprocity between Bahrain and other countries in relation to the recognition and enforcement of judgments. The Bahraini Courts may enforce a foreign court judgment without re-examining the merits of the claim, provided that:

(i) such court enforces judgments and orders rendered in Bahrain;

(ii) the Bahraini Courts did not have jurisdiction in the matter in respect of which the order or judgment has been made and it was made by a foreign court of competent jurisdiction under the jurisdiction rules or laws applied by such court;

(iii) the parties had been served with due notice to attend and had been properly represented;

(iv) the judgment was final in accordance with the law of the court making it; and

(v) the judgment did not conflict with any previous decision of the Bahraini Courts and did not involve any conflict with public order or morality in Bahrain.

Generally, where provisions relating to interest payments are provided for in an agreement, the Bahraini Courts may give effect to such a provision so long as the agreement between the parties which provides for payment of interest is a commercial agreement relating to commercial activities.

The Certificateholders may not be able to obtain specific enforcement of the Obligor's obligations under the Transaction Documents, or obtain monetary damages sufficient to cover any losses incurred in connection with their investment in the Certificates.

In the event that the Obligor fails to perform its obligations under the Transaction Documents, the potential remedies available to the Certificateholders 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.

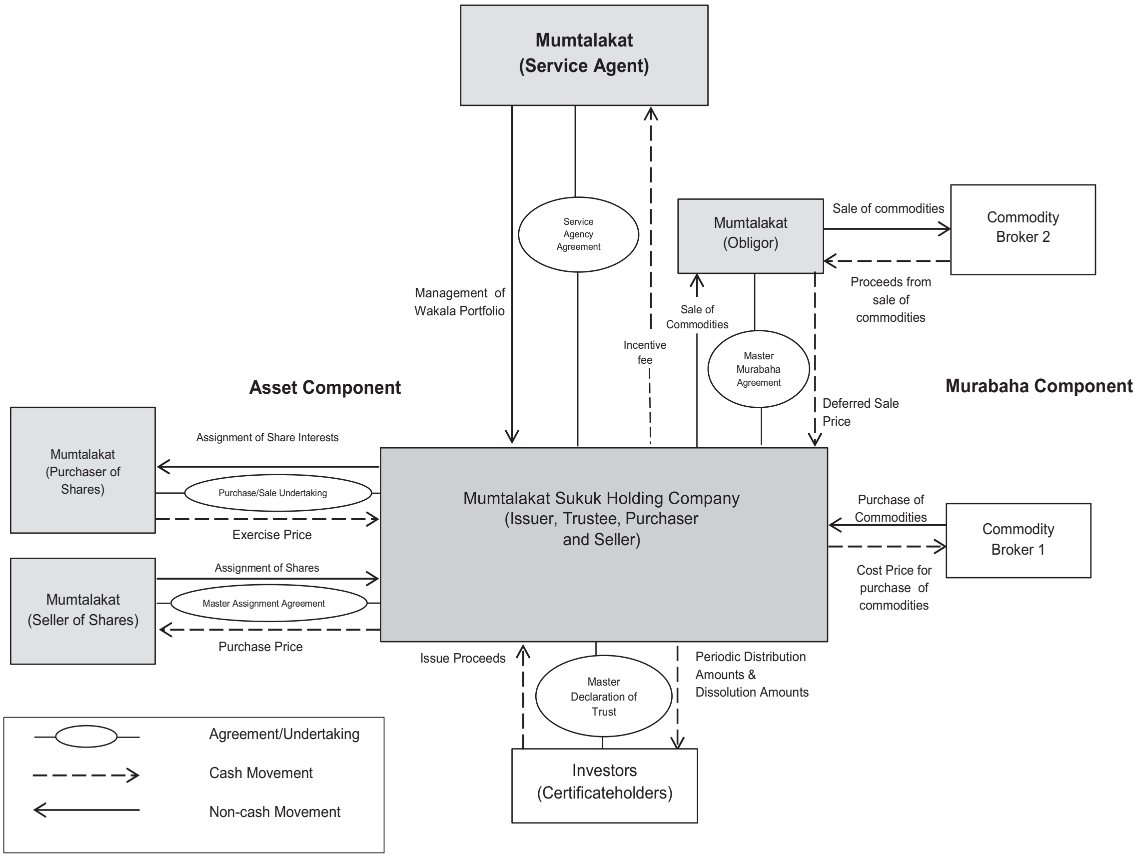
The amount of damages which a court may award in respect of a breach will depend upon a number of possible factors. No assurance is provided on the level of damages which a court may award in the event of a failure by the Obligor to perform its obligations under the Transaction Documents.

Waiver of immunity

To the extent permitted by law, the Obligor 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 waiver of immunity from execution or attachment or other legal process by it under the Transaction Documents is valid and binding under the laws of Bahrain.

STRUCTURE DIAGRAM AND CASHFLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Series issued. Potential investors are referred to the terms and conditions of the Certificates set out in "Terms and Conditions of the Certificates" and the detailed descriptions of the relevant Transaction Documents set out in "Summary of the Principal Transaction Documents" for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalised terms used below.



Principal Cashflows

Payments by the Certificateholders and the Trustee

On the Issue Date, the Certificateholders will pay the issue price in respect of the Certificates (the "**Issue Proceeds**") to the Trustee and the Trustee will pay:

(a) the percentage specified in the applicable Final Terms, being no less than 51 per cent., of the Issue Proceeds to Mumtalakat (in its capacity as seller) as the purchase price payable under the relevant Supplemental Assignment Agreement for the purchase of all of Mumtalakat's interests, rights, benefits and entitlements (excluding legal title) in, to and under a portfolio of Shares (the "**Share Portfolio**") including, but not limited to, the right to receive any payments or other distributions made in respect of such Shares, the benefit of any appreciation in the Value of such Shares and the right to exercise all voting rights attached to such Shares (the "**Share Interests**"); and

(b) the percentage specified in the applicable Final Terms, being no more than 49 per cent., of the Issue Proceeds in the purchase of commodities to be sold to Mumtalakat (in its capacity as buyer, the "**Buyer**") on a deferred payment basis for an amount specified in a letter of offer and acceptance (the "**Deferred Sale Price**") pursuant to the Master Murabaha Agreement (the "**Commodity Murabaha Investment**"),

and Shares comprised in the Share Portfolio (as may be substituted from time to time) and the Commodity Murabaha Investment and all other rights arising under or with respect to the Share Portfolio and the

Commodity Murabaha Investment (including the right to receive payment of the Deferred Sale Price and any other amounts or distributions due in connection with the relevant Shares and Commodity Murabaha Investment) shall comprise a Wakala Portfolio in respect of such Series.

Periodic Distribution Payments

In relation to a Series, all revenues from the Wakala Portfolio (including any amounts of Deferred Sale Price to be paid in respect of the Commodity Murabaha Investment and any dividend or distribution amounts paid in respect of the Share Portfolio) (the "**Wakala Portfolio Revenues**") will be recorded by the Service Agent in the Collection Account. By no later than the business day prior to each Wakala Distribution Determination Date, the Service Agent shall pay into the Transaction Account from the Collection Account an amount equal to the aggregate of all Periodic Distribution Amounts payable on the relevant Periodic Distribution Date by the Trustee under the Certificates of the relevant Series together with any amounts payable pursuant to Conditions 5(b)(i) and 5(b)(ii) (the "**Required Amount**") and such Required Amount shall be applied by the Trustee for those purposes.

If the Wakala Portfolio Revenues are greater than the Required Amount, such excess returns shall be credited to a separate account by the Service Agent (such account, the "**Reserve Account**"). If the Wakala Portfolio Revenues are insufficient to fund the Required Amount, the Service Agent shall apply amounts standing to the credit of the Reserve Account towards such shortfall, by paying an amount equal to the same into the Transaction Account. If, having applied such amounts from the Reserve Account, there remains a shortfall between the amount standing to the credit of the Transaction Account and the Required Amount, the Service Agent may in its sole discretion provide Shariah-compliant funding to the Trustee in an amount equal to the shortfall remaining (if any) on terms that such funding is repayable (i) from Wakala Portfolio Revenues received in respect of a subsequent period, or (ii) on the relevant Dissolution Date (such funding in relation to a Series, a "**Liquidity Facility**").

Payment of the Dissolution Distribution Amount on the Scheduled Dissolution Date

On the second business day prior to the relevant Scheduled Dissolution Date in relation to each Series:

(a) the final payment of the outstanding Deferred Sale Price shall become due and payable; and

(b) the Trustee will have the right under the Purchase Undertaking to require the Obligor to purchase all of its Share Interests relating to the Shares comprised in the Share Portfolio in consideration for payment by the Obligor of the relevant Exercise Price,

and such amounts are intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates on the Scheduled Dissolution Date.

Payment of the Dissolution Distribution Amount in the event of early redemption

The Certificates in relation to any Series may be redeemed in whole or in part prior to the relevant Scheduled Dissolution Date for the following reasons: (i) following a Dissolution Event, (ii) for tax reasons, (iii) if so specified in the applicable Final Terms, at the option of the Obligor, (iv) if so specified in the applicable Final Terms, at the option of the Certificateholders or (v) if so specified in the applicable Final Terms, following the occurrence of a Change of Control Event, or (vi) if 75 per cent. or more in face amount of the Certificates then outstanding have been redeemed and/or purchased and cancelled pursuant to Condition 8, at the option of the Obligor.

In respect of an early redemption for tax reasons or an early redemption at the option of the Obligor pursuant to paragraph (iii) or (vi) above, on the second business day prior to the Early Tax Dissolution Date or Optional Dissolution Date, as the case may be:

(a) all remaining amounts of the Deferred Sale Price shall become due and payable; and

(b) the Obligor will have the right under the Sale Undertaking to require the Trustee to transfer and convey to the Obligor all of its Share Interests relating to all of the Shares comprised in the Share

Portfolio in consideration for payment by the Obligor of the relevant Exercise Price or the Clean Up Call Right Exercise Price, as the case may be,

and such amounts are intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates on the relevant Dissolution Date.

In respect of an early redemption following a Dissolution Event, at the option of the Certificateholders or following the occurrence of a Change of Control Event, on the second business day prior to the relevant Dissolution Event Redemption Date, Change of Control Put Date or Certificateholder Put Right Date, as the case may be:

(a) all or a proportion of all remaining amounts of the Deferred Sale Price will become immediately due and payable; and

(b) the Trustee will have the right under the Purchase Undertaking to require the Obligor to purchase all of its Share Interests relating to all or a portion, as applicable, of the Shares comprised in the Share Portfolio in consideration for payment by the Obligor of the relevant Exercise Price, Certificateholder Put Right Exercise Price or Change of Control Exercise Price, as the case may be,

and such amounts are intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates on the relevant Dissolution Date.

For Shariah reasons, the Optional Dissolution Right and the Certificateholder Put Right cannot both be specified as applicable in the applicable Final Terms in respect of any single Series.

Purchase and Cancellation of Certificates

Pursuant to Condition 8(h), the Obligor and its subsidiaries may at any time purchase Certificates in the open market or otherwise. In connection with the Obligor fulfilling its obligation to cancel any Certificates so purchased:

(a) all or a proportion of all remaining amounts of Deferred Sale Price will be deemed to be cancelled; and

(b) the Obligor shall exercise its right under the Sale Undertaking to require the Trustee to transfer and convey all of its Share Interests relating to a specified portion (as applicable) of the Shares comprised in the Share Portfolio to the Obligor in consideration for cancellation of the relevant Certificates pursuant to Condition 8(i),

in each case on the relevant date specified by the Obligor for cancellation.

OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series, the applicable Final Terms. The Trustee and any relevant Dealer(s) may agree that Certificates shall be issued in a form other than that contemplated in the Terms and Conditions of the Certificates, in which event, in the case of listed Certificates only and, if appropriate, a supplemental prospectus will be published.

Words and expressions defined in "Terms and Conditions of the Certificates" and "Summary of Provisions relating to the Certificates while in Global Form" shall have the same meanings in this overview.

Obligor, Seller, Buyer and Service Agent:	Bahrain Mumtalakat Holding Company B.S.C. (c) incorporated in Bahrain under Commercial Registration Number: 61579, in its capacity as Obligor pursuant to the Purchase Undertaking, Seller under the Master Assignment Agreement, Buyer under the Master Murabaha Agreement and Service Agent under the Service Agency Agreement.
Trustee:	Mumtalakat Sukuk Holding Company, as issuer of the Certificates and as trustee for and on behalf of the Certificateholders, an exempted company with limited liability incorporated on 16 September 2014 in accordance with the Companies Law of the Cayman Islands and formed and registered in the Cayman Islands with company registration number 291803 with its registered office at c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Ownership of the Trustee:	The authorised share capital of the Trustee is U.S.$50,000 consisting of 50,000 shares of U.S.$1.00 each, of which one share is fully paid up and issued. The Trustee's entire issued share capital is held by Bahrain Mumtalakat Holding Company B.S.C. (c).
Arranger:	HSBC Bank plc
Dealers:	HSBC Bank plc, BNP Paribas, Deutsche Bank AG, London Branch, Mitsubishi UFJ Securities International plc and Standard Chartered Bank. The Obligor may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Series or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Series.
Delegate:	Citibank, N.A., London Branch (the "**Delegate**"). In accordance with the Master Declaration of Trust, the Trustee will, *inter alia*, unconditionally and irrevocably appoint the Delegate to be its attorney and to exercise certain present and future duties, powers,

	authorities and discretions vested in the Trustee by certain provisions of the Master Declaration of Trust in accordance with the terms of the Master Declaration of Trust. In particular, the Delegate shall be entitled to (and, in certain circumstances, shall, subject to being indemnified and/or secured and/or prefunded to its satisfaction, be obliged to) take enforcement action in the name of the Trustee against the Obligor (in any capacity) following a Dissolution Event.
Principal Paying Agent, Transfer Agent and Calculation Agent:	Citibank, N.A., London Branch
Registrar:	Citigroup Global Markets Deutschland AG
Initial Programme Size:	Up to U.S.$1,000,000,000 (or its equivalent in other currencies calculated as described in the Dealer Agreement) aggregate nominal amount of Certificates outstanding at any time. The size of the Programme may be increased in accordance with the terms of the Dealer Agreement.
Method of Issue:	The Certificates may be issued by way of public or private placement and in each case on a syndicated or non-syndicated basis. The Certificates will be issued in series (each series of Certificates being a "**Series**").
Currencies:	Subject to compliance with all relevant laws, regulations and directives, Certificates may be issued in any currency (each a "**Specified Currency**") agreed between the Trustee, the Obligor and the relevant Dealer.
Maturities:	The Certificates will have such maturities as may be agreed between the Trustee, the Obligor and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Trustee, the Obligor or the Specified Currency.
Issue Price:	Certificates may be issued at any price on a fully paid basis, as specified in the applicable Final Terms. The price and amount of Certificates to be issued under the Programme will be determined by the Trustee, the Obligor and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Denomination of Certificates:	The Certificates will be issued in such denominations as may be agreed between the Trustee, the Obligor and the relevant Dealer(s), save that (i) the minimum denomination of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency, (ii) the minimum denomination of each Certificate admitted to trading on a regulated market within the EEA or offered to the public in an EU Member State, in circumstances which require the publication of a prospectus under the Prospectus Directive, will be at least €100,000 (or, if the Certificates are denominated in a currency other than euro, the equivalent amount in such currency, as calculated on the Issue Date of such Series) and (iii) unless otherwise permitted by such current laws and regulations, Certificates (including Certificates denominated in sterling) which have a maturity of less

than one year and in respect of which the issue proceeds are to be accepted by the Trustee in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA will have a minimum denomination of £100,000 (or, if the Certificates are denominated in a currency other than sterling, the equivalent amount in such currency, as calculated on the Issue Date of such Series).

Status of the Certificates: The Certificates will represent an undivided beneficial ownership interest in the Trust Assets of the relevant Series and will be limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* and without any preference or priority with all other Certificates of the relevant Series.

The payment obligations of the Obligor (in any capacity) to the Trustee under the Transaction Documents in respect of each Series of Certificates will be direct, unconditional, unsubordinated and (subject to the negative pledge provisions described in Condition 6(b)) unsecured obligations of the Obligor and shall, save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in Condition 6(b), at all times rank at least equally with all other unsecured and unsubordinated obligations of the Obligor, present and future.

Trust Assets: The Trust Assets of the relevant Series will be (i) the cash proceeds of the issue of the relevant Series of Certificates, pending application thereof in accordance with the terms of the Transaction Documents; (ii) the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Wakala Portfolio; (iii) the Trustee's rights, title, interest, benefits and entitlements, present and future, in, to and under the Transaction Documents (other than in relation to the Excluded Representations (as defined in the Conditions) and the covenant given to the Trustee pursuant to Clause 17.1 of the Master Declaration of Trust); and (iv) all monies standing to the credit of the relevant Transaction Account from time to time, and all proceeds of the foregoing listed (i) to (iv) (the "**Trust Assets**").

Periodic Distribution Amounts: Certificateholders are entitled to receive Periodic Distribution Amounts calculated on the basis specified in the applicable Final Terms.

Each Certificate will bear profit on its outstanding face amount at such fixed rate per annum equal to the Profit Rate (as defined in the Conditions) and on such date or dates as may be agreed between the Trustee, the Obligor and the relevant Dealer(s), calculated in accordance with such Day Count Fraction as may be agreed between the Trustee, the Obligor and the relevant Dealer(s), each as more particularly described in Condition 7.

Negative Pledge: The Certificates will have the benefit of a negative pledge granted by the Obligor in respect of itself, as described in Condition 6(b).

Cross Default: In respect of the Obligor, the Certificates will have the benefit of a cross-default provision, as described in sub-paragraph (c) of the definition of "**Obligor Event**" corresponding thereto.

Dissolution on the Scheduled Dissolution Date:	Unless the Certificates are previously redeemed or purchased and cancelled in full, the Trustee will redeem each Certificate at the relevant Dissolution Distribution Amount on the relevant Scheduled Dissolution Date specified in the applicable Final Terms for such Series and the Trust in relation to the relevant Series will be dissolved by the Trustee following the payment of all such amounts in full.
Dissolution Distribution Amount:	In relation to each Certificate of a Series, either: (i) the sum of: (a) the outstanding face amount of such Certificate; and (b) any accrued but unpaid Periodic Distribution Amounts for such Certificate; or; (ii) (in the case of an exercise of the Obligor Dissolution Right pursuant to Condition 8(c)) if so specified in the applicable Final Terms, the Make-Whole Dissolution Amount (as defined in the Conditions) in respect of such Certificate; or (iii) such other amount specified in the applicable Final Terms as being payable upon any Dissolution Date.
Early Dissolution of the Trust:	The Trust may only be dissolved (in whole or in part) prior to the Scheduled Dissolution Date upon the: (i) occurrence of a Dissolution Event; (ii) exercise of an Optional Dissolution Right (if applicable to the relevant Series); (iii) exercise of a Certificateholder Put Right (if applicable to the relevant Series); (iv) exercise of a Change of Control Put Right (if applicable to the relevant Series); (v) exercise of an Obligor Clean Up Call Right (if applicable to the relevant Series); or (vi) the occurrence of a Tax Event. In each case, the Certificates of a Series will be redeemed pursuant to the exercise of the Purchase Undertaking or the Sale Undertaking (as applicable) whereupon the Obligor will pay the relevant Exercise Price, Change of Control Exercise Price, Certificateholder Put Right Exercise Price or Clean Up Call Right Exercise Price, as the case may be, to the Trustee and receive from the Trustee the Share Interests relating to all or the relevant proportion of the Shares comprising the Share Portfolio, the Change of Control Shares, the Certificateholder Put Right Shares or the Clean Up Call Right Shares, as the case may be. The relevant Exercise Price, Change of Control Exercise Price, Certificateholder Put Right Exercise Price or Clean Up Call Right Exercise Price payable under the Purchase Undertaking or the Sale Undertaking, as the case may be, together with all or, as applicable, a proportion of all remaining amounts of the Deferred Sale Price

will be used to fund the redemption of the Certificates of the relevant Series at an amount equal to the relevant Dissolution Distribution Amount.

Dissolution Events: Following the occurrence and continuation of a Dissolution Event in respect of a Series of Certificates, the Certificates may be redeemed in full at an amount equal to the relevant Dissolution Distribution Amount in the manner described in Condition 12.

Early Dissolution for Tax Reasons: Where the Trustee has or will become obliged to pay additional amounts in respect of the Certificates pursuant to Condition 10 or the Obligor has or will become obliged to pay additional amounts to the Trustee pursuant to the terms of any Transaction Document, in each case, as a result of a change in, or amendment to, the laws or regulations of the Cayman Islands (in the case of a payment by the Trustee) or Bahrain (in the case of a payment by the Obligor) or, in each case, any political subdivision or any authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and such obligation cannot be avoided by the Trustee or the Obligor, as applicable, taking reasonable measures available to it, the Obligor may in its sole discretion require the Trustee to redeem the Certificates in whole, but not in part, on any Periodic Distribution Date at the relevant Dissolution Distribution Amount, as more particularly described in Condition 8(b).

Optional Dissolution Right: If so specified in the applicable Final Terms, the Obligor may, in accordance with Condition 8(c), require the Trustee to redeem all of the Certificates of the relevant Series at the relevant Dissolution Distribution Amount on any Optional Dissolution Date, which must be a Periodic Distribution Date.

If applicable to the relevant Series, the Optional Dissolution Date(s) will be specified in the applicable Final Terms.

Certificateholder Put Right: If so specified in the applicable Final Terms, the Certificateholders may elect to redeem their Certificates on any Certificateholder Put Right Date(s), which must be a Periodic Distribution Date, specified in the applicable Final Terms at an amount equal to the relevant Dissolution Distribution Amount in accordance with Condition 8(d).

Change of Control Put Right: Upon the occurrence of a Change of Control Event, Certificateholders may elect to redeem their Certificates, in whole or in part, on the relevant Change of Control Put Date at the relevant Dissolution Distribution Amount in accordance with Condition 8(e).

A "**Change of Control Event**" shall occur if at any time the Government of Bahrain (the "**Government**") or any department, agency or authority wholly-owned by the Government: (a) sells, transfers or otherwise disposes of any of the issued share capital of the Obligor, other than to an entity, directly or indirectly, wholly-owned by the Government; or (b) otherwise ceases to control (directly or indirectly) the Obligor.

Obligor Clean Up Call Right:	If 75 per cent. or more in face amount of the Certificates then outstanding have been redeemed and/or purchased and cancelled pursuant to Condition 8, the Obligor may, in accordance with Condition 8(f), require the Trustee to redeem all of the Certificates of the relevant Series at the relevant Dissolution Distribution Amount on the Clean Up Call Right Dissolution Date.
Cancellation of Certificates held by the Obligor and/or any of its Subsidiaries:	Pursuant to Condition 8(h), the Obligor and/or any of its Subsidiaries may at any time purchase Certificates in the open market or otherwise at any price. Any such Certificates purchased by or on behalf of the Obligor or any of its Subsidiaries shall be surrendered for cancellation in accordance with Condition 8(i).
Limited Recourse:	Each Certificate of a particular Series will represent an undivided beneficial ownership interest in the Trust Assets for such Series. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the relevant Trust Assets. If the proceeds of the relevant Trust Assets are insufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers, shareholders or corporate service providers in their capacity as such) (other than the relevant Trust Assets in the manner and to the extent contemplated by the Transaction Documents) or the Delegate or any Agent or any of their respective directors, officers, employees, shareholders or affiliates in respect of any shortfall in the expected amounts from the relevant Trust Assets to the extent the relevant Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished. See further Condition 4(b).
Form and Delivery of the Certificates:	The Certificates will be issued in registered form only. The Certificates of each Series will be represented on issue by beneficial interests in a Global Certificate (the "**Global Certificate**"), which will be deposited with, and registered in the name of a nominee for, a common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Individual Certificates evidencing holdings of Certificates will be issued in exchange for interests in the relevant Global Certificate only in certain limited circumstances described under "*Summary of Provisions relating to the Certificates while in Global Form*".
Clearance and Settlement:	Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through Euroclear and/or Clearstream, Luxembourg. Transfers within and between each of Euroclear or Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing system.
Withholding Tax:	All payments by the Trustee in respect of the Certificates are to be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Cayman Islands or Bahrain or

any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In such event, the Trustee has agreed to pay such additional amounts as shall result in receipt by the Certificateholders of such amounts as would have been received by them had no such withholding or deduction been required, subject to and in accordance with Condition 10. If the Trustee is required to pay any additional amounts as aforesaid, the Obligor has undertaken in the Service Agency Agreement to pay such additional amounts as may be necessary so that the full amount due and payable by the Trustee in respect of the Certificates is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of Condition 10.

In addition, all payments by the Obligor under the Transaction Documents to which it is a party are to be made without any deduction or withholding for, or on account of, any present or future taxes, levies, duties, fees, assessments or other charges of whatever nature unless required by law and without set-off or counterclaim of any kind. If any deduction or withholding is required by law, the Obligor has undertaken to pay such additional amounts as shall result in receipt by the Trustee of such amounts as would have been received by it under the relevant Transaction Document had no such deduction or withholding been made.

Listing and Admission to Trading: Application has been made to the Irish Stock Exchange plc for each Series of the Certificates issued under the Programme to be admitted to the Official List and to trading on the Main Securities Market or as otherwise specified in the applicable Final Terms and references to listing shall be construed accordingly. As specified in the applicable Final Terms, a Series of Certificates may be unlisted.

Listing Agent: Arthur Cox Listing Services Limited

Certificateholder Meetings: A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 14.

Tax Considerations: See "*Taxation*" for a description of certain tax considerations applicable to the Certificates.

Governing Law: The Certificates and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.

Each of the Transaction Documents and any non-contractual obligations arising out of or in connection with the same will be governed by and construed in accordance with English law, except the Master Assignment Agreement, the Supplemental Assignment Agreement and the transfer agreements to be executed upon exercise of the Purchase Undertaking, the Sale Undertaking or the Substitution Undertaking, which will be governed by and construed in accordance with Bahraini law.

Transaction Documents: The Transaction Documents in respect of a Series shall comprise the Certificates, the Master Declaration of Trust, each Supplemental Declaration of Trust, the Agency Agreement, the Master

	Assignment Agreement, each Supplemental Assignment Agreement, the Master Murabaha Agreement, the Service Agency Agreement, the Substitution Undertaking, the Purchase Undertaking, the Sale Undertaking, any transfer agreement to be executed upon exercise of the Sale Undertaking, the Purchase Undertaking or the Substitution Undertaking and any additional document(s) specified as such in the applicable Final Terms.
Rating:	The Programme has been rated BBB by Standard & Poor's and BBB by Fitch. A Series of Certificates to be issued under the Programme may be rated or unrated. Where a Series of Certificates is to be rated, its rating will be specified in the applicable Final Terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.
Selling Restrictions:	The United States, the United Kingdom, Bahrain, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre, Saudi Arabia, Qatar, Kuwait, Japan, Hong Kong, Malaysia, Singapore and the Cayman Islands. See "*Subscription and Sale*".
United States Selling Restrictions:	Regulation S, Category 2.

TERMS AND CONDITIONS OF THE CERTIFICATES

*The following is the text of the terms and conditions that, subject to completion in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Certificates in definitive form (if any) issued in exchange for the Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the applicable Final Terms or (ii) these terms and conditions as so completed (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Certificates. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Final Terms. Those definitions will be endorsed on the definitive Certificates. References in the Conditions to "**Certificates**" are to the Certificates of one Series only, not to all Certificates that may be issued under the Programme.*

Mumtalakat Sukuk Holding Company (in its capacity as issuer and in its capacity as trustee, the "**Trustee**") has established a programme (the "**Programme**") for the issuance of trust certificates (the "**Certificates**") in a maximum aggregate face amount of U.S.$1,000,000,000 (or the equivalent in other currencies calculated as described in the dealer agreement between the Trustee, Bahrain Mumtalakat Holding Company B.S.C. (c) ("**Mumtalakat**" or the "**Obligor**") and the Dealers named therein dated 30 October 2014 (the "**Dealer Agreement**")), or such other maximum aggregate face amount as increased in accordance with the terms of the Dealer Agreement.

The Certificates are constituted by a master declaration of trust dated 30 October 2014 between the Trustee, the Obligor and Citibank, N.A., London Branch as the Trustee's delegate (the "**Delegate**", which expression shall include all persons for the time being the delegate or delegates under the Declaration of Trust) (the "**Master Declaration of Trust**") as supplemented by a supplemental declaration of trust entered into on or before the date of issue of the relevant Certificates (the "**Issue Date**") in respect of the relevant Series (the "**Supplemental Declaration of Trust**" and, together with the Master Declaration of Trust, the "**Declaration of Trust**").

An agency agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 30 October 2014 has been entered into in relation to the Certificates between the Trustee, the Obligor, the Delegate, Citibank, N.A., London Branch as initial principal paying agent and transfer agent, Citigroup Global Markets Deutschland AG as initial registrar and the other agents named in it. The principal paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Principal Paying Agent**", the "**Paying Agents**" (which expression shall include the Principal Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**", and together the "**Agents**".

These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Declaration of Trust, which includes the form of Certificates referred to below, the Agency Agreement and the remaining Transaction Documents (as defined below). The Certificateholders are bound by, and are deemed to have notice of, all the provisions of the Declaration of Trust and those applicable to them in the remaining Transaction Documents.

Copies of the Transaction Documents are available for inspection during usual business hours at the principal office of the Delegate and at the specified offices of the Principal Paying Agent.

Each initial Certificateholder (as defined below), by its acquisition and holding of its interest in a Certificate, shall be deemed to authorise and direct the Trustee, on behalf of the Certificateholders: (a) to apply the proceeds of the issue of the Series (the "**Proceeds**") in an amount equal to the Share Percentage (as defined below) of the Proceeds to acquire all benefits, rewards and risks of, but not legal title to, the Initial Share Portfolio (as defined below) (including the rights to receive any payments or other distributions made in respect thereof) pursuant to the Assignment Agreement, and an amount equal to the Murabaha Percentage (as defined below) of the Proceeds in a commodity murabaha transaction pursuant to the Master Murabaha Agreement as supplemented by the relevant purchase agreements, letters and certificates in respect of such Series, (b) to enter into, and perform its obligations under and in connection with, each Transaction

Document to which it is a party, subject to the terms and conditions of the Declaration of Trust and these Conditions.

1 Interpretation

Unless defined herein or the context otherwise requires, capitalised words and expressions used but not defined herein or hereon shall have the meaning given to them in the Declaration of Trust and the Agency Agreement. In addition, for the purposes of these Conditions, the following expressions have the following meanings:

"**Assignment Agreement**" means in respect of a Series, the Master Assignment Agreement as supplemented by the Supplemental Assignment Agreement for such Series;

"**Broken Amount**" means the amount specified as such hereon;

"**Business Day**" has the meaning given to it in Condition 7(e);

"**Calculation Amount**" means the amount specified as such hereon;

"**Cancellation Notice**" means a cancellation notice given pursuant to the terms of the Sale Undertaking;

"**Certificateholder**" or "**holder**" has the meaning given to it in Condition 2;

"**Certificateholder Put Exercise Notice**" has the meaning given to it in Condition 8(d);

"**Certificateholder Put Right**" means the right specified in Condition 8(d);

"**Certificateholder Put Right Date**" means, in relation to any exercise of the Certificateholder Put Right, the date(s) specified as such hereon and which must be a Periodic Distribution Date;

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

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

(b) otherwise ceases to control (directly or indirectly) the Obligor;

"**Change of Control Exercise Notice**" has the meaning given to it in Condition 8(e);

"**Change of Control Put Date**" shall be the date which is seven days after the expiry of the Change of Control Put Period;

"**Change of Control Put Event Notice**" has the meaning given to it in Condition 8(e);

"**Change of Control Put Period**" has the meaning give to it in Condition 8(e);

"**Change of Control Put Right**" means the right specified in Condition 8(e);

"**Clean Up Call Right Dissolution Date**" has the meaning given to it in Condition 8(f);

"**Day Count Fraction**" has the meaning given to it in Condition 7(e);

"**Delegation**" has the meaning given to it in Condition 15(a);

"**Dispute**" has the meaning given to it in Condition 19(b);

"**Dissolution Date**" means, as the case may be:

(a) the Scheduled Dissolution Date;

(b) any Early Tax Dissolution Date;

(c) any Optional Dissolution Date;

(d) any Certificateholder Put Right Date;

(e) any Change of Control Put Date;

(f) any Dissolution Event Redemption Date;

(g) any Clean Up Call Right Dissolution Date; or

(h) such other date as specified hereon for the redemption of Certificates and dissolution of the Trust in whole or in part prior to the Scheduled Dissolution Date;

"**Dissolution Distribution Amount**" means:

(a) the sum of:

    (i) the outstanding face amount of such Certificate; and

    (ii) any accrued but unpaid Periodic Distribution Amounts for such Certificate; or

(b) (in the case of an exercise of the Optional Dissolution Right pursuant to Condition 8(c)) if so specified hereon, the Make-Whole Dissolution Amount in respect of such Certificate; or

(c) such other amount specified hereon as being payable upon any Dissolution Date;

"**Dissolution Event**" means a Trustee Event or an Obligor Event;

"**Dissolution Event Redemption Date**" has the meaning given to it in Condition 12(a);

"**Dissolution Notice**" has the meaning given to it in Condition 12(a);

"**Early Tax Dissolution Date**" has the meaning given to it in Condition 8(b);

"**Excluded Representations**" means any representations given by the Obligor to the Trustee and/or the Delegate pursuant to the Transaction Documents;

"**Exercise Notice**" means an exercise notice given pursuant to the terms of the Purchase Undertaking and/or the Sale Undertaking (as the case may be);

"**Extraordinary Resolution**" has the meaning given to it in the Declaration of Trust;

"**Financial Indebtedness**" means, in relation to the Obligor, 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);

"**Fixed Amount**" means the amount specified as such hereon;

"**Initial Share Portfolio**" has the meaning given to it in the Master Assignment Agreement;

"**Liability**" means any loss, damage, cost, charge, claim, demand, expense, fee, judgment, action, proceeding or other liability whatsoever (including, without limitation in respect of taxes) and including any value added tax or similar tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis and references to "**Liabilities**" shall mean all of these;

"**Make-Whole Dissolution Amount**" means the greater of:

(a) the outstanding face amount of the Certificate to be redeemed together with Periodic Distribution Amounts accrued to (but excluding) the Optional Dissolution Date in respect of such Certificate; and

(b) the amount equal to the sum of the net present value of the then remaining scheduled payments of principal and periodic distribution amounts (but excluding that portion of any scheduled payment of periodic distribution amounts that is actually due and paid on the Optional Dissolution Date) in respect of the Certificate discounted to such Optional Dissolution Date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate for the Certificate plus 50 basis points;

"**Master Assignment Agreement**" means the master assignment agreement dated 30 October 2014 between the Trustee (in its capacity as purchaser) and Mumtalakat (in its capacity as seller);

"**Master Murabaha Agreement**" means the master murabaha agreement dated 30 October 2014 between the Trustee (in its capacity as seller) and Mumtalakat (in its capacity as buyer);

"**Murabaha Percentage**" means the percentage specified hereon which shall be no more than 49 per cent.;

"**Obligor Clean Up Call Right**" means the right specified in Condition 8(f);

"**Obligor Event**" means any of the following events:

(a) **Non-payment:** the Obligor (acting in any capacity) fails to pay an amount in the nature of principal or profit payable by it pursuant to any Transaction Document to which it is a party and the failure continues for a period of 7 calendar days in the case of principal or 14 calendar days in the case of payments in the nature of profit; or

(b) **Breach of Other Obligations:** the Obligor (acting in any capacity) fails to perform or observe any of its other obligations under the Transaction Documents to which it is a party which default is, in the opinion of the Delegate, incapable of remedy or, if in the opinion of the Delegate is capable of remedy, is not in the opinion of the Delegate remedied within 45 calendar days after written notice of such default shall have been given to the Obligor by the Trustee (or the Delegate acting on behalf of the Trustee) requiring the same to be remedied; or

(c) **Cross-Default:** (i) the holders of any Financial Indebtedness or Sukuk Obligation of the Obligor 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 thereof; or (ii) the Obligor fails to make any payment in respect of any of its Financial Indebtedness or Sukuk Obligation on the due date for payment (including within any originally applicable grace period); provided that no event described in this subparagraph (c) shall constitute an Obligor Event unless the Financial Indebtedness or Sukuk Obligation of the Obligor due and unpaid, either alone or when aggregated (without duplication) with other amounts of Financial Indebtedness or Sukuk Obligation of the Obligor due and unpaid in respect of 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

(d) **Insolvency:** the Obligor is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms approved by Extraordinary Resolution, or the Obligor 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, or the Obligor (or its directors or shareholders) initiates or consents to judicial proceedings relating to the Obligor 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

(e) **Winding-up:** any order is made by any competent court or a shareholders' resolution is passed for the winding up or dissolution of the Obligor; or

(f) **Enforcement Proceedings:** (i) proceedings are initiated against the Obligor 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 Obligor or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Obligor or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Obligor, 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 Obligor, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the Obligor, is not discharged within 60 calendar days.

For the purposes of this sub-paragraph (f):

"**asset**" or "**assets**" means any asset or assets in relation to which legal title is held in the name of the Obligor (including for the avoidance of doubt Capital Assets in any Subsidiaries which are held by the Obligor), but excluding for the avoidance of doubt any assets held directly or indirectly by any Subsidiary or affiliate of the Obligor; and

"**Capital Assets**" means 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; or

(a) **Analogous Events:** any event occurs which, under the laws of the Kingdom of Bahrain or any other jurisdiction in which the Obligor has operations has an analogous effect to any of the events referred to in paragraphs (d), (e) or (f); or

(b) **Invalidity, Repudiation or Illegality:** (i) the Obligor denies any of its obligations under the any Transaction Document to which the Obligor is a party; or (ii) it is or will become unlawful for the Obligor to perform or comply with any of its obligations under or in respect of the Transaction Documents to which it is a party; or (iii) any of the obligations of the Obligor (acting in any capacity) under or in respect of the Transaction Documents are or become unenforceable or invalid; or

(c) **Authorisations and Consents:** if any regulation, decree, consent, approval, licence or other authority necessary to enable the Obligor to perform its obligations under the Transaction Documents 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 Certificateholders,

"**Optional Dissolution Date**" means, in relation to any exercise of the Optional Dissolution Right, the date(s) specified as such hereon and which must be a Periodic Distribution Date;

"**Optional Dissolution Right**" means the right specified in Condition 8(c);

"**outstanding**" shall have the meaning given to it in the Declaration of Trust;

"**Periodic Distribution Amount**" has the meaning given to it in Condition 7;

"**Periodic Distribution Date**" means the date or dates specified as such hereon;

"**Periodic Distribution Period**" means the period beginning on and including the Profit Commencement Date and ending on but excluding the first Periodic Distribution Date and each successive period beginning on and including a Periodic Distribution Date and ending on but excluding the next succeeding Periodic Distribution Date unless otherwise specified hereon;

"**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 Obligor, 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 Obligor;

(b) any Security Interest existing on any assets (including shares) prior to the acquisition thereof by the Obligor 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);

"**Person**" means any individual, company, unincorporated association, government, state agency, international organisation or other entity;

"**Potential Dissolution Event**" means any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfilment of any other applicable condition (or any combination of the foregoing) could constitute a Dissolution Event;

"**Proceedings**" has the meaning given to it in Condition 19(e)(iii);

"**Profit Amount**" means:

(a) in respect of a Return Accumulation Period, the amount of profit payable per Calculation Amount for that Return Accumulation Period and which unless otherwise specified hereon, shall mean the Fixed Amount or Broken Amount specified hereon as being payable on the Periodic Distribution Date ending the Periodic Distribution Period of which such Return Accumulation Period forms part; and

(b) in respect of any other period, the amount of profit payable per Calculation Amount for that period;

"**Profit Commencement Date**" means the Issue Date or such other date as may be specified hereon;

"**Profit Period Date**" means each Periodic Distribution Date unless otherwise specified hereon;

"**Profit Rate**" means the profit rate payable from time to time in respect of this Certificate and that is either specified hereon or calculated in accordance with the provisions hereof;

"**Purchase Undertaking**" means the purchase undertaking dated 30 October 2014 and granted by Mumtalakat (in its capacity as Obligor) in favour of the Trustee and the Delegate;

"**Record Date**" has the meaning given to it in Condition 9(a);

"**Register**" has the meaning given to it in Condition 2;

"**Relevant Date**" has the meaning given to it in Condition 10;

"**Relevant Indebtedness**" means (i) any present or future indebtedness (whether being principal, profit or other amounts) for or in respect of, or in the form of, or represented or evidenced by, any bonds, notes, debentures, loan stock 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 capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market and (ii) any guarantee or indemnity of such indebtedness;

"**Relevant Jurisdiction**" means:

(a) in the case of the Trustee, the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax; or

(b) in the case of the Obligor, the Kingdom of Bahrain or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Obligor is resident for tax purposes at the time of making a payment under the Transaction Documents;

"**Relevant Powers**" has the meaning given to it in Condition 15(a);

"**Relevant Sukuk Obligation**" means (i) any present or future undertaking or other obligation to pay any money given in connection with the issue of trust certificates or other securities issued in connection with any Islamic financing, 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 dealt in or traded on any stock exchange or over-the-counter or other securities market and (ii) any guarantee or indemnity of any such obligation;

"**Return Accumulation Period**" means the period beginning on (and including) the Profit Commencement Date and ending on (but excluding) the first Profit Period Date and each successive period beginning on (and including) a Profit Period Date and ending on (but excluding) the next succeeding Profit Period Date, unless otherwise specified hereon;

"**Sale Undertaking**" means the sale undertaking dated 30 October 2014 and granted by the Trustee in favour of the Obligor;

"**Scheduled Dissolution Date**" means the date specified as such hereon;

"**Series**" means a series of Certificates which are identical in all respects;

"**Service Agency Agreement**" means the service agency agreement dated 30 October 2014 and entered into between the Trustee and the Obligor (in its capacity as service agent for and on behalf of the Trustee);

"**Share Percentage**" means the percentage specified hereon which shall be no less than 51 per cent.;

"**Share Portfolio**" has the meaning given to it in the Service Agency Agreement;

"**Specified Currency**" means the currency specified as such hereon or, if none is specified, the currency in which the Certificates are denominated;

"**Specified Denominations**" means the amount(s) specified as such hereon;

"**Subsidiary**" means, in relation to the Obligor, any company (i) in which the Obligor holds a majority of the voting rights, (ii) of which the Obligor has the right to appoint or remove a majority of the board of directors, (iii) of which the Obligor controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Obligor or (iv) that is accounted for in the Obligor's consolidated financial statements according to the full consolidation method of accounting;

"**Substitution Undertaking**" means the substitution undertaking dated 30 October 2014 and granted by the Trustee in favour of the Obligor;

"**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;

"**TARGET Business Day**" has the meaning given to it in Condition 7(e);

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto;

"**Tax Event**" has the meaning given to it in Condition 8(b);

"**Transaction Account**" means the Transaction Account specified as such hereon;

"**Transaction Documents**" means, in relation to each Series:

(a) the relevant Certificates;

(b) the Master Declaration of Trust as supplemented by the relevant Supplemental Declaration of Trust;

(c) the Agency Agreement;

(d) the Master Assignment Agreement as supplemented by the applicable Supplemental Assignment Agreement;

(e) the Master Murabaha Agreement (together with the Purchase Order, the Letter of Offer and Acceptance and all other offers, acceptances and confirmations delivered pursuant thereto in connection with the relevant Series);

(f) the Service Agency Agreement;

(g) the Sale Undertaking (together with each relevant transfer agreement executed upon exercise of the Sale Undertaking);

(h) the Purchase Undertaking (together with each relevant transfer agreement executed upon exercise of the Purchase Undertaking);

(i) the Substitution Undertaking (together with each relevant transfer agreement executed upon exercise of the Substitution Undertaking); and

(j) any additional documents specified hereon,

each as may be amended, restated and/or supplemented from time to time;

"**Treasury Rate**" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days (as defined in Condition 7(e)) (but not more than five Business Days) prior to the relevant Optional Dissolution Date (or if such Statistical Release is not so published or available, any publicly available source of similar market data selected by the Obligor in good faith)) most nearly equal to the period from the Optional Dissolution Date to the Scheduled Dissolution Date; provided, however, that if the period from the Optional Dissolution Date to the Scheduled Dissolution Date is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the Optional Dissolution Date to the Scheduled Dissolution Date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used;

"**Trust**" means, in respect of a Series, the trust created by the Trustee over the Trust Assets pursuant to the Declaration of Trust;

"**Trust Assets**" has the meaning given to it in Condition 5(a);

"**Trustee Event**" means any of the following events:

(a) **Non-Payment:** default is made in the payment of any Dissolution Distribution Amount or any Periodic Distribution Amount on the date fixed for payment thereof and the default continues for a period of 7 calendar days in the case of any Dissolution Distribution Amount or 14 calendar days in the case of any Periodic Distribution Amount; or

(b) **Breach of Other Obligations:** the Trustee does not perform or comply with any one or more of its other duties, obligations or undertakings in respect of the Certificates or the Transaction Documents which default is, in the opinion of the Delegate, incapable of remedy or, if in the opinion of the Delegate is capable of remedy is not, in the opinion of the Delegate, remedied within the period of 45 calendar days after written notice of such default shall have been given by the Delegate to the Trustee requiring the same to be remedied; or

(c) **Enforcement Proceedings:** any distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Trustee and is not discharged or stayed within 30 days; or

(d) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Trustee becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator, manager or other similar person); or

(e) **Insolvency:** the Trustee is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or any part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Trustee; or

(f) **Winding-up:** an administrator is appointed, an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Trustee, or the Trustee shall apply or petition for a winding-up or administration order in respect of itself or cease or through an official action of its board of directors threaten to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms previously approved by an Extraordinary Resolution of the Certificateholders; or

(g) **Authorisation and Consents:** any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order: (x) to enable the Trustee lawfully to enter into, exercise its rights and perform and comply with its duties, obligations and undertakings under the Certificates and the Transaction Documents; (y) to ensure that those duties, obligations and undertakings are legally binding and enforceable; or (z) to make the Certificates and the Transaction Documents to which it is a party admissible in evidence in the courts of the Cayman Islands is not taken, fulfilled or done; or

(h) **Illegality:** it is or will become unlawful for the Trustee to perform or comply with any one or more of its duties, obligations and undertakings under any of the Certificates or the Transaction Documents or any duties, obligations or undertakings of the Trustee under the Transaction Documents are not or cease to be legal, valid, binding and enforceable; or

(i) **Repudiation:** the Trustee repudiates any Transaction Document or does or causes to be done any act or thing evidencing an intention to repudiate any Transaction Document; or

(j) **Analogous Events:** any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (e) and (f) above.

For the purpose of paragraph (a) above, all amounts payable in respect of the Certificates shall be considered due and payable (including any amounts calculated as being payable under Condition 7) notwithstanding that the Trustee has at the relevant time insufficient funds or relevant Trust Assets to pay such amounts (whether as a result of the application of Condition 5(b) or otherwise);

"**Wakala Portfolio**" has the meaning given to it in the Service Agency Agreement; and

"**Wakala Portfolio Revenues**" has the meaning given to it in the Service Agency Agreement.

All references to the "face amount" of a Certificate shall be deemed to include the relevant Dissolution Distribution Amount, any additional amounts (other than relating to Periodic Distribution Amounts) which may be payable under Condition 10 and any other amount in the nature of face amounts payable pursuant to these Conditions.

All references to "Periodic Distribution Amounts" shall be deemed to include any additional amounts in respect of profit distributions which may be payable under Condition 10 and any other amount in the nature of a profit distribution payable pursuant to these Conditions.

All references to "**U.S.$**", "**U.S. dollars**" and "**$**" are to the lawful currency of the United States of America.

All references to "**ISDA**" and related terms are only included for the purposes of benchmarking.

2 Form, Denomination and Title

The Certificates are issued in registered form in the Specified Denomination(s) shown hereon.

Certificates are represented by registered certificates and, save as provided in Condition 3(a), each Certificate shall represent the entire holding of Certificates by the same holder.

Title to the Certificates shall pass by registration in the register that the Trustee shall procure to be kept by the Registrar outside the United Kingdom in accordance with the provisions of the Agency Agreement (the "**Register**"). Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register. Except as ordered by a court of competent jurisdiction or as required by law, the registered holder of any Certificate shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder. The registered holder of a Certificate will be recognised by the Trustee as entitled to his Certificate free from any equity, set-off or counterclaim on the part of the Trustee against the original or any intermediate holder of such Certificate.

In these Conditions, "**Certificateholder**" or "**holder**" means the person in whose name a Certificate is registered and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Certificates.

Upon issue, the Certificates will be represented by a Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are modified by certain provisions contained in the Global Certificate.

Except in limited circumstances, owners of interests in the Global Certificate will not be entitled to receive definitive Certificates representing their holdings of Certificates. See "*Summary of Provisions Relating to the Certificates while in Global Form*".

3 Transfers

(a) **Transfer of Certificates:** Subject to Condition 3(e), one or more Certificates may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the certificate representing such Certificates to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Trustee), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Certificates represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Certificates to a person who is already a holder of Certificates, a new certificate representing the enlarged holding shall only be issued against surrender of the certificate representing the existing holding. All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfers of Certificates scheduled to the Agency Agreement. The regulations may be changed by the Trustee, with the prior written approval of the Registrar and the Delegate or by the Registrar with the prior written approval of the Delegate. A copy of the current regulations will be made available by the Registrar to any Certificateholder upon request.

(b) **Exercise of Early Dissolution Rights or Partial Dissolution in Respect of Certificates:** In the case of an exercise of the Obligor's or the Certificateholders' early dissolution right in respect of, or a partial redemption of, a holding of Certificates represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such early dissolution right or in respect of the balance of the holding for which no payment was made. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent.

(c) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 3(a) or (b) shall be available for delivery within three business days of receipt of the form of transfer, Certificateholder Put Exercise Notice or Change of Control Exercise Notice and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Certificateholder Put Exercise Notice, Change of Control Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Certificateholder Put Exercise Notice, Change of Control Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance or takaful as it may specify. In this Condition 3(c), "**business day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(d) **Transfers Free of Charge:** Transfers of Certificates on registration, transfer, exercise of an early dissolution right or partial dissolution shall be effected without charge by or on behalf of the Trustee, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security as the Registrar or the relevant Transfer Agent may require).

(e) **Closed Periods:** No Certificateholder may require the transfer of a Certificate to be registered (i) during the period of 15 days ending on (and including) the due date for payment of any Dissolution Distribution Amount or Periodic Distribution Amount or any other date on which any payment of the face amount or payment of any profit in respect of that Certificate falls due, (ii) during the period of 15 days before any date on which Certificates may be called for redemption pursuant to Condition 8(c), (iii) after any Certificate has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

4 Status

(a) **Status of Certificates:** The Certificates represent an undivided beneficial ownership interest in the relevant Trust Assets and are limited recourse obligations of the Trustee. Each Certificate will constitute unsecured obligations of the Trustee and shall at all times rank *pari passu* and without any preference or priority with all other Certificates of the relevant Series.

The payment obligations of the Obligor (in any capacity) to the Trustee under the Transaction Documents in respect of each Series of Certificates are direct, unconditional, unsubordinated and (subject to the negative pledge provisions described in Condition 6(b)) unsecured obligations of the Obligor and shall, save for such exceptions as may be provided by applicable legislation and subject to the negative pledge provisions described in Condition 6(b), at all times rank at least equally with all other unsecured and unsubordinated obligations of the Obligor, present and future.

(b) **Limited Recourse and Agreement of Certificateholders:** Save as provided in this Condition 4(b), the Certificates do not represent an interest in or obligation of any of the Trustee, the Delegate, the Obligor, any of the Agents or any of their respective affiliates.

The proceeds of the relevant Trust Assets are the sole source of payments on the Certificates of each Series. The net proceeds of the realisation of, or enforcement with respect to, the relevant Trust Assets may not be sufficient to make all payments due in respect of the Certificates. Certificateholders, by subscribing for or acquiring the Certificates, acknowledge and agree that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(i) no payment of any amount whatsoever shall be made by the Trustee or the Delegate or any directors, officers, employees or agents on their behalf except to the extent funds are available therefor from the relevant Trust Assets and further acknowledge and agree that no recourse shall be had for the payment of any amount due and owing hereunder or under any Transaction Document, whether for the payment of any fee, indemnity or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee or the Delegate to the extent that the Trust Assets have been exhausted, following which all obligations of the Trustee shall be extinguished;

(ii) the Trustee may not sell, transfer, assign or otherwise dispose of the Wakala Portfolio to a third party, and may only realise its rights, title, interest, benefits and entitlements, present and future in, to and under the Wakala Portfolio in the manner expressly provided in the Transaction Documents;

(iii) if the proceeds of the relevant Trust Assets are insufficient to make all payments due in respect of the Certificates, Certificateholders will have no recourse to any assets of the Trustee (and/or its directors, officers, shareholders or corporate service providers in their capacity as such) (other than the relevant Trust Assets in the manner and to the extent contemplated by the Transaction Documents), the Delegate or the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates, in respect of any shortfall or otherwise;

(iv) no Certificateholders will be able to petition for, institute, or join with any other person in instituting proceedings for, the reorganisation, arrangement, liquidation, bankruptcy, winding-up or receivership or other proceedings under any bankruptcy or similar law against the Trustee, the Delegate, the Agents or any of their respective directors, officers, employees, agents, shareholders or affiliates as a consequence of such shortfall or otherwise;

(v) no recourse (whether by institution or enforcement of any legal proceedings or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee or the Delegate arising under or in connection with the Declaration of Trust and/or these Conditions by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, employee, agent, director or corporate service provider of the Trustee in its capacity as such. The obligations of the Trustee and the Delegate under the Certificates and the Transaction Documents are corporate or limited liability obligations of the Trustee and/or the Delegate, as the case may be, and no personal liability shall attach to or be incurred by the shareholders, members, officers, employees, agents, directors or corporate service providers of the Trustee and/or the Delegate (in their capacity as such), save in the case of their wilful default or actual fraud. Reference in these Conditions to wilful default or actual fraud means a finding to such effect by a court of competent jurisdiction in relation to the conduct of the relevant party; and

(vi) it shall not be entitled to claim or exercise any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Certificate. No collateral is or will be given for the payment obligations under the Certificates (without prejudice to the negative pledge provisions described in Condition 6(b)).

Pursuant to the terms of the Transaction Documents, the Obligor is obliged to make payments under the relevant Transaction Documents to which it is a party directly to or to the order of the Trustee. Such payment obligations form part of the Trust Assets and the Trustee and the Delegate will thereby have direct recourse against the Obligor to recover payments due to the Trustee from the Obligor pursuant to such Transaction Documents notwithstanding any other provision of this Condition 4(b). Such right of the Trustee and the Delegate shall (subject to the negative pledge provisions described in Condition 6(b)) constitute an unsecured claim against the Obligor. None of the Certificateholders, the Trustee or the Delegate shall be entitled to claim any priority right in respect of any specific assets of the Obligor in connection with the enforcement of any such claim.

5 The Trust

(a) **Trust Assets:** Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets for each Series upon trust absolutely for and on behalf of the Certificateholders of such Series *pro rata* according to the face amount of Certificates held by each holder. The term "**Trust Assets**" in respect of each Series means the following:

(i) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(ii) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Wakala Portfolio;

(iii) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Transaction Documents (other than in relation to the Excluded Representations and the covenant given to the Trustee pursuant to Clause 17.1 of the Master Declaration of Trust);

(iv) all moneys standing to the credit of the Transaction Account from time to time; and

(v) all proceeds of (i) to (iv) above.

See "Summary of Principal Transaction Documents" appearing elsewhere in this Base Prospectus for more information on the Trust Assets and the Transaction Documents.

(b) **Application of Proceeds from Trust Assets:** On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the moneys standing to the credit of the relevant Transaction Account in the following order of priority (in each case only if and to the extent that payments of a higher priority have been made in full):

(i) **first**, (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate (including any amounts owing to the Delegate in respect of its Appointees (as defined in the Master Declaration of Trust)) and to any receiver, manager or administrative receiver or any other analogous officer appointed in respect of the Trust in accordance with the Declaration of Trust;

(ii) **second**, only if such payment is due on or before a Periodic Distribution Date (to the extent not previously paid) to pay, *pro rata* and *pari passu*, (i) the Trustee in respect of all amounts owing to it under the Transaction Documents in its capacity as trustee; and (ii) each Agent in respect of all amounts owing to such Agent on account of its fees, costs, charges and expenses and the payment or satisfaction of any Liability incurred by such Agent pursuant to the Agency Agreement or the other Transaction Documents in its capacity as Agent;

(iii) **third**, only if such payment is due on a Periodic Distribution Date, in or towards payment *pari passu* and rateably of all Periodic Distribution Amounts due but unpaid;

(iv) **fourth**, only if such payment is due on a Dissolution Date, in or towards payment *pari passu* and rateably of the relevant Dissolution Distribution Amount; and

(v) **fifth**, only on the Scheduled Dissolution Date (or any earlier date on which the Certificates are redeemed in full) and provided that all amounts required to be paid in respect of the Certificates hereunder have been discharged in full, in payment of any residual amount to the Obligor in its capacity as Service Agent as an incentive payment for its performance under the Service Agency Agreement.

(c) **Transaction Account:** The Trustee will establish a Transaction Account in respect of each Series by no later than the relevant Issue Date. The Transaction Account shall be operated by the Principal Paying Agent on behalf of the Trustee for the benefit of Certificateholders and shall be the account into which the Obligor will deposit all amounts payable by it to the Trustee pursuant to the terms of the Transaction Documents.

6 Covenants

(a) **Trustee Covenants:** The Trustee covenants that, amongst other things, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

(i) incur any indebtedness in respect of financed, borrowed or raised money whatsoever (whether structured (or intended to be structured) in accordance with the principles of Shariah or otherwise), or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(ii) secure any of its present or future indebtedness by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) and other than under or pursuant to any of the Transaction Documents);

(iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to any of the Transaction Documents;

(iv) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;

(v) except as provided in the Declaration of Trust, act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(vi) have any subsidiaries or employees;

(vii) redeem any of its shares or pay any dividend or make any other distribution to its shareholders;

(viii) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(ix) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding-up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or

(x) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly contemplated, permitted or required thereunder or engage in any business or activity other than:

(A) as contemplated, provided for or permitted in the Transaction Documents;

(B) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

(C) such other matters which are incidental thereto.

(b) **Obligor Negative Pledge:** The Obligor undertakes that, for so long as any Certificate remains outstanding, it will not create or have outstanding any mortgage, charge, lien, pledge or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction (each a "**Security Interest**"), other than a Permitted Security Interest, upon, or with respect to, the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Relevant Sukuk Obligation, as the case may be, unless the Obligor, 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 (in whatever capacity) under the Transaction Documents are secured by the Security Interest equally and rateably with the Relevant Indebtedness or 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 (A) the Delegate shall in its absolute discretion deem not materially less beneficial to the interests of Certificateholders; or (B) shall be approved by an Extraordinary Resolution (as defined in the Declaration of Trust) of the Certificateholders.

Any Security Interest created in favour of the Trustee and the Delegate for the benefit of the Certificateholders pursuant to this Condition 6(b) 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 or (ii) the full, final and irrevocable payment of all amounts payable by the Obligor under the Transaction Documents.

For the purposes of this Condition 6(b):

"**asset**" or "**assets**" of the Obligor shall not be interpreted to mean any asset held directly or indirectly by any of the Subsidiaries or affiliates of the Obligor, but shall include the Obligor's equity interests in any such Subsidiary or affiliate.

7 Periodic Distribution Amounts

(a) Each Certificate bears profit on its outstanding face amount from the Profit Commencement Date at the rate per annum (expressed as a percentage) equal to the Profit Rate, such profit being payable in arrear on each Periodic Distribution Date. The amount of profit payable shall be determined in accordance with Condition 7(d). Each such amount of profit is referred to in these Conditions as a "**Periodic Distribution Amount**". Periodic Distribution Amounts shall be distributed to Certificateholders by the Principal Paying Agent on behalf of the Trustee, *pro rata* to their respective holdings, out of amounts transferred to the Transaction Account and subject to Condition 5(b) and Condition 9.

(b) **Entitlement to Profit:** Profit shall cease to accumulate in respect of each Certificate on the due date for redemption unless, upon due surrender, payment is improperly withheld or refused, in which event profit shall, subject to the terms of the Transaction Documents, continue to accumulate (both before and after judgment) at the Profit Rate in the manner provided in this Condition 7 to the Relevant Date.

(c) **Rounding:** For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(d) **Calculations:** The amount of profit payable per Calculation Amount in respect of any Certificate for any Return Accumulation Period shall be equal to the product of the Profit Rate, the Calculation Amount specified hereon and the Day Count Fraction for such Return Accumulation Period, unless a Profit Amount (or a formula for its calculation) is specified hereon as applicable to such Return Accumulation Period, in which case the amount of profit payable per Calculation Amount in respect of such Certificate for such Return Accumulation Period shall equal such Profit Amount (or be calculated in accordance with such formula). Where any Periodic Distribution Period comprises two or more Return Accumulation Periods, the amount of profit payable per Calculation Amount in respect of such Periodic Distribution Period shall be the sum of the Profit Amounts payable in respect of each of those Return Accumulation Periods. In respect of any other period for which profit is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which profit is required to be calculated.

(e) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(iii) in the case of a currency and/or one or more Financial Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres.

"**Day Count Fraction**" means, in respect of the calculation of an amount of profit on any Certificate for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting a Periodic Distribution Period or a Return Accumulation Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/365 (Sterling)**" is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;

(iv) if "**Actual/360**" is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basi**s" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y2 - Y1)] + [30 \times (M2 - M1)] + (D2 - D1)}{360}$$

where:

"**Y1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Scheduled Dissolution Date or (ii) such number would be 31, in which case D2 will be 30; and

(viii) if "**Actual/Actual-ICMA**" is specified hereon:

(A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(B) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such hereon or, if none is so specified, the Periodic Distribution Date(s).

(f) **Calculation Agent:** The Trustee shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Certificate is outstanding. Where more than one Calculation Agent is appointed in respect of the Certificates, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to calculate any Profit Amount or Dissolution Distribution Amount, as the case may be, or to comply with any other requirement, the Trustee shall (with the prior approval of the Delegate) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

8 Redemption and Dissolution of the Trust

(a) **Dissolution on the Scheduled Dissolution Date:** Unless previously redeemed, or purchased and cancelled in full, as provided below, each Certificate shall be finally redeemed on the Scheduled Dissolution Date specified hereon at its Dissolution Distribution Amount and, following the payment of all such amounts in full, the Trust shall be dissolved by the Trustee.

(b) **Early Dissolution for Taxation Reasons:** If:

(i) (A) the Trustee has or will become obliged to pay additional amounts as described under Condition 10 as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (B) such obligation cannot be avoided by the Trustee taking reasonable measures available to it; or

(ii) (A) the Obligor has or will become obliged to pay additional amounts to the Trustee pursuant to the terms of any Transaction Document as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (B) such obligation cannot be avoided by the Obligor taking reasonable measures available to it, (the occurrence of an event described in Condition 8(b)(i) or (ii) being a "**Tax Event**"), the Obligor may in its sole discretion deliver to the Trustee a duly completed Exercise Notice in accordance with the provisions of the Sale Undertaking and, on receipt of such notice, the Trustee shall, on giving not less than 30 nor more than 60 days' notice to the Delegate and the Certificateholders (which notice shall be irrevocable) redeem the Certificates in whole, but not in part, on any Periodic Distribution Date (such dissolution date being an "**Early Tax Dissolution Date**"), at their Dissolution Distribution Amount, provided that no such notice of dissolution may be given earlier than 90 days prior to the earliest date on which the Trustee or the Obligor, as the case may be, would be obliged to pay such additional amounts were a payment in respect of the Certificates (in the case of the Trustee) or to the Trustee pursuant to any Transaction Document (in the case of the Obligor) then due.

Prior to the publication of any notice of dissolution pursuant to this Condition 8(b), the Trustee or the Obligor, as the case may be, shall deliver to the Delegate:

(A) a certificate signed by two Directors of the Trustee (in the case of Condition 8(b)(i)) or the Obligor (in the case of Condition 8(b)(ii)) stating that the obligation referred to in Condition 8(b)(i) or 8(b)(ii), as the case may be, has arisen and cannot be avoided by the Trustee or the Obligor, as the case may be, taking reasonable measures available to it; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Trustee or the Obligor, as the case may be, has or will become obliged to pay additional amounts as a result of such change or amendment,

and the Delegate shall be entitled to accept and rely on such certificate and legal opinion as sufficient evidence of the satisfaction of the conditions precedent set out in Condition 8(b)(i) or, as the case may be, Condition 8(b)(ii) above (without liability to any person), in which event it shall be conclusive and binding on Certificateholders.

Upon expiry of any such notice given in accordance with this Condition 8(b) and payment in full of the Dissolution Distribution Amount to Certificateholders, the Trustee shall be bound to dissolve the Trust.

(c) **Dissolution at the Option of the Obligor (Optional Dissolution Right):** If Optional Dissolution Right is specified as applicable hereon, the Obligor may in its sole discretion deliver to the Trustee a duly completed Exercise Notice in accordance with the provisions of the Sale Undertaking and, on receipt of such notice, the Trustee shall, on giving not less than 15 nor more than 30 days' irrevocable notice to the Delegate and the Certificateholders (or such other notice period as may be specified hereon) redeem all (and not some only) of the Certificates on any Optional Dissolution Date. Any such redemption of Certificates shall be at their Dissolution Distribution Amount on the date specified in such notice as the Optional Dissolution Date in accordance with this Condition 8(c). Upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

(d) **Dissolution at the Option of Certificateholders (Certificateholder Put Right):** If Certificateholder Put Right is specified as applicable hereon, the Trustee shall, at the option of the holder of any Certificate, upon the holder of such Certificate giving not less than 15 nor more than 30 days' notice to the Trustee (or such other notice period as may be specified hereon), redeem such Certificate on the Certificateholder Put Right Date at its Dissolution Distribution Amount. For the purposes thereof, the Trustee shall deliver to the Obligor a duly completed Exercise Notice in accordance with the provisions of the Purchase Undertaking. If all (and not some only) of the Certificates are to be redeemed on any Certificateholder Put Right Date in accordance with this Condition 8(d), upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

To exercise such option the holder must deposit the certificate representing such Certificate(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed exercise notice (a "**Certificateholder Put Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No certificate so deposited and right exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Trustee.

(e) **Dissolution at the Option of the Certificateholders (Change of Control Put Right):** The Obligor has agreed in the Declaration of Trust to notify the Trustee and the Delegate forthwith upon the occurrence of a Change of Control Event and to provide a description of the Change of Control Event. The Trustee, upon receipt of such notice from the Obligor or otherwise upon becoming aware of the occurrence of a Change of Control Event, shall promptly give notice (a "**Change of Control Put Event Notice**") of the occurrence of a Change of Control Event to the Delegate and the Certificateholders in accordance with these Conditions. The Change of Control Put Event Notice shall provide a description of the Change of Control Event and shall require, provided Change of Control Put Right is specified as applicable hereon, Certificateholders to elect within the period commencing on (and including) the date on which the Change of Control Put Event Notice is given and ending on (and including) the date which is 30 days after the date on which the Change of Control Put Event Notice is given (the "**Change of Control Put Period**") if they wish all or any of their Certificates to be redeemed.

If Change of Control Put Right is specified as applicable hereon and a Change of Control Event occurs, and provided that Certificateholders elect to redeem their Certificates, in whole or in part, in accordance with this Condition 8(e), the Trustee shall redeem such Certificates on the Change of Control Put Date at the Dissolution Distribution Amount. For the purposes thereof, the Trustee shall deliver to the Obligor a duly completed Exercise Notice in accordance with the provisions of the Purchase Undertaking. If all (and not some only) of the Certificates are to be redeemed on any Change of Control Put Date in accordance with this Condition 8(e), upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

To elect to redeem all or any of its Certificates in accordance with this Condition 8(e), a Certificateholder must deposit its Certificate(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed exercise notice (a "**Change of Control Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the Change of Control Put Period. No Certificate so deposited and right exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Trustee.

(f) **Dissolution at the Option of the Obligor (Obligor Clean Up Call Right):** If 75 per cent. or more in face amount of the Certificates then outstanding have been redeemed and/or purchased and cancelled pursuant to this Condition 8, the Obligor may in its sole discretion deliver to the Trustee a duly completed Exercise Notice in accordance with the provisions of the Sale Undertaking and, on receipt of such notice, the Trustee shall, on giving not less than 30 nor more than 60 days' irrevocable notice to the Delegate and the Certificateholders (or such other notice period as may be specified hereon) (such notice being given within 30 days after the Change of Control Put Date or the Certificateholder Put Right Date, as the case may be) redeem all of the Certificates on the date specified in such notice (the "**Clean Up Call Right Dissolution Date**"). Any such redemption of Certificates shall be at their Dissolution Distribution Amount and upon payment in full of the Dissolution Distribution Amount to all Certificateholders, the Trustee shall be bound to dissolve the Trust.

(g) **Dissolution following a Dissolution Event:** Upon the occurrence of a Dissolution Event, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trustee may be required to dissolve the Trust, in each case subject to and as more particularly described in Condition 12.

(h) **Purchases:** The Obligor and the Obligor's Subsidiaries may at any time purchase Certificates in the open market or otherwise at any price.

(i) **Cancellation:** Any Certificates purchased by or on behalf of the Obligor or any of the Obligor's Subsidiaries shall be surrendered for cancellation by surrendering the certificate representing such

Certificates to the Registrar and by the Obligor delivering to the Trustee a duly completed Cancellation Notice in accordance with the terms of the Declaration of Trust, the Agency Agreement and the Sale Undertaking. All Certificates so surrendered and all Certificates that are redeemed in accordance with this Condition 8 and/or Condition 12 shall be cancelled forthwith and may not be reissued or resold and the obligations of the Trustee in respect of any such Certificates shall be discharged. If all (and not some only) of the Certificates are cancelled in accordance with this Condition 8(i), the Trustee shall be bound to dissolve the Trust.

(j) **No other Dissolution:** The Trustee shall not be entitled to redeem the Certificates or dissolve the Trust other than as provided in this Condition 8 and Condition 12. Upon payment in full of all amounts due in respect of the Certificates of any Series and the subsequent dissolution of the Trust as provided in this Condition 8 and/or Condition 12 (as the case may be), the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

9 Payments

(a) **Method of Payment:** Payments of the Dissolution Distribution Amount shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided below.

Payments of Periodic Distribution Amounts in respect of each Certificate shall be paid to the person shown on the Register (or, in the case of a Certificate held by two or more persons, to the person whose name appears first on the Register) at the close of business on the fifteenth day before the due date for payment thereof (the "**Record Date**").

Payments of Periodic Distribution Amounts and the Dissolution Distribution Amount in respect of each Certificate shall be made in the Specified Currency by transfer to an account in the Specified Currency maintained by the payee with a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System, as notified by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date.

(b) **Payments subject to Laws:** Save as provided in Condition 10, payments will be subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, and (ii) any other laws and regulations to which the Trustee, the Obligor or any of their Agents agree to be subject. No commission or expenses shall be charged to the Certificateholders in respect of such payments.

(c) **Appointment of Agents:** The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Trustee and their respective specified offices are listed below. The Principal Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Trustee and do not assume any obligation or relationship of agency or trust for or with any Certificateholder. The Trustee reserves the right at any time with the approval of the Delegate to vary or terminate the appointment of the Principal Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Trustee shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) a Paying Agent (which may be the Principal Paying Agent) having a specified office in at least two major European cities, (vi) such other agents as may be required by any stock exchange on which the Certificates may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000.

Notice of any such change or any change of any specified office shall promptly be given by the Trustee to the Certificateholders.

(d) **Non-Business Days:** If any date for payment in respect of any Certificate is not a business day, the holder shall not be entitled to payment until the next following business day nor to any profit or other sum in respect of such postponed payment. In this Condition 9(d), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place in which the specified office of the Registrar is located, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day.

10 Taxation

All payments in respect of the Certificates shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Relevant Jurisdiction unless such withholding or deduction is required by law. In that event, the Trustee shall pay such additional amounts as shall result in receipt by the Certificateholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable:

(a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Certificate by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Certificate; or

(b) **Presentation more than 30 days after the Relevant Date:** if the relevant Certificate is presented for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting the Certificate for payment on the last day of such period of 30 days irrespective of whether that day is a business day (as defined in Condition 9(d)); or

(c) **Payment to individuals:** 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 implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

As used in these Conditions, "**Relevant Date**" in respect of any Certificate means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Certificateholders that, upon further presentation of the Certificate being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to "Periodic Distribution Amounts" and the "Dissolution Distribution Amount" shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Declaration of Trust.

The Transaction Documents provide that payments thereunder by the Obligor shall be made without any withholding or deduction for, or on account of, any present or future taxes, duties, fees, assessments or charges of any nature unless such withholding or deduction is required by law, and without set-off or counterclaim of any kind. If withholding or deduction is required by law, the Transaction Documents provide for the payment by the Obligor of such additional amounts as will result in receipt by the Trustee or the Delegate, as the case may be, of such amounts as would have been received by it had no withholding or deduction been made.

Further, in accordance with the terms of the Purchase Undertaking and the Declaration of Trust, the Obligor has undertaken to pay such additional amounts as may be necessary pursuant to this Condition 10 so that the full amount due and payable by the Trustee in respect of the Certificates to the Certificateholders is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of Condition 10.

11 Prescription

Claims against the Trustee for payment in respect of the Certificates shall be prescribed and become void unless made within 10 years (in the case of the Dissolution Distribution Amount) or five years (in the case of Periodic Distribution Amounts) from the appropriate Relevant Date in respect of them.

12 Dissolution Events

(a) **Dissolution Event:** If a Dissolution Event occurs and is continuing:

(i) the Delegate, upon receiving written notice thereof under the Declaration of Trust or otherwise upon becoming aware of a Dissolution Event (through actual knowledge or express notice) shall (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction) promptly give notice of the occurrence of the Dissolution Event to the Certificateholders with a request to the Certificateholders to indicate to the Trustee and the Delegate in writing if they wish the Certificates to be redeemed and the Trust to be dissolved; and

(ii) the Delegate in its sole discretion may, and shall if so requested in writing by the holders of at least 20 per cent. of the then aggregate face amount of the Series of Certificates outstanding or if so directed by an Extraordinary Resolution (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice (a "**Dissolution Notice**") to the Trustee, the Obligor and the Certificateholders that the Certificates are immediately due and payable at the Dissolution Distribution Amount, whereupon they shall become so due and payable. A Dissolution Notice may be given pursuant to this Condition 12(a)(ii) whether or not notice has been given to Certificateholders as provided in Condition 12(a)(i).

Upon receipt of such Dissolution Notice, the Trustee (or the Delegate in the name of the Trustee (subject to Condition 13(a)) shall deliver an Exercise Notice to the Obligor under the Purchase Undertaking and thereafter execute the relevant transfer agreement for the transfer and conveyance of the Share Interests relating to the Shares comprised in the Share Portfolio. The Trustee (or the Delegate in the name of the Trustee) shall use the proceeds thereof to redeem the Certificates at the Dissolution Distribution Amount on the date specified in the relevant Dissolution Notice (the relevant "**Dissolution Event Redemption Date**") and the Trust shall be dissolved on the day after the last outstanding Certificate has been so redeemed in full. Upon payment in full of such amounts and dissolution of the Trust as aforesaid, the Certificates shall cease to represent interests in the Trust Assets and no further amounts shall be payable in respect thereof and the Trustee shall have no further obligations in respect thereof.

(b) **Enforcement and Exercise of Rights:** Upon the occurrence of a Dissolution Event, to the extent that any amount payable in respect of the Certificates of the relevant Series has not been paid in full (notwithstanding the provisions of Condition 12(a)), the Trustee or (subject to Condition 13(a)) the Delegate may (acting for the benefit of the Certificateholders) take one or more of the following steps:

(i) enforce the provisions of the Transaction Documents against the Obligor; and/or

(ii) take such other actions, steps or proceedings as the Trustee or the Delegate may consider necessary to recover amounts due to the Certificateholders.

13 Realisation of Trust Assets

(a) The Delegate shall not be bound in any circumstances to take any action, step or proceeding to enforce or to realise the relevant Trust Assets or take any action, step or proceeding against the Trustee and/or the Obligor under any Transaction Document to which either of the Trustee or the Obligor is a party unless directed or requested to do so: (i) by an Extraordinary Resolution; or (ii) in writing by the holders of at least 20 per cent. of the then outstanding aggregate face amount of the relevant Series and in either case then only if it shall be indemnified and/or secured and/or prefunded to its satisfaction.

(b) No Certificateholder shall be entitled to proceed directly against the Trustee or the Obligor unless the Delegate or the Trustee, as the case may be, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing. Under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets (other than as expressly contemplated in the Transaction Documents) and the sole right of the Delegate and the Certificateholders against the Trustee and the Obligor shall be to enforce their respective obligations under the Transaction Documents to which they are a party.

(c) Following the enforcement, realisation and ultimate distribution of the net proceeds of the relevant Trust Assets in respect of the Certificates of the relevant Series to the Certificateholders in accordance with these Conditions and the Declaration of Trust, the Trustee shall not be liable for any further sums and, accordingly, Certificateholders may not take any action against the Trustee, the Delegate or any other person (including the Obligor) to recover any such sum in respect of the Certificates or the relevant Trust Assets.

(d) Conditions 13(a), 13(b) and 13(c) are subject to this Condition 13(d). After enforcing or realising the relevant Trust Assets in respect of the Certificates of the relevant Series and distributing the net proceeds of the relevant Trust Assets in accordance with Condition 5(b), the obligations of the Trustee in respect of the Certificates of the relevant Series shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates of the relevant Series and the right to receive from the Trustee any such sums remaining unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

14 Meetings of Certificateholders, Modification and Waiver

(a) **Meetings of Certificateholders:** The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Declaration of Trust. Such a meeting may be convened by Certificateholders holding not less than 10 per cent. in face amount of the Certificates for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing not less than a clear majority in face amount of the Certificates for the time being outstanding, or at any adjourned meeting two or more persons being or representing Certificateholders whatever the face amount of the Certificates held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend any Dissolution Date in respect of the Certificates or any date for payment of Periodic Distribution Amounts in respect of the Certificates, (ii) to reduce or cancel the face amount of, or any premium payable on redemption of, the Certificates; (iii) to reduce the rate or rates of profit in respect of the Certificates or to vary the method or basis of calculating the rate or rates or amount of profit, or the basis for calculating any Profit Amount in respect of the Certificates; (iv) to vary any method of, or basis for, calculating the Dissolution Distribution Amount; (v) to vary the currency of payment or denomination of the Certificates; (vi) to modify the provisions concerning the quorum required at any meeting of Certificateholders or the majority required to pass an Extraordinary Resolution; (vii) to modify or cancel the payment obligations of the Obligor (in any capacity) and/or the Trustee under the Transaction Documents and/or the Certificates (as the case may be), (viii) to amend any of the Obligor's or the Trustee's covenants included in the Transaction Documents or to amend the covenant given by the Trustee and the Delegate in Clause 14.1 of the Master Declaration of Trust; or (ix) to amend the above list, in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in face amount of the Certificates for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Certificateholders (whether or not they were present at the meeting at which such resolution was passed).

The Declaration of Trust provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in face amount of the Certificates outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Certificateholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Certificateholders.

For so long as the Certificates are represented by a Global Certificate, an Extraordinary Resolution may also be passed by Certificateholders giving electronic consent, provided that consent to such resolution is given through the relevant clearing system(s) (in a form satisfactory to the Delegate) by or on behalf of not less than 75 per cent. in face amount of the Certificates. See "Summary of Provisions relating to the Certificates while in Global Form".

(b) **Modifications, Waivers, Authorisations and Determinations:** The Delegate may (but shall not be obliged to), without the consent of the Certificateholders: (i) agree to any modification of any of the provisions of the Declaration of Trust or the Transaction Documents that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error; or (ii) (A) agree to any other modification of any of the provisions of the Declaration of Trust, the Transaction Documents or to any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Declaration of Trust or the Transaction Documents; or (B) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such provided that such modification, waiver, authorisation or determination is in the opinion of the Delegate not materially prejudicial to the interests of the Certificateholders and is not in contravention of any express direction given by Extraordinary Resolution or request in writing by the holders of at least 20 per cent. of the outstanding aggregate face amount of that Series and, in the case of modifications under Condition 14(b)(ii)(A) only, is other than in respect of a matter which requires a special quorum resolution (as defined in the proviso to paragraph 2 of Schedule 3 of the Master Declaration of Trust). Any such modification, authorisation, determination or waiver shall be binding on the Certificateholders and, unless the Delegate agrees otherwise, shall be notified to the Certificateholders in accordance with Condition 17 as soon as practicable.

(c) **Entitlement of the Delegate:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Delegate shall have regard to the interests of the Certificateholders as a class and shall not have regard to the consequences of such exercise for individual Certificateholders and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee, the Obligor or the Delegate any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders.

15 Delegate

(a) **Delegation of Powers:** The Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deeds, to execute, deliver and perfect all documents, and to exercise all of the present and future, powers (including the power to sub-delegate), rights, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust, that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or Potential Dissolution Event, and subject to its being indemnified and/or secured and/or prefunded to its satisfaction, exercise all of the rights of the Trustee under the Transaction Documents and make such distributions from the relevant Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust (together the "**Delegation**" of the "**Relevant Powers**"), provided that: (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of this Delegation; (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the relevant Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve any of the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee shall ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Master Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

(b) **Indemnification:** The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking any action, step or proceeding unless indemnified and/or secured and/or prefunded to its satisfaction. In particular, but without limitation, in connection with the exercise of any of its rights in respect of the relevant Trust Assets or any other right it may have pursuant to the Declaration of Trust or the other Transaction Documents, the Delegate shall in no circumstances be bound to take any action, step or proceeding unless directed to do so in accordance with Conditions 12 or 13, and then only if it shall also have been indemnified and/or secured and/or prefunded to its satisfaction.

(c) **No Liability:** The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Obligor or the Trustee under the Transaction Documents and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Obligor or the Trustee but are not so paid and shall not in any circumstances have any liability arising from the relevant Trust Assets, in each case other than as expressly provided in these Conditions or in the Declaration of Trust.

(d) **Reliance on Certificates, Reports and/or Information:** The Delegate may rely on any certificate, report or information of the auditors or insolvency officials (as applicable) of the Trustee or the Obligor, or any other expert or other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such certificate, report or information may be relied upon by the Delegate (without liability to any person) as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Delegate in connection therewith contains a monetary or other limit on the liability of the auditors or insolvency officials of the Trustee or the Obligor or such other expert or other person in respect thereof and notwithstanding that the scope and/or basis of such certificate, report or information may be limited by an engagement or similar letter or by the terms of the certificate, report or information itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any liability or inconvenience that may be occasioned by its failure to do so.

(e) **Proper performance of duties:** Nothing shall, in any case in which the Trustee or the Delegate has failed to show the degree of care and diligence required of it as trustee, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, rights, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, rights, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for gross negligence, wilful default or actual fraud of which either of them may be guilty in relation to their duties under the Declaration of Trust.

(f) **Notice of Events:** The Delegate shall not be responsible for monitoring or ascertaining whether or not a Dissolution Event, Potential Dissolution Event, Tax Event or Change of Control Event has occurred or exists and, unless and until it shall have received express written notice to the contrary, it will be entitled to assume that no such event or circumstance exists or has occurred (without any liability to Certificateholders or any other person for so doing).

16 Replacement of Certificates

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Trustee for the purpose and notice of whose designation is given to Certificateholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Certificate is subsequently presented for payment, there shall be paid to the Trustee on demand the amount payable by the Trustee in respect of such Certificate) and otherwise as the Trustee may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17 Notices

Notices to the holders of Certificates shall be mailed to them by first class mail (airmail if overseas) at their respective addresses in the Register.

The Trustee shall also ensure that notices are duly given and/or published in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system (if any) on which the Certificates are for the time being admitted to listing, trading and/or quotation. Any notices shall be deemed to have been given on the fourth day (being a day other than a Saturday or Sunday) after being so mailed (or on the date of publication, or if so published more than once or on different dates, on the date of first publication).

So long as the Certificates are represented by a Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, or any other clearing system, notices to the holders of the Certificates of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for mailing as required by Condition 17. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system.

18 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Certificates under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19 Governing Law and Arbitration

(a) **Governing Law:** The Declaration of Trust (including these Conditions), the Agency Agreement and the Certificates and any non-contractual obligations arising out of or in connection with the same are and shall be governed by, and construed in accordance with, English law.

(b) **Arbitration:** The Delegate, the Trustee and the Obligor have in the Declaration of Trust agreed that, subject to Condition 19(c), any dispute, claim, difference or controversy arising out of or in connection with the Declaration of Trust (which includes the Certificates, these Conditions and this Condition 19(b)) (including any dispute as to the existence, validity, interpretation, performance, breach or termination of the Declaration of Trust or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules of the London Court of International Arbitration (the "**LCIA**") (the "**Rules**"), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 19. For these purposes:

(i) the seat of arbitration shall be London, England;

(ii) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party to the Dispute and shall be an attorney experienced in international securities transactions. The parties to the Dispute shall each nominate one arbitrator and both arbitrators in turn shall appoint a further arbitrator who shall be the chairman of the tribunal. In cases where there are multiple claimants and/or multiple respondents, the class of claimants jointly, and the class of respondents jointly shall each nominate one arbitrator. If one party or both fails to nominate an arbitrator within the time limits specified by the Rules, such arbitrator(s) shall be appointed by the LCIA. If the party nominated arbitrators fail to nominate the third arbitrator within 15 days of the appointment of the second arbitrator, such arbitrator shall be appointed by the LCIA; and

(iii) the language of the arbitration shall be English.

(c) **Option to Litigate:** Notwithstanding the agreement described in Condition 19(b) above, the Delegate may, in the alternative and at its sole discretion, by notice in writing to the Trustee and the Obligor in accordance with the Declaration of Trust:

(i) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(ii) if no arbitration has commenced,

require that the Dispute be heard by a court of law (a "**Notice to Litigate**"). If the Delegate gives a Notice to Litigate, the Dispute to which such notice refers shall be determined in the manner described in Condition 19(e) and, subject as provided below, any arbitration commenced under Condition 19(b) (in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto (other than the Delegate whose costs will be borne by the Obligor).

(d) **Notice to Terminate:** If any Notice to Litigate is given after service of any Request for Arbitration in respect of any Dispute, the Trustee must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(ii) his entitlement to be paid his proper fees and disbursements; and

(iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

(e) **Effect of exercise of option to litigate:** If a notice is issued pursuant to Condition 19(c), the following provisions shall apply:

(i) subject to paragraph (iii) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Trustee and the Obligor have in the Master Declaration of Trust submitted to the exclusive jurisdiction of such courts;

(ii) each of the Trustee and the Obligor have agreed that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that they will not argue to the contrary; and

(iii) this Condition 19(e) is for the benefit of the Delegate for and on behalf of the Certificateholders only. As a result, and notwithstanding paragraphs (i) and (ii) above, the Delegate shall not be prevented from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction, and to the extent allowed by law, the Delegate may take concurrent Proceedings in any number of jurisdictions.

(f) **Service of Process:** In the Master Declaration of Trust, the Trustee and the Obligor have each irrevocably appointed an agent in England to receive, for it and on its behalf, service of process in any Proceedings or Disputes in England.

(g) **Waiver of Immunity:** Under the Declaration of Trust, the Obligor has acknowledged that the transactions contemplated by the Transaction Documents are commercial transactions and, to the extent that the Obligor may claim for itself or its assets or revenues immunity from suit, jurisdiction, enforcement, prejudgment proceedings, injunctions, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and relief and to the extent that such immunity (whether or not claimed) may be attributed to the Obligor or its assets or revenues, the Obligor has agreed not to claim and has irrevocably and unconditionally waived such immunity in relation to any legal or arbitral proceedings or Disputes. In addition, the Obligor has irrevocably and unconditionally consented to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any of its assets whatsoever of any award, order or judgment made or given in connection with any legal or arbitral proceedings or Disputes.

(h) **Waiver of Interest:**

(i) Each of the Trustee, the Delegate and the Obligor has irrevocably agreed in the Declaration of Trust that no interest will be payable or receivable under or in connection therewith and if it is determined that any interest is payable or receivable in connection therewith by a party, whether as a result of any judicial award or by operation of any applicable law or otherwise, such party has agreed to waive any rights it may have to claim or receive such interest and has agreed that if any such interest is actually received by it, it shall hold such amount in a suspense account and promptly donate the same to a registered or otherwise officially recognised charitable organisation.

(ii) For the avoidance of doubt, nothing in this Condition 19(h) shall be construed as a waiver of rights in respect of Periodic Distribution Amounts payable under the Certificates, any amounts payable under the Transaction Documents, the amount of any Wakala Portfolio Revenues collected in accordance with the Service Agency Agreement or profit of any kind howsoever described payable by the Obligor (in any capacity) or the Trustee (in any capacity) pursuant to the Transaction Documents and/or the Conditions, howsoever such amounts may be described or re-characterised by any court or arbitral tribunal.

SUMMARY OF PROVISIONS RELATING TO THE CERTIFICATES WHILE IN GLOBAL FORM

1 Initial Issue of Certificates

Each Series of Certificates will initially be represented by a Global Certificate in registered form. Global Certificates will be delivered on or prior to the issue date of the Series to a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**").

Upon registration of the Certificates in the name of any nominee for, and deposit of the Global Certificate with, a Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a face amount of Certificates equal to the face amount thereof for which it has subscribed and paid.

Certificates that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the applicable Final Terms) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Certificates that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2 Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") as the holder of a Certificate represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his/her share of each payment made by the Trustee to the registered holder of the underlying Certificates, and in relation to all other rights arising under the Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Trustee in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and such obligations of the Trustee will be discharged by payment to the registered holder of the underlying Certificates, as the case may be, in respect of each amount so paid.

3 Transfers in part

3.1 Global Certificates

Transfers of the holding of Certificates represented by a Global Certificate pursuant to Condition 3(a) (*Transfer of Certificates*) may only be made in part:

(i) if the Certificates represented by the Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) upon the occurrence of a Dissolution Event,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph (i) above, the holder of the Certificates represented by the relevant Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Certificates represented by the relevant Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

4 Amendment to Conditions

The Global Certificates contain provisions that apply to the Certificates that they represent, some of which modify the effect of the terms and conditions of the Certificates set out in this Base Prospectus. The following is a summary of certain of those provisions:

4.1 Payments

All payments in respect of Certificates represented by a Global Certificate will be made (against surrender of that Global Certificate if no further payment falls to be made in respect of the Certificates) to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

A record of each payment made will be noted on the relevant Register (as defined in the Conditions) which shall be *prima facie* evidence that such payment has been made in respect of the Certificates.

4.2 Meetings

The holder of Certificates represented by a Global Certificate shall (unless such Global Certificate represents only one Certificate) be treated as being two persons for the purposes of any quorum requirements of a meeting of Certificateholders. All holders of Certificates are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Certificates comprising such Certificateholder's holding.

4.3 Certificateholder Put Right and Change of Control Put Right

Any early dissolution right of the Certificateholders provided for in the Conditions of any Certificates while such Certificates are represented by a Global Certificate may be exercised by the holder of the Certificate(s) in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg or any other clearing system (as the case may be).

4.4 Cancellation

Cancellation of any Certificate represented by a Global Certificate that is surrendered for cancellation (other than upon its redemption in full) will be effected by reduction in the aggregate face amount of the relevant Series of Certificates in the Register.

4.5 Notices

Notices required to be given in respect of the Certificates represented by a Global Certificate may be given by their being delivered (so long as this Global Certificate is held on behalf of Euroclear and Clearstream, Luxembourg or any Alternative Clearing System) to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System, as the case may be, or otherwise to the holder of the Global Certificate, rather than by publication as required by the Conditions, provided that such notices must also be given or published in a manner which complies with the rules and regulations of any listing authority, stock exchange, quotation system or other relevant authority on which the Certificates are for the time being listed or admitted to trading or quotation. Any such notice shall be deemed to have been given to the holders of the Certificates on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System.

5 Electronic Consent and Written Resolution

While any Global Certificate is held on behalf of, and registered in the name of any nominee for, a clearing system, then:

(i) approval of a resolution proposed by the Trustee or the Delegate (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Certificates outstanding (an "**Electronic Consent**" as defined in the Master Declaration of Trust) shall, for all purposes (including matters that would otherwise require a special quorum resolution (as defined in the Master Declaration of Trust), take effect as an Extraordinary Resolution (as defined in the Master Declaration of Trust) passed at a meeting of Certificateholders duly convened and held, and shall be binding on all Certificateholders whether or not they participated in such Electronic Consent; and

(ii) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Master Declaration of Trust) has been validly passed, the Trustee and the Delegate shall be entitled to rely on consent or instructions given in writing directly to the Trustee and/or the Delegate, as the case may be, by accountholders in the clearing system with entitlements to such Global Certificate or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and provided that, in each case, the Trustee and the Delegate have obtained commercially reasonable evidence to ascertain the validity of such holding and have taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Certificateholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by Euroclear, Clearstream, Luxembourg or any Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Certificates. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's CreationOnline system) in accordance with its usual procedures and in which the accountholder of a particular face amount of the Certificates is clearly identified together with the amount of such holding. Neither the Trustee nor the Delegate shall be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below:

Final Terms

[Date]

Mumtalakat Sukuk Holding Company

Issue of [Aggregate Face Amount of Series] [Title of Certificates]

under the U.S.$1,000,000,000 Trust Certificate Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Certificates set forth in the Base Prospectus dated 30 October 2014 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Certificates described herein [for the purposes of Article 5.4 of the Prospectus Directive][1] and must be read in conjunction with the Base Prospectus[2]. Full information on the Trustee, the Obligor and the offer of the Certificates is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus [and these Final Terms][3] [is/are] available for viewing in accordance with Article 14 of the Prospectus Directive on the website of the Central Bank of Ireland (www.centralbank.ie) and during normal business hours at the registered office of the Trustee at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands and copies may be obtained during normal business hours from the registered office of the Principal Paying Agent at Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB, United Kingdom.

1	(a)	Issuer and Trustee:	Mumtalakat Sukuk Holding Company
	(b)	Obligor and Service Agent:	Bahrain Mumtalakat Holding Company B.S.C. (c)
2		Series Number:	[•]
3		Specified Currency:	[•]
4		Aggregate Face Amount of Series:	[•]
5		Issue Price:	[•] per cent. of the Aggregate Face Amount
6	(a)	Specified Denominations:	[•]
	(b)	Calculation Amount:	[•]

1 To be included only if the Certificates are to be admitted to trading on the regulated market, and listing on the official list, of the Irish Stock Exchange.

2 To be deleted where the Certificates are neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive.

3 To be included only if the Certificates are to be admitted to trading on the regulated market, and listing on the official list, of the Irish Stock Exchange.

7	(a) Issue Date:	[•]
	(b) Profit Commencement Date:	[[•]/Issue Date]
8	Scheduled Dissolution Date:	[•]
9	Profit Basis	Fixed Rate Certificates (further particulars specified below)
10	Dissolution Basis:	Dissolution at par
11	Put/Call Rights:	[Not Applicable] [Optional Dissolution Right] [Certificateholder Put Right] [Change of Control Put Right] [Obligor Clean Up Call Right][4]
12	Status	Unsubordinated
13	Date of Trustee's Board approval and date of Obligor's Board approval for issuance of Certificates:	[•] and [•], respectively

Provisions relating to profit payable (if any)

14	Periodic Distribution Provisions:	
	(a) Profit Rate(s):	[•] per cent. per annum payable [annually/semi-annually/quarterly/monthly/[•]] in arrear on each Periodic Distribution Date
	(b) Periodic Distribution Date(s):	[•] in each year up to and including the Scheduled Dissolution Date, commencing on [•]
	(c) Periodic Distribution Period	[As per the Conditions]/[[•]]
	(d) Profit Period Date	[Periodic Distribution Date]/[[•]]
	(e) Fixed Amount(s):	[•] per Calculation Amount
	(f) Broken Amount(s):	[[•] per Calculation Amount, payable on the Periodic Distribution Date falling [in/on] [•]/Not Applicable]
	(g) Day Count Fraction:	[Actual/Actual] [Actual/Actual – ISDA] [Actual/365 (Fixed)] [Actual/365 (Sterling)] [Actual/360] [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual – ICMA]
	(h) Determination Date(s):	[[•] in each year/Not Applicable]

4 For Shariah reasons, the Optional Dissolution Right and the Certificateholder Put Right cannot both be specified as applicable in the applicable Final Terms in respect of any single Series.

Provisions relating to dissolution

15	Optional Dissolution Right:	[Applicable/Not Applicable]
	(a) Optional Dissolution Distribution Amount:	[As per Condition 1/[•]/Make-Whole Redemption Amount][5]
	(b) Optional Dissolution Date(s):	[•]
	(c) Notice period:	[[•]/As per Condition [8(c)]]
16	Certificateholder Put Right:	[Applicable/Not Applicable]
	(a) Dissolution Distribution Amount:	[As per Condition 1/[•]]
	(b) Certificate holder Put Right Date(s):	[•]
	(c) Notice period:	[[•]/As per Condition [8(d)]]
17	Change of Control Put Right:	[Applicable/Not Applicable]
	(a) Dissolution Distribution Amount:	[As per Condition 1/[•]]
18	Obligor Clean Up Call Right:	[Applicable/Not Applicable]
	(a) Dissolution Distribution Amount:	[As per Condition 1/[•]]
	(b) Notice period:	[[•][6]/As per Condition [8(f)]]
19	Dissolution Distribution Amount following redemption on the Scheduled Dissolution Date, on any Early Tax Dissolution Date or following the occurrence of a Dissolution Event:	As per Condition 1

General provisions applicable to the Certificates

20	Form of Certificates:	Registered Certificates: Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate. Reg S Compliance Category 2; TEFRA not applicable.
21	Financial Centre(s) relating to payment (Condition 9(d)):	[Not Applicable/[•]]

Provisions in respect of the Trust Assets

22	Wakala Portfolio on the Issue Date	
	(a) Share Percentage:	[•] per cent.
	(b) Murabaha Percentage:	[•] per cent.

5 The Make-Whole Redemption Amount will only be applicable to U.S.$ denominated trades.

6 Such notice being 30 days after the Change of Control Put Date or the Certificateholder Put Right Date, as the case may be.

23	Trust Assets:		Condition [5(a)] applies
24	(a)	Details of Transaction Account:	Bahrain Mumtalakat Holding Company B.S.C. (c) Transaction Account No: [•] with [•] for Series No.: [•]
	(b)	Supplemental Declaration of Trust	Supplemental Declaration of Trust dated [•] between the Trustee, the Obligor and the Delegate
	(c)	Supplemental Assignment Agreement	Supplemental Assignment Agreement dated [•] between the Trustee and the Obligor
	(d)	[Purchase Order and Letter of Offer and Acceptance:	Purchase Order dated [•] from the Obligor (as "**Buyer**") to the Trustee (as "**Seller**") and Letter of Offer and Acceptance dated [•] from the Seller to the Buyer.]

Signed on behalf of **Mumtalakat Sukuk Holding Company**	Signed on behalf of **Bahrain Mumtalakat Holding Company B.S.C. (c)**
By:...	By: ....
Duly authorised	*Duly authorised*

PART B – OTHER INFORMATION

1 **Listing and Admission to Trading**

(a)	Listing and Admission to trading:	[Application has been made by the Trustee (or on its behalf) to the Irish Stock Exchange plc for the Certificates to be listed on its Official List and admitted to trading on its regulated market with effect from [•].][Application is expected to be made by the Trustee (or on its behalf) to [•] for the Certificates to be listed on [•] and admitted to trading on [•], with effect from [•].][Not Applicable.]
(b)	Estimate of total expenses related to admission to trading:	[•]

2 **Ratings**

Ratings: The Certificates to be issued [have been/are expected to be] rated:

[Standard & Poor's:[•]]

[Fitch:[•]]

3 **Interests of Natural and Legal Persons involved in the Issue**

[Save for any fees payable to the [Managers/Dealer], so far as each of the Trustee and the Obligor is aware, no person involved in the issue of the Certificates has an interest material to the offer.]

4 **Yield**: [•] per cent. per annum

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

5 **Operational Information**

(a)	ISIN:	[•]
(b)	Common Code:	[•]
(c)	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/give name(s), address(es) and number(s)]
(d)	Names and addresses of additional Paying Agent(s) (if any):	[•]
(e)	Stabilising Manager(s):	[•]

6 **Use of Proceeds**

The net proceeds from the issue of the Certificates will be applied by the Obligor for *[insert purpose(s)]*.

USE OF PROCEEDS

The net proceeds from the issue of each Series of Certificates will be applied by the Trustee pursuant to the terms of the relevant Transaction Documents (i) towards the purchase from the Obligor of the Share Interests relating to the Initial Share Portfolio; and (ii) towards the purchase of commodities to be sold to the Obligor, in each case, as specified in the applicable Final Terms, such assets to form part of the Trust Assets of the relevant Series.

The purchase price subsequently received by the Obligor in consideration for the transactions entered into with the Trustee as set out above, including with respect to the proceeds received from the on-sale of the commodities of the Obligor, will be applied by the Obligor for the purposes stated in the applicable Final Terms.

DESCRIPTION OF THE TRUSTEE

The Trustee

The Trustee, an exempted company incorporated in the Cayman Islands with limited liability, was incorporated on 16 September 2014 under the Companies Law (2013 Revision) of the Cayman Islands with company registration number 291803. The registered office of the Trustee is at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands, telephone number +1345 949 8066.

The authorised share capital of the Trustee is U.S.$50,000 divided into 50,000 ordinary shares of U.S.$1.00 each, one of which has been issued. All of the issued shares (the "**Trustee Shares**") are fully-paid and are held by Mumtalakat.

The Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial assets or liabilities other than in connection with the Certificates.

So long as any of the Certificates remain outstanding, the Trustee shall not incur any other indebtedness in respect of financed, borrowed or raised money whatsoever or engage in any business or activity (other than acquiring and holding assets in connection with the Certificates, issuing the Certificates and entering into related agreements and transactions as provided for in the Transaction Documents), or, *inter alia*, redeem any of its shares or pay any dividends or make any other distribution to its shareholders, have any subsidiaries or employees, purchase, own, lease, or otherwise acquire any real property (including office premises or like facilities), consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as contemplated in the Transaction Documents) or issue any shares (other than such Trustee Shares as were in issue on the date hereof or as contemplated in the Transaction Documents).

The Trustee has, and will have, no significant assets other than the sum of U.S.$1.00 representing the issued and paid-up share capital, such fees (as agreed) payable to it in connection with the issue of the Certificates and the acquisition of assets in connection with the Certificates, any bank account into which such paid-up share capital and fees may be deposited and the Trust Assets. Save in respect of fees generated in connection with the issue of the Certificates any related profits and proceeds of any deposits and investments made from such fees or from amounts representing the Trustee's issued and paid-up share capital, the Trustee does not expect to accumulate any surpluses.

Restrictions on the Offer of the Certificates

No invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Certificates unless or until the Trustee is listed on the Cayman Islands Stock Exchange.

Financial Statements

Since the date of incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements or appoint any auditors.

Directors of the Trustee

The directors of the Trustee are as follows:

Name	**Principal Occupation**
Zulfekar Ali	Chief Investment Officer of Mumtalakat
Suha Karzoon	Chief Operating Officer of Mumtalakat
Mahmood H. Al Kooheji	Chief Executive Officer of Mumtalakat

The business address of each of the directors is the offices of Bahrain Mumtalakat Holding Company B.S.C. (c), Arcapita Building, 4th Floor, Building No. 551, Road 4612, Sea Front 346, P.O. Box 820, Bahrain Bay, Bahrain.

The Trustee's Articles of Association provide that the board of directors of the Trustee will consist of at least one director.

There are no potential conflicts of interest between the duties of the directors of the Trustee to the Trustee and their private interests or other duties.

OVERVIEW OF BAHRAIN

Location and Population

Bahrain is an archipelago made up 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 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.

Source: Survey & Land Registration Bureau, Bahrain

Most of Bahrain is low-lying barren desert, with the highest point being approximately 134 metres above sea level, although the northern part of the country has been extensively urbanised and cultivated. Average rainfall in Bahrain is 47 millimetres per annum. Most of Bahrain is surrounded by the relatively shallow part of the Arabian Gulf known as the Gulf of Bahrain. Bahrain obtains its drinking water from underground freshwater deposits and, increasingly, from desalinisation plants.

Bahrain's last census, in April 2010, recorded a population of 1,234,571, of whom 46 per cent. are Bahraini nationals, the remainder being principally expatriate workers. According to the 2010 census, approximately 70.2 per cent. of the population are Muslim, with small minorities of Christians, Hindus and Jews also present. Arabic is the official language, although English is widely used and understood for business purposes.

The population is highly urbanised, with up to 89 per cent. of the population living in towns and cities. According to the 2010 census, nearly 31.8 per cent. of the population is under the age of 15. A census is held in Bahrain every ten years. The annual population growth rate of Bahrain for 2011 was approximately 4.8 per cent., and the population was projected to reach 1,274.8 million inhabitants in 2013. The national education system is well established (adult literacy is 93.7 per cent. according to the 2010 census). Bahrain's life expectancy for men and women is 76 and 80 years, respectively. This is among the highest in the Arabian Gulf region.

On 13 June 2014, Standard & Poor's rated Bahrain's long-term foreign currency sovereign debt BBB (Stable). On 20 June 2014, Fitch confirmed Bahrain's long-term foreign currency sovereign debt rating as BBB (Stable) and confirmed the local currency rating as BBB+ (Stable).

History

The earliest record of Bahrain dates back to the third millennium BC, when it was known as Dilmun. Dilmun was a successful station for tradesmen in the Arabian Gulf and its thriving community was closely linked to that in Mesopotamia. Around 600 BC, Bahrain became part of the expanding Babylonian empire, at a time when the island was known by the Greek name of Tylos. The island became known for its wealth of pearls and it enjoyed considerable prosperity. In the 7 century AD, Islam was introduced to Bahrain.

The islands changed hands many times in the following centuries. In the mid-18 century, the Al-Khalifa family arrived from Al Zubara. They, together with their allies, assumed control of the islands and the family has remained in power ever since (see "*Overview of Bahrain — Constitution and Government*"). During the 19 century, Bahrain became the British Empire's political headquarters in the Gulf. Oil was discovered in Bahrain in 1932 (which coincided with the collapse of Bahrain's pearl industry). Bahrain was the first country to discover oil in the region.

On 15 August 1971, Bahrain declared its independence from Britain. Upon independence, the late Sheikh Isa assumed the position of Emir as Head of State while his brother, Sheikh 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 the National Assembly and the Emir. 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 UAE, Qatar, Kuwait and Oman, established the GCC.

When Sheikh Isa died in March 1999, his son Sheikh Hamad bin Isa Al-Khalifa came to power. The new Emir (as he was previously referred to) embarked on a programme of political reform, released political prisoners, permitted the return of exiles and eliminated emergency laws and courts. He also introduced a new national charter, the National Action Charter (the "**NAC**"), which 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 Sheikh Hamad bin Isa Al-Khalifa to be proclaimed king of Bahrain (the "**King**"). The NAC was approved in a national referendum in February 2001, in which 98.4 per cent. of the voters voted in favour of it. At the same time the state security law, which had been introduced in 1975, was repealed.

Constitution and Government

Under a new constitution adopted in February 2002 (the "**Constitution**") pursuant to the NAC, 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 ministerial 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 on behalf of Bahrain, 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 (the "**Shura Council**") and the chamber of deputies (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 to occur in the last quarter of 2014.

The cabinet ("**Cabinet**") is appointed by the King. The Cabinet is headed by the Prime Minister, who, at the date of this Base Prospectus, 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**"), the First Deputy Prime Minister and commander-in-chief of the Bahrain Defence Force.

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.

On 1 June 2011, in the aftermath of the February – March 2011 Protests (see "*Risk Factors — Political Consideration relating to Bahrain*"), His Majesty, King Hamad bin Isa Al Khalifa 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 its views and proposals for future reform in Bahrain.

The Dialogue issued 300 invitations to societies and individuals to participate in the dialogue which commenced on 2 July 2011. The overwhelming majority of these invitations were accepted, and participants included political societies, civil and non-governmental organisations, expatriate societies and representatives of many religious groups. A session of the Dialogue was devoted specifically to expatriates' issues. The Al-Wefaq society (a large Shia-oriented political society which held 18 seats in the Chamber of

Deputies prior to early 2011) was invited to the Dialogue, but, having submitted their demands, withdrew from the Dialogue.

The Dialogue ended on 25 July 2011 and its recommendations were collated into a report. Legislative reforms to the political system recommended by the Dialogue include increased parliamentary scrutiny over the Government and enabling the Prime Minister to select his Government, subject to the approval of the elected parliament. The elected parliament will also be granted greater legislative and monitoring powers. New measures are intended to ensure non-sectarianism in all civil and political organisations and oversight of funding of political societies. The Dialogue would also introduce economic reforms, including faster implementation of 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 to be introduced from the Dialogue include implementation of youth programmes, a national strategy for NGOs (including corporate social responsibility programmes) and better implementation of legislation on security and peace. Additional Dialogue reforms include 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 all Government ministers) formed a ministerial sub-committee to oversee the implementation programme. 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.

His Majesty, King Hamad bin Isa Al Khalifa, ratified the 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.

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 and was commended by the UN Secretary General, Amnesty International together with the UK and U.S. governments.

The BICI has been asked to determine whether the events of the February – 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 in full 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 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. (See "*Risk Factor — Political Considerations relating to Bahrain*").

The second round of the Dialogue commenced on 10 February 2013. It represented the continuation of the Dialogue from July 2011 aimed at building on the achievements of the previous Dialogue in order to achieve further national consensus. Since establishment, the participants met on a weekly basis. The agenda for the second round of the Dialogue focused on political outcomes and increasing the powers of the National Assembly. Due to the withdrawal of the Coalition of Six Societies, the remaining participants suspended the Dialogue sessions and agreed to resume the Dialogue when the Coalition of Six Societies decide to return to the Dialogue.

Vision 2030

In October 2008, the Government developed Vision 2030, with the ultimate aim of at least doubling the disposable income of every Bahraini household from the 2008 level by 2030. Vision 2030's objective is to shift Bahrain's economy from an oil-driven economy to a globally competitive economy fuelled by private enterprise and predominantly based on high productivity sectors, including finance, services, logistics, 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 Vision 2030 are taken into account during each budget process and the Government continues to implement its objectives. In March 2012, His Royal Highness the Crown Prince was appointed as the First Deputy Prime Minister, and is supporting His Royal Highness the Prime Minister's efforts to ensure the efficiency and effectiveness of the Government's performance, which will underpin its activities undertaken to achieve its economic vision.

Bahrain has implemented educational reforms to help ensure that the population develops the skills necessary to implement Vision 2030 objectives. These include the establishment of the Bahrain Teachers' College and the creation of the National Authority for Qualification and Quality Assurance Authority of Education and Training ("**NAQQAAET**") in 2008. The QAA has been tasked with reviewing and publicly reporting on the quality of education and training institutions with a view to raising standards of education and training in Bahrain. The NAQQAAET has published reports on the quality of educational and vocational institutions, covering private and public schools, universities and vocational courses. NAQQAAET has also reviewed individual degree courses provided by universities. The reports present the outcomes of the reviews of the institutions that have been evaluated by the NAQQAAET. They are based on the most important findings of the review units' visits to schools, vocational providers and higher education institutions. The reports highlight each institution's strengths and areas for improvement, together with recommendations for development. This is in line with the NAQQAAET's remit to independently evaluate educational and training establishments as part of Bahrain's education reform programme and Vision 2030.

Furthermore, during 2011 and 2012, the Economic Development Board ("**EDB**") worked on the development of secondary technical and vocational paths with the establishment of a specialised technical college, as well as collaborating with the University of Bahrain and the Bahrain Training Institute on plans to enhance institutional development. In 2013, Bahrain was ranked 43 out of 148 countries worldwide (compared to 35 out of 144 countries in 2012) for its overall global competitiveness ranking in the World Economic Forum's Global Competitiveness Report 2013/2014.

Bahrain is also in the process of implementing the Business Licensing Integrated System ("**BLIS**"), the first phase of which was completed in March 2011. The aim of the BLIS is to simplify the process of business registration, streamline licensing requirements and ensure full transparency of procedures and co-ordination between all relevant organisations. The BLIS project is currently in phase 2, which involves implementing new streamlined procedures for commercial registration and licences, and launching the BLIS electronic portal to fully automate the commercial registration and licensing process for 15 pre-selected business licences.

Furthermore, to improve access to international markets and empower the Micro, Small and Medium Enterprises ("**MSMEs**") sector in Bahrain, the EDB is working closely with the Bahrain Development Bank, Tamkeen, the Ministry of Industry and Commerce and the Bahrain Chamber of Commerce and Industry to establish an Export Development Centre ("**EDC**") with the objective of assisting Bahrain's MSMEs to become successful exporters. The EDC will advise businesses on export opportunities for their products and provide training in export procedures.

The Government is currently drafting a medium-term national development strategy (the "**National Development Strategy**") that aligns the objectives of Vision 2030 with the anticipated available financial resources for the period from 2015 to 2018. The National Development Strategy, once finalised, will be used as the basis for the next Government programme.

ECONOMY OF BAHRAIN

Bahrain enjoys a strong and diverse economy. Unlike many of its Gulf neighbours, Bahrain has moved to diversify its economy away from a dependence on oil. Although oil continues to play an important part in Bahrain's economy, Bahrain also has an increasingly important financial services industry (acting as a financial centre for the MENA region). Manufacturing, oil refining, aluminium production and tourism are also significant contributors to its GDP.

The EDB, established in mid-2000, is the apex organisation for spearheading economic development in Bahrain. It is currently targeting the following eight sectors for development: information technology; business services; healthcare; financial services; tourism; logistics; high-tech manufacturing; and education (see "*Economy of Bahrain — Foreign Direct Investment and Privatisation*").

Bahrain benefits from a strong infrastructure which has been developed by the Government since the 1970s through continued public capital investment (being U.S.$683.2 million in 2011, U.S.$905.6 million in 2012, U.S.$669.4 million in 2013 and an estimated U.S.$512.2 million in 2014). The decrease in capital expenditure in 2013 and the budgeted capital expenditure in 2014 was due to a planned reduction in capital spending on the housing projects compared to previous years. A number of major projects have been identified and approved by the Government including major housing projects amounting to U.S.$2.2 billion, electricity and water projects amounting to U.S.$1.1 billion, roads & sewerage projects amounting to U.S.$0.9 billion, airport improvement project amounting to U.S.$0.8 billion, and a number of other projects focussing on education, health, social development, youth, sports and industry which will be funded by the grants received from the GCC Development Fund (see "*Public Finance — Government budget*") and under the memoranda of understanding entered into with the governments of Saudi Arabia, Kuwait and the UAE. Expenditures relating to projects funded by these grants are not recorded in the budget as capital expenditure. The funds will be received from the GCC Development Fund (see "*Public Finance — Government budget*"), the Saudi Fund for Development (acting on behalf of the Saudi Government) (the "**Saudi Fund**"), the Kuwait Fund for Arab Economic Development (acting on behalf of the Kuwait Government) (the "**Kuwait Fund**") and the Abu Dhabi Fund for Development (acting on behalf of the UAE Government) (the "**Abu Dhabi Fund**"). Details of the amounts to be provided by these entities are set out in "*Public Finance — Government budget*".

The services sector has benefited from Bahrain's strong transport infrastructure, its deep water harbour at Hidd, which replaced the old harbour at Mina Salman in December 2009, and the international airport in Muharraq. Bahrain has a growing tourism industry with several large-scale tourist developments under construction or recently finished, including The Lost Paradise of Dilmun water park and the indoor-outdoor Wahoo Water Park (see "*Economy of Bahrain — Other Services — Tourism*").

Bahrain also has a high quality modern telecommunications system, currently operated by Batelco, Zain Bahrain B.S.C. (C) ("**Zain**") and Saudi Telecommunications Company ("**STC**") through its "*Viva*" operations, see "*Economy of Bahrain — Other Services — Telecommunications*".

Gross Domestic Product

In recent years, the financial services sector has been the single largest non-oil contributor to Bahrain's GDP, reflecting the importance of trade and finance to the domestic economy.

In 2011, the financial services sector contributed 17.1 per cent. to Bahrain's real GDP, while manufacturing, mining and quarrying (including oil and gas), government services, transport and other communications and real estate and business activities contributed 14.7 per cent., 22.1 per cent., 11.7 per cent., 6.8 per cent. and 5.7 per cent. of GDP, respectively.

In 2012, the financial services sector contributed 17.1 per cent. to Bahrain's real GDP, while manufacturing, mining and quarrying (including oil and gas), Government services, transport and other communications and real estate and business activities contributed 15.5 per cent., 19.6 per cent., 12.1 per cent., 7.0 per cent. and 5.7 per cent. of GDP, respectively.

In 2013, the financial services sector contributed 16.7 per cent. to Bahrain's real GDP, while manufacturing, mining and quarrying (including oil and gas), government services, transport and communications and real estate and business activities contributed 14.5 per cent., 21.3 per cent., 12.8 per cent., 6.9 per cent. and 5.5 per cent. of real GDP, respectively.

A table setting out the principal sectors of the economy is provided in "*Principal Sectors of the Economy*" below.

Direct Government consumption constituted approximately 17.0 per cent. of GDP in 2013, an increase from 16.9 per cent. of GDP in 2012 (a 0.1 per cent. increase from 2012). Government consumption also affects private consumption since the Government is the country's major employer and promoter of capital projects. Government consumption has dramatically increased over the last decade from approximately U.S.$265.96 million in early 2000, to U.S.$4,864.4 million in 2013. Investment itself is affected by the oil sector with gross fixed capital formation and stock building being affected by periods of fluctuating oil prices.

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 2010 prices for the periods indicated:

	2011	**2012**	**2013**
Total:			
At current prices (U.S.$ millions)[(1)]	29,157.4	30,576.4	32,897.9
At constant 2010 prices (U.S.$ millions)[(1)]	26,193.4	27,195.5	28,647.1
Percentage change over previous period:			
At current prices	13.4	4.1	7.0
At constant 2010 prices	1.9	3.4	5.3
Per capita:			
At current prices (U.S.$)[(1)]	24,399.1	25,084.8	26,767.3
At constant 2010 prices (U.S.$)[(1)]	21,918.8	22,180.6	23,308.5

Note:

(1) Assuming a population of 1,195,020 in 2011 and 2012, and 1,229,033 in 2013.

Source: Central Informatics Organisation

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

	2011		**2012**		**2013**	
	(U.S.$ millions)	**(%)**	**(U.S.$ millions)**	**(%)**	**(U.S.$ millions)**	**(%)**
Private consumption	10,988.6	37.7	11,686.2	38.0	13,266.5	40.3
Government consumption	3,655.6	12.5	47,48.4	15.4	5,129.5	15.6
Gross fixed capital formation	5,154.5	17.7	59,65.2	19.4	5,121.5	15.6
Change in stocks[(1)]	131.4	0.5	222.9	0.7	368.9	1.1
Exports of goods & services	22,945.5	78.7	22,853.2	74.3	24,228.2	73.6
Imports of goods & services	13,884.3	47.6	14,719.4	47.9	15,216.8	46.3
Change in exports/imports	9,061.2	31.1	8,133.8	26.4	9,011.4	27.4
GDP	29,157.4		30,756.4		32,897.9	

Note:

(1) Including net errors and omissions.

Source: Central Informatics Organisation

The following table sets out the growth in real GDP in percentage terms (by expenditure approach) based on constant 2010 prices for the periods indicated:

	2011		2012		2013	
	(U.S.$ millions)	(%)	(U.S.$ millions)	(%)	(U.S.$ millions)	(%)
Private consumption	10,966.7	41.9	11,418.1	42.0	11,726.9	40.9
Government consumption	3,599.9	13.7	4,594.4	16.9	4,864.4	17.0
Gross investment	4,890.9	18.7	5,537.8	20.4	4,778.2	16.7
Change in stocks[1]	173.5	0.7	–31.6	0.4	220.7	0.8
Exports of goods & services	17,721.9	67.7	17,100.5	62.9	18,616.8	65.0
Imports of goods & services	11,162.0	42.6	11,423.7	42.0	11,560.1	40.4
GDP	26,193.4		27,195.5		28,647.1	

Note:

(1) Including net errors and omissions.

Source: Central Informatics Organisation

Principal Sectors of the Economy

The table below sets out Bahrain's GDP by economic activity based on constant 2010 prices and by percentage contribution for the periods indicated:

	2010		2011		2012		2013[2]	
	(U.S.$ millions)	(%)	(U.S.$ millions)	(%)	(U.S.$ millions)	(%)	(U.S.$ millions)	(%)
Non-financial corporations	18,025.1	70.1	18,161.4	69.3	18,421.8	67.7	19,647.4	68.6
Agriculture and fishing	76.5	0.3	77.8	0.3	79.4	0.3	80.7	0.3
Mining and quarrying[1]	5,584.5	21.7	5,777.3	22.1	5,307.1	19.5	6,094.4	21.3
(i) Crude petroleum and natural gas	5,429.5	21.1	5,624.8	21.5	5,147.2	18.9	5,936.9	20.7
(ii) Quarrying	155	0.6	152.5	0.6	159.9	0.6	157.4	0.5
Manufacturing	3,723.9	14.5	3,839.8	14.7	4,018.9	14.8	4,146.9	14.5
Electricity and water	342.2	1.3	352.2	1.3	372.6	1.4	381.5	1.3
Construction	1,914.3	7.4	1,770.1	6.8	1,835.6	6.7	1,885.3	6.6
Trade	1,201.9	4.7	1,179.8	4.5	1,252.2	4.6	1,272.8	4.4
Hotels and restaurants	693.1	2.7	573.8	2.2	637.8	2.3	673.5	2.4
Transport and communications	1,721.0	6.7	1,774.6	6.8	1,907.2	7.0	1,966.5	6.9
Social and personal services	1,176.3	4.6	1,321.0	5.0	1,469.9	5.4	1,567.6	5.5
Real estate and business activities	1,591.5	6.2	1,494.9	5.7	1,540.9	5.7	1,578.1	5.5
Financial corporations	4,511.5	17.5	4,482.6	17.1	4,675.7	17.2	4,781.7	16.7
Financial institutions	1,204.2	4.7	1,254.8	4.8	1,321.5	4.9	1,361.8	4.8
Offshore financial institutions	2,020.5	7.9	1,913.1	7.3	1,946.1	7.2	1,960.9	6.8
Insurance	1,286.8	5.0	1,314.7	5.0	1,408.1	5.2	1,459.1	5.1
Government services	2,697.7	10.5	3,066.2	11.7	3,569.0	13.1	3,679.2	12.8
Government education services	618.9	2.4	646.0	2.5	702.4	2.6	776.0	2.7
Government health services	339.9	1.3	355.4	1.4	522.3	1.9	530.3	1.9
Other Government services	1,738.9	6.8	2,064.8	7.9	2,344.3	8.6	2,372.8	8.3
Private non-profit institutions serving households	9	0.0	10.4	0.0	11.1	0.0	12.6	0.0
Households with employed persons	201.4	0.8	208.6	0.8	220.5	0.8	227.5	0.8
GDP producer prices	25,444.7	99.0	25,929.2	99.0	26,898.1	98.9	28,348.5	99.0
Import duties	268.6	1.0	264.2	1.0	297.4	1.1	298.6	1.0
GDP	25,713.3	100.0	26,193.4	100.0	27,195.5	100.0	28,647.1	100.0

Notes:

(1) Mining and quarrying comprises (i) crude petroleum and natural gas; and (ii) quarrying.

(2) Provisional data.

Source: Central Informatics Organisation

The following paragraphs provide a brief description of the principal sectors of the economy based on percentage contribution for the relevant periods.

Mining

Oil

Bahrain has the lowest oil reserves of all of the GCC countries, with an average crude oil production of 42,510 barrels per day ("**bpd**") as at 31 December 2011, 42,510 bpd as at 31 December 2012 and 47,887 bpd as at 31 December 2013 from its only 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 and MDC Oil and Gas (Bahrain Field) LLC ("**Mubadala**") to increase production from its existing onshore field. Bahrain also exports crude 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 147,771 bpd in 2011, 127,666 bpd in 2012 and 149,708 bpd in 2013. The decreased production in 2012 compared to 2011 was caused by an unplanned shutdown of facilities following the breakage of some submerged pipes. This issue has now been resolved and production resumed to the previous levels. Bahrain also processes about 273,870 bpd of crude oil for Saudi Arabia at its refinery at Sitra (see "*Economy of Bahrain — Mining — Oil — Refining*"). Bahrain's crude oil production for the four quarters of 2013 was 4.1, 4.3, 4.6 and 4.5 million barrels, respectively.

In November 2009, Occidental, 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 the creation of a new state-owned joint operating company, Tatweer Petroleum-Bahrain Field Development Company WLL ("**Tatweer Petroleum**"). Tatweer Petroleum operates under a Development and Production Sharing Agreement signed in April 2009 by the Joint Venture Partners and NOGA, approved by the Bahraini parliament in May 2009 and ratified by His Majesty, King Hamad bin Isa Al Khalifa. Tatweer Petroleum' is responsible for all of Bahrain's onshore domestic field activities including operation of the Awali field and the Khuff gas reservoir. Tatweer Petroleum's production and development activities are well under way with its team largely comprised of individuals from the state-owned Bapco, together with employees from both Occidental and Mubadala. The company also continues to hire additional local employees. As an example of the increased level of activity in the Bahrain field, Tatweer Petroleum drilled a total of 193 wells in 2013, which has increased the total number of oil wells at Awali oilfield to 645, and is on target to drill in excess of 140 additional new oil wells in 2014.

Tatweer Petroleum's strategic aim is to increase the production of oil from the onshore field. Tatweer Petroleum increased crude oil production from 2010's daily average of 31,900 bpd to production levels of 47,887 bpd in 2013, where actual production in 2013 was higher than the 2013 forecast daily average of 47,500 bpd. The increase in production in 2012 and 2013 has largely 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 steadily.

Tatweer Petroleum has continued to focus on developing its production capabilities at the Awali oilfield and improving production efficiency through new facilities and automated systems, with improvements such as:

- the launch of an enhanced oil recovery ("**EOR**") pilot programme, with new technologies being introduced at the Awali oilfield such as water flooding and steam injection, and commencement of eight separate EOR pilot programmes;
- the construction of new strategic projects to enhance the efficiency and productivity of field operations, including the new Mauddud light oil steam flood project, expansion of the Mauddud water flood project, two new tank batteries, many new pipelines and 15 new well manifolds;
- the installation of a new fibre optic network, connecting all major production facilities; and

- the completion of an independent power distribution system comprised of three substations, with the capacity to import up to 140 megawatts of power from the Electricity and Water Authority's national power grid.

The new Tatweer Petroleum headquarters building was completed in July 2014. A new central control facility is also being constructed, adjacent to the headquarters building.

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. The table below sets out the cumulative annual daily crude oil produced by Bahrain:

	2010	**2011**	**2012**	**2013**
		(bpd)		
Crude oil from Awali	31,876	42,510	45,289	47,887
Crude oil from Abu Saafa	149,974	147,771	127,666	149708
Crude oil from Saudi Arabia	234,679	217,160	219,027	215,297
Total	416,529	407,441	391,982	412,892

Source: National Oil and Gas Authority

Bahrain has been in talks with Saudi Arabian Oil Company ("**Saudi Aramco**") over plans to proceed with the construction of a new pipeline measuring 71 miles in length between Bahrain and Saudi Arabia, which is expected to result in increased capacity and efficiency as compared to the existing pipeline. The design discussions regarding the size, capacity and route of the pipeline have been finalised, and the front end engineering is virtually complete. The project, expected to cost approximately U.S.$350 million, commenced at the end of 2009, and the pipeline is expected to be commissioned in early 2017. Bahrain has appointed the MTQ Group to provide oilfield equipment and engineering services in connection with this project.

The pipeline, which is expected to carry around 350,000 bpd of crude oil between Bahrain and Saudi Arabia (with a maximum of 400,000 bpd), will replace the existing pipeline that carries 230,000 bpd. Bahrain plans to steadily increase its own oil production over the next 20 years. The pipeline is a key pre-requisite for the Bapco Modernisation Programme (see "*Economy of Bahrain — Mining — Oil — Refining*").

Refining

Bahrain has an oil refinery at Sitra which has a capacity in excess of 250,000 bpd and operates at levels close to capacity. The principal products currently produced at the refinery, in terms of volume, are gas and fuel oil, jet fuel, diesel, naphtha and gasoline. Bapco has commissioned major new plants under the Bapco 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 completed and has been in operation since January 2009.

Bapco is working on a modernisation programme with the aim of increasing its refining capacity by a third and significantly improving its product mix, which is expected to occur over a period of five years and is estimated to cost in excess of U.S.$4.5 billion (the "**Bapco Modernisation Programme**").

The table below provides details of activities in relation to Bahrain's oil refining industry for the periods indicated:

	2010	2011	2012	2013
		(bpd)		
Refined oil production	272,226	263,086	276,239	273,870
Local sales of refined products	25,989	24,074	25,743	26,888
Exports[(1)]	234,529	226,107	236,600	238,858

Note:

(1) Includes exports by Bapco.

Source: National Oil and Gas Authority

Gas

Although Bahrain's gas reserves are relatively small, total gas production (comprising natural gas from the Khuff reservoir and the associated gas production) has gradually increased over the years, from 393.0 billion cubic feet in 1998 to 556.6 billion cubic feet in 2010, and then decreased to 552.1 billion cubic feet in 2011 and 542.5 billion cubic feet in 2012, and then increased to 679.5 billion cubic feet in 2013. Gas production for the four quarters of 2013 was 149.5, 169.6, 192.7 and 167.6 billion cubic feet respectively. Natural gas production from the Khuff reservoir has increased over the years, from 393.0 billion cubic feet in 1998 to 447.6 billion cubic feet in 2010, and then decreased to 392.4 billion cubic feet in 2011, and then increased to 438.5 billion cubic feet in 2012 and 481.6 billion cubic feet in 2013.

Gas is sold directly to Bapco's principal domestic consumers: Alba (which accounted for 28 per cent., 27 per cent. and 20 per cent. of total gas utilisation in 2011, 2012 and 2013, respectively), followed by Bahrain's power stations, Gulf Petrochemical Industries Company ("**GPIC**") (which accounted for 8 per cent., 10 per cent., 9 per cent., and 7 per cent. of total gas utilisation in 2010, 2011, 2012 and 2013, respectively), and the Sitra refinery (which accounted for 10 per cent., 10 per cent., 11 per cent., and 9 per cent. of total gas utilisation in 2010, 2011, 2012 and 2013, respectively). The other principal use of the natural gas produced from the Khuff reservoir was for oil field injection which accounted for 15 per cent., 15 per cent., 15 per cent., and 24 per cent. of total gas utilisation in 2010, 2011, 2012 and 2013, respectively.

Bapco successfully completed the drilling of three gas wells as part of a major U.S.$100 million Government programme to boost natural gas production in Bahrain by an additional 500 million cubic feet per day. The Government aims to increase the production capacity of the Khuff gas reservoir to 2.4 billion cubic feet per day by 2024. The programme, which involves drilling a total of eight new deep gas wells in the Khuff gas reservoir, aims to meet Bahrain's growing demand for natural gas for power generation and local industries. In addition to the eight new wells, the programme also includes the work over of five previously-drilled wells at the same reservoir. The Khuff gas drilling programme started in early 2009. The first well (No. 866) was drilled to a vertical depth of 10,550 feet into the Khuff reservoir. The second well (No. 869) was the first directional gas well drilled in Bahrain to a measured depth of 12,325 feet into the pre-Khuff formation. The third well (No. 868) was drilled and completed to a vertical depth of 12,100 feet into the pre-Khuff formation. During 2010, Tatweer Petroleum drilled three Khuff gas wells (Nos. 867, 871 and 873) and one gas well (No. 872) during March 2011. Gas wells are not drilled unless they are necessary to meet both the average demand and the peak demand for gas which occurs in the summer.

The increase in gas production is due to the new technique used for drilling the new wells, which is an improvement on the drilling method used for some of the existing wells in that some were directionally drilled, maximising contact by exposing added reservoir over the same thickness which, in turn, increases production from the same well-bore. Additionally, all wells are equipped with seven-inch diameter production tubes which should enhance the production capacity of these wells compared to previous wells equipped with five-inch production tubing.

Gas, which is produced with crude oil, i.e. associated gas, is sold to the Bahrain National Gas Company ("**Banagas**"). Banagas produces liquefied propane and butane for export, and naphtha which is pipelined to the refinery. Residue gas from Banagas subsequently enters the national gas system at a pressure lower than

Khuff gas and is sold to local customers who can accommodate the lower pressure. The Government aims to increase its production volume of associated gas in connection with its strategic aim to increase its oil production.

Further, the Government aims to increase the amount of liquefied natural gas available by importing from abroad through the implementation of its Liquefied Natural Gas Supply Project (the "**LNG Supply Project**"). The LNG Supply Project is currently still under review, but it is currently anticipated that it will involve the deployment of a floating storage and regasification facility and the importation of liquefied natural gas from a number of exporters worldwide. The LNG Supply Project is currently in its final evaluation and configuration determination phase. The selection of the preferred strategic partner is currently in process and the design and construction phase of the LNG Supply Project is currently anticipated to commence in the fourth quarter of 2013.

Manufacturing

The discovery of oil in the early 1930s was the spur for industrialisation in Bahrain. The principal manufacturing facilities in Bahrain 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 facilities, light engineering facilities, and textile production.

Aluminium

The Alba aluminium smelter, with a capacity of 912,000 tonnes per year, is one of the largest aluminium smelters in the world. The Alba aluminium smelter is the world's fourth largest producer of aluminium by individual smelter capacity. Alba is state-owned on a majority holding basis with 69.4 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 (see "*Public Finance — Revenue — Alba*").

Bahrain's largest non-oil export is aluminium, which is smelted at the Alba aluminium smelter, estimated by the CBB to account for 11.3 per cent. of total exports and 44.6 per cent. of all non-oil exports in 2010, 9.4 per cent. of total exports and 44.6 per cent. of total non-oil exports in 2011, 10.1 per cent. of total exports and 43.7 per cent. of total non-oil exports in 2012 and 10.8 per cent. of total exports and 40.2 per cent. of total non-oil exports in 2013.

At the start of 2002, Alba drew up a broad-based business plan, which can be broken down into three separate but interrelated parts: (i) a strategic plan to ensure the efficient operation of the smelter; (ii) a marketing plan to ensure a sustainable and secure revenue stream from existing and new markets and products; and (iii) new business development initiatives, such as acquiring broad-based assets or developing business partners, to ensure opportunities for expanding Alba's business. The strategic plan identifies five key performance areas that should be focused on: safety, people, environment, cost and productivity.

In line with the strategic plan, Alba has diversified its customer base by exporting aluminium to Asia, Europe and across the MENA region.

There are a number of other aluminium-based industries in Bahrain, including plants which produce approximately 165,000 tonnes per year of rolled products, 180,000 tonnes per year of aluminium cables, and 25,000 tonnes per year of extruded aluminium products.

In addition, a coke-calcinating plant operated by Alba with a capacity of 550,000 tonnes per year began production in January 2002. The majority of its production is used by Alba and the balance is exported. Alba previously imported coke from the United States and Argentina.

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. The plant includes production capability of 1,200 tonnes per day of methanol and ammonia and 1,700 tonnes per day of urea. In 1995, a sulphur derivatives plant was commissioned by National Chemical Industries Corporation. This plant has a capacity of 9,000 tonnes per year of sodium sulphite and 6,000 tonnes per year of metabisulphite and uses feedstock from the refinery operated by Bapco.

Financial Services

Bahrain has become one of the major financial centres in the MENA region. It benefited significantly when financial institutions left Lebanon during the 1975-1990 civil war, and its success is due, in part, to its geographical location between the east and west time zones and its proximity to Kuwait and Saudi Arabia. Financial services remained the largest non-oil component of the real economy, accounting for approximately 17.1 per cent. in 2011, 17.2 per cent. in 2012, and 16.7 per cent. in 2013.

Pursuant to Vision 2030, Bahrain continues to develop a diverse economy by placing an emphasis on attracting commercial and investment banks, Islamic banks and other financial firms to the area. Its exchange rate is pegged to the U.S. dollar and has remained at the same level for more than 20 years.

The CBB is the sole banking regulator in Bahrain. Established in 2006 as a successor to the Bahrain Monetary Agency ("**BMA**"), 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 but is accountable to the Minister of Finance. There are seven members of the board of directors of the CBB, including an independent chairman, each of whom is appointed by royal decree. The governor of the CBB serves for a five-year term (the current governor was reappointed in January 2010).

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 arbitration centre for commercial disputes was unveiled in January 2010. The Bahrain Chamber of Dispute Resolution (the "**Chamber**"), which is a joint initiative between Bahrain's Ministry of Justice and the New York-based American Arbitration Association, will act as arbitrator between parties that voluntarily present their grievances and agree to accept its ruling as a final and binding resolution.

The Chamber has been developed as a means by which parties to a dispute can avoid the delays and uncertainty arising from using national courts. It has the authority to arbitrate cases where the claim is for more than BD500,000 and involves an international party or a party licensed by the CBB. Its rulings are not subject to challenge in Bahrain once they are handed down, but the parties involved can still seek alternative legal redress through foreign courts where local law permits such a legal challenge and the parties involved opt to do so.

The Chamber, which costs between BD2.5 million and BD3 million per year to run, is intended to serve regional needs in the GCC, Iraq, Yemen, and Iran, and also to review cases from other parts of the world. Disputes arising after 4 January 2010 can be heard by the Chamber.

The Bahrain Financial Trust Law 2006 has broadened the range of specialised services that can be offered by financial institutions in Bahrain. It provides opportunities for companies and individuals to hold both conventional and Islamic assets situated anywhere in the world for employees' or their spouses' benefit. Recently, the CBB has approved the first Real Estate Investment Trust to be established in Bahrain. The

Bahrain Financial Trusts Law 2006 provides the basis for the legal recognition of financial trusts established in accordance with the requirements of that law. Amongst other things, the trustee must be licensed by the CBB. The CBB operates a secure Trust Registry Office relating to trusts established under the Bahrain Financial Trusts Law 2006.

The English law concept of "trust" however, is not widely recognised by the courts of Bahrain. Furthermore, any judicial consideration by the Bahraini courts of any application to enforce a decision of a foreign court as to the legal and beneficial ownership of property (including rights in respect of securities) in Bahrain which is the subject of a trust is unknown. Unless a trust is created which meets the requirements of the Bahrain Financial Trusts Law 2006, it is not clear whether or not any trust created under any other method will be enforceable in Bahrain.

The table below sets out the annual aggregate balance sheet of all banking institutions in Bahrain (conventional and Islamic).

	At 31 December				**As at May**
	2010	**2011**	**2012**	**2013**	**2014**
			(U.S.$ millions)		
Wholesale Banks					
Assets	156,724.8	129,736.2	114,610.7	116,685.7	112,354.0
Domestic	10,967.0	10,068.7	7,879.9	7,490.5	7,347.6
Foreign	145,757.8	119,667.5	106,730.8	109,195.2	105,006.4
Liabilities	156,724.8	129,736.2	114,610.7	116,685.7	112,354.0
Domestic	15,398.0	12,826.6	11,359.0	10,207.7	9,859.9
Foreign	141,326.8	116,909.6	103,251.7	106,478.0	102,494.1
Retail Banks					
Assets	65,452.9	67,380.9	71,711.7	75,313.6	79,121.8
Domestic	34,859.6	37,385.6	40,372.9	41,233.2	40,750.3
Foreign	30,593.4	29,995.2	31,338.8	34,080.3	38,371.5
Liabilities	65,452.9	67,380.9	71,711.7	75,313.6	79,121.8
Domestic	35,439.9	37,390.7	39,889.1	40,290.2	40,888.3
Foreign	30,013.0	29,990.2	31,822.6	35,023.4	38,233.5
Total	222,177.7	197,117.1	186,322.4	191,999.3	191,475.8

Source: CBB

As at 31 December 2010, 2011, 2012 and 2013 total deposits were U.S.$19,994.4 million, U.S.$20,566.2 million, U.S.$21,392.0 million and U.S.$23,133.0 million, respectively, and increased to U.S.$23,846.8 million as at 30 June 2014.

The structure of the banking industry in Bahrain is currently as follows:

Conventional Banks

Retail Banks

Retail banks include domestic banks, which hold most of the assets of this category and foreign banks as well as six Islamic banks. As at 31 December 2010, there were 30 retail banks, of which six were Islamic retail banks. As at 31 December 2011, there were 30 retail banks, of which six were Islamic retail banks. As at 31 December 2012, there were 29 retail banks, of which six were Islamic retail banks. As at 31 December 2013, there were 28 retail banks, of which six were Islamic retail banks. As at 31 July 2014, there were 28 retail banks, of which 6 were Islamic retail banks.

Wholesale Banks

Wholesale banks comprise locally-incorporated banks and branches of foreign commercial and investment banks which use Bahrain as a base. Locally-incorporated wholesale banks are subject to the capital or cash reserve requirements of the CBB and, in the case of branches of overseas banks, may operate with significant tax benefits with regard to their home jurisdiction. Wholesale banks pay the CBB an annual licence fee and under specific conditions and limitations may accept deposits from residents of Bahrain. Wholesale banks, including wholesale Islamic banks, are the most important sector in Bahrain's financial services industry. As at 31 December 2010, 2011, 2012 and 2013 and 31 July 2014, there were 77, 76, 74, 76 and 76 wholesale banks in Bahrain, respectively, of which 21, 20, 20, 18 and 18, respectively were wholesale Islamic banks.

Islamic Banks

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. This banking sector was created in Bahrain in 1978 with the establishment of the Bahrain Islamic Bank and expanded in the 1980s with the issue of four banking licences to Islamic banks. Eight further banking licences were issued to Islamic banks in the 1990s.

As at 31 December 2010, there were a total of 29 Islamic licences, of which six were retail banks, 21 were wholesale banks and two were representative offices. As at 31 December 2011, there were a total of 29 Islamic licences, of which six were retail banks, 20 were wholesale banks, and three were representative offices. As at 31 December 2012, there were a total of 27 Islamic licenses, of which six were retail banks, 20 were wholesale banks, and one representative office. As at 31 December 2013 and 31 July 2014, there were a total of 25 Islamic licenses, of which 6 were retail banks, 18 were wholesale banks, and one representative office.

Bahrain also has an established insurance sector and a stock exchange, both of which are regulated by the CBB. The Bahrain Bourse (formerly known as the Bahrain Stock Exchange) commenced operations in June 1987; and in late 2010 by the Royal Decree No. (60) of 2010 was established as a shareholding company and renamed the Bahrain Bourse ("**BHB**"). As at 30 June 2014, the Bahrain Bourse had 47 Bahraini firms listed with a total market capitalisation of U.S.$21.6 billion (compared to 49 Bahraini firms listed with a total market capitalisation of U.S.$16.6 billion as at 31 December 2011, 47 Bahraini firms listed with a total market capitalisation of U.S.$15.6 billion as at 31 December 2012 and 47 Bahraini firms listed with a total market capitalisation of U.S.$18.5 billion as at 31 December 2013). In addition, currently five overseas firms are also listed on the exchange as a result of cross-listing arrangements with other exchanges.

Other Services

Tourism

Saudi nationals are the principal tourists to Bahrain with the causeway linking the two countries facilitating this movement. In 2010 and in the first half of 2011, the most recent periods for which data is available, 9,528,214 and 3,021,630 tourists, respectively, arrived in Bahrain via the causeway. Bahrain aims to continue being a destination of choice, particularly for Saudi tourists travelling to Bahrain for retail shopping and weekend breaks. It is anticipated that such tourism from Saudi Arabia will continue to increase, as will the growth in the number of foreign visitors to Bahrain for business travel, despite considerable competition from Dubai for tourists from the west. In order to accommodate tourists and foreign visitors to Bahrain, Bahrain had approximately 105 hotels in 2013, of which 13 were considered five star.

Bahrain and Qatar have agreed to build a 40 kilometre toll-operated causeway called the Qatar Bahrain Friendship Bridge (linking both countries). It is anticipated that completion of the project will result in a growth in the number of tourists and business travellers to Bahrain.

Foreign Trade

Bahrain has signed several significant international trade agreements, including agreements with Malaysia and Thailand. Bahrain also concluded a Free Trade Agreement with the United States in 2004, a first for a GCC country. As a block, the GCC is working on trade agreements with the EU and other countries such as

Japan, India and China. The GCC also signed a free trade agreement with Singapore which came into force in September 2013. Bahrain is also working to boost trade with Japan, one of Bahrain's top trade partners.

Bahrain is one of the members of the GCC common market (as described in more detail in "*Economy of Bahrain — Common Market"*).

The GCC has a uniform 5 per cent. import tax rate (with some exemptions and a special tax for tobacco of 100 per cent. and alcohol of 100 per cent.). Bahrain exports to the GCC are exempt from tax and are therefore more competitive than from other non-GCC countries (with no free trade agreements).

Bahrain trades heavily with the GCC, in particular with Saudi Arabia. Of total Bahraini non-oil goods exports in 2008, 52 per cent. were to the GCC and of total imports of non-oil goods, 15 per cent. were from the GCC. Bahrain also imports about BD2.8 billion of oil (in 2011 prices) annually from Saudi Arabia.

The GCC tax agreement has also been particularly appealing for those foreign investors whose main market is the GCC but who prefer Bahrain's business and social environment. These companies make employment contributions to Bahrain in addition to their export contributions.

Telecommunications

Bahrain also has a high quality modern telecommunications system, currently operated by Batelco, Zain and STC through its "Viva" operations. Batelco, a listed entity on the Bahrain Bourse, is 77.23 per cent. owned by the Government through Mumtalakat and the Social Insurance Organisation ("**SIO**") (formerly the General Organisation for Social Insurance and the Pension Fund Commission (which merged in February 2008)).

Mumtalakat and SIO directly own shares in Batelco of 36.67 per cent. and 20.56 per cent. respectively. In addition, Mumtalakat and SIO own 20.0 per cent of shares in Batelco through Amber Holding Company ("**Amber**"). Amber itself is a 100 per cent. subsidiary of Hawar Holding Company, which is owned by Mumtalakat (33.33 per cent) and SIO (66.67 per cent). Batelco shares are traded on the Bahrain Bourse. Zain began operations in December 2003 following the implementation of the law passed on 5 November 2002 permitting competition in the telecommunications sector.

Viva became the third mobile operator in Bahrain and commenced commercial operations in February 2010. Viva will provide competition for the incumbent mobile operators, Batelco and Zain. STC Group is one of the leading telecommunications groups in the MENA region with more than 160 million subscribers to its service worldwide through nine countries.

The Telecommunications Regulatory Authority ("**TRA**") was established by Legislative Decree No. (48) of 2002 promulgating the Telecommunications Law. The TRA is an independent body and its duties and powers include protecting the interests of subscribers and users of telecommunication services, and promoting effective and fair competition among established and new licensed operators. The TRA's vision is to develop Bahrain as the region's most modern communications hub and to facilitate the development of the market. Its mission is to protect the interests of subscribers and users of telecommunications services and maintain effective and fair competition between established and new entrants to the telecommunications market of Bahrain. Two "National Communications" plans, each one lasting three years, set out strategies for the future of the telecommunications sector in Bahrain. The first National Communication plan, signed in 2003, set out the liberalisation objectives, the short term role of the TRA, licensing strategies aimed at a *de facto* monopoly, the establishment of the Bahrain Internet Exchange ("**BIX**"), the Government's role as shareholder and the corporate governance of Batelco. The second National Communication plan, signed in 2008, set out the overall objectives of Government policy for the telecommunications sector, an initiative to help provide better service, continuing to develop the potential of competition, creating the right climate for investors, enhancing the use of the internet and broadband amongst all users and developing the regulatory environment to take account of convergence.

Common Market

On 1 January 2008, the six GCC countries declared the creation of a common market in the GCC region. Bahrain, Saudi Arabia, Qatar and Kuwait approved a monetary union pact in December 2009. As a consequence of the monetary union pact, a GCC Monetary Council (the "**GCC MC**") was established in Riyadh, holding its inaugural meeting in March 2010. At this meeting, H.E. Mohammed Al-Jasser (former Chairman of the Saudi Arabian Monetary Agency) was elected as chairman for a term of one year with H.E. Rasheed Al Maraj (governor of CBB) as vice chairman. In 2014, H.E. Sheikh Abdullah S. Al-Thani, governor of Qatar Central Bank, was elected chairman, and H.E. Dr Mohammad Y. Al-Hashel, governor of the Central Bank of Kuwait, was elected vice chairman. The GCC MC's primary strategic aim is to provide the foundation, and act as a precursor institution, for the establishment of a GCC Central Bank (the "**GCC CB**"). The GCC MC set itself the primary task of consulting with GCC member countries in order to draft the legal and organisational framework that will underpin the GCC CB. The board of directors of the GCC MC met six times a year in each of 2010, 2011, 2012 and 2013, and has held four meetings to date in 2014. Preparation for the development and implementation of a proposed GCC single currency will be the responsibility of the GCC CB. No timeline for the implementation of a GCC single currency has yet been set.

Inflation

The CBB maintains the Bahraini dinar's peg against the U.S. Dollar, which has provided price stability over the years, and as a result managed to keep inflation relatively stable. As Bahrain has no significant domestic production, its inflation (as measured by the Consumer Price Index) has been mainly affected by the cost of imports. Until 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. In 2012 and 2013, there was a reversal of the deflationary trend seen over the preceding three years and consumer prices grew to 2.8 per cent. and 3.3 per cent., respectively.

The table below shows the CPI and inflation for each of the four years listed below:

	2010	**2011**	**2012**	**2013**
Consumer price index (CPI) (2006=100)	112.1	111.6	114.7	118.5
Inflation (per cent.)	2.0	(0.4)	2.8	3.3

Source: Central Informatics Organisation

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 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 decrease in the rate of inflation in 2011 was due to a decrease in consumer spending. In 2012, the CPI increased by 2.8 per cent. to 114.7 due to renewed consumer and investor confidence. In 2013, the CPI increased by 3.3 per cent. to 118.5 due to increases in the prices of "housing, water, electricity gas, and other fuels" by 8.7 per cent. and "furnishings, household equipment, and routine household maintenance" by 7.1 per cent.

The CPI for Bahrain includes 11 broad categories of consumer goods that are representative of consumption patterns in the economy. These components are: "food and non-alcoholic beverages", "alcoholic beverages, tobacco", "clothing and footwear", "housing, water, electricity, gas, and other fuels", "furnishing, household equipment and routine household maintenance", "heath care services", "transport, communication", "recreation and culture", "education", "restaurants" and "miscellaneous goods and services".

Inflation data is collected and calculated on a monthly basis by the Central Informatics Organisation.

The table below shows the consumer price index during each month in the period 1 January 2014 to 30 June 2014 and inflation when comparing the CPI in each of those months to the corresponding months in the previous year:

	January 2014	**February 2014**	**March 2014**	**April 2014**	**May 2014**	**June 2014**
Consumer price index (CPI)						
(2006=100)	120.2	120.9	120.9	120.1	120.1	121.7
Year on year charge (per cent.)	3.3	3.7	2.3	1.9	1.9	3.1

Source: Central Informatics Organisation

The main contribution to the year-on-year CPI fluctuation for the 12 month period ended on 30 June 2014 compared to the 12 month period ended on 30 June 2013 was an increase in the prices of "housing, water, electricity, gas, and other fuels" by 5.6 per cent., "miscellaneous goods and services" by 5.2 per cent., and "education" by 5 per cent.

Wages

The Labour Market Regulatory Authority (the "**LMRA**") has developed a database of wage information (relating to Bahraini nationals only) based on International Labour Organisation ("**ILO**") best practices and standards. There is no official minimum wage level in Bahrain although the concept has been debated in the past by the LMRA. The Ministry of Labour recommends that a Bahraini employee's minimum wage should be no less than BD250 per month.

The table below sets out median monthly wage rates for Bahraini nationals working in the public and private sector for the periods indicated:

	2012	**2013**	**Q1 2014**
		(U.S.$)	
Public sector	1,758.0	1,720.7	1,752.7
Private sector	933.5	970.7	997.3
		(percentage change)(1)	
Public sector	(0.2)	(2.1)	(2.7)
Private sector	3.5	4.0	2.5

Note:

(1) Percentage change reflects year-on-year comparison of wage levels.

Source: LMRA, Bahrain

In 2012 and 2013, there was a decrease of 0.2 per cent. and 2.1 per cent., respectively, in the median monthly wages in the public sector, whereas there was an increase of 3.5 per cent. and 4.0 per cent., respectively, in the median wages in the private sector.

Employment

Bahrain has a high proportion of non-Bahrainis amongst its working population (76.7 per cent. in 2010, 77.1 per cent. in 2011, 76.9 per cent. in 2012, 77.1 per cent. in 2013, and 76.8 per cent. in the first quarter of 2014). The Government has sought to implement a policy in recent years of increasing the number of Bahraini nationals in employment, principally through specialised training. A number of different training programmes are offered in the financial services, hotel trade and technical fields and, more recently, in the retail trade area. The employment of Bahraini nationals who have completed these types of training courses is encouraged by the Government. The Government has also implemented a policy of restricting certain sectors of employment to Bahraini nationals exclusively. These sectors include truck drivers, machinery operators and unskilled workers in Government ministries.

The unemployment rate among Bahraini nationals which, according to the 2001 census was 12.1 per cent., has declined rapidly due to focused Government reforms. In 2006, the Government launched an ambitious labour market reform programme based on four pillars: the National Employment Project ("**NEP**"), the LMRA, the Labour Fund and the Unemployment Insurance Programme. The reform programme seeks to stimulate investment and technological change, as well as education and training of the Bahraini labour force. Since the launch of the programme, unemployment has been reduced from 15.0 per cent. in 2005 to just under 4.3 per cent. in 2013.

In accordance with Vision 2030, the Government aims to ensure that all residents and citizens are treated equally under the law and in accordance with human rights including ensuring equal access to services and support for adequate job training. In addition, the Government aims to create a level playing field in the job market for Bahrainis through immigration reform and the revision of labour laws. In implementing this vision, the Government, through the Ministry of Labour, issued a decision in April 2009 to abolish the sponsorship system for foreign employees which restricted employees from transferring into new jobs without their employer's approval. The decision, which came into effect in August 2009, allows foreign employees to transfer from one job to another independent of their sponsors, and lifts all restrictions that were previously applicable to employees under the sponsorship programme.

The Government issued a new labour law pursuant to legislative decree No. (36) of 2012 dated 12 August 2012 (the "**New Labour Law**"). The New Labour Law is meant to complement the provisions of Labour Law No. 23 of 1976 and is aimed at increasing worker protections in a manner consistent with ILO guidance. In case of a contradiction between the provisions of the New Labour Law and Labour Law No. 23 of 1976, the provisions of the New Labour Law prevail.

Among other amendments, the New Labour Law provides that all domestic workers are required to be employed under contractual terms in line with all private sector employees and has increased annual, maternity and sick leave entitlements. Employees will now also be entitled to compensation for any delays in payment. Fines will be imposed on employers who fail to comply with the provisions of the New Labour Law.

Foreign Direct Investment and Privatisation

Bahrain benefits from a number of characteristics which enhance its reputation as a favourable business environment. The country generally has had a long and stable economic and political history. In 2013, 75.4 per cent. of its banking sector employees were Bahraini nationals (demonstrating a lack of reliance on the need to attract foreign expatriate workers from abroad). The price of conducting business in Bahrain is relatively low when compared to other countries in the MENA region. There are also significant and established wholesale banking, insurance and reinsurance and fund management industries (including industries ancillary to these, such as audit firms) and an efficient and robust legal and regulatory framework which has set in place a single legal framework maintained by the CBB which acts in a dual role as Bahrain's sole banking regulator and Bahrain's Central Bank.

The table below sets out Bahrain's foreign direct investment for the periods indicated:

	2010	**2011(1)**	**2012(1)**	**2013(1)**
		(U.S.$ millions)		
Direct Investment (net)	(7,271.3)	(7,158.5)	(7,127.4)	(7,063.8)
Abroad	7,882.7	8,776.3	9,698.7	10,751.1
In Bahrain	15,154.0	15,934.8	16,826.1	17,814.9

Note:

(1) Provisional Data

Source: Central Informatics Organisation

Bahrain's net international investment position, comprised of Bahrain's outstanding international assets and liabilities, amounted to U.S.$25.2 billion at the end of 2013, compared to U.S.$20.4 billion and U.S.$22.6 billion at the end of 2011 and 2012, respectively.

Foreign Direct Investment

The 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 foreign direct investment. These are information technology; business services; education; tourism; healthcare; logistics; high tech manufacturing; and financial services.

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 U.S.$79.8 million. Since then, privatisations have accelerated, and during 2006 and 2007 Hidd Power plant was privatised, generating U.S.$738 million. In 2007, the Seef Mall privatisation generated U.S.$72 million for the Government. Private power capacity has increased significantly following the establishment of the private Al Ezzel 950 plus megawatt power and 90 metre gallons per day ("**gpd**") water plant which began commercial production in April 2006.

As set out in 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. Local Bahraini employees have tended to be provided with employment opportunities within the public sector; however, in light of the gradual decline of oil reserves, the Government's strategy is, by 2030, to move away from public sector employment and provide opportunities through the private sector.

Accordingly, 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.

In 2008, a power water production agreement was signed for a 1200 megawatt electricity generation and 100 million gpd water production facility. The first stage of the facility, capable of producing 400 MW of electricity, was commissioned in June 2010. Commercial production at the facility commenced in the first quarter of 2012. Currently, 48 million gallons of water are produced at this plant, and the second stage of the power plant has also been commissioned. As a result, 90 per cent. of electricity and water are currently produced by the private sector. As the demand for electricity and water continues to grow, it is intended that new private water and electricity plants will be developed. The Government is also encouraging private sector investment in various sectors such as utilities, education and healthcare and has privatised its public transport system.

In November 2010, Mumtalakat conducted a global offering of a portion of its ordinary shares in Alba. The ordinary shares are listed on the Bahrain Bourse and global depositary receipts representing such shares are listed on the London Stock Exchange.

The King Hamad University Hospital is managed by the Bahrain Defence Force (unlike other Government hospitals which are managed by the Government) and among its functional roles, the 312-bed hospital located in Muharraq will be used as a teaching hospital for the adjacent, privately run medical university. The hospital opened in late 2011. Similarly, an agreement to build a fully private waste to energy plant with a capacity of 390,000 tons of waste was signed on 24 June 2010. This plant is to be located in the Askar area and is expected to be operational by the end of 2014. This plant is expected to process 390,000 tons of solid waste through an incinerator and to produce 25 MW of power.

PUBLIC FINANCE

The 2013/2014 Government budget has been approved. The relevant Decree (Decree No (17) for 2013), which authorised the total state revenue and expenditure for the fiscal years 2013 and 2014, was issued on 3 July 2013. In the 2013/2014 budget, total revenue is budgeted at U.S.$7,422 million for 2013 and U.S.$7,429 million for 2014, total expenditure is budgeted at U.S.$9,639 million for 2013 and U.S.$9,861 million for 2014 and the budget deficit is budgeted at U.S.$2,216 million for 2013 and U.S.$2,432 million for 2014.

The 2015/2016 budget is under preparation and focuses on many of the same themes as the 2013/2014 budget, such as the stimulation of economic growth through assistance from the GCC Development Fund, the control over the level of Government expenditure, the stimulation of growth in key economic sectors, the prioritisation of Government projects relating to housing and investment, the development of a policy for the management of Government subsidies, a focus on improving the Government's administrative and financial discipline, the creation of job opportunities and maintenance of a low level of unemployment, focus on vocational training, addressing educational needs to meet market demand and the maximisation of optimal use of natural and financial resources.

Government budget

Bahrain prepares budgets on a biennial basis, taking into account the key priority areas of Vision 2030 during each budgeting process. For more information on this economic strategy, see "*Overview of Bahrain — Vision 2030*". The most recently published budget related to the financial year 2011/2012 which was approved by the National Assembly and published on 1 June 2011. The budget is built around a two-year cycle, but separate budgets are prepared for each calendar year. The financial year commences on 1 January and ends on 31 December.

Bahrain's budget is not consolidated. Local authorities are funded by transfers from the Government budget to cover any shortfall in their own budgets. Local authorities are not permitted to borrow funds in their own name. The social security system is excluded from the scope of the budget, though it is consolidated in the Government Finance Statistics ("**GFS**") published by the International Monetary Fund.

Bahrain's budget is presented on a cash basis.

The following table summarises the execution of the Government budget for the periods indicated:

	2010	**2011**	**2012**	**2013**
	Actual	**Actual**	**Actual**	**Actual**
		(U.S.$ millions)		
Revenues	5,786	7,504	8,070	7,829
Oil and gas	4,926	6,593	7,036	6,915
Taxation and fees	476	448.6	579	595
Other non-oil	384	462.4	455	318
Expenditure	7,009	7,588	8,673	8,920
Recurrent expenditure	4,968	6,415	6,712	7,652
Projects expenditure Armed & development	2,041	1,172	1,960	1,268
Surplus/(deficit)	(1,223)	(83)	(602)	(1,091)
Transfer to reserve for sovereign and strategic projects & roll over	834	797	736	720

Source: Ministry of Finance

In the 2013/2014 budget, the budget deficit was budgeted at U.S.$2,216 million for 2013 (compared to the actual deficit of U.S.$1,091 million) and U.S.$2,432 million for 2014, recurrent expenditure was budgeted at U.S.$8,119 million in 2013 (compared to the actual recurrent expenditure of U.S.$7,652 million) and U.S.$8,396 million in 2014, and project expenditure was budgeted at U.S.$1,520 million in 2013 (compared to the actual project expenditure of U.S.$1,268 million) and U.S.$1,465 million in 2014. The 2013/2014 budget was based on an average oil price of U.S.$90 per barrel, compared to the actual average oil price of U.S.$103 per barrel in 2013.

In March 2011, the Foreign Ministers of the GCC announced the establishment of the GCC Development Fund, which will provide grants that will be distributed evenly between Bahrain and Oman, with each country receiving U.S.$10 billion to be distributed over a ten-year period. The GCC Development Fund proceeds are expected to be utilised towards the achievement of Vision 2030's developmental goals. For more information on this economic strategy, see "*Overview of Bahrain — Vision 2030*".

In June 2011, the GCC discussed the options and mechanism for managing the GCC Development Fund and the proposed utilisation by the donee states. In response, Bahrain has identified specific priority projects to be financed through the GCC Development Fund, in the following priority sectors:

- housing;
- infrastructure;
- electricity and water;
- education;
- health;
- social development; and
- youth programmes.

The Government has entered into individual project agreements with the Saudi Fund for the contribution of funds to projects as set out below:

Type of Project	**Amount** *(U.S.$ millions)*
Housing projects	200
Education projects	85
Roads & Sewerage projects	136
Water Transmission project	27
Total	448

The Government has entered into a framework agreement and individual project agreements with the Kuwait Fund for the contribution of funds to projects as set out below:

Type of Project	**Amount** *(U.S.$ millions)*
Housing projects	890
Electricity projects	940
Roads projects	274
Social Development projects	23
Total	2,127

The Government has signed a memorandum of understanding with the Abu Dhabi Fund regarding the use of U.S.$2,500 million of available funds. The individual project agreements will be signed in due course. Currently, discussions on projects of value up to U.S.$1,500 million are being finalised.

The GCC Development Fund will be in addition to the project budget allocations, shown above, that are recommended for 2014.

Revenue

Total revenues for the year ended 31 December 2010 increased to U.S.$5,786 million, compared to U.S.$4,543 million for the year ended 31 December 2009. Total revenues for the year ended 31 December 2011 increased to U.S.$7,505 million, compared to U.S.$5,786 million for the year ended 31 December 2010. Total revenues for the year ended 31 December 2012 increased to U.S.$8,070 million, compared to U.S.$7,505 million for the year ended 31 December 2011. Total revenues for the year ended 31 December 2013 decreased to U.S.$7,829 million, compared to U.S.$8,070 million for the year ended 31 December 2012. In the 2013/2014 budget, the Government budgeted for total revenues of U.S.$7,423 million in 2013.

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

	2010	2011	2012	2013	2013
	Actual	**Actual**	**Actual**	**Actual**	**Budgeted**(1)
			(U.S.$ millions)		
Oil and gas	4,926	6,593	7,036	6,915	6,401
Taxation and fees	476	448	579.2	595	527
Government goods and services	138	107	120	140	138
Government investment and properties	52	41	40	47	198
Grants	76	266	150	0	100
Fines, penalties and misc	117	48	143	131	59
Sale of capital assets	1	1	2	1	1
Total	5,786	7,505	8,070	7,829	7,423

Note:

(1) As provided in the Government's adjusted budget for fiscal years 2013/2014.

Source: Ministry of Finance

The principal source of revenue for the last five years has been, and is expected to be in 2014, the oil and gas industry, which is highly dependent on world oil prices. In 2010, 2011, 2012 and 2013, revenues from the oil industry represented 85 per cent., 87.8 per cent., 87.2 per cent. and 88.3 per cent., respectively, of total revenue.

In 2010, 2011, 2012 and 2013, taxation and fees revenue represented 8.2 per cent., 5.9 per cent., 7.2 per cent. and 7.6 per cent., respectively, of total revenue.

Other significant sources of revenue include visa fees, residence permits, car licences, company registration fees and fees for employment permits.

Revenue from Government goods and services (the other significant non-oil contributor to total revenue) principally comprise port charges, airport taxes and airspace use fees.

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 2014 were its 100 per cent. shareholding in each of its holding companies, Mumtalakat and nogaholding.

Recurrent Expenditure

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

	2010 Actual	2011 Actual	2012 Actual	2013 Actual
		(U.S.$ millions)		
Manpower	2,308.7	2,673	3,202	3,459
Services	347.2	453	489	561
Consumables	211.9	249	293	349
Assets	55.4	81	82	82
Maintenance	118.1	157	162	177
Transfers	1,407.9	1,688	1,547	1,848
Grants, subsidies and payment	518.8	1,115	938	1,177
Total	4,967.9	6,415	6,712	7,652

Source: Ministry of Finance

Recurrent expenditure on manpower (principally comprising wages and pension contributions) is the most significant part of Government recurrent expenditure. In 2010, 2011, 2012 and 2013, manpower expenditure comprised 46.5 per cent., 41.7 per cent., 47.7 per cent. and 45.2 per cent., respectively, of total recurrent expenditure. The principal employers within the Government sector in Bahrain are the Ministries of Defence, Interior, Education and Health, which between them accounted for 80.4 per cent. in 2010, 80.4 per cent. in 2011, 80.2 per cent. in 2012 and 80 per cent. in 2013, of total employers.

Projects Expenditure

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

	2010 Actual	2011 Actual	2012 Actual	2013 Actual
		(U.S.$ millions)		
Infrastructure	597.6	683.2	905.6	669.4
Social services	97.8	117.6	229.3	136.7
Economic services	21.8	12.8	23.7	9.4
Administrative services	65.4	114.9	138.9	87.2
Others	1,258	243.8	662	365.1
Total	2,040.9	1,172.3	1,960.1	1,267.8

Source: Ministry of Finance

The projects expenditure is financed through the general budget. While the budgeted expenditure for 2013 was U.S.$1,520 million, the actual projects expenditure for that period was U.S.$1,267.8 million. A similar trend is expected for projects expenditure budgeted for 2014.

The principal area of projects expenditure is infrastructure, which accounted for 29.2 per cent. in 2010, 58.2 per cent. in 2011, 46.2 per cent. in 2012, and 52.8 per cent. in 2013, and is forecasted to be 40.4 per cent. in 2014.

RELATIONSHIP WITH THE GOVERNMENT

The Government 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 26 June 2006 to hold and manage the Government's stakes in non-oil and gas commercial assets. Effective 29 June 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 Trustee*" 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 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, King Hamad bin Isa Al Khalifa, 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. 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 Transportation. The Minister of Transportation may then request that the management of Mumtalakat provide responses and supporting material.

Although created by royal decree and 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.

DESCRIPTION OF MUMTALAKAT

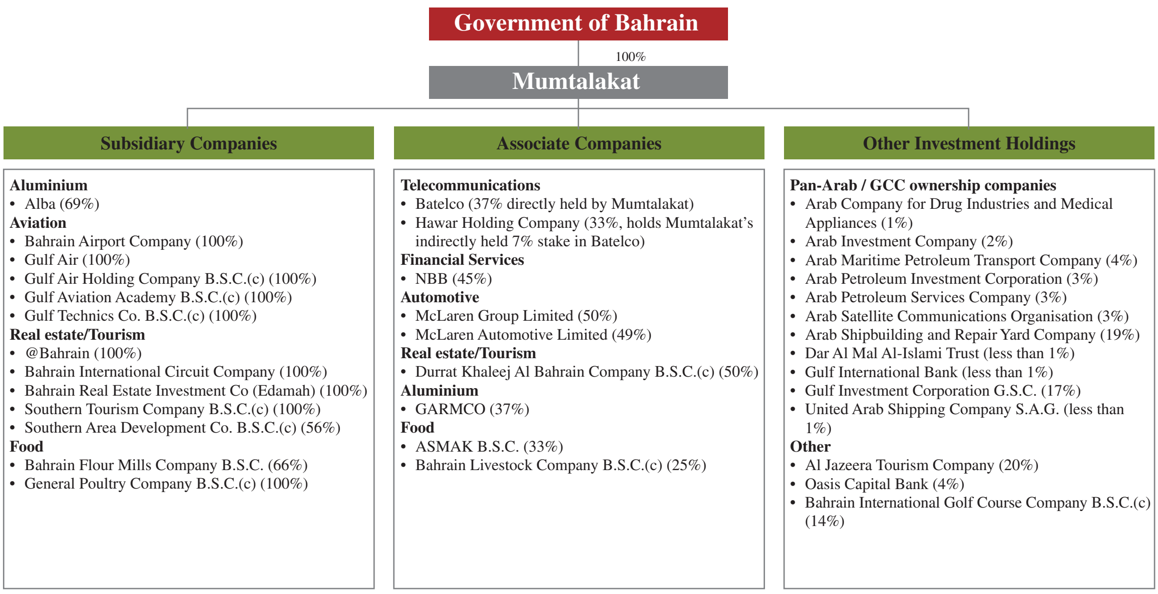
Introduction

Mumtalakat, a closed joint stock company incorporated and existing pursuant to the Bahrain Commercial Companies Law 2001 with Commercial Registration Number 61579, was established by the Royal Decree No. 64/2006 dated 26 June 2006 as an independent holding company for the Government's stakes in key commercial assets. Mumtalakat owns stakes in strategic commercial 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 Edamah, 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 strategic commercial assets. Mumtalakat is wholly-owned by the Government.

As of 30 June 2014, Mumtalakat held minority and majority stakes in over 35 commercial enterprises and held investments in third party managed funds. 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 and impairment losses. The value of other investment companies is based on their fair market value as of the reporting period.

As at 30 June 2014, the value of Mumtalakat's total direct equity investments, as determined above, was BD2,628.8 million (U.S.$6,991.5 million). As at 30 June 2014, Mumtalakat's portfolio included BD95.4 million (U.S.$253.7 million) of investments deployed in third party managed funds. Mumtalakat's total portfolio value as at 30 June 2014 was BD2,724.2 million (U.S.$7,245.2 million).

The chart below highlights Mumtalakat's portfolio companies and ownership as at 30 June 2014.



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 was established more than 55 years ago as Bahrain's first locally owned bank and is the country's leading provider of retail and commercial banking services with the largest network of branches and ATMs in Bahrain;
- Batelco's origins as the national telecommunications provider has 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 the first to bring Grand Prix racing to the Middle East and continues to enjoy its position in the Formula 1 calendar, having successfully hosted the 2014 Grand Prix race in Bahrain on 5 April 2014; 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 programme to ensure that the broader population has access to basic needs.

Mumtalakat's vision is to grow the wealth of Bahrain by driving value creation in the strategic commercial assets of Bahrain and managing, over time, a diversified portfolio aimed at securing sustainable returns and wealth creation for future generations of Bahrain.

Mumtalakat's registered address is Arcapita Building, 4th Floor, Seaside, Bahrain Bay, P.O. Box 820, Manama, Bahrain and its telephone number is +973-17561111.

SUMMARY FINANCIAL DATA

Summary financial data has been provided for the reader's convenience. Please refer to the index to this Base Prospectus for the full consolidated financial statements of Mumtalakat for the years ended 31 December 2011, 2012 and 2013 and the associated notes and the half yearly financial statements of Mumtalakat for the period ended 30 June 2014 and the associated notes. Mumtalakat's financial statements are prepared in Bahraini Dinar and all the conversions from Bahraini Dinar to U.S. Dollars are done at the rate of BD0.376 = U.S.$1.00.

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

Selected consolidated income statement data

	Year ended (audited)						Six month period ended (unaudited)			
	31 December 2011		31 December 2012		31 December 2013		30 June 2013		30 June 2014	
	BD	U.S.$	BD	U.S.$	BD	U.S.$	BD	U.S.$	BD	U.S.$
					(in millions)					
Consolidated operating income (loss)	(5.9)	(15.7)	23.2	61.7	70.7	188.0	26.2	69.7	34.2	91.0
Consolidated net income (loss)	(270.7)	(719.9)	(181.7)	(483.2)	82.7	219.9	49.1	130.6	44.0	117.0

The Group recorded a consolidated operating loss for the year ended 31 December 2011 of BD5.9 million (U.S.$15.7 million) primarily due to operating losses of Gulf Air. Consolidated net loss for the year ended 31 December 2011 was BD270.7 million (U.S.$719.9 million) and was mainly due to impairment losses of BD316.5 million (U.S.$841.8 million). The impairment losses of BD316.5 million (U.S.$841.8 million) comprise of BD209.7 million (U.S.$557.7 million) related to investment properties, BD94.0 million (U.S.$250.0 million) related to investment in associates and BD12.8 million (U.S.$34.0 million) related to non-trading investments.

The Group recorded consolidated operating income of BD23.2 million (U.S.$61.7 million) for the year ended 31 December 2012 compared to a consolidated operating loss of BD5.9 million (U.S.$15.7million) for the year ended 31 December, 2011. The increase in operating income was mainly due to receipt of BD185.0 million (U.S.$492.0 million) Government assistance for Gulf Air that was partially offset by the impact of the reduction in the London Metal Exchange (the "**LME**") price of aluminium.

The decrease of 32.9 per cent. in consolidated net loss to BD181.7 million (U.S.$483.2 million) for the year ended 31 December 2012 compared to BD270.7 million (U.S.$719.9 million) for the year ended 31 December 2011 was primarily due to lower impairment losses, Government assistance for Gulf Air, that was offset by a reduction in operating income on account of the lower LME price of aluminium. The Group recorded impairment losses of BD226.9 million (U.S.$603.5 million) for the year ended 31 December 2012 compared to BD316.5 million (US$841.8 million) for the year ended 31 December 2011. The 2012 impairment losses comprise of BD206.7 million (U.S.$549.7 million) relating to goodwill, BD19.0 million (U.S.$50.5 million) relating to investment in associates and BD1.2 million (US$3.2 million) relating to non-trading investments.

The increase of 204.7 per cent. in consolidated operating income to BD70.7 million (U.S.$188.0 million) for the year ended 31 December 2013 compared to BD23.2 million (U.S.$61.7 million) for the year ended 31 December 2012 was primarily due to a significant reduction in operating losses at Gulf Air as a result of the restructuring initiatives (See "*Portfolio Companies — Gulf Air*").

The increase in consolidated net income to BD82.7 million (U.S.$219.9 million) for the year ended 31 December 2013 compared to a net loss of BD181.7 million (U.S.$483.2 million) for the year ended 31 December 2012 was primarily due to lower impairment losses and improved operating results at Gulf Air. The Group recorded impairment losses of BD20.9 million (U.S.$55.6 million) relating to property, plant and equipment in 2013 as compared to impairment losses of BD226.9 million (U.S.$603.5 million) in 2012.

The increase of 30.5 per cent. in consolidated operating income to BD34.2 million (U.S.$91.0 million) for the six month period ended 30 June 2014 compared to BD26.2 million (U.S.$69.7 million) for the six month period ended 30 June 2013 was primarily due to improved operating results of Gulf Air that were partially offset by the lower LME price of aluminium.

The decrease of 10.4 per cent.in consolidated net income to BD44.0 million (U.S.$117.0 million) for the six month period ended 30 June 2014 compared to BD49.1 million (U.S.$130.6 million) for the six month period ended 30 June 2013 was primarily due to lower LME prices of aluminium and lower mark-to-market gain on derivatives that was partially offset by improved operating results of Gulf Air.

Selected consolidated balance sheet data

	As of							
	31 December 2011 (audited)		31 December 2012 (audited)		31 December 2013 (audited)		30 June 2014 (unaudited)	
	BD	U.S.$	BD	U.S.$	BD	U.S.$	BD	U.S.$
	(in millions)							
Consolidated total assets..........	4,219.2	11,221.3	4,095.6	10,892.6	4,048.3	10,766.8	4,045.9	10,760.4
Consolidated total liabilities.....	1,653.9	4,398.7	1,693.9	4,505.1	1,492.7	3,969.9	1,424.0	3,787.2
Consolidated total equity	2,565.3	6,822.6	2,401.6	6,387.2	2,555.5	6,796.5	2,621.9	6,973.1

Consolidated total assets decreased by 2.9 per cent. from 31 December 2011 to 31 December 2012, primarily due to impairment losses on goodwill.

Consolidated total assets marginally decreased by 1.2 per cent. from 31 December 2012 to 31 December 2013, primarily due to reductions in cash and bank balances and property, plant and equipment on account of depreciation.

Consolidated total assets remain relatively unchanged as at 30 June 2014 compared to 31 December 2013.

Consolidated total liabilities increased by 2.4 per cent. from 31 December 2011 to 31 December 2012, primarily due to increases in accounts payable, accruals and other liabilities.

Consolidated total liabilities decreased by 11.9 per cent. from 31 December 2012 to 31 December 2013, primarily due to repayment of certain borrowings.

Consolidated total liabilities decreased by 4.6 per cent. from 31 December 2013 to 30 June 2014, primarily due to repayment of certain borrowings that was partially offset by an increase in trade accounts payable, accruals and other liabilities.

Changes in consolidated total equity over the above periods mainly represent consolidated net income (loss), other comprehensive income (loss) and net capital contribution from the shareholder.

Borrowings on a consolidated basis were BD1,014.2 million (U.S.$2,697.3 million), BD930.8 million (U.S.$2,475.5 million), BD829.4 million (U.S.$2,205.9 million) and BD744.5 million (U.S.$1,980.1 million) as of 31 December 2011, 2012, 2013 and 30 June 2014, respectively.

Borrowings at the parent level were BD468.4 million (U.S.$1,245.7 million), BD429.8 million (U.S.$1,143.1 million), BD426.6 million (U.S.$1,134.6 million) and BD396.3 million (U.S.$1,054.0 million) as of 31 December 2011, 2012, 2013 and 30 June 2014, respectively.

Of Mumtalakat's total parent level borrowings of BD426.6 million (U.S.$1,134.6 million), as of 31 December 2013, BD28.2 million (U.S.$75.0 million) is due for repayment in 2014, BD281.5 million (U.S.$748.7 million) in 2015, BD65.7 million (U.S.$174.7 million) in 2016, BD34.1 million (U.S.$90.7 million) in 2017 and BD17.1 million (U.S.$45.5 million) in 2018.

Of Mumtalakat's total parent level borrowings of BD396.3 million (U.S.$1,054.0 million), as of 30 June 2014, BD28.2 million (U.S.$75.0 million) is due for repayment in 2014, BD315.5 million (U.S.$839.1 million) in 2015, BD35.0 million (U.S.$93.1 million) in 2017 and BD17.6 million (U.S.$46.8 million) in 2018.

Interest expenses at the parent level were BD21.2 million (U.S.$56.4 million), BD20.2 million (U.S.$53.7 million) and BD20.1 million (U.S.$53.5 million) for the years ended 31 December 2011, 2012 and 2013 respectively. Interest expenses at the parent level for the six month period ended 30 June 2014 were BD9.8 million (U.S.$26.1 million).

Mumtalakat's borrowings as at 31 December 2013 and 30 June 2014 were denominated in U.S. dollars (100 per cent). The principal and interest on any sukuk issuances under the RM 3,000,000,000 (or its equivalent in foreign currency) programme for the issuance of Islamic securities were converted to U.S. Dollars through currency swaps. Therefore, the net exposure is in U.S. Dollars.

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

	Year ended (audited)						**Six month period ended (unaudited)**			
	31 December 2011		**31 December 2012**		**31 December 2013**		**30 June 2013**		**30 June 2014**	
	BD	**U.S.$**	**BD**	**U.S.$**	**BD**	**U.S.$**	**BD**	**U.S.$**	**BD**	**U.S.$**
	(in millions)									
Alba	69.9	185.9	53.2	141.5	27.6	73.4	13.8	36.7	21.7	57.7
Batelco	23.8	63.3	18.5	49.2	11.1	29.5	5.3	14.1	5.8	15.4
NBB	11.4	30.3	12.6	33.5	10.5	27.9	10.5	27.9	16.1	42.8

Total dividends received by Mumtalakat, at the parent level, from its portfolio companies were BD107.4 million (U.S.$285.6 million), BD86.1 million (U.S.$229.0 million) and BD50.2 million (U.S.$133.5 million) for the years ended 31 December, 2011, 2012 and 2013 respectively. Total dividends received by Mumtalakat, at the parent level, during the six month period ended 30 June 2014 were BD44.4 million (U.S.$118.1 million) compared to BD30.4 million (U.S.$80.9 million) received during the same period of 2013.

STRATEGY

Mumtalakat's strategy is designed to fulfil its long term objective of enhancing the value of its portfolio, which represents a source of future wealth for the people of Bahrain. Mumtalakat will seek to increase the value of its investment portfolio as a whole through the following strategies:

- ***Identification and implementation of value-enhancing initiatives at its portfolio companies.*** A core element of Mumtalakat's strategy is to enhance value at its existing portfolio companies. Mumtalakat is an active shareholder and exerts its influence through its nominee directors appointed to the boards of its portfolio companies. Through this governance structure, Mumtalakat has supported significant value-enhancing initiatives across its portfolio of investments and expects to continue supporting such initiatives. Implementation of past Mumtalakat supported initiatives has led to operational restructurings, appointments of key management personnel, and refinements of strategy and growth plans at select portfolio companies. To ensure Mumtalakat's nominee directors are properly equipped to execute their duties at the boards of companies, Mumtalakat undertakes proactive steps to train and educate its representatives.

- ***Further investments for growth of the portfolio.*** Mumtalakat seeks direct investments in companies with established track records of growth and profitability that demonstrate potential for continued expansion. Mumtalakat is primarily focused on investing in companies that are market leaders with strong management teams and effective governance systems. Mumtalakat's typical approach to such investments is to establish a significant minority interest in the equity of the company and to secure board representation and appropriate shareholder rights. Such investments are primarily driven on the basis of expected financial returns.

  Within Bahrain, Mumtalakat also seeks opportunities to develop companies and projects that take advantage of Bahrain's appeal and strong positioning as a regional business hub and a popular tourism destination. In such opportunities, Mumtalakat's involvement is subject to critical analysis of commercial feasibility and Mumtalakat's requirement to generate appropriate financial returns on its investment.

- ***Carefully planned portfolio adjustments, which may include partial or complete divesting of select assets.*** Mumtalakat continuously evaluates opportunities for partial or complete exits of direct investments within its portfolio. When considering a partial exit, Mumtalakat aims to maintain a significant minority interest in its portfolio companies to maintain board representation. In certain strategic assets, Mumtalakat may continue to hold a majority interest for the foreseeable future.

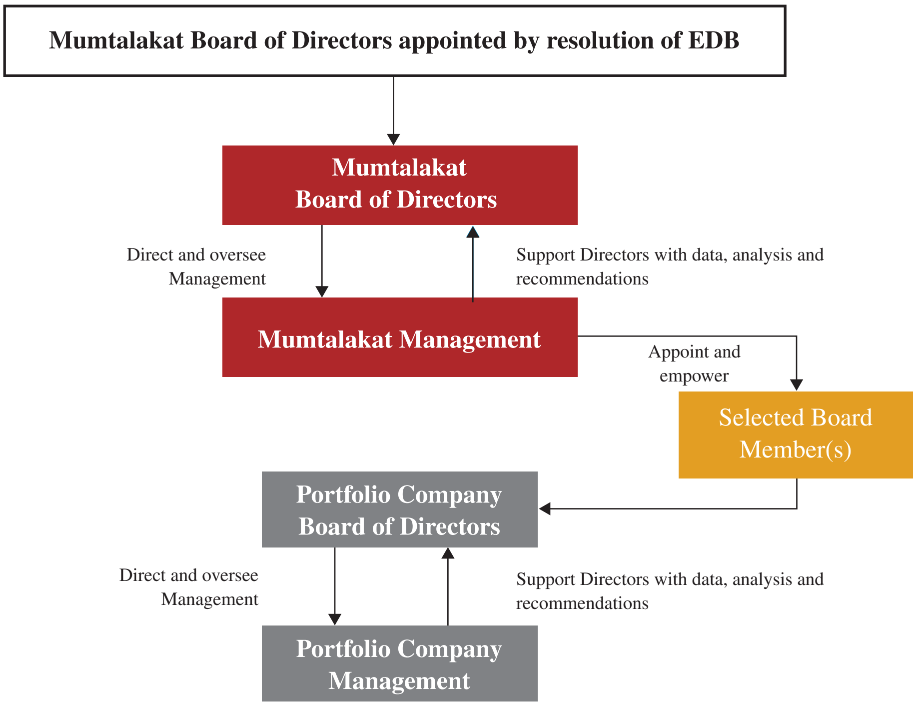
- ***Diversification of the portfolio.*** Over time, Mumtalakat seeks to diversify its portfolio through active portfolio management activities, including investments in new assets and exits from existing investments. Given its significant stakes in several large companies, Mumtalakat is particularly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

PORTFOLIO COMPANIES

Oversight of Portfolio Companies

As a shareholder, Mumtalakat is focused on implementing effective corporate governance practices at the holding company and encourages each of its portfolio companies to do the same. Mumtalakat's oversight and influence over 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 over 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 is focused on managing its business in a manner that is 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 their respective companies 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 Select Portfolio Companies — Gulf Air*".

Description of Select Portfolio Companies

As of 30 June 2014, Mumtalakat's portfolio of direct investments included equity stakes of varying amounts in more than 35 companies.

Alba, Gulf Air, Edamah, Batelco, NBB and GIC, together represented approximately 78.1 per cent. of Mumtalakat's total direct investments portfolio value as of 30 June 2014.

Unless otherwise stated, the financial information for Alba, Gulf Air, Edamah, Batelco, NBB and GIC presented below has been extracted from the financial statements of such portfolio companies, each prepared in accordance with IFRS.

Select Subsidiary Companies

Alba, Gulf Air and Edamah, as subsidiary companies, are consolidated into the Group's consolidated financial statements and represented 96.4 per cent. of the Group's consolidated revenues for the year ended 31 December 2013 and represented 95.8 per cent. of the Group's consolidated revenues for the six months ended 30 June 2014.

Alba

Introduction

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. In November 2010, Mumtalakat conducted an offering of a portion of its ordinary shares in Alba (in this section, the "**Offering**"). The Offering enabled Mumtalakat as selling shareholder to sell ordinary shares (in this section, "**Ordinary Shares**") that it owned in Alba, representing 10.0 per cent. of Alba's total issued, fully paid and outstanding share capital. The Ordinary Shares are listed on the Bahrain Bourse and global depositary receipts representing such Ordinary Shares are listed on the London Stock Exchange. As a consequence of the Offering, Mumtalakat holds a 69.38 per cent. equity shareholding in Alba. SABIC continues to hold a 20.62 per cent. equity shareholding in Alba. Mumtalakat is represented directly by six directors on Alba's nine-member board of directors. As of June 30, 2014, its market capitalisation was BD630.5 million (U.S.$1,676.9 million).

Alba operates an aluminium smelter, power plant and a coke calcining plant located in Askar, Bahrain. In 2013, Alba produced over 912,000 metric tonnes of aluminium.

Business

Alba's industrial facilities consist of four on-site captive power stations, five metal production lines, two cast houses, a carbon plant, 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 extrusion 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 Nogaholding. 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 Sheikh Khalifa port, 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 1 January 2012. Despite this increase, Alba remains 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 Global Aluminium in the UAE and Ma'aden in Saudi Arabia.

Under the terms of a quota agreement between Alba and its then shareholders dated 3 September 1990, as most recently amended on 29 July 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 SABIC Industrial Investment Company ("**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, representing approximately 36 per cent. of Alba's sales in 2013. 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.

Strategy

Alba's strategy is focused around maintaining and expanding its position as one of the world's leading low-cost smelters.

The cyclical nature of the aluminium prices continued to impact marginal smelters wherein curtailments and shutdowns gained pace in 2013 and led the aluminium market into a deficit of 61,000 metric tonnes. Demand for primary aluminium exceeded production for the first time since 2006 in 2013. Global demand is projected to grow by an average of 5 per cent. per annum in the coming 10 years.

Alba has completed a feasibility study to assess the commercial viability of expanding its production capacity by supplementing its five existing potlines with an additional potline, Line 6. The production expansion of Line 6, if it proceeds, is targeted to be completed by 2018 and is expected to add around 400,000 tonnes to Alba's existing capacity of over 912,000 tonnes of aluminium per year. The preliminary capital expenditure estimate for constructing potline Line 6, replacing and expanding the power capacity of the existing power plant facilities is expected to be not less than U.S.$2.5 billion.

Selected Financial Information

For the six month period ended 30 June 2014, Alba's revenues decreased by 1.6 per cent. to BD376.4 million (U.S.$1,001.1 million) from BD382.6 million (U.S.$1,017.6 million) during the same period in 2013. This was mainly due to lower LME prices. Revenues were BD883.3 million (U.S.$2,349.2 million), BD743.7 million (U.S.$1,977.9 million) and BD749.3 million (U.S.$1,992.8 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

For the six month period ended 30 June 2014, Alba's net profit decreased by 47.1 per cent. to BD32.4 million (U.S.$86.2 million) from BD61.2 million (U.S.$162.8 million) during the same period in 2013 mainly due to lower LME prices and lower mark-to-market gains on derivatives. Profit for the year was BD211.9 million (U.S.$563.6 million), BD96.5 million (U.S.$256.6 million) and BD79.8 million (U.S.$212.2 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

In 2011, 2012 and 2013, average LME aluminium prices were U.S.$2,398 per metric tonne, U.S.$2,019 per metric tonne and U.S.$1,846 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. For the year ended 31 December 2013, Alba also gained BD17.9 million (U.S.$47.6 million) related to mark-to-market profit on derivatives, an increase of 203.4 per cent. compared to BD5.9 million (U.S.$15.7 million) for the year ended 31 December 2012.

Total assets were BD1,304.8 million (U.S.$3,470.2 million), BD1,211.9 million (U.S.$3,223.1 million), BD1,178.3 million (U.S.$3,133.8 million) and BD 1,169.1 million (U.S.$3,109.3 million) as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively. Total liabilities were BD496.0 million (U.S.$1,319.1 million), BD382.3 million (U.S.$1,016.8 million), BD309.8 million (U.S.$823.9 million) and BD298.7 million (U.S.$794.4 million) as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively.

The total shareholders' equity was BD808.8 million (U.S.$2,151.1 million), BD829.6 million (U.S.$2,206.4 million), BD868.5 million (U.S.$2,309.8 million) and BD870.4 million (U.S.$2,314.9 million) as at 31 December 2011, 2012, 2013 and 30 June 2014, respectively. As at 30 June 2014, the debt to equity multiple was 0.19 (compared to 0.23 as at 31 December 2013).

Alba is one of the largest employers in Bahrain. As at 30 June 2014, it had approximately 2,900 employees of which approximately 87 per cent. were Bahraini nationals.

Gulf Air

Introduction

Established in 1950, Gulf Air is today the national carrier of Bahrain, connecting traffic from Europe and Asia to the Middle East and targeting regional traffic within the Middle East. Gulf Air's principal activity during its more than 60-year operating history has been the transportation of passengers and freight on a scheduled basis. Until 2002, Gulf Air was jointly 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. Mumtalakat owns 100 per cent. of Gulf Air Group Holding B.S.C. (c), which, in turn, owns 100 per cent. of Gulf Air.

Business

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, 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. Gulf Air is currently operating a fleet of 28 aircraft comprising 22 narrow-bodied and six wide-bodied aircraft.

Change in Business Strategy

In 2010, Gulf Air commenced a significant operational and strategic restructuring with the objective of placing Gulf Air on the path to sustainability. These measures included retiring and replacing Gulf Air's fleet of old aircraft with new aircraft, closing persistently unprofitable routes, focusing more on origin-and-destination passengers and less on transit passengers, and adding new MENA routes.

Gulf Air commenced the implementation phase of the restructuring strategy in January 2013. Within 12 months of commencing implementation, the airline achieved a 52 per cent. reduction in annual losses (before restructuring costs, impairment losses and government grants) and a financial performance that surpassed the airline's restructuring target by BD14.5 million (U.S.$38.6 million). The significant reduction in Gulf Air's annual losses was achieved through a number of major cost-saving initiatives including reduction in aircraft leasing costs through early return of aircraft (which were not required for the new business model), retiring of old aircraft, closure of loss-making routes, opening of new destinations, increasing frequencies to existing destinations, reduction in staff expenses, renegotiation of over 2,000 contracts with existing suppliers and productivity improvements. The airline continues to rationalise its cost-base and increase revenue as part of its plans to reduce its dependency on Government's support.

In addition to operating one of the youngest fleets of aircraft in the region, Gulf Air continues to implement initiatives to enhance its customer experience both in the air and on the ground. The airline has introduced a number of new products during the year, including traditional Middle Eastern games on-board its flights. The airline has commenced the retrofit of its A330 fleet, introduced full-flat bed seats in Falcon Gold class, revamped the Economy class and upgraded the in-flight entertainment system across the entire fleet.

The realignment of the airline's workforce in 2013 to meet the requirements of the new fleet and network achieved a significant improvement in workforce efficiency and significant reduction in manpower. Gulf Air continues to be a key employer committed to developing a national workforce of aviation professionals. As at 30 June 2014, Gulf Air had 2,745 employees of which approximately 65 per cent. were Bahraini nationals.

Selected Financial Information

The Gulf Air financial data provided herein has been prepared on the basis that Gulf Air continues as a going concern.

For the six month period ended 30 June 2014, Gulf Air's revenues increased by 10.0 per cent. to BD168.0 million (U.S.$446.8 million) from BD152.7 million (U.S.$406.1 million) during the same period in 2013. Gulf Air's revenues were BD374.0 million (U.S.$994.7 million) in 2011, BD377.2 million (U.S.$1,003.2 million) in 2012 and BD307.2 million (U.S.$817.0 million) in 2013.

For the six month period ended 30 June 2014, Gulf Air recorded a net profit of BD1.5 million (U.S.$4.0 million) compared to a net loss of BD18.6 million (U.S.$49.5 million) during the same period in 2013. This was mainly due to an increase in passenger revenue and a decrease in total expenditure. The net loss/profit for the six month periods ended 30 June 2013 and 30 June 2014 reflected Government assistance recognised as Government grants in the respective income statements of BD47.5 million (U.S.$126.3 million) and BD37.5 million (U.S.$99.7 million), respectively. Gulf Air has recorded net losses of BD210.7 million (U.S.$560.4 million), BD81.5 million (U.S.$216.8 million) and BD12.0 million (U.S.$31.9 million) in each of 2011, 2012 and 2013, respectively. The net loss amounts recorded in 2012 and 2013 include Government assistance recognised as government grants in the respective income statements of BD185.0 million (U.S.$492.0 million) and BD95.0 million (U.S.$252.7 million), respectively. Gulf Air's losses were primarily due to volatile oil prices and heavy competition from strong airlines operating in the region such as Emirates, Etihad, Qatar Airways and Air Arabia and due to the impact of recent regional unrest and other events.

Gulf Air's total assets were BD600.0 million (U.S.$1,595.7 million), BD749.3 million (U.S.$1,992.8 million) and BD660.3 million (U.S.$1,756.1 million) as at 31 December 2011, 2012 and 2013 and BD657.0 million (U.S.$1,747.3 million) as at 30 June 2014, respectively. Gulf Air's total liabilities were BD486.1 million (U.S.$1,292.8 million), BD716.8 million (U.S.$1,906.4 million) and BD640.5 million (U.S.$1,703.5 million) as at 31 December 2011, 2012 and 2013 and BD635.6 million (U.S.$1,690.4 million) as at 30 June 2014, respectively.

Historically, Gulf Air has received material liquidity assistance from Mumtalakat and the Government 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 provided BD168.9 million (U.S.$449.2 million) in 2008 and BD196.7 million (U.S.$523.1 million) million in 2009 directly to Gulf Air in the form of cash equity contributions and loans.

In connection with the operational and strategic restructuring in 2010, Gulf Air required material financial support. On 15 October 2010 the Government issued Legislative Decree No. 39 of 15 October 2010, which provided Gulf Air with BD400.0 million (U.S.$1,063.8 million) of financial support in the form of an equity injection. In addition, certain of Gulf Air's liabilities owing to other Government controlled entities in the amount of BD71.2 million (U.S.$189.4 million) were settled as an equity contribution.

Since January 2012, Mumtalakat and the Government have been working closely with Gulf Air and its strategic advisers to review and refine Gulf Air's strategy by focusing on cost reduction and rationalisation of business operations. A five-year business plan detailing the restructuring of Gulf Air's operations along with a detailed assessment of the Government funding required to achieve the restructuring was presented to the Government and a parliamentary sub-committee. The five-year plan received final approval from the leadership of Bahrain and, pursuant to Royal Decree No. 54 of 11 October 2012, the Government began transferring funds to the airline to support its restructuring. In 2012 and 2013, the Government transferred amounts of BD185.0 million (U.S.$492.0 million) and BD95.0 million (U.S.$252.7 million) respectively to fund operating losses, meet financial obligations and assist Gulf Air in implementing its restructuring strategy. In 2012, Gulf Air received further liquidity assistance from Mumtalakat in the form of a shareholder loan amounting to BD30.0 million (U.S.$79.8 million). For the period beginning 1 January 2012 and ending 30 June 2014, Gulf Air has received a total of BD317.5 million (U.S.$844.4 million) from the Government.

Edamah

Introduction

Edamah, which was incorporated in Bahrain in 2006, is an investment property company with an extensive portfolio in Bahrain. Currently, it is principally involved in leasing out property under operating leases and is also involved in the development and management of property. Edamah has one of the largest land banks in Bahrain with approximately 3.4 million square metres of land as of 31 December 2013. This represents the cornerstone for future development of real estate opportunities for Mumtalakat. Edamah is a wholly-owned subsidiary of Mumtalakat.

The Government has transferred substantial land and properties to Edamah as part of its overall strategy to effect more commercial management of these assets and to ensure proper development and utilisation of such commercial assets. The total land and property value on Edamah's balance sheet was BD132.8 million (U.S.$353.2 million) as at 30 June 2014. Edamah retains economic control over all of the land and property on its balance sheet and continues to receive rental income from various properties. Edamah is restricted from selling or mortgaging any of its properties by the Government.

Business

Edamah's main source of revenue comes from the rental income of the properties it owns. Many of its leased properties are under long-term lease contracts with very favourable terms to the lessees. Material new projects to develop Edamah's extensive land bank will be subject to long lead times for feasibility assessment, planning and construction.

During 2013, Edamah has concentrated on improving its core business of property management including improving its capabilities, exploring future development opportunities and securing new lands from the Government that have potential for future development.

Strategy

Edamah's strategic plan is to manage existing real estate properties efficiently and effectively and to develop new, commercially viable real estate projects in Bahrain that will attract international investors and operators as partners.

Selected Financial Information

For the six month period ended 30 June 2014, Edamah's revenues remained at BD1.1 million (U.S.$2.9 million) as compared to the same period in 2013. For the six month period ended 30 June 2014, Edamah's net profit decreased to BD0.2 million (U.S.$0.5 million) from BD0.4 million (U.S.$1.1 million) during the same period in 2013. The decrease was mainly due to increase in staff costs and other operating expenses.

Revenues were BD2.7 million (U.S.$7.2 million), BD2.2 million (U.S.$5.9 million) and BD3.1 million (U.S.$8.2 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Net loss for the year ended 31 December 2011 was BD209.3 million (U.S.$556.6 million), primarily due to impairment losses on investment properties. Net profit was BD0.4 million (U.S.$1.1 million) and BD1.6 million (U.S.$4.3 million) for the years ended 31 December 2012 and 2013, respectively.

As at 30 June 2014, the total shareholders' equity marginally increased to BD145.4 million (U.S.$386.7 million) compared to BD145.2 million (U.S.$386.2 million) as at 31 December 2013. The total shareholders' equity was BD140.4 million (U.S.$373.4 million), BD141.5 million (U.S.$376.3 million) and BD145.2 million (U.S.$386.2 million) as at 31 December 2011, 2012 and 2013, respectively. As at 30 June 2014, the debt to equity ratio decreased to 2.2 per cent. compared to 2.7 per cent. as at 31 December 2013, reflecting a lower risk profile of the investments made by Edamah.

As at 30 June 2014, Edamah had 19 employees.

Select Associate Companies

Batelco and NBB are Mumtalakat's two most material investments in associate companies on the basis of contribution to Mumtalakat's direct investments portfolio value. Together they represented 86.2 per cent. of the Group's consolidated share of profit of associates for the year ended 31 December 2013, and represented 92.3 per cent. of the Group's consolidated share of profit of associates for six months ended 30 June 2014.

Batelco

Introduction

Batelco was established in Bahrain in 1981, and is the leading integrated telecommunications provider in Bahrain. Mumtalakat directly owns 36.67 per cent. of Batelco's shares. Further, Amber Holding Company, (a 100 per cent. subsidiary of Hawar Holding Company (an associate of Mumtalakat)) holds 20 per cent. in Batelco. Mumtalakat holds 33.33 per cent. in Hawar Holding Company (which represents 6.67 per cent. indirect shareholding of Mumtalakat in Batelco) and SIO holds 66.67 per cent. of the shareholding in Hawar Holding Company (which represents 13.33 indirect shareholding of SIO in Batelco). The Government, directly or indirectly, including through Mumtalakat, owns 77.2 per cent. of Batelco's shares. The remaining shares are held by other financial and commercial organisations and various GCC citizens. Mumtalakat is represented directly by three directors on Batelco's ten-member board of directors. Amber Holding Company also has two seats on Batelco's board of directors. Batelco is listed on the Bahrain Bourse. As of 30 June 2014, its market capitalisation was BD615.4 million (U.S.$1,636.7 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.

In April 2013, Batelco acquired operations of Cable & Wireless Communications ("**CWC**") in Dhiraagu (Maldives), SURE Channel Islands and Isle of Man, and SURE Falkland Islands, St. Helena, Ascension and Diego Garcia, as well as a 25 per cent. shareholding in Compagnie Monegasque de Communications ("**CMC**"), which holds CWC's 55 per cent. interest in Monaco Telecom. Total consideration paid for these assets was U.S.$570 million. However, in December 2013, Batelco and CWC agreed to reverse the acquisition of 25 per cent. shareholding in Compagnie Monegasque de Communication SAM, and accordingly CWC paid back U.S.$100 million that Batelco had paid for the acquisition of the shares in Compagnie Monegasque de Communication SAM. The acquisition was reversed as it was determined by the parties that CWC was unlikely to obtain the relevant regulatory approvals for the transfer.

Batelco had also entered into an agreement with CWC to acquire its shareholding in Cable & Wireless (Seychelles) but the acquisition did not receive regulatory approval. In April 2013, Batelco issued U.S.$650 million 7 year Reg S Notes to fund the acquisitions from CWC. In the fourth quarter of 2013, Batelco, commenced a buyback of its U.S.$650 million 7 year Reg S Notes. Notes with an aggregate value of U.S.$177.1 million were repurchased as of 30 June 2014.

Batelco also has subsidiaries and joint ventures in Kuwait, Yemen, Saudi Arabia, Jordan and Egypt. Batelco's overseas operations contributed 54 per cent. of gross revenues for the year ended 31 December 2013 compared to 41 per cent. for the year ended 31 December 2012. As of 30 June 2014, Batelco's overseas operations contributed 57.6 per cent. of gross revenues.

Batelco owns 96 per cent. of the shares of Umniah Mobile Company PSC (Jordan) ("**Umniah**"), a mobile cellular telecommunication network provider operating in the Hashemite Kingdom of Jordan. As at 31 March 2014, Umniah had over 3 million mobile customers, which represented a market share of over 31.5 per cent. The broadband services offered by Uminah have increased significantly over the last two years, and Uminah provides wireless internet services to approximately 80 per cent. of the Jordanian population.

In February 2014, Batelco acquired 46 per cent. of Ali Alghanim & Sons General Trading and Contracting Company W.L.L. shareholding in Qualitynet, a data and internet service provider operating in Kuwait. The acquisition increased Batelco's shareholding in Qualitynet from 44 per cent. to 90 per cent. Qualitynet is the largest indoor Wi-Fi provider in Kuwait and the first provider to successfully complete Hotspot 2.0 trials in the country.

In Yemen, Batelco has a 26.94 per cent. shareholding in Sabafon, the largest GSM mobile operator in the country, providing national coverage to over 4.4 million mobile subscribers.

Batelco owns 15 per cent. of the shares in Etihad Atheeb Telecom, a fixed broadband (WIMAX) operator in Saudi Arabia operating under the GO brand. The Capital Market Authority of Saudi Arabia suspended the trading of Etihad Atheeb Telecom shares on Tadawul on 5 June 2014 for non-compliance with the announcement requirements under the Saudi Arabian Capital Market Law and its implementing regulations. Trading was resumed on 8 June 2014 after the company issued a revised notification including all the relevant details.

In 2009, Batelco acquired, through its subsidiary Batelco Millennium India Company ("**BMIC**"), 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. Following the cancellation of 2G licences by India's Supreme Court in February 2012, including those held by S Tel Batelco exercised its rights under a put option agreement with Siva Limited and Chinnakannan Sivasankaran, chairman of Siva Limited, which under certain circumstances, such as the cancelation of S Tel's 2G licence, or a failure by Siva to secure debt financing, required Siva Limited to buy back the shares acquired by BMIC at the original acquisition price (i.e., U.S.$174.5 million). BMIC and the defendants entered into a settlement agreement (the "**S Tel Settlement Agreement**") to give effect to this commitment. Siva Limited and Chinnakannan Sivasankaran failed to comply with their obligations under the S Tel Settlement Agreement. BMIC subsequently commenced proceedings against the Siva Limited and Chinnakannan Sivasankaran in the English High Court and on 12 June 2014 obtained the judgement for U.S.$212 million, which amount was required to be paid by 26 June 2014. However, Mr Sivasankaran and Siva Limited failed to comply with the court order. BMIC filed an application enforcement for the judgement. On 5 August 2014, BMIC obtained a worldwide freezing order against the assets of Siva Limited and Chinnakannan Sivasankaran. The Court also ordered Mr Sivasankaran to provide an affidavit to BMIC, on an expedited basis, addressing apparent deficiencies with the statements of assets he has previously provided. The on-going dispute with Siva Limited and Chinnakannan Sivasankaran is not expected to have a long term effect on Batelco's results of operations.

Strategy

Batelco seeks to retain its domestic market share, with a focus on its higher value 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. Following the implementation of the law passed on 5 November 2002 permitting competition in the telecommunications sector in Bahrain, Zain Bahrain B.S.C. (c) and Saudi Telecommunications Company, through its "Viva" operations, have commenced mobile telephone operations in Bahrain. The entry into the Bahrain market of the third player, Viva, has led to the erosion of Batelco's market share and average revenue per user, owing to the limited size and high penetration (over 182 per cent. in 2013) of the Bahrain market. However, Batelco remains the country's leading telecommunications provider.

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

Selected Financial Information

For the six month period ended 30 June 2014, Batelco's revenues increased by 14.0 per cent. to BD194.6 million (U.S.$517.6 million) from BD170.7 million (U.S.$454.0 million) during the same period in 2013. The increase was mainly due to the consolidation of the financial statements of the entities acquired from CWC in the second quarter of 2013. For the six month period ended 30 June 2014, Batelco's, net profit increased by 3.2 per cent. to BD29.0 million (U.S.$77.1 million) from BD28.1 million (U.S.$74.7 million) during the same period in 2013. The increase was mainly due to the consolidation of the financial statements of the entities acquired from CWC in the second quarter of 2013.

Revenues were BD327.0 million (U.S.$869.7 million), BD304.7 million (U.S.$810.4 million) and BD370.6 million (U.S.$985.6 million) for the years ended 31 December 2011, 2012 and 2013, respectively. Net profit was BD80.0 million (U.S.$212.8 million), BD60.3 million (U.S.$160.4 million) and BD43.6 million (U.S.$116.0 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

For the six month period ended 30 June 2014, the net operating income increased by 26.5 per cent. to BD39.1 million (U.S.$104.0 million) from BD30.9 million (U.S.$82.2 million) during the same period in 2013. The increase was mainly due to the consolidation of the financial statements of the entities acquired from CWC in the second quarter of 2013. Net operating income was BD88.0 million (U.S.$234.0 million), BD65.4 million (U.S.$173.9 million) and BD62.8 million (U.S.$167.0 million for the years ended 31 December 2011, 2012 and 2013, respectively.

As at 30 June 2014, the total shareholders' equity decreased by 1.4 per cent. to BD584.8 million (U.S.$1,553.3 million) from BD593.1 million (U.S.$1,577.4 million) as at 31 December 2013. The total shareholders' equity was BD518.7 million (U.S.$1,379.5 million) and BD520.2 million (U.S.$1,383.5 million) as at 31 December 2011 and 2012, respectively. As at 30 June 2014, the debt to equity ratio was 0.31 times (compared to 0.41 times as at 31 December 2013).

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.

Batelco is a significant employer in Bahrain. As at 31 December 2013, Batelco had approximately 1,000 employees, of which approximately 90 per cent. were Bahraini nationals.

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 as at 30 June 2014 was owned 43.9 per cent. by the public, 11.1 per cent. by SIO and 45.0 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 eleven-member board of directors. As at 30 June 2014, its market capitalisation was BD715.1 million (U.S.$1,901.9 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 59 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 with a focus on corporate banking.

Selected Financial Information

For the six month period ended 30 June 2014, NBB's net income increased by 7.1 per cent. to BD28.7 million (U.S.$76.3 million) from BD26.8 million (U.S.$71.3 million) during the same period in 2013. The increase was mainly due to steady growth in net interest income and other income. Net income was BD45.6 million (U.S.$121.3 million), BD47.5 million (U.S.$126.3 million) and BD51.4 million (U.S.$136.7 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

As at 30 June 2014, non-performing loans increased by 15.9 per cent. to BD77.3 million (U.S.$206 million) from BD66.7 million (U.S.$177.4 million) as at 31 December 2013. This was mainly due to increase in past due loans and advances. Non-performing loans were BD18.0 million (U.S.$47.9 million) and BD69.8 million (U.S.$185.6 million) as at 31 December 2011 and 2012, respectively.

For the six month period ended 30 June 2014, operating income increased by 8.2 per cent. to BD46.1 million (U.S.$122.6 million) from BD42.6 million (U.S.$113.3 million) during the same period in 2013. This was mainly due to increase in interest income and other income as well as reduction in interest expense during the period. Operating income was BD79.9 million (U.S.$212.5 million), BD86.6 million (U.S.$230.3 million) and BD84.7 million (U.S.$225.3 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

For the six month period ended 30 June 2014, NBB's net interest income increased by 7.4 per cent. to BD30.5 million (U.S.$81.1 million) from BD28.4 million (U.S.$75.5 million) during the same period in 2013. This was driven primarily by growth in earning assets and better liability management resulting in a reduction of funding costs. Net interest income was BD55.4 million (U.S.$147.3 million), BD61.9 million (U.S.$164.6 million) and BD59.8 million (U.S.$159.0 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

For the six month period ended 30 June 2014, NBB's other income (which includes commissions and fee income, profits from sale of investments, gains or losses on fair value as well as dividends income) increased by 10.0 per cent. to BD15.6 million (U.S.$41.5 million) from BD14.2 million (U.S.$37.8 million) during the same period in 2013. This was mainly due to growth in core banking activities, higher dividends received on the investments and increased returns from the associates. Other income was BD24.6 million (U.S.$65.4 million), BD24.7 million (U.S.$65.7 million) and BD24.8 million (U.S.$66.0 million) for the years ended 31 December 2011, 2012 and 2013, respectively.

For the six month period ended 30 June 2014, the operating income generated by the personal banking segment increased by 5.9 per cent. to BD9.0 million (U.S.$23.9 million) from BD8.5 million (U.S.$22.6 million) during the same period in 2013.

For the six month period ended 30 June 2014, the operating income generated by the business banking segment decreased by 79.5 per cent. to BD0.8 million (U.S.$2.1 million) from BD3.9 million (U.S.$10.4 million) during the same period in 2013.

For the six month period ended 30 June 2014, the operating income generated by the treasury and investment segment increased by 28.9 per cent. to BD20.5 million (U.S.$54.5 million) from BD15.9 million (U.S.$42.3 million) during the same period in 2013.

As at 30 June 2014, the total shareholders' equity increased by 4.1 per cent. to BD378.0 million (U.S.$1,005.3 million) from BD363.1 million (U.S.$965.7 million) as at 31 December 2013. The total shareholders' equity was BD274.7 million (U.S.$730.6 million) and BD318.9 million (U.S.$848.1 million) as at 31 December 2011 and 2012, respectively.

As at 30 June 2014, NBB had a provision coverage ratio (calculated as the ratio of total principal provisions over total non-performing loans) of 45.3 per cent. compared to 49.4 per cent as at 31 December 2013.

As at 31 December 2012, NBB had a provision coverage ratio (calculated as the ratio of total principal provisions over total non-performing loans) of 39.8 per cent. compared to 104.2 per cent. as at 31 December 2011.

As at 30 June 2014, the Bank's total assets were BD2,857.7 million (U.S.$7,600.3 million) an increase of 3.9 per cent. compared to BD2,749.2 million (U.S.$7,311.7 million) as at 31 December 2013. The Treasury Bills portfolio as at 30 June 2014 was BD566.6 million (U.S.$1,506.9 million) a decrease of 0.6 per cent. compared to BD570.1 million (U.S.$1,516.2 million) as at 31 December 2013. As at 31 December 2013, the Bank's total assets were BD2,749.2 million (U.S.$7,311.7 million) an increase of 3.6 per cent. compared to BD2,654.6 million (U.S.$7,060.1 million) as at 31 December 2012. The Treasury Bills portfolio as at 31 December 2013 was BD570.1 million (U.S.$1,516.2 million) an increase of 50.0 per cent. compared to BD380.1 million (U.S.$1,010.9 million) as at 31 December 2012.

Liquid assets represented 32.5 per cent. and 30.0 per cent. of total assets as at 30 June 2014 and 31 December 2013, respectively. As at 30 June 2014, customer deposits increased by 4.5 per cent. compared to 31 December 2013.

NBB's capital adequacy ratio was 31.2 per cent. and 30.8 per cent. as of 31 December 2013 and 30 June 2014, respectively, with Tier 1 ratio at 29.2 per cent. and 25.5 per cent. as of 31 December 2013 and 30 June 2014, respectively. The ratios were calculated in accordance with the Basel II 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, 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. As at 30 June 2014, NBB had 523 employees.

Select Other Investment Holdings

GIC is Mumtalakat's most significant investment in other investment holdings on the basis of contribution to Mumtalakat's portfolio value.

GIC

Introduction

GIC is an investment company incorporated in Kuwait on November 15, 1983 as a Gulf Shareholding Company. It is equally owned by the governments of the six member states of the GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE with issued and paid up capital of U.S.$2.1 billion. GIC was formed to foster economic growth, economic diversification and capital markets development across the GCC region. Mumtalakat holds Bahrain's 16.67 per cent. stake in GIC.

Business

GIC successfully invests in strategic projects across a range of industry sectors including financial services, telecommunications, petrochemicals, metal and electricity. GIC's clients include governments, quasi-government institutions, the corporate sector and other major investors who are active in the GCC region. GIC's global markets business is a vital component of the business model. The Global Markets Group, which includes equities, bonds and hybrid securities, focuses on GIC's asset management business which is involved in proprietary investments that spread across a range of different asset classes.

Strategy

From inception, GIC has been the premier development investor for the GCC Region. GIC's principal investments activity in particular has made significant contributions to the GCC economies through development of major power and industrial project initiatives and, during its approximately thirty years history, has led or participated in initiatives with a total project value in the tens of billions of dollars, generating employment for thousands of people in the region. GIC has also been an innovator through its development of GCC financial markets, including the introduction of the first GCC stock and bond mutual funds.

Selected Financial Information

Revenues were U.S.$344.0 million, U.S.$273.0 million and U.S.$359.0 million for the years ended 31 December 2011, 2012 and 2013, respectively. Profit was U.S.$182.0 million, U.S.$131.0 million and U.S.$165.0 million for the years ended 31 December 2011, 2012 and 2013, respectively.

Net operating income was U.S.$292.0 million, U.S.$222.0 million and U.S.$302.0 million for the years ended 31 December 2011, 2012 and 2013, respectively.

The total shareholders' equity was U.S.$2,405.0 million, U.S.$2,303.0 million and U.S.$2,578.0 million as at 31 December 2011, 2012 and 2013, respectively.

GIC's enhanced capital base, combined with improved overall asset quality, and augmented capital adequacy ratios resulted in a Tier 1 capital ratio of 36.0 per cent. as at 31 December 2013 from 29.5 per cent.as at 31 December 2012.

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.

Mumtalakat's business continuity implementation policy includes replication of all data to the disaster recovery site located in Muharraq. Further, once a year Mumtalakat restores all the data from the recovery site to check the efficiency of its business continuity processes.

DIRECTORS, MANAGEMENT AND EMPLOYEES

Board of Directors

Members of Mumtalakat's nine-member Board of Directors (the "**Board**") 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 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

The address of each member of the Board is Arcapita Building, 4th Floor, Seaside, Bahrain Bay, P.O. Box 820, Manama, Bahrain. There are no potential conflicts of interest between the private interests or other duties of the directors listed above and their duties to Mumtalakat.

Detailed below is brief biographical information on the Board members:

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 His Royal Highness 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 of Science 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 masters degree in Business Management.

H.E. Shaikh Mohammed bin Essa Al Khalifa

H.E. Shaikh Mohammed bin Essa Al Khalifa was appointed the role of Political and Economic Adviser to His Royal Highness 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, National Authority for Qualifications & 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 of Science 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 U.S. 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. As the CEO of Mumtalakat, Mr Al Kooheji oversees the management of the company's stakes in over 35 commercial enterprises, and the growth of its portfolio. He also directs the company's initiatives to firmly implement the highest standards of transparency and corporate governance across Mumtalakat and its diverse holdings.

Mr Al Kooheji is actively involved in the management of portfolio companies and sits on the board of Gulf Air. He is also a board member of McLaren Automotive Limited and McLaren Group Limited. In addition, he sits on the boards of Durrat Khaleej Al Bahrain Company, the Arab Petroleum Investment Corporation ("APICORP"), Governors of the Royal College of Surgeons in Ireland, Bahrain.

Mr Al Kooheji served as the Chairman of the Board of Alba from 2008 to 2014. Within this role, he spearheaded the company's restructuring in 2009 and the successful listing of 10 per cent. of its shares on both the London and Bahrain stock exchanges in 2010.

Mr Al Kooheji holds a Bachelor of Science 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 and Chairman of the Abdulla Yousif Fakhro & Sons Company.

In addition, Dr Fakhro is on the board of directors of several organisations, including Bahrain Cinema Company, Bahrain Livestock Company and General Trading and Food Processing Company.

Dr Essam holds a Bachelor of Science 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 of Science 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.

Executive Management

Senior executives of Mumtalakat's management team include:

Name	Title
Mahmood Hashim Al Kooheji	Chief Executive Officer
Zulfe Ali	Chief Investment Officer
Tony Robinson	Chief Financial Officer
Suha Karzoon	Chief Operating Officer
Rima Al Masri	Head of Legal

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

Zulfe Ali

Mr Zulfe Ali joined Mumtalakat in June 2009 and holds the role of Chief Investment Officer. He is responsible for developing and implementing the global investment strategy for Mumtalakat and ensuring the long-term growth of Mumtalakat's investment portfolio.

Prior to holding this role, Mr Ali held the role of Chief Operating Officer with responsibility for overseeing Mumtalakat's corporate functions, including Finance, Risk Management, Legal, Information Technology, and Corporate Finance. Prior to being appointed as the COO, Mr Ali took the role of Vice President Corporate Finance. His responsibilities have included defining and implementing Mumtalakat's corporate finance and funding strategies, as well as managing Mumtalakat's portfolio of liquid investments.

Mr Ali has over 20 years of experience in the financial services industry in both asset management and investment banking. Prior to joining Mumtalakat, he worked in the Acquisition and Leveraged Finance group of JPMorgan in both London and New York. Before that, he worked at Bank of America as a member of the Institutional Equities team.

Mr Ali holds an MBA from Cornell University's Johnson School of Management and a Bachelor Degree in Mathematics from Carleton College in the U.S.

Tony Robinson

Mr Tony Robinson joined Mumtalakat in April 2011 and holds the role of Chief Financial Officer. He is responsible for overseeing the finance functions of Mumtalakat including financial control, corporate financial management, treasury activities and management of Mumtalakat's portfolio of liquid investments.

Prior to holding this role, Mr Robinson held the position of Investment Manager and Coordinator of Direct Investments at Mumtalakat.

Mr Robinson has over 30 years of finance, accounting, taxation and operations experience in the finance industry and the accounting profession. Prior to joining Mumtalakat, Mr Robinson worked in the general insurance industry in a project management role. Before 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.

Mr Robinson is a Chartered Accountant holding membership with both the Australian and English institutes of Chartered Accountants. Mr Robinson holds a Masters of Taxation Degree from Curtin University Perth, Australia and a Bachelor Degree in Accounting from the Western Australia Institute of Technology.

Suha Karzoon

Ms. Suha Karzoon joined Mumtalakat in September 2014 as Chief Operating Officer. She is responsible for overseeing Mumtalakat's corporate functions including Legal, Risk, Human Resources and Administration, and IT. She is also responsible for corporate governance practices at Mumtalakat, and ensuring compliance with legal and regulatory requirements where needed.

Prior to joining Mumtalakat, Ms. Karzoon held the role of Vice President, Finance and Support at Tamkeen (Bahrain Labour Fund), where she was responsible for Tamkeen's internal operating units. Before being appointed Vice President at Tamkeen, she held the role of Internal Audit Manager. Formerly, Ms. Karzoon held different positions at KPMG Bahrain, Qatar, and Texas.

Ms. Karzoon is a Certified Public Accountant, and holds a Bachelor of Science Degree in Accounting from the University of Bahrain.

Rima Al Masri

Ms. Rima Al Masri 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.

Ms. Rima Al Masri joined Mumtalakat in June 2013 as Corporate Secretary and Senior Manager in the Legal Affairs department. Within this role, she is responsible for ensuring corporate compliance with statutory and regulatory requirements and the implementation of Board of Directors directives; as well as providing commercial and corporate legal support and developing risk mitigation strategies.

Ms. Al Masri's experience in Bahrain has included positions both in private practice as a legal consultant, as well as leading legal departments of Bahraini companies. Prior to coming to Bahrain, Rima held various roles in her capacity as legal counsel including litigation solicitor of a specialist legal center in New South Wales, Australia, where she convened and facilitated law reform submissions and presented them to State Ministries and Parliament.

Ms. Rima Al Masri holds a Bachelor of Laws and a Graduate Diploma in Legal Practice, both from the University of Western Sydney. As well as being an Associate of the Chartered Institute of Arbitrators, she is a solicitor of the Supreme Court of New South Wales, Australia (since 2000) as well as the High Court of Australia (2011).

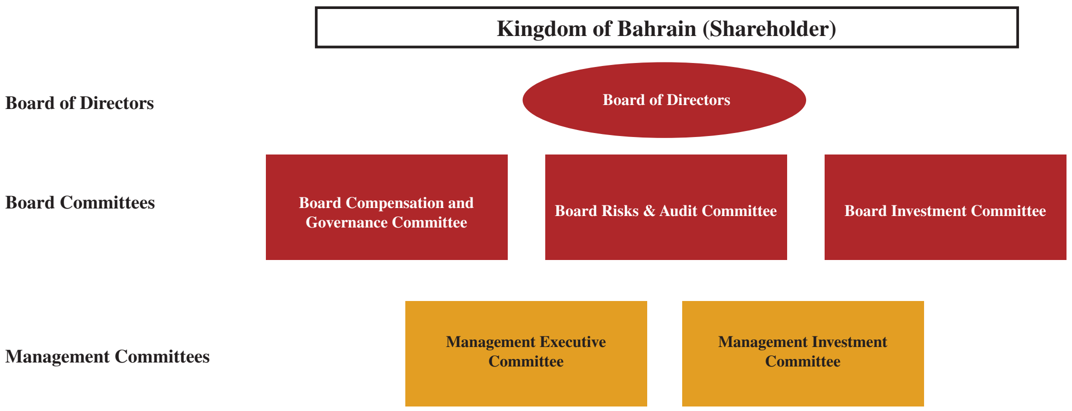
CORPORATE GOVERNANCE

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:



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 BD25 million (U.S.$66.5 million).

Investment and divestment transactions below BD25 million (U.S.$66.5 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.

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.

The committee members are appointed by the Board, and comprise three members, all of whom are non-executive directors.

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 comprise a minimum of three members, all of whom are independent non-executive directors.

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 BD25 million (U.S.$66.5 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.

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.

Management Investment Committee

The role of the Management Investment Committee is to oversee the investment activities of Mumtalakat in coordination with the Management Executive Committee. 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.

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 organisation is staffed with approximately 80 employees across the investment and corporate teams.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Principal Paying Agent (as defined in the Conditions). Defined terms used below have the meaning given to them in the Terms and Conditions and the glossary of defined terms set out below (see "— Defined Terms").

Master Assignment Agreement

The Master Assignment Agreement will be entered into on 30 October 2014 between the Trustee (in its capacity as "**Purchaser**") and the Obligor (in its capacity as "**Seller**") and will be governed by Bahraini law. A Supplemental Assignment Agreement (together with the Master Assignment Agreement and in respect of a Series, the "**Assignment Agreement**") between the same parties will be entered into on the Issue Date of each Series and will also be governed by the laws of Bahrain.

Pursuant to the Assignment Agreement, the Seller will assign, transfer and convey to the Purchaser, and the Purchaser will agree to purchase and accept the assignment, transfer and conveyance from the Seller of, Share Interests relating to certain Shares comprising the Initial Share Portfolio for an amount equal to the Share Percentage (as defined in the Conditions) of the Issue Proceeds, which will be payable on the Issue Date of the relevant Series. The Purchaser will use no less than 51 per cent. of the Issue Proceeds of a Series to purchase such Share Interests pursuant to the Assignment Agreement. To effect such assignment, transfer and conveyance, the Seller and the Purchaser will enter into a Supplemental Assignment Agreement on the Issue Date of the relevant Series which will, among other things, describe the Initial Share Portfolio and specify its Purchase Price.

Pursuant to the Master Assignment Agreement, the Seller and the Purchaser acknowledge (and the Seller undertakes to ensure) that, notwithstanding any other provision of the Master Assignment Agreement, under no circumstances shall any assignment, transfer or conveyance of Share Interests as described above:

(a) be registered or perfected in any way (notwithstanding that such registration or perfection may be required under applicable law); or

(b) result in the Purchaser acquiring legal title to the relevant Shares under any applicable law.

Upon the assignment, transfer and conveyance of the Share Interests as described above, the Seller shall be deemed to have transferred to the Purchaser all of the risks and rewards relating to the relevant Shares, including, but not limited to: (i) any reduction or depreciation in the Value of such Shares; (ii) the full or partial loss of capital in an insolvent winding-up of the Relevant Company in which such Shares are issued; (iii) the insolvency of such Relevant Company; and (iv) any adverse management or corporate action taken by or relating to such Relevant Company.

Service Agency Agreement

The Service Agency Agreement will be entered into on 30 October 2014 between the Trustee and Mumtalakat (in its capacity as Service Agent) and will be governed by English law.

Pursuant to the Service Agency Agreement, the Trustee will appoint the Service Agent to manage the Wakala Portfolio relating to each Series. In particular, the Service Agent, in relation to each Series:

(a) shall ensure that, on the Issue Date of the Series and at all times thereafter, the Value of the Share Interests relating to the Shares comprised in the Wakala Portfolio shall be equal to no less than 33 per cent. of the Value of the Wakala Portfolio (the "**Share Value Requirement**");

(b) if, at any time, the Share Value Requirement in respect of such Series is not satisfied (a "**Share Value Requirement Breach**"), shall promptly give notice (a "**Notice of Share Value Requirement Breach**") to Mumtalakat (in its capacity as Obligor under the Purchase Undertaking) of the occurrence of such Share Value Requirement Breach giving details thereof. Upon receipt of a

Substitution Instruction from Mumtalakat (in its capacity as Obligor pursuant to the Purchase Undertaking) (following delivery of a Notice of Share Value Requirement Breach), the Service Agent shall, as agent of the Trustee, execute (for and on behalf of the Trustee) or procure that the Trustee executes a Transfer Agreement in connection with the substitution of the relevant Substituted Shares and New Shares in accordance with the terms of the Substitution Instruction, provided that the signatory for Mumtalakat in its capacity as Service Agent is not the same as the signatory for Mumtalakat in its own capacity and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Service Agency Agreement and the Purchase Undertaking;

(c) shall monitor the activities and financial information of the Relevant Companies in which the Shares comprised in the Share Portfolio are issued in order to check on an annual basis, in consultation with, and acting on advice from, its Shariah Adviser whether such Shares satisfy the Eligibility Criteria.;

(d) if, at any time, some or all of the Shares comprised in the Share Portfolio cease to satisfy the Eligibility Criteria (an "**Eligibility Criteria Breach**"), shall promptly give notice (a "**Notice of Eligibility Criteria Breach**") to Mumtalakat (in its capacity as Obligor under the Purchase Undertaking) of the occurrence of such Eligibility Criteria Breach giving details thereof. Upon receipt of a Substitution Instruction from Mumtalakat (in its capacity as Obligor pursuant to the Purchase Undertaking) (following delivery of a Notice of Eligibility Criteria Breach in accordance with this paragraph), the Service Agent shall, as agent of the Trustee, execute (for and on behalf of the Trustee) or procure that the Trustee executes a Transfer Agreement in connection with the substitution of the relevant Substituted Shares and New Shares in accordance with the terms of the Substitution Instruction, provided that the signatory for Mumtalakat in its capacity as Service Agent as agent of the Trustee is not the same as the signatory for Mumtalakat in its own capacity and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of this Agreement and the Purchase Undertaking;

(e) shall do all acts and things (including execution of such documents and issue of notices) as are necessary to ensure that any substitution of Shares for new Shares as described in paragraphs (b) and (d) above is valid and effective and appropriately transfers the relevant Share Interests relating to such New Shares to the Trustee;

(f) shall exercise (or refrain from exercising) all voting rights and take (or refrain from taking) all corporate actions in relation to the Shares comprised in the Share Portfolio in its absolute discretion on behalf of the Trustee, provided that such action or exercise of such voting rights is not prejudicial to the interests of the Certificateholders;

(g) shall discharge or procure the discharge of all obligations to be discharged by the Trustee in respect of the Wakala Portfolio, it being acknowledged that the Service Agent may appoint one or more agents to discharge these obligations on its behalf;

(h) it shall pay on behalf of the Trustee any actual costs, expenses, losses and Taxes which would otherwise be payable by the Trustee as a result of the Trustee's ownership of the Wakala Portfolio;

(i) it shall use reasonable endeavours to ensure the timely receipt of all Wakala Portfolio Revenues (free and clear of, and without withholding or deduction for, Taxes), investigate non-payment of Wakala Portfolio Revenues and generally make all reasonable efforts to collect or enforce the collection of such Wakala Portfolio Revenues as and when the same shall become due and shall record such Wakala Portfolio Revenues in the Collection Account (as defined below);

(j) shall maintain the Collection Account and the Reserve Account (as defined below), in each case in accordance with the Service Agency Agreement;

(k) shall obtain and maintain all necessary authorisations in connection with any of the Shares and its obligations under or in connection with the Service Agency Agreement;

(l) if, following payment of amounts standing to the credit of the Reserve Account as described in Clause 6.4 of the Service Agency Agreement, a Shortfall Amount remains on any Wakala Distribution

Determination Date, may provide Shariah-compliant funding to the Trustee to the extent necessary to ensure that the Trustee receives on each Wakala Distribution Determination Date the Required Amount payable by it in accordance with the Conditions of the relevant Series on the immediately following Periodic Distribution Date, by payment of the same into the Transaction Account and on terms that such funding is repayable (i) in accordance with the provisions of Clause 6.3.1 of the Service Agency Agreement or (ii) on the relevant Dissolution Date (such funding in relation to a Series, a "**Liquidity Facility**"); and

(m) shall carry out any incidental matters relating to any of the above.

The Service Agent also undertakes in the Service Agency Agreement, in relation to each Series, that it shall:

(i) keep and maintain all documents, books, records and other information reasonably necessary or advisable for the collection of all amounts due in respect of the Deferred Sale Price and the Shares comprised in the relevant Share Portfolio (including, without limitation, records adequate to permit the identification of all amounts received in respect of the Deferred Sale Price and each Share, as the case may be, and records of all dividends (whether in the form of cash, shares or any other form) and other distributions accruing to the Trustee (on behalf of the Certificateholders) under the Shares during each Wakala Distribution Period); and

(ii) except to the extent it is under any duty or obligation to keep such information referred to in paragraph (i) above confidential, make such documents, books, records and other information available to the Trustee or such other person as the Trustee may request.

The Service Agent shall perform its duties under the Service Agency Agreement in accordance with all applicable laws and regulations and with the degree of skill and care that it would exercise in respect of its own assets.

Mumtalakat shall be entitled to receive a fee for acting as Service Agent which will comprise a fixed fee of U.S.$100 (the receipt and adequacy of which is acknowledged by the Service Agent under the Service Agency Agreement) and may also receive incentive payments as described below.

In the Service Agency Agreement, the Trustee and the Service Agent agree, in relation to each Series, that, provided no Dissolution Event or Potential Dissolution Event has occurred and is continuing, Mumtalakat may at any time exercise its rights under the Substitution Undertaking to substitute any one or more of the Shares comprised in the Share Portfolio for new Shares in a Relevant Company, as the Service Agent may select in accordance with the Substitution Undertaking. The new Shares for these purposes shall satisfy the Eligibility Criteria and shall be of a Value not less than the Value of the Shares to be substituted and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Service Agency Agreement and the Substitution Undertaking.

The Service Agent will maintain, in relation to each Series, two book-entry ledger accounts (referred to as the "**Collection Account**" and the "**Reserve Account**"), each of which shall be denominated in the Specified Currency.

All Wakala Portfolio Revenues relating to a Series will be recorded in the Collection Account.

In relation to each Series, amounts standing to the credit of the Collection Account will be applied by the Service Agent no later than one Business Day prior to each Wakala Distribution Determination Date in the following order of priority:

(a) first, in payment into the Transaction Account an amount equal to the Required Amount payable on the immediately following Periodic Distribution Date;

(b) second, in repayment to the Service Agent of any amounts advanced by it to the Trustee by way of a Liquidity Facility;

(c) third, in repayment to the Service Agent of any Service Agent Liabilities Amounts for the Wakala Distribution Period ending on the immediately following Wakala Distribution Date and (if applicable) any Service Agent Liabilities Amounts for any previous Wakala Distribution Period that remain unpaid; and

(d) fourth to the Reserve Account.

If there is a shortfall on a Wakala Distribution Determination Date in relation to a Series between the amounts standing to the credit of the Transaction Account (after payment into the Transaction Account as set out above) and the Required Amount payable on the immediately following Periodic Distribution Date, amounts standing to the credit of the Reserve Account shall be applied towards such shortfall. Following such application, the Service Agent may also advance amounts to the Trustee by way of a Liquidity Facility to ensure the Trustee receives the Required Amount on such Periodic Distribution Date to pay the relevant Periodic Distribution Amount, by paying the amounts so advanced into the Transaction Account on the Business Day immediately preceding the relevant Periodic Distribution Date. Any Liquidity Facility shall be provided on terms that it is repayable from Wakala Portfolio Revenues in accordance with paragraph (b) above or on the Dissolution Date.

The Service Agent will be entitled to deduct amounts standing to the credit of the Reserve Account at any time during the Wakala Ownership Period and to use such amounts for its own account, provided that such amounts shall be immediately repaid by it if so required to fund any shortfall as described above.

The Service Agent shall keep detailed records of all movements in the Collection Account for each Series and, if so requested, provide the Trustee with copies of such records and any other information or details in relation to the Collection Account as the Trustee may request. Following payment of all amounts due and payable under the Certificates of a Series on its Dissolution Date, the Service Agent shall be entitled to retain any amounts that remain standing to the credit of the Reserve Account for that Series for its own account as an incentive payment for acting as Service Agent.

The Service Agent will agree in the Service Agency Agreement that all payments by it under the Service Agency Agreement will be made without any deduction or withholding for or on account of Taxes unless required by law and without set-off or counterclaim of any kind and, if there is any deduction or withholding, the Service Agent shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of the Service Agent under the Service Agency Agreement in relation to a Series will be direct, unconditional, unsecured and general obligations which rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of the Service Agent, present and future.

Purchase Undertaking

The Purchase Undertaking will be executed as a deed on 30 October 2014 by Mumtalakat as obligor and will be governed by English law.

Mumtalakat will, in relation to each Series, irrevocably undertake in favour of the Trustee and the Delegate to purchase the Share Interests relating to:

(a) all of the Shares comprised in the Share Portfolio on the Scheduled Dissolution Date, a Dissolution Event Redemption Date, an Optional Dissolution Date, each Change of Control Put Date and each Certificateholder Put Right Date, as the case may be, in each case provided that all Certificates of the relevant Series are to be redeemed in full on such date;

(b) a proportion of the Shares comprised in the Share Portfolio on each Change of Control Put Date and each Certificateholder Put Right Date on which some but not all the Certificates of the relevant Series are to be redeemed, where such proportion of Shares will be equal to such proportion as is determined by dividing (i) the aggregate face amount of the Certificates being redeemed pursuant to the Change of Control Put Right or the Certificateholder Put Right, as the case may be, by (ii) the aggregate face amount of the Certificates of the relevant Series outstanding immediately prior to such redemption pursuant to the Change of Control Put Right or the Certificateholder Put Right, as the case may be (the "**Change of Control Shares**" or "**Certificateholder Put Right Shares**", respectively), in each case in consideration for payment by the Obligor of the relevant Exercise Price, Change of Control Exercise Price or Certificateholder Put Right Exercise Price, as the case may be, by entering into a transfer agreement.

Pursuant to the Service Agency Agreement, the Service Agent may, from time to time, and shall in certain circumstances substitute Shares comprised in the Share Portfolio for New Shares as more particularly described above. To effect such substitution, Mumtalakat shall irrevocably grant the right to the Trustee and the Delegate to require Mumtalakat to assign, transfer and convey to the Trustee its Share Interests relating to the relevant new Shares in consideration for the transfer and or conveyance to Mumtalakat of all of the Trustee's Share Interests relating to the substituted Shares pursuant to the Purchase Undertaking, provided that certain conditions are satisfied. Upon receipt of a Notice of Share Value Requirement Breach or a Notice of Eligibility Criteria Breach pursuant to the Service Agency Agreement, the Obligor shall use its best endeavours as soon as reasonably practicable thereafter to (i) identify new Shares in a Relevant Company which satisfy the Eligibility Criteria and which have an aggregate Value such that, immediately after such substitution, the Share Value Requirement is satisfied in replacement for the Shares in respect of which the Share Value Requirement Breach or the Eligibility Criteria Breach (as the case may be) has occurred; (ii) as soon as reasonably practicable following such identification, deliver a Substitution Instruction to the Trustee in respect of such Shares; and (iii) following delivery of the Substitution Instruction in accordance with (ii) above, execute a Transfer Agreement in connection with the substitution of the relevant Substituted Shares and New Shares in accordance with the terms of the Substitution Instruction, provided that for the purposes of any Transfer Agreement to be entered into as aforesaid, the signatory for Mumtalakat in its capacity as Service Agent (as agent of the Trustee) is not the same as the signatory for Mumtalakat in its own capacity and any such substitution shall otherwise be undertaken on the terms and subject to the conditions of the Service Agency Agreement and the Purchase Undertaking.

Mumtalakat will undertake in the Purchase Undertaking that, if:

(a) the transfer, assignment or conveyance of Share Interests relating to any of the Shares comprised in the Initial Share Portfolio from Mumtalakat (in its capacity as Seller) to the Trustee under the Master Assignment Agreement is not valid or effective, or becomes invalid or ineffective, in whole or in part, in any jurisdiction for any reason (the "**Initial Defective Assignment**"); or

(b) the transfer or conveyance of any of the Trustee's Share Interests relating to:

    (i) the Shares comprised in the Share Portfolio, the Certificateholder Put Right Shares, the Change of Control Shares or the Substituted Shares pursuant to the exercise (or purported exercise, as the case may be) of the Purchase Undertaking by the Trustee or the Delegate (as applicable); or

    (ii) the Shares comprised in the Share Portfolio, the Cancellation Shares or the Clean Up Call Right Shares pursuant to the exercise (or purported exercise, as the case may be) of the Sale Undertaking by Mumtalakat,

    is not valid or effective, or becomes invalid or ineffective, in whole or in part, in any jurisdiction for any reason, including without limitation by reason of any Initial Defective Sale (a "**Subsequent Defective Sale**"),

and as a result of either the Initial Defective Sale or a Subsequent Defective Sale, the Trustee or the Delegate (as applicable) is unable to realise in full, or does not actually receive in full, the relevant Exercise Price, Certificateholder Put Right Exercise Price or Change of Control Exercise Price, as the case may be, which is expressed to be due and payable under the Purchase Undertaking at the relevant time, the Obligor shall:

(A) in respect of the Initial Defective Sale, immediately on demand, make payment to the Trustee or the Delegate (as applicable) of an amount equal to the Purchase Price by way of restitution; and

(B) in respect of any Subsequent Defective Sale, immediately on demand, indemnify fully the Trustee or the Delegate (as applicable) for the relevant Exercise Price, Certificateholder Put Right Exercise Price or the Change of Control Exercise Price, as the case may be, which is expressed to be due and payable under the relevant undertaking at the relevant time (without double counting any amounts actually received pursuant to paragraph (A) above).

Mumtalakat will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding, Mumtalakat shall pay all additional amounts as will result in the receipt by the Trustee of such net amounts as would have been received by it if no deduction or withholding had been made. The payment obligations of Mumtalakat under the Purchase Undertaking in relation to a Series will be direct, unconditional, unsecured and general obligations of Mumtalakat which rank at least *pari passu* with all other unsecured, unsubordinated and general obligations of Mumtalakat.

Where the Change of Control Shares or Certificateholder Put Right Shares, as the case may be, would include a proportion of one Share that is less than the whole of such Share, a Transfer Agreement shall not be entered into in respect of such proportion of the Share Interests relating to that Share (the "**Relevant Share Interests**") and the transfer to the Obligor of such Relevant Share Interests shall be deferred until such time as the Exercise Price, the Change of Control Exercise Price or the Certificateholder Put Right Exercise Price, as the case may be, becomes payable by the Obligor in relation to such Relevant Share Interests in full (the "**Relevant Transfer Date**"), and the Trustee shall hold the Relevant Share Interests for the benefit of the Obligor, until the Relevant Transfer Date.

Sale Undertaking

The Sale Undertaking will be executed as a deed on 30 October 2014 by the Trustee and will be governed by English law.

Pursuant to the Sale Undertaking, the Trustee will irrevocably grant to Mumtalakat the right:

(a) on the conditions described in Condition 8(b), to require the Trustee to transfer and convey to Mumtalakat on the Early Tax Dissolution Date all of the Share Interests relating to the Shares comprised in the Share Portfolio at the Exercise Price by executing a transfer agreement;

(b) provided that Optional Dissolution Right is specified as applicable in the relevant Final Terms and Mumtalakat has exercised the Optional Dissolution Right in accordance with the Conditions, to require the Trustee to transfer and convey to Mumtalakat on the Optional Dissolution Date all of the Share Interests relating to the Shares comprised in the Share Portfolio, at the Exercise Price by executing a transfer agreement;

(c) provided that 75 per cent. or more in face amount of the Certificates then outstanding have been redeemed and/or purchased and cancelled pursuant to Condition 8, to require the Trustee to transfer and convey to Mumtalakat on the Clean Up Call Right Dissolution Date all of the Share Interests relating to a proportion of the Shares comprised in the Share Portfolio equal to such proportion as is determined by dividing (i) the aggregate face amount of Certificates being redeemed pursuant to the Obligor Clean Up Call Right by (ii) the aggregate face amount of the Certificates of the relevant Series outstanding immediately prior to such redemption pursuant to the Obligor Clean Up Call Right (the "**Clean Up Call Right Shares**") at the Clean Up Call Right Exercise Price by executing a transfer agreement; and

(d) if and to the extent that any Certificates have been purchased and are to be cancelled pursuant to Conditions 8(h) and 8(i), to require the Trustee to transfer and convey to Mumtalakat on the Cancellation Date all of the Share Interests relating to a proportion of the Shares comprised in the Share Portfolio equal to such proportion as is determined by dividing (i) the aggregate face amount of Certificates to be cancelled by (ii) the aggregate face amount of the Certificates of the relevant Series then outstanding (the "**Cancellation Shares**") by executing a transfer agreement.

Where the Cancellation Shares or Clean Up Call Right Shares, as the case may be, would include a proportion of one Share that is less than the whole of such Share, a Transfer Agreement shall not be entered into in respect of such proportion of the Share Interests relating to that Share (the "**Relevant Share**

Interests") and the transfer to Mumtalakat of such Relevant Share Interests shall be deferred until such time as the Exercise Price or the Clean Up Put Right Exercise Price, as the case may be, becomes payable by Mumtalakat in relation to such Relevant Share Interests in full (the "**Relevant Transfer Date**") and the Trustee shall hold the Relevant Share Interests for the benefit of Mumtalakat, until the Relevant Transfer Date.

Substitution Undertaking

The Substitution Undertaking will be executed as a deed on 30 October 2014 by the Trustee and will be governed by English law.

Pursuant to the Substitution Undertaking, the Trustee will grant to Mumtalakat the right to require the Trustee to transfer and convey all of its Share Interests relating to certain Shares comprised in the relevant Share Portfolio to Mumtalakat in exchange for Mumtalakat assigning, transferring and conveying to the Trustee its Share Interests relating to certain new Shares on an "as is" basis but free from any Encumbrance (without any warranty express or implied as to condition, fitness for purpose, suitability for use or otherwise and if any warranty is implied by law, it shall be excluded to the fullest extent permitted by law), and otherwise on the terms and subject to the conditions of the Substitution Undertaking, provided that certain conditions are satisfied including that the new Shares are of a Value which (i) is equal to or greater than the Value of the substituted Shares and (ii) when aggregated with the Value of any Shares not replaced or substituted, satisfies the Share Value Requirement. The substitution of the substituted Shares for the new Shares will become effective on the date specified in the substitution notice to be delivered by Mumtalakat in accordance with the Substitution Undertaking, by the Trustee and Mumtalakat entering into a transfer agreement. Each transfer agreement will (i) effect the transfer of Share Interests relating to the substituted Shares from the Trustee to Mumtalakat and (ii) effect the transfer of Share Interests relating to the new Shares from Mumtalakat to the Trustee.

The new Shares and any Shares not replaced on the Substitution Date will constitute the Share Portfolio for the relevant Series for the purposes of the Service Agency Agreement.

Master Murabaha Agreement

The Master Murabaha Agreement will be entered into on 30 October 2014 between the Trustee (in its capacity as Seller) and Mumtalakat (in its capacity as the "**Buyer**") and will be governed by English law.

In connection with each Series of Certificates, the Trustee shall enter into a Commodity Murabaha Investment with the Buyer using no more than 49 per cent. of the issue proceeds of the Series.

Pursuant to the Master Murabaha Agreement, the Seller agrees and undertakes that, on receipt of a purchase order from the Buyer, the Seller shall on the Issue Date for the relevant Series and on the terms set out in the purchase order enter into purchase transactions no later than the Issue Date with commodity suppliers to purchase Commodities at the Commodity Purchase Price. Following the purchase of the Commodities by the Seller, and provided that the Seller has acquired title to, and actual or constructive possession of, the Commodities, the Seller shall deliver to the Buyer no later than the Issue Date a letter of offer and acceptance indicating the Seller's acceptance of the terms of the purchase order made by the Buyer and detailing the terms of the offer for the sale of the Commodities to the Buyer from the Seller no later than the Issue Date.

Pursuant to the Master Murabaha Agreement, the Buyer irrevocably and unconditionally undertakes to accept the terms of, countersign and deliver to the Seller any letter of offer and acceptance delivered to it in accordance with the Master Murabaha Agreement and (as a result of the Seller having acted on the request of the Buyer set out in the purchase order) purchase the Commodities acquired by the Seller for the Deferred Sale Price (to be paid in the currency and amounts and on the dates as specified in the relevant Letter of Offer and Acceptance).

As soon as the Buyer has countersigned the letter of offer and acceptance, a Murabaha Contract shall be created between the Seller and the Buyer upon the terms of the letter of offer and acceptance and incorporating the terms and conditions set out in the Master Murabaha Agreement, and ownership of and all risks in and to the relevant Commodities shall immediately pass to and be vested in the Buyer, together with all rights and obligations relating thereto.

The Master Declaration of Trust, as supplemented by each Supplemental Declaration of Trust.

The Master Declaration of Trust will be entered into on 30 October 2014 between the Trustee, the Obligor and the Delegate and will be governed by English law. A Supplemental Declaration of Trust between the same parties will be entered into on the Issue Date of each Series of Certificates and will also be governed by English law.

Upon issue of a Series of Certificates, the Master Declaration of Trust and the relevant Supplemental Declaration of Trust shall together constitute the trust over the relevant Trust Assets declared by the Trustee in relation to such Series (the Master Declaration of Trust as supplemented by the relevant Supplemental Declaration of Trust for each Series being referred to herein as the "**Declaration of Trust**").

The Trust Assets in respect of each Series of Certificates shall comprise:

(a) the cash proceeds of the issue of Certificates, pending application thereof in accordance with the terms of the Transaction Documents;

(b) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Wakala Portfolio;

(c) the rights, title, interest, benefits and entitlements, present and future of the Trustee in, to and under the Transaction Documents (other than in relation to the Excluded Representations (as defined in the Conditions) and the covenant given to the Trustee pursuant to Clause 17.1 of the Master Declaration of Trust);

(d) all moneys standing to the credit of the Transaction Account from time to time; and

(e) all proceeds of (a) to (e) above.

Pursuant to the relevant Declaration of Trust, the Trustee will, in relation to each Series of Certificates, amongst other things (i) hold the relevant Trust Assets on trust absolutely for the holders of the Certificates as beneficiaries *pro rata* according to the face amount of Certificates of that Series held by each Certificateholder; and (ii) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the relevant Declaration of Trust.

Pursuant to the Master Declaration of Trust, the Trustee will irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to:

(a) execute, deliver and perfect all documents, and

(b) exercise all of the present and future powers (including the power to sub-delegate), trusts, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Transaction Documents) and discretions vested in the Trustee by the Declaration of Trust and the Certificates,

that the Delegate may consider to be necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, and subject to its being indemnified and/or secured and/or pre-funded to its satisfaction, (i) exercise all of the rights of the Trustee under the Purchase Undertaking and any of the other Transaction Documents and (ii) make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Conditions and the Declaration of Trust (together the "**Delegation**" of the "**Relevant Powers**"), provided that (i) no obligations, duties, liabilities or covenants of the Trustee pursuant to the Declaration of Trust or any other Transaction Document shall be imposed on the Delegate by virtue of the Delegation); (ii) in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets; and (iii) such Delegation of the Relevant Powers shall not include any duty, power, trust, right, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee will undertake in the Master Declaration of Trust to ratify and confirm all things done and all documents executed by the Delegate in the exercise of all or any of its powers pursuant to the Delegation.

The Delegation is to be made by the Trustee to the Delegate for the benefit of the Delegate and the Certificateholders, subject to the terms of the Conditions and the Declaration of Trust. Each of the Obligor and the Trustee will confirm in the Master Declaration of Trust that the Delegate may consult with or request and rely on (without liability to any person for so doing) the advice of any lawyer, valuer, banker, broker, accountant or other expert in exercising the rights, powers or actions delegated to it under the Master Declaration of Trust.

In addition to the Delegation of the Relevant Powers, certain powers under the Master Declaration of Trust will be vested solely in the Delegate, including, amongst other things, the power to call and conduct meetings at the request of Certificateholders, to waive or authorise a breach of an obligation or determine that a Dissolution Event or Potential Dissolution Event shall not be treated as such, and the power to consent to certain types of amendments to any Transaction Document or the memorandum and articles of association of the Trustee, in each case as more particularly described in the Master Declaration of Trust.

Pursuant to the Master Declaration of Trust, Mumtalakat will agree to pay certain fees and expenses incurred by the Trustee and/or the Delegate and will grant certain indemnities in favour of the Trustee and the Delegate in respect of any liabilities incurred in connection with their involvement in the Programme.

The Master Declaration of Trust will specify that the rights of recourse in respect of Certificates shall be limited to the amounts from time to time available and comprising the relevant Trust Assets of that Series. The Certificateholders have no claim or recourse against the Trustee to the extent the Trust Assets have been exhausted following which all obligations of the Trustee shall be extinguished.

A non-interest bearing Transaction Account will be established in respect of each Series of Certificates. Monies received in the Transaction Account in respect of each Series will, *inter alia*, comprise Wakala Portfolio Revenues (see "*Summary of the Principal Transaction Documents — Service Agency Agreement*" and "*Summary of the Principal Transaction Documents — Master Murabaha Agreement*"). The Master Declaration of Trust provides that all monies credited to the Transaction Account in respect of each Series will be applied in the order of priority set out in Condition 5(b).

Agency Agreement

The Agency Agreement will be entered into on 30 October 2014 in relation to the Certificates between, amongst others, the Trustee, Mumtalakat, the Delegate, the Principal Paying Agent and the Registrar. The Agency Agreement will govern the arrangements between the Trustee and the agents named therein for the issuance of Certificates and the making of payments in respect thereof. The Agency Agreement will be governed by English law.

Defined Terms

"**Business Day**" means, in respect of each Certificate, (i) a day other than a Saturday or Sunday on which Euroclear and Clearstream, Luxembourg are operating; (ii) a day on which banks and foreign exchange markets are open for general business in the city of the Principal Paying Agent's specified office; and (iii) (if a payment is to be made on that day) a day on which banks and foreign exchange markets are open for general business in the principal financial centre for the Specified Currency or, in the case of euro, a day on which the TARGET System is operating;

"**Certificateholder Put Right Exercise Price**" means, in relation to each Series:

(a) the aggregate Value of the Certificateholder Put Right Shares; plus

(b) if all of the Certificates of a Series are being redeemed, an amount equal to the Outstanding Liquidity Amount (if any); plus

(c) without duplication or double counting, an amount representing any amounts payable by Mumtalakat Sukuk Holding Company (in any capacity) under the Transaction Documents (including but not limited to costs and expenses due but unpaid to the Delegate and any unpaid Service Agent Liabilities Amounts); plus

(d) any other amounts payable in relation to the Certificates being redeemed on the exercise of the Certificateholder Put Right as specified in the applicable Final Terms;

"**Change of Control Exercise Price**" means, in relation to each Series:

(a) the aggregate Value of the Change of Control Shares; plus

(b) if all of the Certificates of a Series are being redeemed, an amount equal to the Outstanding Liquidity Amount (if any); plus

(c) without duplication or double counting, an amount representing any amounts payable by Mumtalakat Sukuk Holding Company (in any capacity) under the Transaction Documents (including but not limited to costs and expenses due but unpaid to the Delegate and any unpaid Service Agent Liabilities Amounts); plus

(d) any other amounts payable in relation to the Certificates being redeemed on the exercise of the Change of Control Put Right as specified in the applicable Final Terms;

"**Commodities**" means the Shariah-compliant commodities (excluding currencies, gold and silver, that are each used as a medium of exchange) which are identified in the Purchase Order and Letter of Offer and Acceptance in connection with any Series;

"**Commodity Buyer**" means a person other than the Commodity Supplier to whom the Buyer sells Commodities;

"**Commodity Murabaha Investment**" means, in relation to each Series, the sale of Commodities by the Seller to the Buyer, initially purchased by the Seller using no more than 49 per cent. of the proceeds of the issue of the Certificates of such Series, pursuant to the Master Murabaha Agreement and having the terms set out in the relevant Murabaha Contract;

"**Commodity Supplier**" means a person other than the Commodity Buyer from whom the Seller purchases the Commodities;

"**Deferred Sale Price**" means, in relation to a Murabaha Contract, the amount specified as such in the Letter of Offer and Acceptance;

the "**Eligibility Criteria**" in respect of any Shares shall be satisfied if:

(a) the core business activities of the Relevant Company in which the Shares are issued comply with the principles of Shariah and, in particular, the Relevant Company does not undertake core business activities or core investments in the following industry sectors:

   (i) conventional finance;

   (ii) conventional insurance;

   (iii) alcohol;

   (iv) pork-related products and production, packaging and processing of food that is prohibited under Shariah or any other activities related to pork and food that is prohibited under Shariah;

   (v) advertising and media (excluding media and advertising companies generating revenues in excess of sixty-five per cent. (65%) of total income from the GCC countries, newspapers, news channels and sports channels);

   (vi) tobacco;

(vii) cloning;

(viii) gambling;

(ix) pornography; and

(x) trading of gold and silver as cash on deferred basis.

(b) in relation to the Relevant Company in which the Shares are issued:

(i) its total conventional finance debt obligations are less than thirty-three per cent. (33%) of, if the Relevant Company's Shares are unlisted, its total assets or, if the Relevant Company's Shares are listed, its average market capitalisation over the past 36 months (in each case, as specified in its most recent set of audited financial statements) (for the avoidance of doubt, this ratio excludes the Islamic finance debt obligations of the company);

(ii) its total cash plus interest bearing investments and deposits are less than thirty-three per cent. (33%) of, if the Relevant Company's Shares are unlisted, its total assets or, if the Relevant Company's Shares are listed, its average market capitalisation over the past 36 months (in each case, as specified in its most recent set of audited financial statements);

(iii) its accounts receivables are less than forty-nine per cent. (49%) of, if the Relevant Company's Shares are unlisted, its total assets or, if the Relevant Company's Shares are listed, its average market capitalisation over the past 36 months (in each case, as specified in its most recent set of audited financial statements); and

(iv) its total revenue per annum from non-permissible income (other than interest income) that does not comply with Shariah does not exceed more than five per cent. (5%) of its total revenues per annum (as specified in its most recent set of audited financial statements);

(c) the Shares are fully paid; and

(d) all Taxes and other outstanding monetary obligations due and payable in respect of the Shares have been paid in full;

"**Encumbrance**" means any lien, pledge, mortgage, security interest, deed of trust, assignment charge or other encumbrance or arrangement having a similar effect;

"**Exercise Price**" means, in relation to each Series:

(a) the Value of the Share Portfolio; plus

(b) an amount equal to the Outstanding Liquidity Amount (if any); plus

(c) without duplication or double counting, an amount representing any amounts payable by Mumtalakat Sukuk Holding Company (in any capacity) under the Transaction Documents (including but not limited to costs and expenses due but unpaid to the Delegate and any unpaid Service Agent Liabilities Amounts); plus

(d) any other amounts payable on redemption of the Certificates as specified in the applicable Final Terms (including, if applicable, any Make-Whole Dissolution Amount);

"**Initial Share Portfolio**" means, in relation to a Series, the Shares described in the relevant Supplemental Assignment Agreement;

"**Letter of Offer and Acceptance**" means the letter to be delivered by the Seller to the Buyer substantially in the form set out in Schedule 2 of the Master Murabaha Agreement;

"**New Shares**" means, in respect of the exercise of the right granted under sub-Clause 2.1.5 of the Purchase Undertaking, the Shares specified as such in the relevant Substitution Instruction;

"**Outstanding Liquidity Amount**" means the amount (if any) of funding provided under a liquidity facility pursuant to the terms of the Service Agency Agreement and which has not been repaid in accordance with the provisions of the Service Agency Agreement;

"**Purchase Price**" means the purchase price payable by the Purchaser in respect of any Share Interests which are the subject of a Supplemental Assignment Agreement, as set out therein;

"**Relevant Company**" means a member of the Group which is incorporated in Bahrain;

"**Service Agent Liabilities Amount**" means, in relation to each Series, the amount of any claims, losses, costs and expenses properly incurred or suffered by the Service Agent or other payments made by the Service Agent on behalf of the Trustee, in each case in providing the Wakala Services during a Wakala Distribution Period, but does not include any amount due to the Service Agent under the Service Agency Agreement in respect of any Liquidity Facility;

"**Share Interests**" means, with respect to any Shares that satisfy the Eligibility Criteria and are the subject of a Supplemental Assignment Agreement, all of the Seller's interests, rights, benefits and entitlements (excluding legal title) in, to and under such Shares including, but not limited to, the right to receive any payments or other distributions made in respect of the Shares, the benefit of any appreciation in the Value of the Shares and the right to exercise all voting rights attached to the Shares;

"**Shares**" means shares in one or more Relevant Companies and "**Share**" shall be construed accordingly;

"**Share Portfolio**" means, in relation to each Series (i) the Initial Share Portfolio relating to that Series, (ii) from the time of any substitution of Shares in accordance with the Service Agency Agreement, the Purchase Undertaking or the Substitution Undertaking, shall include the new Shares so substituted and shall cease to include the substituted Shares, (iii) from the time of any other transfer or conveyance of Share Interests relating to Shares from the Trustee to Mumtalakat in accordance with the Sale Undertaking or purchase of Share Interests relating to Shares by Mumtalakat from the Trustee pursuant to the Purchase Undertaking, shall cease to include the Shares so transferred, conveyed or purchased;

"**Share Value Requirement**" has the meaning given to it in sub-Clause 4.1.1 of the Service Agency Agreement;

"**Shariah Adviser**" means any reputable independent Shariah adviser(s) as may be appointed by Mumtalakat for such purpose in connection with a Series;

"**Shortfall Amount**" has the meaning given to it in sub-Clause 6.4.1 of the Service Agency Agreement;

"**Substituted Shares**" means, in respect of the exercise of the right granted under sub-Clause 2.1.5 of the Purchase Undertaking, the Shares specified as such in the relevant Substitution Instruction;

"**Substitution Instruction**" means a substitution instruction in or substantially in the form set out in Schedule 3 to the Purchase Undertaking;

"**Supplemental Assignment Agreement**" means, in respect of a Series, an agreement substantially in the form set out in the Schedule to the Master Assignment Agreement;

"**Taxes**" means any tax, levy, impost, duty or other charge or withholding of a similar nature;

"**Value**" means, on any date, the amount in the Specified Currency determined by the Service Agent on the relevant date as being equal to:

(a) in respect of a Wakala Portfolio, the aggregate of (i) the Value of each Share in the Share Portfolio which Value shall be equivalent to the Share Interests relating to each such Share and (ii) the Value of the Commodity Murabaha Investment;

(b) in respect of any Shares or the Share Interests relating to any Shares or new Shares in a Share Portfolio:

(i) if such Shares or, as the case may be, new Shares are listed on a stock exchange on the relevant date, the market value of the Shares or, as the case may be, the new Shares; and/or

(ii) if such Shares or, as the case may be, new Shares are not listed on any stock exchange on the relevant date, the book value of the Shares or, as the case may be, the new Shares determined by reference to the most recent audited consolidated financial statements of the Relevant Company; and

in respect of a Commodity Murabaha Investment, the aggregate of all outstanding amounts of the relevant Deferred Sale Price and any other outstanding amounts payable in respect of such Commodity Murabaha Investment on or after the relevant date;

"**Wakala Distribution Date**" means, in relation to a Series, each Periodic Distribution Date;

"**Wakala Distribution Determination Date**" means, in relation to a Series, the Business Day immediately preceding each Wakala Distribution Date;

"**Wakala Distribution Period**" means, in relation to a Series, the period beginning on (and including) the Issue Date and ending on (but excluding) the first Wakala Distribution Date and each successive period beginning on (and including) a Wakala Distribution Date and ending on (but excluding) the next succeeding Wakala Distribution Date;

"**Wakala Ownership Period**" means, in relation to each Series, the period commencing on the Issue Date and ending on the date on which all of the Certificates of that Series are redeemed in full;

"**Wakala Portfolio**" means, in relation to each Series, the Share Interests relating to the Shares comprised in the Share Portfolio and the Commodity Murabaha Investment for such Series and all other rights arising under or with respect to the Share Portfolio and the Commodity Murabaha Investment (including the right to receive payment of the Deferred Sale Price and any other amounts or distributions due in connection with the relevant Share Interests and Commodity Murabaha Investment); and

"**Wakala Portfolio Revenues**" means, in relation to a Series, all revenues in respect of the Wakala Portfolio including (i) any amounts of Deferred Sale Price to be paid in respect of the Commodity Murabaha Investment and (ii) any dividend or distribution amounts paid in respect of the Share Portfolio.

TAXATION

The following is a general description of certain Cayman Island, Bahraini and European Union tax considerations relating to the Certificates. It does not purport to be a complete analysis of all tax considerations relating to the Certificates, whether in those jurisdictions or elsewhere. Prospective purchasers of Certificates should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Certificates and receiving payments under the Certificates and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Cayman Islands

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Certificates. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments on the Certificates will not be subject to taxation in the Cayman Islands and no withholding will be required on the payments to any holder of the Certificates, nor will gains derived from the disposal of the Certificates be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The Trustee has obtained an undertaking from the Governor in Cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Trustee or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which includes the Certificates) of the Trustee or by way of the withholding in whole or part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision). No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Certificates. However, an instrument transferring title to such Certificates, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$855. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

Bahrain

As at the date of this Base Prospectus, there are no taxes payable with respect to income, withholding or capital gains under existing Bahraini laws. Corporate income tax is only levied on oil, gas and petroleum companies at a flat rate of 46 per cent. This tax is applicable to any oil company conducting business activity of any kind in Bahrain, including oil production, refining and exploration, regardless of the company's place of incorporation.

There are no currency or exchange control restrictions currently in force under Bahraini law and the free transfer of currency into and out of Bahrain is permitted, subject to any anti-money laundering regulations and international regulations in force from time to time.

Under existing Bahraini laws, payments under the Certificates will not be subject to taxation in Bahrain, no withholding will be required on such payments to any holder of Certificates and gains derived from the sale of Certificates will not be subject to Bahraini income, withholding or capital gains tax. In the event of the imposition of any such withholding, the Obligor has undertaken to gross-up any payments subject to such withholding, as described under Condition 10.

EU Directive on the Taxation of Savings Income

The Savings Directive requires EU Member States to provide to the tax authorities of other EU Member States details of certain payments of interest and other similar income paid or secured by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain other types of entity established, in that other EU Member State, except that Austria and Luxembourg will instead impose a withholding system for a transitional period (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) unless during such period they elect otherwise. The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015.

A number of other countries and territories including Switzerland have adopted similar measures to the Savings Directive. The precise scope of what constitutes interest or similar income for the purposes of the Savings Directive is unclear and accordingly it is possible that certain payments which are made in respect of the Certificates (such as the Periodic Distribution Amounts) could be within the scope of the Savings Directive.

On 24 March 2014, the Council of the European Union adopted the Amending Directive which will, when implemented, amend and broaden the scope of the requirements of the Savings Directive described above. The Amending Directive will expand the range of payments covered by the Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation; or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Certificates (including secondary market transactions) in certain circumstances. The issuance and subscription of Certificates should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

A joint statement issued in May 2014 by the participating Member States (other than Slovenia) indicated an intention to implement the FTT progressively, such that it would initially apply to transactions involving shares and certain derivatives, with this initial implementation occurring by 1 January 2016. However, full details are not available. The FTT, as initially implemented on this basis, may not apply to dealings in the Certificates.

The proposed FTT remains subject to negotiation between the participating Member States and the timing remains unclear. Additional Member States may decide to participate. Prospective holders of Certificates are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**") impose a new reporting regime and potentially a 30 per cent. withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "**foreign financial institution**", or "**FFI**" (as defined by FATCA)) that does not become a "**Participating FFI**" by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA; and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Trustee (a "**Recalcitrant Holder**"). The Trustee may be classified as an FFI.

The new withholding regime began to be phased in from 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Certificates characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "**grandfathering date**", which is the later of (a) 1 July 2014; and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date; and (ii) any Certificates characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued.

The United States and a number of other jurisdictions have announced their intention to negotiate and the United States has recently concluded several intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "Reporting FI" not subject to withholding under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes (unless it has agreed to do so under the U.S. "qualified intermediary," "withholding foreign partnership," or "withholding foreign trust" regimes). The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

If the Trustee becomes a Participating FFI under FATCA, the Trustee and financial institutions through which payments on the Certificates are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Certificates is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If an amount in respect of FATCA Withholding were to be deducted or withheld from profit, principal or other payments made in respect of the Certificates, neither the Trustee, the Obligor, the Principal Paying Agent nor any other person would, pursuant to the conditions of the Certificates, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected.

Whilst the Certificates are in global form and held within the ICSDs, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Certificates by the Trustee, the Obligor, the Principal Paying Agent and the Common Depositary, given that each of the entities in the payment chain between the Trustee and the participants in the ICSDs is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement will be unlikely to affect the Certificates. The documentation in respect of the Certificates expressly contemplates the possibility that the Certificates may go into definitive form and therefore that they may be taken out of the ICSDs. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive Certificates will only be printed in remote circumstances.

The Cayman Islands have entered into a Model 1 IGA with the United States (the "**US IGA**") and have entered into a similar IGA with the United Kingdom (the "**UK IGA**") (together with the US IGA, the "**Cayman IGAs**"). The Trustee will be required to comply with the Cayman Islands Tax Information Authority Law (2013 Revision) (as amended) together with regulations and guidance notes made pursuant to such Law (the "**Cayman FATCA Legislation**") that give effect to the Cayman IGAs. To the extent the Trustee cannot be treated as a Non-Reporting Cayman Islands Financial Institution (as defined in the Cayman IGAs) by taking advantage of one of the categories set out in Annex II to the Cayman IGAs (for example by being a Sponsored Investment Entity (as defined in the Cayman IGAs)), the Trustee will be a Reporting Cayman Islands Financial Institution (as defined in the Cayman IGAs). As such, the Trustee is required to register with the IRS to obtain a Global Intermediary Identification Number (for the purposes of the US IGA only) and to report to the Cayman Islands Tax Information Authority any payments made to (i) Specified US Persons with respect to US Reportable Accounts and (ii) Specified UK Persons with respect to UK Reportable Accounts (each such term as defined in the relevant Cayman IGA). The Cayman Islands Tax Information Authority will exchange such information with the IRS or Her Majesty's Revenue and Customs, as the case may be, under the terms of the relevant Cayman IGA. Under the terms of the US IGA, withholding will not be imposed on payments made to the Trustee unless the IRS has specifically listed the Trustee as a non-participating financial institution, or on payments made by the Trustee to the Certificateholders, unless the Trustee has otherwise assumed responsibility for withholding under United States tax law.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Trustee and to payments they may receive in connection with the Certificates.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a dealer agreement dated 30 October 2014 between the Trustee, the Obligor, the Arranger and the Permanent Dealers (the "**Dealer Agreement**"), the Certificates will be offered on a continuous basis by the Trustee to the Permanent Dealers. However, the Trustee has reserved the right to sell Certificates directly on its own behalf to Dealers that are not Permanent Dealers. The Certificates may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Certificates may also be sold by the Trustee through the Dealers, acting as agents of the Trustee. The Dealer Agreement also provides for Certificates to be issued in syndicated Series that are jointly and severally underwritten by two or more Dealers.

Each of the Trustee and the Obligor has agreed to reimburse the Arranger for certain of its expenses incurred in connection with the establishment of, and any continuing responsibilities relating to, the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection with the offer and sale of the Certificates.

The Trustee and the Obligor will pay each relevant Dealer a commission as agreed between them in respect of Certificates subscribed by it and a further placing commission may be paid to third parties.

The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Trustee.

Certain of the Dealers and their respective affiliates have from time to time performed, and may in the future perform, investment banking, commercial banking and various financial and advisory services for, and have from time to time provided, or may provide, credit facilities to the Obligor for which they have received, or may in the future receive, customary fees and expenses. Each of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Obligor in the ordinary course of their respective businesses.

Selling Restrictions

United States

The Certificates have not been and will not be registered under the Securities Act, as amended, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. 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.

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Certificates (i) as part of their distribution at any time; or (ii) otherwise until expiration of 40 days after the completion of the distribution of all Certificates of the Series of which such Certificates are a part, as determined and certified to the Principal Paying Agent by such Dealer (or, in the case of a Series of Certificates sold to or through more than one Dealer, by each of such Dealers with respect to Certificates of a Series purchased by or through it, in which case the Principal Paying Agent shall notify such Dealer when all such Dealers 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 Dealer to which it sells Certificates during the distribution compliance period a confirmation or other notice setting out the restrictions on offers and sales of the Certificates 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.

The Certificates are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S.

In addition, until the expiration of 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of Certificates within the United States by any dealer (whether or not participating in the offering of such Series of Certificates) may violate the registration requirements of the Securities Act.

This Base Prospectus has been prepared by the Obligor for use in connection with the offer and sale of the Certificates outside the United States. The Trustee, the Obligor and the Dealers reserve the right to reject any offer to purchase the Certificates, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States. Distribution of this Base Prospectus by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Trustee and the Obligor of any of its contents to any such U.S. person or other person within the United States, is prohibited.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) in relation to any Certificates which have a maturity of less than one year (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (b) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of the FSMA by the Trustee;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or the Obligor; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

UAE (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "**DFSA**"); and

(ii) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Certificates, except in compliance with Article 81 of the CBB and Financial Institutional Law promulgated by Legislative Decree No. 64 of 2006 to persons in Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more;

(ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

Kingdom of Saudi Arabia

No action has been or will be taken in Saudi Arabia that would permit a public offering of the Certificates. Any investor in Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"), through a person authorised by the Capital Market Authority (the "**CMA**") to carry on the securities activity of arranging and following a notification to the CMA under the KSA Regulations.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. including as follows:

(a) a Saudi Investor (referred to as a "**transferor**") who has acquired Certificates pursuant to a private placement may not offer or sell those Certificates to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorised person where one of the following requirements is met:

    (i) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyals one million or an equivalent amount;

    (ii) the Certificates are offered or sold to a sophisticated investor; or

    (iii) the Certificates are being offered or sold in such other circumstances as the CMA may prescribe for these purposes;

(b) if the requirement of paragraph (a)(i) above cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original private placement, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original private placement was equal to or exceeded Saudi Riyals 1 million or an equivalent amount;

(c) if the requirement in paragraph (b) above cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his/her entire holding of Certificates to one transferee; and

(d) the provisions of paragraphs (a), (b) and (c) (inclusive) above shall apply to all subsequent transferees of the Certificates.

State of Qatar

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in Qatar, including the Qatar Financial Centre, except (i) in compliance with all applicable laws and regulations of Qatar, including the Qatar Financial Centre; and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

State of Kuwait

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Certificates have not been and will not be offered, sold, promoted or advertised by it in Kuwait other than in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities.

No private or public offering of the Certificates is being made in Kuwait, and no agreement relating to the sale of the Certificates will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in Kuwait.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold Certificates, and will not, directly or indirectly, offer or sell any Certificates in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Malaysia

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(i) this Base Prospectus has not been registered as a prospectus with the Securities Commission of Malaysia (the "**SC**") under the Capital Markets and Services Act 2007 of Malaysia (the "**CMSA**"). While a copy of this Base Prospectus will be deposited with the SC, the SC takes no responsibility for its content; and

(ii) accordingly, the Certificates have not been and will not be offered or sold, and no invitation to subscribe for or purchase the Certificates has been or will be made, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)) read together with Schedule 8 (or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of the Central Bank of Malaysia, the SC and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the ''**SFA**''). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"); (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or; (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 32 of the Securities and Futures (Offer of Investments)(Shares and Debentures) Regulations 2005 of Singapore.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that no invitation or offer, whether directly or indirectly, to subscribe for any Certificates issued under the Programme, has been or will be made to the public in the Cayman Islands.

General

These selling restrictions may be modified by the agreement of the Obligor, the Trustee and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Certificates to which it relates or in a supplement to this Base Prospectus.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Certificates, or possession or distribution of this Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has agreed that it shall, to the best of its knowledge, comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Certificates or has in its possession or distributes this Base Prospectus, any other offering material or any Final Terms therefore in all cases at its own expense.

GENERAL INFORMATION

(1) This Base Prospectus has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive. Such approval relates only to the Certificates which are to be admitted to trading on the Main Securities Market or any other MiFID regulated markets or which are to be offered to the public in any EU Member State. The Central Bank of Ireland only approves this Base Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Obligor in connection with the Certificates and is not itself seeking admission of the Certificates to the Official List of the Irish Stock Exchange plc or to trading on the Main Securities Market for the purposes of the Prospectus Directive.

(2) Application has been made to the Irish Stock Exchange plc for Certificates issued under the Programme during the 12 months from the date of this Base Prospectus to be admitted to the Official List and admitted to trading on the Main Securities Market. It is expected that each Series of Certificates which is to be admitted to the Official List and to trading on the Main Securities Market will be admitted separately as and when issued, subject only to the issue of a Global Certificate representing the Certificates of such Series. Prior to official listing and admission to trading, however, dealings will be permitted by the Irish Stock Exchange plc in accordance with its rules. Transactions on the Main Securities Market will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Certificates may be issued pursuant to the Programme.

(3) Each of the Trustee and the Obligor has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the establishment of the Programme, the issue and performance of the Certificates and the entry into and performance of the Transaction Documents to which it is a party. The establishment of the Programme was authorised by a written resolution of the board of directors of the Trustee dated 30 October 2014, a resolution of the board of directors of the Obligor dated 17 July 2014 and a resolution of the shareholder of the Obligor dated 24 September 2014.

(4) There has been no significant change in the financial or trading position, or material adverse change in the prospects, of the Trustee since the date of its incorporation.

There has been no significant change in the financial or trading position of the Obligor or of the Group since 30 June 2014 and there has been no material adverse change in the prospects of the Obligor or of the Group since 31 December 2013.

(5) Neither the Trustee nor the Obligor nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee or the Obligor is aware) in the twelve months preceding the date of this Base Prospectus which may have or has had in the recent past significant effects on the financial position or profitability of the Trustee, the Obligor or the Group.

(6) Certificates have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Certificates will be set out in the applicable Final Terms.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any Alternative Clearing System will be specified in the applicable Final Terms.

(7) There are no material contracts entered into other than in the ordinary course of the Trustee's or the Obligor's respective business, which could result in any member of the Group being under an obligation or entitlement that is material to the Trustee's or the Obligor's ability to meet its obligations to Certificateholders in respect of the Certificates being issued.

(8) The issue price and the amount of the relevant Certificates will be determined by the Trustee, the Obligor and the relevant Dealer(s) before filing of the applicable Final Terms of each Series, based on prevailing market conditions. Neither the Obligor nor the Trustee intends to provide any post-issuance information in relation to any issue of Certificates.

(9) For so long as Certificates may be issued pursuant to this Base Prospectus, physical copies (and English translations, which will be accurate and direct translations, where the documents in questions are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the office of the Principal Paying Agent:

(i) the constitutional documents of the Trustee and the Obligor;

(ii) the Transaction Documents;

(iii) the unaudited interim condensed consolidated financial statements of the Obligor as at and for the six months ended 30 June 2014, together with the review report prepared in connection therewith;

(iv) the audited consolidated financial statements of the Obligor as at and for the years ended 31 December 2013 and 31 December 2012, together with the audit reports prepared in connection therewith;

(v) the most recently published audited consolidated financial statements of the Obligor and the most recently published unaudited interim condensed consolidated financial statements (if any) of the Obligor, in each case together with any audit or review reports prepared in connection therewith;

(vi) each Final Terms (save that Final Terms relating to a Series which is neither admitted to trading on a regulated market within the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Certificateholder of such Series and such holder must produce evidence satisfactory to the Trustee and the Principal Paying Agent as to its holding of Certificates and identity);

(vii) a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Base Prospectus; and

(viii) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Base Prospectus.

The Final Terms for Certificates that are listed on the Official List and admitted to trading on the Main Securities Market and, for a period of 12 months only from the date hereof, this Base Prospectus will be published on the website of the Central Bank of Ireland (www.centralbank.ie).

(10) Copies of the latest annual report, the most recently published audited consolidated financial statements of the Obligor and the most recently published unaudited interim consolidated financial statements (if any) of the Obligor may be obtained at the specified offices of each of the Paying Agents during normal business hours, so long as any of the Certificates is outstanding.

(11) Deloitte & Touche – Office 44, 4th floor – Al Zamil Tower, Government Avenue, P.O. Box 421, Manama, Bahrain ("**Deloitte**") have audited, and rendered unqualified audit reports on, the consolidated financial statements of the Obligor for the year ended 31 December 2013. Ernst & Young Bahrain of P.O. Box 140, 14th Floor – The Tower, Bahrain Commercial Complex, Manama, Bahrain ("**E&Y**") have audited, and rendered unqualified audit reports on, the consolidated financial statements of the Obligor for the years ended 31 December 2012 and 31 December 2011.

Each of Deloitte and E&Y is registered with the Ministry of Industry and Commerce in Bahrain. Some of the professionals of Deloitte and E&Y are members in the Bahrain Accountants Association and / or other professional international bodies.

Since the date of its incorporation, no financial statements of the Trustee have been prepared. The Trustee is not required by Cayman Islands law, and does not intend, to publish audited financial statements.

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INDEX TO FINANCIAL STATEMENTS

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2014

Deloitte.

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REPORT ON THE REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF BAHRAIN MUMTALAKAT HOLDING COMPANY B.S.C. (c)

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Bahrain Mumtalakat Holding Company B.S.C. (c) ("the Company") and its subsidiaries (together "the Group") as at 30 June 2014, the related interim consolidated statement of income, comprehensive income, cash flows and changes in equity for the six-month period then ended. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche

Deloitte & Touche

23 September 2014
Manama, Kingdom of Bahrain

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2014

	Note	*Unaudited 30 June 2014 BD '000*	*Audited 31 December 2013 BD '000*
ASSETS			
Cash and bank balances		**259.400**	245.547
Derivative financial instruments		**192**	-
Trade accounts receivable, prepayments and other receivables		**162,465**	163.835
Inventories		**166,603**	160,657
Investments carried at fair value through statement of income		**95,863**	92.143
Non-trading investments		**243,535**	235.469
Investment in associates		**998,218**	999,906
Investment properties		**217,041**	216,954
Property, plant and equipment		**1,221,696**	1.253.213
Other assets		**98,660**	98.289
Goodwill		**582,247**	582,247
TOTAL ASSETS		**4,045,920**	4,048,260
LIABILITIES AND EQUITY			
Liabilities			
Borrowings		**744,520**	829,438
Derivative financial instruments		**13,234**	16,635
Trade accounts payable, accruals and other liabilities		**566,214**	524.767
Employees' end of service benefits		**11,183**	11.508
Obligations relating to acquired entities		**88,855**	110,375
Total liabilities		**1,424,006**	1.492.721
Equity attributable to shareholder of the parent			
Share capital		**1,845,635**	1.845.635
Capital contribution		**1,173,203**	1.173,175
Statutory reserve		**30,474**	27,072
Other reserves	3	**86,821**	55,714
Accumulated losses		**(789.658)**	(820.280)
		2,346,475	2,281.316
Non-controlling interests		**275,439**	274,223
Total equity		**2,621,914**	2.555,539
TOTAL LIABILITIES AND EQUITY		**4,045,920**	4.048.260

Khalid bin Abdulla Al Khalifa
Chairman

Mahmood H. Al-Kooheji
Chief Executive Officer

Anthony L. Robinson
Chief Financial Officer

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF INCOME

Six month period ended 30 June 2014 (unaudited)

	Note	*Six months ended 30 June* 2014 BD '000	2013 BD '000
Revenue		**568,959**	557,081
Direct costs		**498,250**	494,710
Gross profit		**70,709**	62,371
Dividend income		**571**	143
Gain on investments carried at fair value through statement of income		**3,883**	2,556
Other operating income		**5,385**	5,561
Government assistance	4 & 8	**43,203**	53,801
Selling and distribution expenses		**(38,880)**	(36,183)
Administrative expenses		**(50,454)**	(44,640)
Other operating expenses		**(253)**	(17,413)
Operating income		**34,164**	26,196
Share of profit of associates		**23,906**	22,772
Interest income		**1,956**	2,963
Interest expense		**(16,545)**	(18,156)
Fair value gain on revaluation/settlement of derivatives (net)		**512**	15,368
NET INCOME FOR THE PERIOD		**43,993**	**49,143**
Attributable to:			
Shareholder of the parent		**34,024**	30,292
Non-controlling interests		**9,969**	18,851
		43,993	49,143

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Six month period ended 30 June 2014 (unaudited)

	Six months ended 30 June	
	2014	*2013*
	BD '000	*BD '000*
NET INCOME FOR THE PERIOD	**43,993**	49,143
Other comprehensive income		
Items that will be reclassified to consolidated statement of income in subsequent periods:		
Movement in cumulative changes in fair values	**9,930**	16,623
Share of changes in equity of associates	**11,084**	1,656
Foreign currency translation	**9,697**	(9,668)
Items that will not be reclassified to consolidated statement of income in subsequent periods:		
Remeasurement losses on defined benefit plan	**504**	-
Total other comprehensive income for the period	**31,215**	8,611
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**75,208**	57,754
Attributable to:		
Shareholder of the parent	**65,131**	38,650
Non-controlling interests	**10,077**	19,104
	75,208	57,754

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Six month period ended 30 June 2014 (unaudited)

	Six months ended 30 June	
	2014	*2013*
	BD '000	*BD '000*
OPERATING ACTIVITIES		
Net income for the period	**43,993**	49,143
Adjustments for:		
Depreciation	**57,495**	55,291
Fair value gain on derivatives	**(512)**	(15,368)
Gain on investments carried at fair value through statement of income	**(3,883)**	(2,556)
Gain on sale of non-trading investments	**(121)**	-
Gain on sale of investment in associate	**(2,092)**	-
Share of profits of associates	**(23,906)**	(22,772)
Impairment losses on assets held for sale	**-**	9,000
Provision for impairment on trade accounts and other receivable	**1,819**	-
Loss (gain) on disposal and write-off of property, plant and equipment	**927**	(217)
Interest income	**(1,956)**	(2,963)
Interest expense	**16,545**	18,156
Government assistance	**-**	(47,500)
Employees' end of service benefits	**1,006**	1,268
Operating profit before changes in operating assets and liabilities	**89,315**	41,482
Changes in operating assets and liabilities:		
Inventories	**(5,515)**	(12,588)
Trade accounts receivable, prepayments and other receivables	**(5,416)**	12,408
Trade accounts payable, accruals and other liabilities	**40,464**	(47,152)
Cash from operations	**118,848**	(5,850)
Interest expense	**(16,637)**	(18,156)
Derivative financial instruments	**(1,808)**	(6,006)
Employees' end of service benefits paid	**(1,329)**	(2,457)
Net cash from (used in) operating activities	**99,074**	(32,469)
INVESTING ACTIVITIES		
Investment in associates	**-**	(453)
Proceeds from sale of associate	**28,077**	-
Purchase of non-trading and other investments	**(16,047)**	(9,180)
Proceeds from sale of non-trading and other investments	**19,306**	-
Purchase of property, plant and equipment	**(26,843)**	(18,392)
Proceeds from disposal of property, plant and equipment	**105**	838
Investment in properties	**(101)**	(88)
Other assets	**(260)**	7,651
Short term deposits	**(12,587)**	(3,015)
Dividends from associates	**25,810**	18,300
Net cash inflow on acquisition of a subsidiary	**-**	2,142
Interest received	**1,692**	1,356
Net cash from (used in) investing activities	**19,152**	(841)

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Six month period ended 30 June 2014 (unaudited)

	Six months ended 30 June	
	2014	*2013*
	BD '000	*BD '000*
FINANCING ACTIVITIES		
Capital contribution	**28**	16,111
Proceeds from borrowings	**101,832**	204,020
Repayment of borrowings	**(188,441)**	(270,140)
Dividend paid to non-controlling interests	**(9,451)**	(6,152)
Movement in non-controlling interests	**590**	(1,252)
Obligations relating to acquired entities	**(21,520)**	(22,437)
Net cash used in financing activities	**(116,962)**	(79,850)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,264**	(113,160)
Cash and cash equivalents on 1 January	**141,795**	277,435
CASH AND CASH EQUIVALENTS AT 30 JUNE (Note 6)	**143,059**	164,275

The attached notes 1 to 9 form part of these interim condensed consolidated financial statements.

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six month period ended 30 June 2014 (unaudited)

	Attributable to shareholder of the parent						*Non-controlling interests*	*Total equity*
	Share capital	*Capital contribution*	*Statutory reserve*	*Other reserves*	*Accumulated losses*	*Total*		
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Balance at 31 December 2013 (Audited)	1,845,635	1,173,175	27,072	55,714	(820,280)	2,281,316	274,223	2,555,539
Net income for the period	-	-	-	-	34,024	34,024	9,969	43,993
Other comprehensive income	-	-	-	31,107	-	31,107	108	31,215
Total comprehensive income	-	-	-	31,107	34,024	65,131	10,077	75,208
Contribution by the shareholder	-	28	-	-	-	28	-	28
Dividend paid to non-controlling interests	-	-	-	-	-	-	(9,451)	(9,451)
Transfer to statutory reserve	-	-	3,402	-	(3,402)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	590	590
Balance at 30 June 2014	**1,845,635**	**1,173,203**	**30,474**	**86,821**	**(789,658)**	**2,346,475**	**275,439**	**2,621,914**
Balance at 31 December 2012 (Audited)	1,845,635	1,132,906	21,252	14,949	(872,663)	2,142,079	259,533	2,401,612
Net income for the period	-	-	-	-	30,292	30,292	18,851	49,143
Other comprehensive income	-	-	-	8,358	-	8,358	253	8,611
Total comprehensive income	-	-	-	8,358	30,292	38,650	19,104	57,754
Contribution by the shareholder	-	23,321	-	-	-	23,321	-	23,321
Dividend paid to non-controlling interests	-	-	-	-	-	-	(6,152)	(6,152)
Transfer to statutory reserve	-	-	3,029	-	(3,029)	-	-	-
Movement in non-controlling interests	-	-	-	-	-	-	(1,252)	(1,252)
Balance at 30 June 2013	1,845,635	1,156,227	24,281	23,307	(845,400)	2,204,050	271,233	2,475,283

The attached notes 1 to 9 form part of these interim condensed 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 interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 September 2014.

2 BASIS OF PREPARATION

2.1 Basis of consolidation

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

Name	*Ownership /voting power at 30 June 2014*	*Date of effective control*	*Activity*
Aluminium Bahrain B.S.C. (c)	69.38%	29 June 2006	Owns and operates a primary aluminium smelter and the related infrastructure.
Bahrain Airport Company B.S.C. (c)	100%	17 January 2008	Managing airport facilities, airplanes ground services and airport surrounding area development.
Bahrain Flour Mills Company B.S.C. (c)	65.7%	29 July 2006	Production and sale of flour and related products.
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 Holding Company B.S.C. (c) (formerly Falcon Group Holding Company B.S.C. (c))	100%	2 February 2010	Investment holding company.
Gulf Air B.S.C. (c)	100%	5 May 2007	Transportation of passengers and freight on a scheduled and charter basis.

2 BASIS OF PREPARATION (continued)

2.1 Basis of consolidation (continued)

Name	*Ownership /voting power at 30 June 2014*	*Date of effective control*	*Activity*
Gulf Aviation Academy B.S.C. (c)	100%	22 July 2009	Providing training for airline pilots, cabin crew and related services.
General Poultry Company B.S.C. (c)	100%	29 June 2006	Poultry farming and sale of eggs.
Gulf Technics Company B.S.C. (c)	100%	20 January 2010	Maintenance of aviation, repair, and fleet technical management.
Southern Area Development Company B.S.C. (c)	55.90%	7 October 2013	Development of a hotel and associated facilities and other tourism related activities
Southern Tourism Company B.S.C. (c)	100%	25 April 2013	Providing sea transportation and tourism services.

During the six month period ended 30 June 2014, Gulf Air Group Holding Company B.S.C. (c) was liquidated and Falcon Group Holding Company B.S.C. (c) was renamed to Gulf Air Holding Company B.S.C. (c). There have been no changes to the ownership and voting powers of other subsidiaries.

All of the subsidiaries above are incorporated in the Kingdom of Bahrain.

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.

2.2 Accounting policies

The interim condensed consolidated financial statements of the Group are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2013 except for the adoption of the new / amended standards, effective as of 1 January 2014 noted below, which did not have any impact on the accounting policies, financial position or performance of the Group.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires "investment entities" to account for subsidiaries at fair value through profit or loss. The Company is not considered as an investment entity under IFRS 10.

2 BASIS OF PREPARATION (continued)

2.2 Accounting policies (continued)

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are not expected to impact the Group's financial position or performance.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. These amendments have no impact on the Group.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2013. In addition, results for the six month period ended 30 June 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

2.3 Judgments and estimates

The preparation of the interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by the management in applying the Group's accounting policies were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2013. There were no significant changes to key sources of estimation uncertainty that were applied to the consolidated financial statements as at and for the year ended 31 December 2013.

3 OTHER RESERVES

	Available for sale financial assets reserve BD '000	*Cash flow hedges reserve BD '000*	*Foreign currency translation reserve BD '000*	*Pension plan reserve BD '000*	*Total BD '000*
Balance at 31 December 2013 (Audited)	69,651	(3,335)	(9,428)	(1,174)	55,714
Total other comprehensive income for the period	19,188	99	11,316	504	31,107
Balance at 30 June 2014	**88,839**	**(3,236)**	**1,888**	**(670)**	**86,821**
Balance at 31 December 2012 (Audited)	36,543	(1,830)	(19,764)	-	14,949
Total other comprehensive income (loss) for the period	17,394	511	(9,547)	-	8,358
Balance at 30 June 2013	53,937	(1,319)	(29,311)	-	23,307

4 GOVERNMENT ASSISTANCE

	30 June 2014 BD '000	*30 June 2013 BD '000*
Government assistance (Note 8)	**43,203**	53,801

The Government assistance comprises of BD 37,500 thousand (2013: BD 47,500 thousand) provided to Gulf Air and BD 5,703 thousand (2012: BD 6,301 thousand) to Bahrain Flour Mills Company B.S.C. from the Ministry of Finance on behalf of the Government of the Kingdom of Bahrain.

The Government of the Kingdom of Bahrain has included BD 75 million (2013: BD 95 million) in its approved state budget as financial assistance to Gulf Air to support its operations for the year 2014. Accordingly, an amount of BD 37,500 thousand has been received as Government assistance for the six month period ended 30 June 2014. For the six month period ended 30 June 2013, BD 47,500 thousand was accrued and included in trade accounts receivable, prepayments and other receivables as of 30 June 2013. There are no unfulfilled conditions or contingencies attached to this assistance.

The amount received by Bahrain Flour Mills Company B.S.C. is to enable it to sell flour at a Government controlled price.

5 COMMITMENTS AND CONTINGENCIES

Capital commitments as of 31 December 2013 were BD 1,438,058 thousand. There have been no significant changes to capital and other commitments as of 30 June 2014 as compared to 31 December 2013. In addition, there have been no significant changes to outstanding contingencies as compared to 31 December 2013.

6 CASH AND CASH EQUIVALENTS

	30 June 2014 BD '000	30 June 2013 BD '000
Cash and bank balances	259,400	180,562
Bank balances under lien, term deposits and margin deposits with an original maturity of more than three months	(116,334)	(15,724)
Bank overdrafts included under borrowings	(7)	(563)
CASH AND CASH EQUIVALENTS	143,059	164,275

7 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.

Transportation - Principally handling air transportation.

Banking and finance - Comprising of investment in banking and financial institutions.

Real estate - Comprising of investment in real estate.

Telecom - Comprising of investment in telecommunications.

There are no material transfers between operating segments.

	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
Six months ended 30 June 2014 (Unaudited)							
Revenue	375,989	181,523	-	858	-	10,589	568,959
Share of results of associates	(101)	2,771	13,327	(1,065)	9,833	(859)	23,906
Net income (loss)	31,085	7,563	13,327	(1,632)	9,833	(16,183)	43,993
30 June 2014 (Unaudited)							
Investment in associates	11,518	242,677	294,543	86,156	325,700	37,624	998,218
Total assets	1,748,955	924,056	497,623	248,517	335,428	291,341	4,045,920

7 OPERATING SEGMENT INFORMATION (continued)

	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*
Six months ended 30 June 2013 (Unaudited)							
Revenue	382,107	164,998	-	868	-	9,108	557,081
Share of results of associates	(424)	120	12,916	(2,609)	10,418	2,351	22,772
Net income (loss)	60,273	(17,540)	12,916	(2,353)	10,418	(14,571)	49,143
31 December 2013 (Audited)							
Investment in associates	12,164	228,349	314,875	86,657	320,499	37,362	999,906
Total assets	1,758,022	915,528	511,271	250,064	329,243	284,132	4,048,260

Geographic information

An analysis of the revenue by geographic location is as follows:

	30 June 2014 BD '000	*30 June 2013 BD '000*
Kingdom of Bahrain	**233,767**	242,560
Asia	**71,612**	63,299
Rest of Middle East and North Africa	**150,937**	163,288
Rest of the world	**112,643**	87,934
	568,959	557,081

8 RELATED PARTY TRANSACTIONS

As of the interim statement of financial position date, cash and bank balances include BD 26,832 thousand (31 December 2013: BD 34,532) with an associate and borrowings include BD 159,309 thousand (31 December 2013: BD 153,864 thousand) due to an associate. Trade accounts payable, accruals and other liabilities as of the interim statement of financial position date include BD 230,102 thousand (31 December 2013: BD 183,808 thousand) due to entities controlled by the shareholder. Government assistance from the Shareholder recognised as income for the current period amounted to BD 43,203 thousand (2013: BD 53,801 thousand). Administrative expenses paid to associates for the current period amounted to BD 5,939 thousand (2013: BD 409 thousand). There have been no other significant changes to the related party transactions and balances during the six month period ended 30 June 2014.

9 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 (as the fair value cannot be reliably estimated) amounting to BD 472 thousand (31 December 2013: BD 472 thousand) and certain lease deposit receivables which are non interest earning amounting to BD 8,190 thousand (31 December 2013: BD 8,136 thousand), 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

30 June 2014	***Level 1*** ***BD '000***	***Level 2*** ***BD '000***	***Level 3*** ***BD '000***	***Total*** ***BD '000***
Derivative financial instruments (assets)	-	**192**	-	**192**
Investments carried at fair value through statement of income	**2,007**	**93,706**	-	**95,713**
Non-trading investments	**6,604**	**3,046**	**233,413**	**243,063**
Derivative financial instruments (liabilities)	-	**13,234**	-	**13,234**

31 December 2013 (Audited)	*Level 1* *BD '000*	*Level 2* *BD '000*	*Level 3* *BD '000*	*Total* *BD '000*
Investments carried at fair value through statement of income	1,910	90,233	-	92,143
Non-trading investments	6,223	2,824	225,950	234,997
Derivative financial instruments (liabilities)	-	16,635	-	16,635

During the six month period ended 30 June 2014, there have been no transfer between Level 1 and Level 2 and 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.

9 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

The movements in level 3 financial instruments measured at fair value during the six month period ended 30 June 2014 are as follows:

	2014 *BD '000*	*2013* *BD '000*
Balance at beginning of the period	225,950	203,672
Fair value changes	10,704	15,531
Sale during the period	(3,241)	-
Transfer from cost to fair value	-	201
Balance at 30 June	**233,413**	**219,404**

Valuation techniques used for level 2 and level 3 financial instruments
The fair values of derivative financial instruments are obtained from counterparty financial institutions. Investments carried at fair value through statement of income comprise managed funds, which are fair valued based on net asset values. Non-trading investments (Available-for-sale investments) in level 2 hierarchy comprise Investments in funds, which are fair valued based on net assets values. Non-trading investments (Available-for-sale investments) in the level 3 hierarchy comprise unquoted equity investments, which are fair valued primarily based on market multiples of quoted comparable companies.

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

The Board of Bahrain Mumtalakat Holding Company B.S.C. (c) (hereinafter referred to as the "Group") is pleased to present its report together with the audited consolidated financial statements for the year ended 31 December 2013.

Financial highlights

The Group registered a total comprehensive income of BD 123.9 million compared to a loss of BD 156.9 million in the prior year. The significant improvement in performance is attributed to improved operational performance of Gulf Air B.S.C. (c) a principal company of the Group, and lower impairment losses. The operating income for the year was BD 70.7 million compared to BD 23.2 million for the year ended 31 December 2012.

The Group's total assets and equity attributable to the shareholder of the parent company as at 31 December 2013 were BD 4.0 billion and BD 2.3 billion respectively (2012: BD 4.1 billion and BD 2.1 billion respectively).

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

	BD '000
Balance as at December 31, 2012	2,142,079
Total comprehensive income	98,968
Contribution by the shareholder	40,269
Balance as at December 31, 2013	2,281,316

The decrease in Group revenues was primarily due to lower fare revenues registered at Gulf Air as a result of closure of unprofitable routes. Gulf Air achieved significant operational cost efficiencies during 2013 due to the initiatives that began in 2012. As a result, Gulf Air's loss from operations for the year declined from BD 183.8 million in 2012 to BD 95.4 million in 2013. Gulf Air's net loss for the year, after one-time restructuring costs, impairments and government grants declined from BD 81.5 million in 2012 to BD 12.0 million in 2013.

Aluminium Bahrain B.S.C. (Alba), a principal company of the Group contributed positively despite challenging market conditions coupled with the downtrend of LME aluminium prices, which dropped 8% in 2013. Alba's revenues amounted to BD 749.3 million for the full year 2013 (2012: BD 743.7 million) on the back of higher aluminium premiums and sales volumes.

The share of profit from associates in 2013 of BD 46.5 million was marginally higher than the prior year (2012: BD 45.8 million) reflecting the strong contributions from the Group's principal associate companies. The Group's share of profits from Bahrain Telecommunications Company B.S.C and National Bank of Bahrain B.S.C for 2013 were BD 15.4 million and BD 24.7 million respectively (2012: BD 21.4 million and BD 22.6 million respectively). This coupled with lower impairment losses (BD 20.9 million in 2013 compared to BD 226.9 million in 2012) resulted in a net profit for the Group of BD 82.7 million in 2013 compared to a net loss of BD 181.7 million in 2012.

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

Deloitte & Touche 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 2014 will be submitted to the Annual General Meeting.

By order of the Board of Directors

Chairman

Director

3 June 2014

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER
Bahrain Mumtalakat Holding Company B.S.C. (c),
Manama,
Kingdom of Bahrain

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 2013, and the consolidated statements of income and 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
Directors are 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 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 about 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 auditor's 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bahrain Mumtalakat Holding Company B.S.C. (c) and its subsidiaries as of 31 December 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 28 May 2013.

Report on Other Legal and Regulatory Requirements

In our opinion, the Company has maintained proper accounting records and the consolidated financial statements have been prepared in accordance with those records. We further report that, to the best of our knowledge and belief, the financial information provided in the Board of Directors' Report is in agreement with the consolidated financial statements and based on the information and explanations provided by the management which were required for the purpose of our audit, we are not aware of any violations of any violations of the relevant provisions of Bahrain Commercial Companies Law 2001 and the Company's Memorandum and Articles of Association having occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its financial position.

Manama, Kingdom of Bahrain
3 June 2014

Deloitte & Touche
Deloitte & Touche

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Note	2013 BD '000	2012 BD '000
ASSETS			
Cash and bank balances	3	**245,547**	290,146
Derivative financial instruments	4	**-**	104
Trade accounts receivable, prepayments and other assets	5	**163,835**	181,204
Inventories	6	**160,657**	158,919
Investments carried at fair value through statement of income	7	**92,143**	73,412
Non-trading investments	8	**235,469**	211,573
Investment in associates	9	**999,906**	879,493
Investment properties	10	**216,954**	219,207
Property, plant and equipment	11	**1,253,213**	1,338,645
Other assets	12	**98,289**	161,738
Goodwill	13	**582,247**	581,117
TOTAL ASSETS		**4,048,260**	4,095,558
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	14	**829,438**	930,813
Derivative financial instruments	4	**16,635**	38,771
Trade accounts payable, accruals and other liabilities	15	**524,767**	567,980
Employees' end of service benefits	16	**11,506**	13,275
Obligations relating to acquired entities	17	**110,375**	143,107
Total liabilities		**1,492,721**	1,693,946
Equity attributable to shareholder of the parent			
Share capital	18	**1,845,635**	1,845,635
Capital contribution	18	**1,173,175**	1,132,906
Statutory reserve	19	**27,072**	21,252
Other reserves	20	**55,714**	14,949
Accumulated losses		**(820,280)**	(872,663)
		2,281,316	2,142,079
Non-controlling interests		**274,223**	259,533
Total equity		**2,555,539**	2,401,612
TOTAL LIABILITIES AND EQUITY		**4,048,260**	4,095,558

Khalid bin Abdullah Al Khalifa
Chairman

Mahmood H. Al-Kooheji
Director and Chief Executive Officer

Anthony L. Robinson
Chief Financial Officer

ttached notes 1 to 36 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2013

	Note	2013 BD '000	2012 BD '000
Revenue	22	**1,097,525**	1,162,758
Direct costs	23	**988,088**	1,116,195
Gross profit		**109,437**	46,563
Dividend income		**810**	1,128
Gain (loss) on investments carried at fair value through statement of income		**7,467**	5,908
Other operating income	24	**17,498**	42,772
Government assistance	25	**107,554**	196,473
Selling and distribution expenses		**(71,872)**	(87,242)
Administrative expenses		**(92,991)**	(100,157)
Other operating expenses	26	**(7,198)**	(82,205)
Operating income		**70,705**	23,240
Share of profit of associates	9	**46,545**	45,766
Interest income		**4,187**	8,482
Interest expense		**(35,768)**	(38,166)
Fair value gain on revaluation/settlement of derivatives (net)	4	**17,871**	5,860
Impairment losses	27	**(20,879)**	(226,911)
NET PROFIT (LOSS) FOR THE YEAR		**82,661**	(181,729)
Attributable to:			
Shareholder of the parent		**58,203**	(211,561)
Non-controlling interests		**24,458**	29,832
		82,661	(181,729)

Khalid bin Abdullah Al Khalifa
Chairman

Mahmood H. Al-Kooheji
Director and Chief Executive Officer

Anthony L. Robinson
Chief Financial Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2013

	2013 BD '000	2012 BD '000
NET PROFIT (LOSS) FOR THE YEAR	**82,661**	(181,729)
Other comprehensive income		
Items that will be reclassified to consolidated statement of income in subsequent periods		
Movement in cumulative changes in fair values	**22,302**	7,498
Share of changes in equity of associates	**14,122**	11,890
Foreign currency translation	**5,950**	5,399
Items that will not be reclassified to consolidated statement of income in subsequent periods		
Remeasurement losses on defined benefit plan	**(1,174)**	-
Total other comprehensive income for the year	**41,200**	24,787
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**123,861**	(156,942)
Attributable to:		
Shareholder of the parent	**98,968**	(186,975)
Non-controlling interests	**24,893**	30,033
	123,861	(156,942)

The attached notes 1 to 36 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Note	*2013 BD '000*	*2012 BD '000*
OPERATING ACTIVITIES			
Net profit (loss) for the year		**82,661**	(181,729)
Adjustments for:			
Depreciation		**112,620**	107,771
Fair value gain on derivatives	4	**(17,871)**	(5,860)
Gain on investments carried at fair value through statement of income		**(7,467)**	(5,908)
Gain on non-trading investments		**(8)**	-
Share of profits of associates		**(46,545)**	(45,766)
Impairment losses	27	**20,879**	226,911
Provision for impairment on trade accounts and other receivables	5	**261**	1,237
Provision for impairment of inventories	6	**416**	400
(Gain) loss on disposal and write-off of property, plant and equipment	24, 26	**(1,820)**	11,435
Gain on disposal of investment properties		**(811)**	-
Interest income		**(4,187)**	(8,482)
Interest expense		**35,768**	38,166
Employees' end of service benefits	16	**2,176**	2,421
Operating profit before changes in operating assets and liabilities		**176,072**	140,596
Changes in operating assets and liabilities:			
Inventories		**(1,612)**	14,467
Trade accounts receivable, prepayments and other assets		**10,681**	(15,825)
Trade accounts payable, accruals and other liabilities		**(24,782)**	176,556
Cash from operating activities		**160,359**	315,794
Interest paid		**(36,116)**	(38,258)
Derivative financial instruments		**(9,348)**	(20,443)
Employees' end of service benefits paid	16	**(4,093)**	(2,376)
Net cash from operating activities		**110,802**	254,717
INVESTING ACTIVITIES			
Investment in associates		**(19,613)**	(9,311)
Purchase of non-trading and other investments		**(42,409)**	(4,916)
Proceeds from sale of non-trading investments and other investments		**31,236**	741
Purchase of property, plant and equipment	11	**(69,132)**	(140,942)
Net cash out flow on acquisition of subsidiaries		**(2,176)**	-
Investment in properties	10	**(93)**	(24)
Proceeds from disposal of property, plant and equipment		**15,345**	20,431
Other assets		**(4,230)**	(7,527)
Short term deposits		**(89,747)**	20,391
Interest received		**2,352**	2,464
Dividends from associates		**25,056**	34,424
Net cash used in investing activities		**(153,411)**	(84,269)

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2013

	Note	***2013 BD '000***	*2012 BD '000*
FINANCING ACTIVITIES			
Capital contribution	18	**32,999**	15,346
Proceeds from borrowings		**430,383**	342,666
Repayment of borrowings		**(511,750)**	(426,560)
Dividend paid to non-controlling interests		**(12,074)**	(23,241)
Movement in non-controlling interests (net)		**(1,455)**	551
Margin deposits with brokers		**(1,291)**	(143)
Obligations relating to acquired entities		**(29,843)**	(28,245)
Net cash used in financing activities		**(93,031)**	(119,626)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(135,640)**	50,822
Cash and cash equivalents at beginning of the year		**277,435**	226,613
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**141,795**	277,435

The attached notes 1 to 36 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to shareholder of the parent						Non-controlling interests	Total equity
	Share capital BD '000	Capital contribution BD '000 (note 18)	Statutory reserve BD '000 (note 19)	Other reserves BD '000 (note 20)	Accumulated losses BD '000 (i)	Total BD '000	BD '000	BD '000
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
Net (loss) profit for the year	-	-	-	-	(211,561)	(211,561)	29,832	(181,729)
Other comprehensive income	-	-	-	24,586	-	24,586	201	24,787
Total comprehensive (loss) income	-	-	-	24,586	(211,561)	(186,975)	30,033	(156,942)
Contribution by the shareholder (note 18)	-	15,969	-	-	-	15,969	-	15,969
Dividend paid to non-controlling interests	-	-	-	-	-	-	(23,241)	(23,241)
Movement in non-controlling interests (note 21)	-	-	-	-	-	-	551	551
Balance at 31 December 2012	1,845,635	1,132,906	21,252	14,949	(872,663)	2,142,079	259,533	2,401,612
Net profit for the year	-	-	-	-	58,203	58,203	24,458	82,661
Other comprehensive income	-	-	-	40,765	-	40,765	435	41,200
Total comprehensive income	-	-	-	40,765	58,203	98,968	24,893	123,861
Contribution by the shareholder (note 18)	-	40,269	-	-	-	40,269	-	40,269
Transfer to statutory reserve	-	-	5,820	-	(5,820)	-	-	-
Acquisition of non-controlling interests (note 34)	-	-	-	-	-	-	3,326	3,326
Dividend paid to non-controlling interests	-	-	-	-	-	-	(12,073)	(12,073)
Other movement in non-controlling interests (note 21)	-	-	-	-	-	-	(1,456)	(1,456)
Balance at 31 December 2013	**1,845,635**	**1,173,175**	**27,072**	**55,714**	**(820,280)**	**2,281,316**	**274,223**	**2,555,539**

(i) Accumulated losses is net of BD 39,112 thousand (2012: BD 38,702 thousand) non-distributable reserves relating to subsidiaries.

The attached notes 1 to 36 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 3 June 2014.

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 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.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. The Company has the following subsidiaries:

Name	*Ownership/ voting power at 31 December 2013*	*Date of effective control*	*Principal activity*
Aluminium Bahrain B.S.C. (Alba)	69.38%	29 June 2006	Owns and operates a primary aluminium smelter and the related infrastructure.
Bahrain Airport Company B.S.C. (c)	100%	17 January 2008	Managing airport facilities, airplanes ground services and airport surrounding area development.

2 BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

Name	*Ownership/ voting power at 31 December 2013*	*Date of effective control*	*Activity*
Bahrain Flour Mills Company B.S.C.	65.70%	29 June 2006	Production and sale of flour and related products.
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.
General Poultry Company B.S.C. (c)	100%	29 June 2006	Poultry farming and sale of eggs.
Gulf Aviation Academy B.S.C. (c)	100%	22 July 2009	Providing training for airline pilots, cabin crew and related services.
Gulf Air Company B.S.C. (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 and fleet technical management.
Falcon Group Holding Company B.S.C. (c)	100%	2 February 2010	Investment holding company.
Southern Area Development Company B.S.C. (c)	55.90%	7 October 2013	Development of a hotel and associated facilities and other tourism related activities
Southern Tourism Company B.S.C. (c)	100.00%	25 April 2013	Providing sea transportation and tourism services.

2 BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

Refer to note 34 for acquisitions during the year. Awali Real Estate Company B.S.C. (c), Bahrain Food Holding Company S.P.C., Hawar Island Development Company B.S.C. (c) and Tourism Project Company B.S.C. (c) were liquidated during the current year. There were no changes in the Company's ownership in other subsidiaries during the year.

All of the subsidiaries above are incorporated and principally operate in the Kingdom of Bahrain.

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 and dividends, 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

2.3 Significant accounting policies

Changes in accounting policies

The accounting policies adopted by the Group are consistent with those of the previous financial year except for the adoption of the new / amended standards, noted below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC -12 Consolidation- Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC- 13 Jointly Controlled Entities - Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the Group's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements and/or unconsolidated structured entities. The application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements. Refer to notes 9 and 33 for additional disclosures on associates and subsidiaries respectively.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in note 31.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)
Changes in accounting policies (continued)
IAS 19 Employee benefits
The Group also adopted the revisions to IAS 19 *Employee Benefits* issued by the IASB in 2011, effective for annual periods beginning on or after 1 January 2013, retrospectively. The most significant amendment requires actuarial gains and losses to be recognised in other comprehensive income (OCI) and excluded permanently from profit and loss, and also removes the option to defer the recognition of actuarial gains and losses (i.e. the corridor approach) available under the previous standard.

The impact of this change is reflected in the consolidated statement of comprehensive income.

New standards and interpretations issued but not yet effective
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. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 mandatory effective date of IFRS 9 and transition disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being. On 20 February 2014, the IASB set the mandatory effective date at 1 January 2018.

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and simultaneous realisation and settlement. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to impact the Group's financial position or performance.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 issued in May 2014 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. IFRS 15 is effective for annual periods beginning on or after 1 January 2017. The Group is currently assessing the full impact of this new standard.

Other standards and interpretations that have been issued but not yet effective are not likely to have any significant impact on the consolidated financial statements of the Group in the period of their initial application.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

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, 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

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

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.

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 carried at fair value through statement of income (continued)

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 the 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)

2.3 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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell an asset or transfer a liability takes place either in the principal market, or in the absence of a principal market, in the most advantageous market.

- Fair value of financial instruments that are quoted in an active market is determined by reference to market bid prices respectively at the close of business on the reporting date.

- For equity investments that are not quoted in an active market, fair valuation is based primarily on market multiples of comparable companies which are quoted.

- Investments in managed funds are based on net asset values.

- 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 reporting date with the same maturity.

Impairment and uncollectability of financial assets

The Group assesses at each reporting 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 been 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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Impairment and uncollectability of financial assets (continued)

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. If any write-off is later recovered, the recovery is recognised as other income in the consolidated statement of income.

Available-for-sale-investments

For available-for-sale investments, the Group assess at each reporting 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 the 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

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but not control or joint control over those policies. The Group's investment in its associates is accounted for using the equity method of accounting.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Investment in associates (continued)

Under the equity method, the investment in the associate is carried in the consolidated 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 other 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.

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. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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.

2 BASIS OF PREPARATION (continued)

2.3 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	4
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.

Assets in the process of completion are transferred to property, plant and equipment when the asset is ready to be put into commercial use.

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Business combinations and goodwill (continued)

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 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 non-financial 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 reporting 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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)
Impairment of non-financial assets (continued)
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 reporting 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.

Investment properties
The investment properties are fair valued for impairment assessments at year end. The approaches followed in fair valuation are summrised below:

- Vacant land: these are measured based on residual method where there is potential economic development or recent comparable transaction prices.
- Ground lease land: these are 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 is discounted to present value.
- The value of the property to the Group on expiry of the lease term is assessed either assuming that the property will 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.

If the fair value of the investment properties falls below the carrying amount, the difference is recognised as impairment losses in the consolidated statement of income.

Financial liabilities
Obligations relating to acquired entities
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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

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. In addition, the Group also provides for end of service benefits to certain Bahraini nationals whose salaries exceed a certain limit as stipulated in the Labour Law.

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.

Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

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 the exchange rate ruling at the reporting 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.

The assets and liabilities of foreign operations are translated into Bahraini Dinars at the rate of exchange ruling at the reporting 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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

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 assistance

Government assistance is recognised where there is reasonable assurance that the assistance will be received and all attached conditions are complied with. When the assistance relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the assistance relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Government assistance that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of income in the period in which they become receivable.

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

	2013 *BD '000*	*2012* *BD '000*
Cash and current accounts with banks	**76,666**	100,548
Call deposits	**31,382**	29,339
Term deposits	**137,499**	160,259
Cash and bank balances	**245,547**	290,146
Bank balances under lien and term deposits with an original maturity of more than three months	**(103,746)**	(12,709)
Bank overdrafts (note 14)	**(6)**	(2)
Cash and cash equivalents as per the consolidated statement of cash flows	**141,795**	277,435

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 2013, the effective interest rate on call deposits was 0.14% (2012: 0.29%) per annum and term deposits was 1.85% (2012: 1.02%) per annum.

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 2013 are as follows:

	At 31 December 2013		*Gains (losses) for the year ended 31 December 2013*		
	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	**-**	**9,402**	**24,918**	**(6,840)**	**18,078**
Interest rate collars and knockout swaps	**-**	**701**	**2,254**	**(2,508)**	**(254)**
Forward foreign exchange contracts	**-**	**-**	**47**	**-**	**47**
Total	**-**	**10,103**	**27,219**	**(9,348)**	**17,871**
Held as cash flow hedges					
Cross currency swaps	**-**	**6,532**	**-**	**-**	**-**
Total	**-**	**16,635**	**27,219**	**(9,348)**	**17,871**

4 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	At 31 December 2012		*Gains (losses) for the year ended 31 December 2012*		
	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	104	34,424	21,994	(16,940)	5,054
Interest rate collars and knockout swaps	-	2,955	5,363	(4,848)	515
Forward foreign exchange contracts	-	47	291	-	291
Total	104	37,426	27,648	(21,788)	5,860
Held as cash flow hedges					
Cross currency swaps	-	1,345	-	-	-
Total	104	38,771	27,648	(21,788)	5,860

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. Derivatives held under cash flow hedges represent cross currency swaps to hedge against certain borrowings (note 14 ii).

Interest rate collars and knockout swaps

The Group initially entered into 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 2013 were BD 101,790 thousand (US$ 270,000 thousand) and as at 31 December 2012 were BD 190,422 thousand (US$ 505,098 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$ 1,650 (2012: US$ 1,650) per metric tonne then the Group will pay the difference between the market price and the average contracted price of US$ 1,650 (2012: US$ 1,650) per metric tonne for certain tonnages of aluminium.

The fair values of derivative financial instruments are obtained from counterparty financial institutions. These are classified under level 2 fair value hierarchy (note 31).

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	2013 ***BD '000***	*2012* *BD '000*
Trade accounts receivable (net of provision for impairment)	**107,940**	122,145
Other receivables (net of write back)	**41,571**	42,423
Prepayments	**14,324**	16,636
	163,835	181,204

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS (continued)

The movements in the provision for impairment of trade receivables were as follows:

	2013 *BD '000*	*2012* *BD '000*
Balance at beginning of the year	**14,036**	13,422
Provided during the year, net	**143**	1,237
Amount written off during the year	**(1,815)**	(623)
Balance at end of the year	**12,364**	14,036

The ageing analysis of unimpaired trade accounts receivable is as follows:

	Total *BD '000*	*Neither past due nor impaired* *BD '000*	*Past due but not impaired* *< 30 days* *BD '000*	*31 – 60 days* *BD '000*	*61 – 90 days* *BD '000*	*91 – 120 days* *BD '000*	*>120 days* *BD '000*
2013	**107,940**	**97,652**	**2,098**	**1,504**	**742**	**972**	**4,972**
2012	122,145	109,699	2,739	2,515	1,411	1,727	4,054

Unimpaired trade accounts and other receivable are expected, on the basis of experience, to be fully recoverable

6 INVENTORIES

	2013 *BD '000*	*2012* *BD '000*
Raw materials	**29,504**	29,199
Work in progress	**44,713**	52,051
Finished goods	**13,430**	18,444
Store, spare parts and consumables	**37,438**	35,768
Goods in transit	**37,760**	25,291
	162,845	160,753
Provision for impairment of inventories	**(2,188)**	(1,834)
	160,657	158,919

The movement in provision for impairment of inventories are as follows:

	2013 *BD '000*	*2012* *BD '000*
Balance at beginning of the year	**1,834**	1,625
Provided during the year	**416**	400
Inventories written off during the year	**(62)**	(191)
Balance at end of the year	**2,188**	1,834

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2013 *BD '000*	*2012* *BD '000*
Equities	**1,910**	1,827
Managed funds	**90,083**	71,435
Bonds	**150**	150
	92,143	73,412

Equities are quoted and fair valued based on market bid prices at the close of business on the reporting date. These are classified under level 1 fair value hierarchy. Managed funds are fair valued based on net asset values and included in Level 2 fair value hierarchy. Ref to note 31 for disclosure of fair value hierarchies.

8 NON-TRADING INVESTMENTS

	2013 *BD '000*	2012 *BD '000*
Available-for-sale quoted investments		
Equities	**6,223**	5,211
Managed funds	**2,824**	2,242
	9,047	7,453
Available-for-sale unquoted investments		
Equities	**226,422**	204,120
	235,469	211,573

Available-for-sale investments include unquoted investments amounting to BD 472 thousand (2012: BD 448 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. No impairment losses recognised on available-for-sale investments during the current year (2012: BD 1,239 thousand) (note 27).

Quoted equities are fair valued based on market bid prices at the close of business on the reporting date. Quoted managed funds are fair valued based on net asset values.

Unquoted equity investments are fair valued based primarily on market multiples of comparable companies using Level 3 inputs. Discount for lack of marketability ranges from 0% - 30% applied in the valuation is considered as a significant unobservable input. Discount for lack of marketability represents the amounts that the Group has determined that market participants would take into account when pricing these investments. An increase in the discount for lack of marketability would decrease the fair value of the investment and vice versa. Ref to note 31 for disclosure of fair value hierarchy.

9 INVESTMENT IN ASSOCIATES

(i) The Group has the following material associates at 31 December 2013 and 2012:

Associate	*Country of incorporation and operation*	*Principal activities*	*Ownership/ voting %*
Bahrain Telecommunications Company B.S.C. (Batelco)	Kingdom of Bahrain	Providing telecom services	36.67%
National Bank of Bahrain B.S.C. (NBB)	Kingdom of Bahrain	Banking	49.00%

(ii) Summarised financial information of material associates

Summarised financial information in respect of the material associates is set out below. The sumarised financial information below represents amounts reported in the associates' financial statements prepared in accordance with IFRS.

	Batelco		NBB	
	2013 BD '000	2012 BD '000	***2013 BD '000***	2012 BD '000
Total assets	**1,042,164**	689,368	**2,749,230**	2,654,560
Total liabilities	**(449,019)**	(169,187)	**(2,386,090)**	(2,335,620)
Net assets	**593,145**	520,181	**363,140**	318,940
Revenue	**370,561**	304,710	**84,650**	86,610
Net profit for the year	**49,954**	63,343	**50,410**	46,210
Other comprehensive income for the year	**13,205**	424	**15,170**	23,660
Total comprehensive income for the year	**63,159**	63,767	**65,580**	69,870
Dividend received during the year	**11,088**	18,480	**10,478**	12,574

(iii) Reconciliation of summarised financial information to the carrying value of investments:

	Batelco		NBB	
	2013 BD '000	2012 BD '000	***2013 BD '000***	2012 BD '000
Group's share of the net assets	197,785	188,594	**177,937**	156,281
Goodwill	101,525	101,525	**136,938**	136,938
Carrying value of investment	299,310	290,119	**314,875**	293,219

(iv) Market values

NBB and Batelco are listed on the Bahrain Bourse. The market values based on quoted prices at 31 December 2013 were BD 295,065 thousand (2012: BD 222,137 thousand) and BD 174,240 thousand (2012: BD 213,312 thousand) respectively.

(v) Aggregate information of associates that are not individually material

	2013 BD '000	2012 BD '000
Group's share of profit for the year (net)	**6,405**	1,732
Group's share of other comprehensive income for the year (net)	**1,849**	89
Group's share of total comprehensive income for the year (net)	**8,254**	1,821
Aggregate carrying value of Group's investment in these associates	**385,721**	296,155

9 INVESTMENT IN ASSOCIATES (continued)

(vi) Impairment losses

The Group determines at each reporting 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 as at 31 December 2013. 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 specific industry of the associate in particular. Based on the impairment tests, no impairment loss was required to be recognised in the consolidated statement of income for the current year (2012: BD 19,011 thousand).

(vii) Contingencies

The Company has 33.33% ownership interest in Hawar Holding Company (Hawar) which owns 20% of the issued share capital of Batelco. The 20% shares of Batelco owned by Hawar is pledged to financial institutions as a security against loans obtained by Hawar for the purpose of financing the acquisition of the said shares. The loan outstanding as of 31 December 2013 was BD 113,100 thousand (2012: BD 113,100). The terms of the loan agreement require that in the event of default in payment by Hawar, the shareholders of Hawar will be liable to repay the loan amount. The loan is currently fully repayable on 9 January 2017.

The Groups' share of the contingent liabilities of the associates at 31 December 2013 was BD 2,181 thousand (2012: BD 2,017 thousand).

10 INVESTMENT PROPERTIES

	Freehold land BD '000	*Buildings BD '000*	*Total BD '000*
Cost:			
Balance at 1 January 2013 (net of impairment losses)	217,835	1,558	219,393
Additions	3,085	93	3,178
Disposals	(379)	-	(379)
Transfers	(5,000)	(24)	(5,024)
At 31 December 2013	**215,541**	**1,627**	**217,168**
Accumulated depreciation:			
Balance at 1 January 2013	-	186	186
Charge for the year	-	28	28
At 31 December 2013	-	**214**	**214**
Net carrying amount:			
At 31 December 2013	**215,541**	**1,413**	**216,954**

10 INVESTMENT PROPERTIES (continued)

	Freehold land *BD '000*	*Buildings* *BD '000*	*Total* *BD '000*
Cost:			
Balance at 1 January 2012 (net of impairment losses)	212,212	1,534	213,746
Additions	5,623	24	5,647
At 31 December 2012	217,835	1,558	219,393
Accumulated depreciation:			
Balance at 1 January 2012	-	158	158
Charge for the year	-	28	28
At 31 December 2012	-	186	186
Net carrying amount:			
At 31 December 2012	217,835	1,372	219,207

The Group evaluates the recoverable amount of the properties as at the reporting date based on the following methods:

- Vacant land- residual method and comparable prices
- Ground lease land- assessed 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 is discounted to present value.

The asset value to the Group on expiry of the lease 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 approaches also factor the existing and/or prospective use and zoning/urban planning requirements, and restrictions such as current limited market demand, restrictions of the property itself (e.g. no access to the site), existing ground leases, existing tenancies; etc.

Investment properties are unencumbered at the reporting date. The fair value of the investment properties at 31 December 2013 was BD 232,259 thousand (2012: BD 223,142 thousand). This comprises of properties with fair value of BD 86,864 thousand (2012: BD 88,444 thousand) determined by independent appraisers based on level 2 inputs and properties with fair value of BD 145,395 thousand (2012: BD 134,698 thousand) determined internally based on level 3 inputs using valuation methodologies discussed above. There has been no change in the valuation methodologies during the year.

Based on the impairment assessment at the year end, no impairment loss was required to be recognised for the year ended 31 December 2013.

The investment properties comprise of a 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.

Investment properties of BD 88,318 thousand (2012: BD 84,794 thousand), are leased out under operating leases. Rental income from such investment properties included in revenue amounting to BD 1,764 thousand (2012: 1,611 thousand) and the related expenses amounting to BD 290 thousand (2012: BD 274 thousand).

All freehold land included in investment properties are registered in the name of the Group.

11 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 2013	904	229,783	305,815	1,062,564	5,151	79,302	178,055	1,861,574
Acquisitions (note 34 (ii))	3,100	550			224	396	1,037	5,307
Additions	-	96	2,265	14,824	94	2,559	49,294	69,132
Transfers	-	5,270	3,554	14,063	1,541	1,321	(26,152)	(403)
Disposals	-	(340)	(84)	(22,317)	(978)	(935)	-	(24,654)
Reversals	-	-	-	-	-	-	(13,063)	(13,063)
Write off	-	-	-	(326)	(32)	(21)	-	(379)
Impairment losses (note 27)	-	(8)	(3,421)	(59)	-	(55)	(17,336)	(20,879)
At 31 December 2013	**4,004**	**235,351**	**308,129**	**1,068,749**	**6,000**	**82,567**	**171,835**	**1,876,635**
Accumulated depreciation:								
At 1 January 2013	-	50,971	50,094	346,496	3,519	71,849	-	522,929
Charge for the year	-	9,112	25,361	70,140	1,648	6,030	-	112,291
Relating to disposals	-	(299)	(209)	(9,437)	(929)	(653)	-	(11,527)
Relating to write off	-	-	-	(219)	(32)	(20)	-	(271)
At 31 December 2013	**-**	**59,784**	**75,246**	**406,980**	**4,206**	**77,206**	**-**	**623,422**
Net carrying amount:								
At 31 December 2013	**4,004**	**175,567**	**232,883**	**661,769**	**1,794**	**5,361**	**171,835**	**1,253,213**

11 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 2012	904	221,790	267,431	1,011,311	4,141	63,010	206,306	1,774,893
Additions	-	3,022	89,777	11,686	1,058	3,862	80,468	189,873
Transfers	-	5,249	30,695	54,644	369	14,014	(104,971)	-
Disposals	-	(278)	(82,035)	(14,938)	(359)	(1,573)	(3,736)	(102,919)
Write offs	-	-	(53)	(139)	(58)	(11)	(12)	(273)
At 31 December 2012	904	229,783	305,815	1,062,564	5,151	79,302	178,055	1,861,574
Accumulated depreciation:								
At 1 January 2012	-	43,456	40,738	290,937	2,657	56,360	-	434,148
Charge for the year	-	7,738	23,063	70,300	1,226	5,140	-	107,467
Relating to transfers	-	-	(10,331)	(1,370)	-	11,701	-	-
Relating to disposals	-	(223)	(3,376)	(13,288)	(341)	(1,342)	-	(18,570)
Relating to write offs	-	-	-	(83)	(23)	(10)	-	(116)
At 31 December 2012	-	50,971	50,094	346,496	3,519	71,849	-	522,929
Net carrying amount:								
At 31 December 2012	904	178,812	255,721	716,068	1,632	7,453	178,055	1,338,645

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Assets on lease

Gulf Air B.S.C. (c) ("Gulf Air")'s headquarters are situated on land belonging to the Government of the Kingdom of Bahrain (the "Government") that had been made available on a rent free basis until 31 December 2010. During 2011, the Government 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 865 thousand (2012: BD 577 thousand) has been made in the consolidated financial statements. In addition, Aluminium Bahrain B.S.C. ("Alba") uses land leased from the Government and from The Bahrain Petroleum Company B.S.C. (c). These leases are rent free. Bahrain Airport Company B.S.C. (c) ("BAC") had a long term license agreement with the Government through the Ministry of Finance for the use of Bahrain airport land for 100 years, commencing 1 April 2008, at a rent of BD 1 per annum. This license was surrendered on 20 June 2012 and on the same day entered into an agreement with the Ministry of Finance to lease the airport land, installations, structures, terminal building and runway for 95 years at a rent of BD 1 per annum. On 4 June 2013, BAC signed a supplemental lease agreement with the Ministry of Finance which extended BAC's right to use, but not own, the airport plant and equipment. In addition, Bahrain International Circuit Company S.P.C. uses the circuit and other facilities leased from the Government at a rent of BD 1 per annum.

During 2012, aircrafts have been sold and leased back with a net book value of BD 48,841 thousand which have been excluded from the purchases of property, plant and equipment in the consolidated statement of cash flows. There was no sale and lease back transaction in 2013.

(ii) Secured assets

Assets acquired under finance leases included aircraft with a net carrying amount of BD 140,319 thousand (2012: BD 197,081 thousand) and plant and machinery and other equipment of BD 15,421 thousand (2012: BD 16,899 thousand) which are secured by charges 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 43,517 thousand (2012: BD 85,676 thousand) in respect of aircraft scheduled for delivery between 2014 and 2020 and other capital projects of BD 128,318 thousand (2012: BD 92,379 thousand).

(iv) Impairment

Impairment loss of BD 9,000 thousand has been recognised on aircrafts and BD 11,879 thousand on other items of property, plant and equipment during the current year (2012: nil). The impairment was based on the current market value of value of the underlying assets.

12 OTHER ASSETS

	2013 *BD '000*	*2012* *BD '000*
Deposits	**9,544**	10,298
Receivable from associates (note 29)	**81,169**	143,315
Miscellaneous assets	**7,576**	8,125
	98,289	161,738

12 OTHER ASSETS (continued)

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 2020 (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 10,315 thousand (2012: BD 13,753 thousand), McLaren Automotive Limited of BD 61,173 thousand (2012: BD 120,493 thousand) and McLaren Group Limited BD 9,681 thousand (2012: BD 9,069 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 due on 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 2013 was 1.42% (2012: 1.73%) per annum.

The amount receivable from McLaren Automotive Limited represents loans provided by the Group to finance the company's expansion project. During 2013, loans amounting to BD 61,284 thousand was converted to equity. The loan balance as of 31 December 2013 does not carry interest. The effective interest rate of the loan as of 31 December 2012 was 4.64% per annum. The loans are partly secured by pledge of shares by the other shareholders of McLaren Automotive Limited. The effective interest rate on the loan provided to McLaren Group Limited as of 31 December 2013 was 5.3% (2012: 5.3%) per annum.

Miscellaneous assets include a receivable of BD 3,104 thousand (2012: BD 3,238 thousand) which is secured against borrowings (note 14).

13 GOODWILL

	2013	*2012*
	BD '000	*BD '000*
Balance at beginning of the year	**581,117**	787,778
Arising on acquisition during the year (note 34 (ii))	**1,130**	-
Impairment loss recognised during the year (note 27)	**-**	(206,661)
Balance at end of the year	**582,247**	581,117

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, for impairment testing as follows:

	BD '000
• Aluminium Bahrain B.S.C. [Alba]	**580,152**
• General Poultry Company B.S.C. (c) [General Poultry]	**965**
• Bahrain Airport Company S.P.C (BAC) (note 34)	**1,130**
	582,247

13 GOODWILL (continued)

In accordance with the requirements of IFRS, the Group has performed an impairment test as at 31 December 2013 in respect of the goodwill relating to Alba, using the services of an independent valuer.

The recoverable amount of the Alba cash generating unit was 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 Gulf Cooperation Council economic conditions in general and the aluminium industry in particular. Revenue forecasts are based on forward estimates of aluminium prices published by CRU, an independent market authority on metal prices. In 2012 revenue forecasts were based on LME forwards. In addition, a growth rate of 2.5% (2012: 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% (2012: 12%), which reflects market specific risks relating to Alba.

Based on the independent valuation, the goodwill was not considered impaired as of 31 December 2013. Impairment loss of BD 206,661 thousand was recognised against Alba cash generating unit in 2012. This impairment loss was due to reduction in projected cash flows primarily on account of weak aluminium prices outlook on the backdrop of poor global sentiments about recovery in construction and infrastructure industries as a result of ongoing economic crisis.

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 a material change to the recoverable amount. However, an increase in the rate used to discount the projected cash flows by 1% (with all other variables remain unchanged) would result in a reduction in the recoverable amount of the cash generating unit by BD 100,002 thousand (2012: BD 117,946 thousand). A change in LME price by USD 100/mt (with all other variables remain unchanged) throughout the forecast period would result in a change in the recoverable amount of the cash generating by BD 170,000 thousand (2012: BD 175,531 thousand).

14 BORROWINGS

	Effective interest rates		***Total***	*Total*
	2013	*2012*	***2013***	*2012*
			BD '000	*BD '000*
Bank overdrafts (note 3)	**3.30%**	3.25%	**6**	2
Murabaha borrowings	**6.50%**	3.34%-6.5%	**9,425**	35,438
Short term loans (i)	**3.61%-3.8%**	0.95%-4%	**4,398**	56,395
Working capital revolving credit	**1.35%-1.89%**	1.4%-2.28%	**67,680**	65,800
Aluminium Bahrain B.S.C. project loans	**0.85%-2.23%**	0.94%-3.26%	**80,949**	171,525
Aluminium Bahrain B.S.C. refinancing loan	**2.64%-2.77%**	-	**52,205**	-
Other term loans (ii)	**1.45%-6%**	1.91%-6%	**490,397**	456,688
Finance lease obligations (iii)	**2.97%**	3.06%	**123,684**	144,271
Loan from the shareholder (iv)	**5%**	5%	**694**	694
			829,438	930,813

14 BORROWINGS (continued)

(i) Short term loans as of 31 December 2012 include BD 17,160 thousand availed from financial institutions in the Kingdom of Bahrain by the assignment of certain trade receivables.

(ii) Other term loans comprise of the following:

- Loans amounting to BD 31,580 thousand (2012: BD 47,516 thousand) which carry interest at floating rates. These loans require re-routing of certain cash collections, calculated as a multiple of the monthly loan installment amount. There are no restrictions on the use of such proceeds. The effective interest rate at the year end was 4.07% (2012: 3.84%) per annum.
- Loans amounting to BD 3,930 thousand (2012: BD 5,403 thousand) which are secured against certain other receivables of the Group (note 12). The effective interest rate at the year end was 5.29% (2012: 5.14%) per annum.
- Unsecured loans amounting to BD 122,204 thousand (2012: BD 87,087 thousand). The effective interest rate at the year end was 2.46% (2012: 2.04%) per annum.
- 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 2013 was BD 281,502 thousand (2012: BD 280,669 thousand).
- MYR 300 million Sukuk issued by the Company during 2012. The Sukuk is unsecured, carries profit at 5.5% per annum and due for repayment in 2017.The Sukuk is hedged through a cross currency swap whereby the MYR 300 million is swapped to US$ 96,774 thousand with profit rate at 5% per annum (note 4). The carrying value of the sukuk at 31 December 2013 was BD 34,057 thousand (2012: BD 36,013 thousand).
- MYR 150 million Sukuk issued by the Company during the year. The Sukuk is unsecured, carries profit at 5.35% per annum and due for repayment in 2018.The Sukuk is hedged through a cross currency swap whereby the MYR 150 million is swapped to US$ 49,456 thousand with profit rate at 4.25% per annum (note 4). The carrying value of the sukuk at 31 December 2013 was BD 17,124 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:

	2013		*2012*	
	Minimum payments BD '000	***Present value of payments BD '000***	*Minimum payments BD '000*	*Present value of payments BD '000*
Within one year	**16,912**	**13,292**	25,366	21,309
After one year but not more than five years	**74,895**	**64,864**	75,327	63,713
After five years	**47,718**	**45,528**	62,411	59,249
	139,525	**123,684**	163,104	144,271
Less: Finance charges	**(15,841)**	**-**	(18,833)	-
Present value of minimum lease payments	**123,684**	**123,684**	144,271	144,271

(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% (2012: 5%) per annum.

15 TRADE ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2013	*2012*
	BD '000	*BD '000*
Trade accounts payable *(i)*	**289,286**	266,631
Accrued expenses *(ii)*	**181,049**	231,403
Unearned revenue	**30,144**	38,406
Other payables	**24,288**	31,540
	524,767	567,980

(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 (2012: BD 3,000 thousand) in respect of legal claims (refer note 28). It also includes restructuring provisions in connection with Gulf Air of BD 22,037 thousand (2012: BD 70,000 thousand) (refer note 26).

16 EMPLOYEES' END OF SERVICE BENEFITS

	2013	*2012*
	BD '000	*BD '000*
Balance at beginning of the year	**13,275**	13,230
Relating to acquisitions during the year	**148**	-
Provision for the year	**2,176**	2,421
Payments during the year	**(4,093)**	(2,376)
Balance at end of the year	**11,506**	13,275

17 OBLIGATIONS RELATING TO ACQUIRED ENTITIES

	2013	*2012*
	BD '000	*BD '000*
Balance at beginning of the year	**143,107**	171,352
Movements during the year	**(32,732)**	(28,245)
Balance at end of the year	**110,375**	143,107

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.

18 SHARE CAPITAL AND CAPITAL CONTRIBUTION

	2013 BD '000	2012 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

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 each, 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 reporting date.

Capital contribution
During the year, the Group received investment properties valued at BD 1,895 thousand (2012: BD 623 thousand), and cash of BD 32,999 thousand (2012: BD 15,346 thousand) from the shareholder as capital contribution. In addition, investment in a subsidiary with a net fair value of BD 2,485 thousand has been transferred to the Company during the year (note 32 (i)).

19 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. BD 5,820 thousand has been transferred to statutory reserve during the current year. No transfer was made in the previous year as the Group reported losses.

20 OTHER RESERVES

	Available for sale financial assets reserve BD '000	Cash flow hedges reserve BD '000 (i)	Foreign currency translation reserve BD '000	Pension plan reserve BD '000	Total BD '000
Balance at 1 January 2013	**36,543**	**(1,830)**	**(19,764)**	**-**	**14,949**
Total other comprehensive income (loss) for the year	**33,108**	**(1,505)**	**10,336**	**(1,174)**	**40,765**
Balance at 31 December 2013	**69,651**	**(3,335)**	**(9,428)**	**(1,174)**	**55,714**
Balance at 1 January 2012	16,018	(596)	(25,059)	-	(9,637)
Total other comprehensive income (loss) for the year	20,525	(1,234)	5,295	-	24,586
Balance at 31 December 2012	36,543	(1,830)	(19,764)	-	14,949

(i) Cash flow hedges reserve represents the change in fair value of cross currency swaps and share of associates' change in fair value of derivatives during the year. These hedges have been assessed as highly effective.

21 OTHER MOVEMENT IN NON-CONTROLLING INTERESTS

Other movement in non-controlling interests represents the net movement in treasury shares held by Aluminium Bahrain B.S.C. ("Alba").

22 REVENUE

	2013 BD '000	2012 BD '000
Metals and minerals	**749,033**	744,935
Transportation	**322,438**	392,202
Other	**26,054**	25,621
	1,097,525	1,162,758

23 DIRECT COSTS

	2013 BD '000	2012 BD '000
Raw materials, spares and consumables	**373,140**	391,102
Staff costs	**123,503**	129,143
Depreciation	**107,252**	103,043
Fuel	**129,533**	182,234
Operating lease rentals	**17,194**	42,542
Repairs and maintenance	**67,762**	92,036
Others	**169,704**	176,095
	988,088	1,116,195

In addition to the above staff costs, selling and distribution expenses and administrative expenses include staff costs of BD 9,535 thousand and BD 44,460 thousand respectively (2012: BD 12,370 thousand and BD 44,856 thousand respectively).

24 OTHER OPERATING INCOME

	2013 BD '000	2012 BD '000
Recovery from legal claims (i)	**-**	31,960
Gain on disposal of property, plant and equipment	**1,820**	-
Miscellaneous	**15,678**	10,812
	17,498	42,772

24 OTHER OPERATING INCOME (continued)

(i) Recovery from legal claims
On 9 October 2012, Alba entered into an out-of-court settlement agreement with Alcoa Inc., Alcoa World Alumina L.L.C. and members of its senior management (together, "Alcoa"). The settlement agreed was a combination of cash amounting to BD 31,960 thousand (US$ 85,000 thousand) as well as concessions on long term alumina supply and related agreements. The Group recognised the cash recovery of BD 31,960 thousand as other operating income for the year ended 31 December 2012.

25 GOVERNMENT ASSISTANCE

	2013 ***BD '000***	*2012* *BD '000*
Government assistance	**107,554**	196,473

The Government assistance comprises of BD 95,000 thousand (2012: BD 185,000) received by Gulf Air, BD 12,254 thousand (2012: BD 11,473 thousand) by Bahrain Flour Mills Company B.S.C. and BD 300 thousand by Southern Tourism Company B.S.C (c) (2012:nil) from the Ministry of Finance on behalf of the Government of the Kingdom of Bahrain.

In accordance with the Royal Decree number 54 for the year 2012, the Government of the Kingdom of Bahrain had transferred an amount of BD 185 million to Gulf Air through BMHC in order to support its restructuring plan. During 2013, Gulf Air has received BD 95 million from the Government of the Kingdom of Bahrain. There are no unfulfilled conditions or contingencies attached to this assistance.

The amount received by Bahrain Flour Mills Company B.S.C. is to enable it to sell flour at a controlled price.

26 OTHER OPERATING EXPENSES

	2013 ***BD '000***	*2012* *BD '000*
Loss on disposal and write-off of property, plant and equipment	**-**	11,435
Restructuring costs (note)	**4,721**	70,770
Other	**2,477**	-
	7,198	82,205

Note:
On 9 January 2013, the Board of Directors of Gulf Air ratified and announced a new detailed formal restructuring plan which primarily focused on:

- geographical stations to continue in operation;
- mix and size of aircraft fleet to be used;
- number and location of staff to continue in service; and
- other operational controllable expenses.

26 OTHER OPERATING EXPENSES (continued)

Restructuring costs comprise the following:

	2013 BD '000	2012 BD '000
Staff related costs	**204**	30,685
Aircraft related costs	**3,677**	40,000
Others	**840**	85
	4,721	70,770

The movements in the restructuring provision were as follows:

	2013 BD '000	2012 BD '000
Balance at beginning of the year	70,000	-
Accrued during the year	4,721	70,000
Utilisation during the year	(52,684)	-
Balance at end of the year (note 15 (ii))	**22,037**	70,000

27 IMPAIRMENT LOSSES

	2013 BD '000	2012 BD '000
Impairment losses on non-trading investments (note 8)	-	1,239
Impairment loss on investment in associates (note 9)	-	19,011
Impairment losses on property, plant and equipment (note 11)	**20,879**	-
Impairment loss on goodwill (note 13)	-	206,661
	20,879	226,911

28 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

(i) *Capital expenditure*

At the reporting date, the Group had the following capital expenditure commitments relating to the acquisition of property, plant and equipment.

	2013 BD '000	2012 BD '000
Aircraft (note a)	**1,354,167**	1,396,925
Other (note b)	**83,891**	51,680
	1,438,058	1,448,605

Notes:

(a) At 31 December 2013, aircraft commitments of BD 80,582 thousand (2012: BD 21,909 thousand) are due within one year, BD 676,462 thousand (2012: BD 360,400 thousand) are due within one to five years and BD 597,123 thousand (2012: BD 1,014,616 thousand) are due after more than five years from the reporting date.

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments (continued)

(b) (ii) Other capital expenditure commitments include technology related commitments of BD 2,208 thousand (2012: BD 2,171 thousand) due within one year and BD 6,873 thousand (2012: BD 6,701 thousand) due within one to five years of the reporting date. The Group has the right to early termination of the agreement subject to certain conditions.

(ii) *Operating lease commitments*

Future minimum rentals payable under non-cancellable operating leases at 31 December 2013 are as follows:

	2013 ***BD '000***	*2012* *BD '000*
Within one year	**16,631**	38,921
After one year but not more than five years	**61,187**	81,692
After five years	**13,167**	28,589
	90,985	149,202

(iii) *Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2013 were BD 14,912 thousand (2012: BD 14,566 thousand). The commitments are expected to be settled within one year.

The Group had no outstanding letters of credit to counterparties for derivative transactions at 31 December 2013 (2012: BD 3,760 thousand).

Contingencies

(i) *Guarantees*

The Group has issued guarantees to banks and other institutions amounting to BD 22,004 thousand (2012: BD 19,146 thousand).

(ii) *Law suits*

a) Law suits have been filed against Gulf Air in the Kingdom of Bahrain and in other jurisdictions where Gulf Air operates. These relate to claims which are in the normal course of business. In management's view based on independent legal advice, 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 15 (ii)].

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.

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Contingencies (continued)

c) On 27 February 2008, Alba filed a lawsuit in the United States District Court for the Western District of Pennsylvania against Alcoa, Inc., Alcoa World Alumina LLC, a member of its senior management (together, "Alcoa") and Victor Dahdaleh. In the complaint, Alba alleged that Alcoa conspired to bribe certain former members of its senior management and officials of the Government of the Kingdom of Bahrain to ensure, among other things, that Alcoa continued to benefit from Alba's alumina purchases at inflated prices. Among other remedies, Alba sought damages for illicit activities that took place from 1993 to 2008.

In March 2008, the Court granted the U.S. Government's unopposed motion to intervene and stay discovery, as the U.S. Government conducted a criminal investigation related to the same allegations. The stay was lifted in November 2011, and on 11 June 2012, the Court denied motions filed by Alcoa and the other defendants seeking to dismiss the lawsuit. On 9 October 2012, the Company reached a settlement with the Alcoa defendants comprised of a combination of cash and a long-term alumina supply arrangement (note 24 (i)). The lawsuit against Victor Dahdaleh 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 Alba's right to compensation pursuant to Article 3.2 of PCMLL. The criminal conviction was pardoned by a Royal Decree. However Alba's civil claim is still pending under a civil court proceeding.

It is not practical to estimate the effects of the law suits (c) and (d) above on the consolidated financial statements of the Group at this stage.

29 RELATED PARTY DISCLOSURES

Related parties as defined in IAS 24: Related Party Disclosures, represent the shareholder, 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.

29 RELATED PARTY DISCLOSURES (continued)

Transactions with related parties included in the consolidated statement of income are as follows:

	2013			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associates BD '000***	***Total BD '000***
Income				
Revenue	-	14	101,654	101,668
Government assistance	107,554	-	-	107,554
Other operating income	1,206	-	-	1,206
Interest income	-	-	2,364	2,364
	108,760	**14**	**104,018**	**212,792**
Expenses				
Direct costs	3,783	149,492	15,575	168,850
Administrative expenses	288	-	908	1,196
Interest expense	35	-	6,114	6,149
	4,106	**149,492**	**22,597**	**176,195**

	2012			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Income				
Revenue	218	359	94,909	95,486
Government assistance	196,473	-	-	196,473
Other operating income	649	-	210	859
Interest income	-	-	7,031	7,031
	197,340	359	102,150	299,849
Expenses				
Direct costs	3,690	158,548	21,552	183,790
Administrative expenses	288	-	8,463	8,751
Interest expense	35	-	7,187	7,222
	4,013	158,548	37,202	199,763

Details of land leased from related parties, free of rent, are disclosed in note 11.

29 RELATED PARTY DISCLOSURES (continued)

Balances with related parties included in the consolidated statement of financial position are as follows:

	2013			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associates BD '000***	***Total BD '000***
Assets				
Other assets (note 12)	-	-	**81,169**	**81,169**
Trade accounts receivable, prepayments and other assets	**1,190**	-	**27,533**	**28,723**
Cash and bank balances	-	-	**34,532**	**34,532**
	1,190	-	**143,234**	**144,424**
Liabilities				
Borrowings	**694**	-	**153,864**	**154,558**
Trade accounts payable, accrued expenses and other liabilities	**736**	**183,808**	**26,783**	**211,327**
	1,430	**183,808**	**180,647**	**365,885**

	2012			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Assets				
Other assets (note 12)	-	-	143,315	143,315
Trade accounts receivable, prepayments and other assets	1,936	128	20,978	23,042
Cash and bank balances	-	-	153,481	153,481
	1,936	128	317,774	319,838
Liabilities				
Borrowings	694	-	159,546	160,240
Trade accounts payable, accrued expenses and other liabilities	5,413	146,381	33,818	185,612
	6,107	146,381	193,364	345,852

Compensation of key management personnel

The remuneration of members of key management personnel for the year was BD 4,999 thousand (2012: BD 6,289 thousand).

Fees to the directors of the Group companies provided for during the year was BD 547 thousand (2012: BD 519 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 periodic 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 Board Audit and Risk 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 Board Audit and Risk 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 Board Audit and Risk 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 Committee
The Management Committee regularly reviews several aspects of Company's various 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 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 reporting 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 30% of the outstanding accounts receivable as of 31 December 2013 (2012: 30%).

(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 2013, based on contractual payment dates and current market interest rates.

31 December 2013	***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	**109,408**	**118,816**	**619,629**	**47,983**	**895,836**
Derivatives	**897**	**3,956**	**11,782**	**-**	**16,635**
Trade accounts payable and other liabilities	**269,278**	**27,129**	**243**	**-**	**296,650**
Obligations relating to acquired entities	**16,149**	**13,698**	**100,177**	**-**	**130,024**
	395,732	**163,599**	**731,831**	**47,983**	**1,339,145**

31 December 2012	*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	166,221	228,964	538,471	63,163	996,819
Derivatives	1,617	11,813	25,341	-	38,771
Trade accounts payable and other liabilities	203,261	74,836	864	-	278,961
Obligations relating to acquired entities	16,111	14,293	144,702	-	175,106
	387,210	329,906	709,378	63,163	1,489,657

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 and cross currency swaps 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 2013, 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, 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 results for the year*	
		2013	*2012*	***2013***	*2012*
		BD '000	*BD '000*	***BD '000***	*BD '000*
Euro	**10%**	**(9,278)**	(19,012)	**(928)**	(1,901)
Pound Sterling	**10%**	**23,098**	79,930	**2,310**	7,993
Indian Rupee	**10%**	**2,506**	3,242	**251**	324

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 significant portion 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 results for the year BD '000*
2013	**+100**	**(2,806)**	**(4)**	**(2,810)**
	-100	**2,806**	**4**	**2,810**
2012	+100	(3,008)	(733)	(3,741)
	-100	3,008	733	3,741

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). Alba hedges its selling price using futures commodity contracts, based on customers' options. The forecast is deemed to be highly probable.

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 2013, with all other variables held constant.

	Increase/ decrease in LME price	*Effect on results for the year BD '000*
2013	**10%**	**933**
	-10%	**(886)**
2012	10%	(3,432)
	-10%	3,260

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 13,096 thousand (2012: BD 17,931 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% (2012: 10%) increase in the net asset values of funds will increase the net profit by BD 9,214 thousand (2012: decrease in net loss by BD 7,341 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 2013 BD '000*	*Effect on equity 2012 BD '000*
Quoted and unquoted investments	+ 10%	23,500	20,432

(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 2013 and the comparative period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity.

	2013 BD '000	*2012 BD '000*
Borrowings (note 14)	829,438	930,813
Derivative financial instruments (note 4)	16,635	38,771
Total debt	846,073	969,584
Less: cash and bank balances (note 3)	(245,547)	(290,146)
Net debt	600,526	679,438
Total equity	2,555,539	2,401,612
Gearing ratio	23%	28%

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 8 and deposits which are interest free and details of which are disclosed in note 12, the fair values of financial assets and financial liabilities are not materially different from their carrying values at the reporting 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 2013	*Level 1* *BD '000*	*Level 2* *BD '000*	*Level 3* *BD '000*	*Total* *BD '000*
Investments carried at fair value through statement of income	**1,910**	**90,233**	**-**	**92,143**
Non-trading investments	**6,223**	**2,824**	**225,950**	**234,997**
Derivative financial instruments (liabilities)	**-**	**16,635**	**-**	**16,635**

31 December 2012	*Level 1* *BD '000*	*Level 2* *BD '000*	*Level 3* *BD '000*	*Total* *BD '000*
Derivative financial instruments (assets)	-	104	-	104
Investments carried at fair value through statement of income	1,827	71,585	-	73,412
Non-trading investments	5,211	2,242	203,672	211,125
Derivative financial instruments (liabilities)	-	38,771	-	38,771

During the years 2013 and 2012 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.

The movements in level 3 financial instruments measured at fair value are as follows:

	2013 *BD '000*	*2012* *BD '000*
Balance at beginning of the year	**203,672**	197,622
Sale during the year	**-**	(732)
Fair value changes	**22,278**	8,020
Impairment loss	**-**	(1,238)
Balance at end of the year	**225,950**	203,672

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 activities not included above.

There are no material transfers between operating segments.

32 OPERATING SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2013 was as follows:

2013	*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	**749,033**	**331,448**	**-**	**1,858**	**-**	**15,186**	**1,097,525**
Share of results of associates	**(1,220)**	**4,533**	**24,701**	**(3,396)**	**17,026**	**4,901**	**46,545**
Impairment losses	**-**	**14,336**	**-**	**-**	**-**	**6,543**	**20,879**
Net profit (loss)	**76,757**	**(8,832)**	**24,701**	**(2,084)**	**17,026**	**(24,907)**	**82,661**
Investment in associates	**12,164**	**228,349**	**314,875**	**86,657**	**320,499**	**37,362**	**999,906**
Total assets	**1,758,022**	**915,528**	**511,271**	**250,064**	**329,243**	**284,132**	**4,048,260**

2012	*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	744,935	400,583	-	1,719	-	15,521	1,162,758
Share of results of associates	1,466	(3,005)	22,643	(4,284)	23,980	4,966	45,766
Impairment losses	206,661	-	19,011	-	-	1,239	226,911
Net profit (loss)	(107,440)	(84,813)	4,141	(4,379)	23,980	(13,218)	(181,729)
Investment in associates	14,155	137,450	293,219	90,795	308,746	35,128	879,493
Total assets	1,812,333	841,468	470,872	246,164	316,952	407,769	4,095,558

The segment revenue reported above represents revenue generated from external customers. Inter-segment revenue is negligible.

32 OPERATING SEGMENT INFORMATION (continued)

Geographic information
An analysis of the revenue by geographic location is as follows:

	2013 BD '000	2012 BD '000
Kingdom of Bahrain	**475,870**	448,895
Asia	**118,543**	144,150
Rest of Middle East and North Africa	**333,546**	366,064
Rest of the world	**169,566**	203,649
	1,097,525	1,162,758

Customers
Revenue from a customer amounted to BD 170,151 thousand (2012: BD 141,370 thousand) being more than 10% of the consolidated revenue of the Group.

33 MATERIAL PARTLY OWNED SUBSIDIARIES

Aluminium Bahrain B.S.C (Alba) is a partly owned subsidiary of the Group that has material non-controlling interests. The proportionate ownership interest and voting rights held by non-controlling interests as of 31 December 2013 and 31 December 2012 was 30.62%. The summarised financial information of Alba before intragroup eliminations is set out below:

Summarised statement of financial position	2013 BD '000	2012 BD '000
Current assets	**303,083**	299,850
Non-current assets	**875,195**	912,093
Current liabilities	**(219,182)**	(280,318)
Non-current liabilities	**(90,645)**	(102,007)
Total equity	**868,451**	829,618
Attributable to :		
Equity holders of the parent	**602,531**	575,589
Non-controlling interests	**265,920**	254,029
	868,451	829,618

Summarised statement of income and comprehensive income	2013 BD '000	2012 BD '000
Revenue	**749,338**	743,725
Net profit and total comprehensive income	**79,777**	96,545
Attributable to:		
Equity holders of the parent	**55,349**	66,983
Non-controlling interests	**24,428**	29,562
	79,777	96,545

33 MATERIAL PARTLY OWNED SUBSIDIARIES (continued)

Summarised statement of cash flows	*2013* *BD '000*	*2012* *BD '000*
Net cash inflow from operating activities	130,172	153,059
Net cash outflows from investing activities	(47,654)	(32,208)
Net cash outflows from financing activities	(79,583)	(158,733)
Net cash inflow (outflow)	2,935	(37,882)
Dividends paid to non-controlling interests	11,903	23,070

34 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS

(i) Acquisitions during 2013

Transfer of assets from the Ministry of Finance

On 25 April 2013, the Government of the Kingdom of Bahrain transferred its 100% ownership in the issued share capital of Southern Tourism Company B.S.C (c) (STC) held through Eskan Bank B.S.C (c) to the Company. Eskan Bank is a wholly owned entity of the Government of the Kingdom of Bahrain. The fair value of the net assets acquired amounting to BD 2,485 thousand has been considered as a capital contribution from the shareholder (note 18).

Acquisition of control of Southern Area Development Company B.S.C (c) (SADC)

SADC was an associate of the Company with 28.13% ownership in the issued share capital until 6 October 2013. The Company's ownership interest was increased to 55.9% on 7 October, 2013 through a rights issue for a consideration of BD 3,000 thousand.

Acquisition of control of BAC Facility Management S.P.C (BACFM)

The Group through Bahrain Airport Company S.P.C had a 50% ownership in BACFM (formerly Hochtief Facility Management Bahrain Airport W.L.L). On 11 September 2013, Bahrain Airport Company S.P.C acquired the remaining 50% shares of BACFM for a consideration of BD 2,000 thousand. The acquisition was made with the objective of reducing airport maintenance costs, to improve airport asset performance and service levels.

The above acquisitions were accounted for in accordance with IFRS 3 - Business combinations. The Group elected to measure the non-controlling interests in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

34 BUSINESS COMBINATIONS AND ACQUISITION OF NON-CONTROLLING INTERESTS (continued)

(ii) Assets acquired and liabilities assumed

The fair value of assets acquired and liabilities assumed at the acquisition date are mentioned below:

	STC BD '000	SADC BD '000	BACFM BD '000	Total BD '000
Property, plant and equipment	276	4,855	176	5,307
Trade receivables, prepayments and other assets	136	3,024	3,158	6,318
Inventories	-	15	237	252
Cash and cash equivalents	2,148	79	484	2,711
Trade accounts payable and other liabilities	(37)	(430)	(2,205)	(2,672)
Employees' end of service benefits	(38)	-	(110)	(148)
Fair value of net assets acquired	2,485	7,543	1740	11,768
Less: Pre-acquisition equity interest measured at fair value	-	(1,217)	(870)	(2,087)
Non-controlling interests at fair value	-	(3,326)	-	(3,326)
	2,485	3,000	870	6,355
Purchase consideration	2,485	3,000	2,000	7,485
Goodwill arising on acquisition (note 13)	-	-	1,130	1,130

35 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*	
	2013	*2012*	*2013*	*2012*
	BD '000	*BD '000*	*BD '000*	*BD '000*
ASSETS				
Cash and bank balances	245,547	290,146	-	-
Derivative financial instruments	-	104	-	-
Trade accounts receivable, prepayments and other assets	162,067	178,264	1,766	2,940
Inventories	160,657	158,919	-	-
Investments carried at fair value through statement of income	89,353	70,848	2,790	2,564
Non-trading investments	-	-	235,469	211,573
Investment in associates	-	-	999,906	879,493
Investment properties	-	-	216,954	219,207
Property, plant and equipment	-	-	1,253,213	1,338,645
Other assets	3,598	4,270	94,691	157,468
Goodwill	-	-	582,247	581,117
	661,222	702,551	3,387,038	3,393,007

35 CURRENT AND NON CURRENT ASSETS AND LIABILITIES (continued)

	Less than one year		*Over one year*	
	2013	*2012*	***2013***	*2012*
	BD '000	*BD '000*	***BD '000***	*BD '000*
LIABILITIES				
Borrowings	**201,171**	369,377	**628,267**	561,436
Derivative financial instruments	**5,313**	14,775	**11,322**	23,996
Trade accounts payable, accruals and other liabilities	**483,553**	518,108	**24**	-
Employees' end of service benefits	**-**	-	**11,506**	13,275
Obligations relating to acquired entities	**28,235**	28,763	**82,140**	114,344
	718,272	931,023	**733,259**	713,051
Maturity gap	**(57,050)**	(228,472)	**2,653,779**	2,679,956

Note: Trade accounts payable exclude the effect of unearned income and deferred income of BD 30,144 thousand and BD 11,046 thousand (2012: BD 38,406 thousand and BD 11,466 thousand) respectively as these do not represent financial liabilities.

36 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 and leases for aircrafts. 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.

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.

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 values and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimates.

36 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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.

Impairment of non-financial assets (including goodwill)
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 10 and 13.

Impairment of available for sale financial assets
The Group classifies certain assets as available for sale and recognises movements in their fair value in other 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. No impairment loss was required to be recognised for available for sale assets at 31 December 2013 (2012: BD 1,239 thousand). The carrying amount of available-for-sale assets was BD 235,469 thousand (2012: BD 211,573 thousand).

Restructuring costs
Restructuring provisions are recognised only if events have occurred that give rise to a constructive obligation as of the reporting date, include only direct expenditure which is necessarily entailed by the restructuring plan and not associated with the ongoing activities of the Gulf Air. In determining the amounts that can be provided for and presented as restructuring costs, estimates are made by the management on the approximate number of employees who will be compensated under voluntary redundancy scheme, settlement to lessors of aircraft whose operating leases are intended to be terminated early and other relevant restructuring expenses.

At 31 December 2013, the total carrying amount of estimated restructuring provisions was BD 22,037 thousand (2012: BD 70,000 thousand).

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

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

BOARD OF DIRECTORS' REPORT

The Board of Bahrain Mumtalakat Holding Company B.S.C. (c) (hereinafter referred to as the "Group") is pleased to present its report together with the audited consolidated financial statements for the year ended 31 December 2012.

Financial highlights

The Group registered a total comprehensive loss of BD 157 million with a decrease in revenue and gross margins of 9.9% and 66.8% respectively. The operating income was BD 23 million and net loss after taking into consideration interest expense, fair value gain/(loss) on derivatives and impairment losses was BD 181.7 million compared to the net loss of BD 270.6 million for the year ended 31 December 2011.

The Group's total assets and equity attributable to the shareholder of the parent company as at 31 December 2012 were BD 4.1 billion and BD 2.1 billion respectively (2011: BD4.2billion and BD 2.3 billion respectively).

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

	BD '000
Balance as at December 31, 2011	2,313,085
Total comprehensive loss	(186,975)
Contribution by the shareholder	15,969
Balance as at December 31, 2012	2,142,079

The decrease in Group revenues was primarily due to lower London Metal Exchange (LME) price of aluminium affecting the performance of Aluminium Bahrain B.S.C. (Alba), a key group company. The decrease in the LME price of aluminium resulted in Alba's net income declining from BD 211.9 million in 2011 to BD 96.5 million in 2012. Gulf Air has continued restructuring initiatives to reduce operating losses, achieve cost efficiencies and improve the quality of product offering and customer service. To help mitigate the operating losses incurred by the airline in 2012, and to fund one-time restructuring costs, the Government of the Kingdom of Bahrain approved a financial assistance package of BD 185 million. As a result, Gulf Air's loss for the year declined from BD 210.7 million in 2011 to BD 81.5 million in 2012. The share of profit from associates increased by 9.1% as a result of an improvement in the operating performance of certain associate companies. This coupled with lower impairment losses (BD 226.9 million in 2012 compared to BD 316.5 million in 2011) resulted in a net loss for the Group of BD 181.7 million in 2012 compared to 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

A resolution proposing the appointment of Deloitte & Touche, as auditors of the Company, for the year ending 31 December 2013 will be submitted to the Annual General Meeting

By order of the Board of Directors

Chairman

Director

28 May 2013

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 (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, 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 about 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.

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 2012, 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

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 2012 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

28 May 2013

Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2012

	Note	2012 BD '000	2011 BD '000
ASSETS			
Cash and bank balances	3	290,146	259,765
Derivative financial instruments	4	104	-
Trade accounts receivable, prepayments and other assets	5	181,204	160,598
Inventories	6	156,919	174,996
Investments carried at fair value through statement of income	7	73,412	62,664
Non-trading investments	8	211,573	204,771
Investment in associates	9	879,493	859,762
Investment properties	10	219,207	213,588
Property, plant and equipment	11	1,338,645	1,340,745
Other assets	12	161,738	154,514
Goodwill	13	581,117	787,778
TOTAL ASSETS		4,095,558	4,219,181
LIABILITIES AND EQUITY			
Liabilities			
Borrowings	14	930,813	1,014,210
Derivative financial instruments	4	38,771	64,970
Trade accounts payable accruals and other liabilities	15	567,980	390,144
Employees' end of service benefits	16	13,275	13 230
Obligations relating to acquired entities	17	143,107	171,352
Total liabilities		1,693,946	1,653 906
Equity attributable to shareholder of the parent			
Share capital	18	1,845,635	1,845,635
Capital contribution	18	1,132,906	1 116 937
Statutory reserve	19	21,252	21 252
Other reserves	20	14,949	(9,637)
Accumulated deficit		(872,663)	(661,102)
		2,142,079	2,313,085
Non-controlling interests	21	259,533	252,190
Total equity		2,401,612	2,565,275
TOTAL LIABILITIES AND EQUITY		4,095,558	4,219,181

Khalid bin Abdullah Al Khalifa
Chairman

Mahmood H. Al-Kooheji
Director and Chief Executive Officer

Anthony L. Robinson
Chief Financial Officer

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

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2012

	Note	2012 BD '000	2011 BD '000
Revenue	22	1,162,758	1,291,223
Direct costs	23	1,116,195	1,150,862
Gross profit		46,563	140,361
Dividend income		1,128	978
Gain (loss) on investments carried at fair value through statement of income		5,908	(1,548)
Other operating income	24	42,772	42,803
Government assistance	25	196,473	11,637
Selling and distribution expenses		(87,242)	(92,458)
Administrative expenses		(100,157)	(100,176)
Other operating expenses	26	(82,205)	(7,539)
Operating income (loss)		23,240	(5,942)
Share of profit of associates	9	45,766	41,955
Interest income		8,482	10,050
Interest expense		(38,166)	(37,080)
Fair value gain on revaluation/settlement of derivatives (net)	4	5,860	36,898
Impairment losses	27	(226,911)	(316,531)
NET LOSS FOR THE YEAR		(181,729)	(270,650)
Attributable to:			
Shareholder of the parent		(211,561)	(335,816)
Non-controlling interests		29,832	65,166
		(181,729)	(270,650)

Khalid bin Abdullah Al Khalifa
Chairman

Mahmood H. Al-Kooheji
Director and Chief Executive Officer

Anthony L. Robinson
Chief Financial Officer

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2012

	Note	2012 BD '000	2011 BD '000
LOSS FOR THE YEAR		**(181,729)**	(270,650)
Other comprehensive income			
Movement in cumulative changes in fair values		**7,498**	(2,269)
Transfer to consolidated statement of income		**-**	2,417
Share of changes in equity of associates	9	**11,890**	(9,522)
Foreign currency translation	9	**5,399**	(578)
Total other comprehensive income (loss) for the year		**24,787**	(9,952)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(156,942)**	(280,602)
Attributable to:			
Shareholder of the parent		**(186,975)**	(345,821)
Non-controlling interests		**30,033**	65,219
		(156,942)	(280,602)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2012

	Note	2012 BD '000	2011 BD '000
OPERATING ACTIVITIES			
Net loss for the year		(181,729)	(270,650)
Adjustments for:			
Depreciation		107,771	108,274
Fair value gain on derivatives	4	(5,860)	(36,898)
(Gain) loss on investments carried at fair value through statement of income		(5,909)	1,548
Gain on non-trading investments		-	(762)
Gain on sale of investment in associate		-	(21,748)
Share of profits of associates	9	(45,766)	(41,955)
Impairment losses	27	226,911	316,531
Provision for impairment on trade accounts and other receivables	5	1,237	3,230
Loss on disposal and write-off of property, plant and equipment	26	11,435	7,603
Interest income		(8,482)	(10,050)
Interest expense		36,166	37,079
Employees' end of service benefits	16	2,421	2,427
Operating profit before changes in operating assets and liabilities		140,195	94,629
Changes in operating assets and liabilities:			
Inventories		14,867	(5,361)
Trade accounts receivable, prepayments and other assets		(15,825)	10,587
Trade accounts payable, accruals and other liabilities		176,556	86,453
Cash from operating activities		315,793	186,308
Interest paid		(36,258)	(37,079)
Derivative financial instruments		(20,443)	(42,036)
Employees' end of service benefits paid	16	(2,376)	(1,837)
Net cash from operating activities		254,716	105,356
INVESTING ACTIVITIES			
Investment in associates	9	(9,311)	(15,105)
Purchase of non-trading and other investments		(4,915)	(62,151)
Proceeds from sale of non-trading investments and other investments		741	1,479
Purchase of property, plant and equipment	11	(140,942)	(123,383)
Investment in properties	10	(24)	(150)
Proceeds from disposal of property, plant and equipment		20,431	19,244
Other assets		(7,527)	(15,045)
Dividends from associates	9	34,424	38,243
Net cash used in investing activities		(107,123)	(156,868)

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Year ended 31 December 2012

	Note	2012 BD '000	2011 BD '000
FINANCING ACTIVITIES			
Capital contribution	18	**15,346**	14,650
Proceeds from borrowings		**342,665**	200,275
Repayment of borrowings		**(426,560)**	(343,175)
Dividend paid to non-controlling interests		**(23,241)**	(30,935)
Movement in non-controlling interests (net)		**551**	(1,321)
Interest received		**2,464**	4,478
Margin deposits with brokers and other deposits		**20,248**	(16,359)
Obligations relating to acquired entities		**(28,245)**	(24,751)
Net cash used in from financing activities		**(96,771)**	(197,138)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**50,822**	(248,650)
Cash and cash equivalents at beginning of the year		**226,613**	475,263
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3	**277,435**	226,613

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2012

	Attributable to shareholder of the parent						Non-controlling interests	Total equity
	Share capital BD '000	Capital contribution BD '000 (note 18)	Statutory reserve BD '000 (note 19)	Other reserves BD '000 (note 20)	Accumulated deficit BD '000 (i)	Total BD '000	BD '000	BD '000
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 (loss) income	-	-	-	(10,005)	-	(10,005)	53	(9,952)
Total comprehensive (loss) income	-	-	-	(10,005)	(335,816)	(345,821)	65,219	(280,602)
Contribution by the shareholder (note 18)	-	14,650	-	-	-	14,650	-	14,650
Distribution of assets to the shareholder (note 18)	-	(384,128)	-	-	-	(384,128)	-	(384,128)
Dividend paid to non-controlling interests	-	-	-	-	-	-	(30,935)	(30,935)
Movement in non-controlling interests (note 21)	-	-	-	-	-	-	(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
(Loss) profit for the year	-	-	-	-	(211,561)	(211,561)	29,832	(181,729)
Other comprehensive income	-	-	-	24,586	-	24,586	201	24,787
Total comprehensive income (loss)	-	-	-	24,586	(211,561)	(186,975)	30,033	(156,942)
Contribution by the shareholder (note 18)	-	15,969	-	-	-	15,969	-	15,969
Dividend paid to non-controlling interests	-	-	-	-	-	-	(23,241)	(23,241)
Movement in non-controlling interests (note 21)	-	-	-	-	-	-	551	551
Balance at 31 December 2012	**1,845,635**	**1,132,906**	**21,252**	**14,949**	**(872,663)**	**2,142,079**	**259,533**	**2,401,612**

(i) Accumulated deficit is net of BD 38,702 thousand (2011: BD 37,987 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 28 May 2013.

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 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.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2012. The Company has the following subsidiaries:

Name	*Ownership at 31 December 2012*	*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.

2 BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

Name	*Ownership at 31 December 2012*	*Date of effective control*	*Activity*
Bahrain Food Holding Company S.P.C.	100%	20 July 2008	Investment holding company.
Bahrain Flour Mills Company B.S.C.	65.70%	29 June 2006	Production and sale of flour and related products.
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.
General Poultry Company B.S.C. (c)	100%	29 June 2006	Poultry farming and sale of eggs.
Gulf Aviation Academy B.S.C. (c)	100%	22 July 2009	Providing training for airline pilots, cabin crew and related services.
Gulf Air Company B.S.C. (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.
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. (c)	100%	29 June 2006	Developing and managing tourism resorts.

Awali Real Estate Company B.S.C. (c), Bahrain Food Holding Company S.P.C., Hawar Island Development Company B.S.C. (c) and Tourism Project Company B.S.C. (c) were liquidated subsequent to the year end. This will have no significant impact on the Group's consolidated financial position or consolidated performance.

2 BASIS OF PREPARATION (continued)

2.2 Basis of consolidation (continued)

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 and dividends, 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

2.3 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 IFRSs effective as of 1 January 2012 which had no impact on the Group's financial position, performance or its disclosures:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets.
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters.
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements.

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:

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's consolidated financial position or consolidated performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's consolidated financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities —

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's consolidated financial position or consolidated performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

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. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

IFRS 10 Consolidated Financial Statements (continued)

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. IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The new standard will have no impact on the Group's consolidated financial position or consolidated performance.

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 and is effective for annual periods beginning on or after 1 January 2013. The new standard will have no impact on the Group's consolidated financial position or consolidated 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.

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

New standards and interpretations issued but not yet effective (continued)

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 consolidated financial position or consolidated 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, 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;

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Derivative financial instruments and hedging (continued)

- 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.

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 afair value basis, in accordance with a documented risk management or investment strategy.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Investments and other financial assets (continued)

Financial assets carried at fair value through statement of income (continued)

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 the 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.

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'.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Investments and other financial assets (continued)

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 been 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. If any write-off is later recovered, the recovery is recognised as other income in the consolidated statement of income.

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Impairment and uncollectability of financial assets (continued)

Available-for-sale-investments (continued)

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 the 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)

2.3 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. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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.

2 BASIS OF PREPARATION (continued)

2.3 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.

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)

2.3 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 non-financial 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)

2.3 Significant accounting policies (continued)

Impairment of non-financial assets (continued)

Investment properties

The investment properties are fair valued for impairment assessments at year end. The approaches followed in fair valuation are summrised below:

- Vacant land: these are measured based on residual method where there is potential economic development or recent comparable transaction prices.
- Ground lease land: these are 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 is discounted to present value.

  The value of the property to the Group on expiry of the lease term is assessed either assuming that the property will 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.

If the fair value of the investment properties falls below the carrying amount, the difference is recognised as impairment losses 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 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.

2 BASIS OF PREPARATION (continued)

2.3 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. In addition, the Group also provides for end of service benefits to certain Bahraini nationals whose salaries exceed a certain limit.

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.

Restructuring provisions

Restructuring provisions are recognised only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline. Furthermore, the employees affected have been notified of the plan's main features.

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Leases (continued)

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 the 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.

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.

2 BASIS OF PREPARATION (continued)

2.3 Significant accounting policies (continued)

Revenue recognition (continued)

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 assistance

Government assistance is recognised where there is reasonable assurance that the assistance will be received and all attached conditions are complied with. When the assistance relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the assistance relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Government assistance that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of income in the period in which they become receivable.

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

	2012 BD '000	2011 BD '000
Cash and current accounts with banks	**100,548**	28,125
Call deposits	**29,339**	132,261
Term deposits	**160,259**	99,379
Cash and bank balances	**290,146**	259,765
Bank balances under lien and term deposits with an original maturity of more than three months	**(12,709)**	(32,949)
Bank overdrafts (note 14)	**(2)**	(203)
Cash and cash equivalents as per the consolidated statement of cash flows	**277,435**	226,613

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 2012, the effective interest rate on call deposits was 0.29% (2011: 0.19%) and term deposits was 1.02% (2011: 1.25%).

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 2012 are as follows:

	At 31 December 2012		*Gains (losses) for the year ended 31 December 2012*		
	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	**104**	**34,424**	**21,994**	**(16,940)**	**5,054**
Interest rate collars and knockout swaps	-	**2,955**	**5,363**	**(4,848)**	**515**
Forward foreign exchange contracts	-	**47**	**291**	-	**291**
Total	**104**	**37,426**	**27,648**	**(21,788)**	**5,860**
Held as cash flow hedges					
Cross currency swaps	-	**1,345**	-	-	-
Total	**104**	**38,771**	**27,648**	**(21,788)**	**5,860**

4 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	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

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. Derivatives held under cash flow hedges as of 31 December 2012 represent cross currency swaps to hedge against certain borrowings (note 14 ii).

Interest rate collars and knockout swaps
The Group initially entered into 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 2012 were BD 190,422 thousand (US$ 505,098 thousand) and as at 31 December 2011 were BD 193,438 thousand (US$ 513,097 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 (2011: 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 (2011: US$ 1,658) per metric tonne for certain tonnages of aluminium.

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	2012 ***BD '000***	*2011* *BD '000*
Trade accounts receivable (net of provision for impairment)	**122,145**	108,329
Other receivables (net of write back)	**42,423**	34,601
Prepayments	**16,636**	17,668
	181,204	160,598

Trade receivables of BD 64,676 thousand (2011: BD 48,406 thousand) were assigned to financial institutions against short term borrowings of BD 17,160 thousand (2011: BD 13,084 thousand) and other term borrowings amounting to BD 47,516 thousand (2011: BD 35,322 thousand) (note 14).

5 TRADE ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS (continued)

The movements in the provision for impairment of trade receivables were as follows:

	2012 BD '000	*2011 BD '000*
Balance at beginning of the year	**13,422**	11,067
Provided during the year, net	**1,237**	3,230
Amount written off during the year	**(623)**	(875)
Balance at end of the year	**14,036**	13,422

The ageing analysis of unimpaired trade accounts receivable is as follows:

			Past due but not impaired				
	Total BD '000	*Neither past due nor impaired BD '000*	*< 30 days BD '000*	*31 – 60 days BD '000*	*61 – 90 days BD '000*	*91 – 120 days BD '000*	*>120 days BD '000*
2012	**122,145**	**109,699**	**2,739**	**2,515**	**1,411**	**1,727**	**4,054**
2011	108,329	100,572	1,432	1,674	992	1,645	2,014

Unimpaired trade accounts and other receivable are expected, on the basis of experience, to be fully recoverable.

6 INVENTORIES

	2012 BD '000	*2011 BD '000*
Raw materials	**29,199**	49,012
Work in progress	**52,051**	52,906
Finished goods	**18,444**	19,751
Store, spare parts and consumables	**35,768**	34,695
Goods in transit	**25,291**	20,257
	160,753	176,621
Provision for impairment of inventories	**(1,834)**	(1,625)
	158,919	174,996

The movement in provision for impairment of inventories are as follows:

	2012 BD '000	*2011 BD '000*
Balance at beginning of the year	**1,625**	3,021
Provided during the year	**400**	402
Inventories written off during the year	**(191)**	(1,798)
Balance at end of the year	**1,834**	1,625

7 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2012 *BD '000*	*2011* *BD '000*
Equities	**1,827**	1,612
Managed funds	**71,435**	60,842
Bonds	**150**	210
	73,412	62,664

Managed funds are fair valued based on net asset values provided by the fund managers.

8 NON-TRADING INVESTMENTS

	2012 *BD '000*	2011 *BD '000*
Available-for-sale quoted investments		
Equities	**5,211**	4,643
Managed funds	**2,242**	2,058
	7,453	6,701
Available-for-sale unquoted investments		
Equities	**204,120**	198,070
	211,573	204,771

Available-for-sale investments include unquoted investments amounting to BD 448 thousand (2011: BD 448 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 1,239 thousand (2011: BD 12,801 thousand) (note 27).

9 INVESTMENT IN ASSOCIATES

(i) The Group has the following principal associates at 31 December 2012 and 2011:

	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	50.00%
Gulf Aluminium Rolling Mill Company B.S.C. (c)	Kingdom of Bahrain	37.30%
Hawar Holding Company *(note)*	Cayman Islands	33.33%
McLaren Group Limited	United Kingdom	50.00%
McLaren Automotive Limited	United Kingdom	40.87%
National Bank of Bahrain B.S.C.	Kingdom of Bahrain	49.00%

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 2012 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.

9 INVESTMENT IN ASSOCIATES (continued)

(ii) The movements in investment in associates during the year comprises:

	2012 *BD '000*	*2011* *BD '000*
Balance at beginning of the year	**859,762**	920,901
Post acquisition share of profit	**45,766**	41,955
Investments made during the year	**9,311**	15,105
Share of change in equity of associates	**11,890**	(9,522)
Foreign currency translation	**5,399**	(578)
Impairment losses (note 27)	**(19,011)**	(94,067)
Dividends received	**(34,424)**	(38,243)
Gain on deemed disposal (note)	-	23,673
Other	**800**	538
Balance at end of the year	**879,493**	859,762

Note

During 2011, McLaren Automotive Limited had increased its share capital by issuing new shares to the Company and other investors. Accordingly, the Company's ownership had been diluted from 50% at 31 December 2010 to 40.87% at 31 December 2011. The dilution in ownership was treated as a deemed disposal and a gain of BD 23,673 thousand was recognised in the consolidated statement of income for the year ended 31 December 2011. Foreign currency translation loss relating to the deemed disposal amounting to BD 1,925 thousand was reclassified from other comprehensive income to the consolidated statement of income. The net gain of BD 21,748 thousand was included in other operating income (note 24).

(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 as at 31 December 2012. 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 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 19,011 thousand have been recognised in the consolidated statement of income (2011: BD 94,067 thousand).

(iv) Summarised financial information

	2012 *BD '000*	*2011* *BD '000*
Share of the associates' statement of financial position:		
Assets	**2,060,114**	1,880,919
Liabilities	**(1,545,330)**	(1,397,842)
Net assets	**514,784**	483,077

9 INVESTMENT IN ASSOCIATES (continued)

(iv) Summarised financial information (continued)

Share of associates' revenue and profit:

	2012 *BD '000*	*2011* *BD '000*
Revenue	**400,923**	360,908
Profit	**45,766**	41,955

(v) Market values

National Bank of Bahrain B.S.C. and Bahrain Telecommunications Company B.S.C. are listed on the Bahrain Bourse. The market values based on quoted prices at 31 December 2012 were BD 222,137 thousand (2011: BD 240,998 thousand) and BD 213,312 thousand (2011: BD 206,976 thousand) respectively.

10 INVESTMENT PROPERTIES

	Freehold land *BD '000*	*Buildings* *BD '000*	*Total* *BD '000*
Cost:			
Balance at 1 January 2012 (net of impairment losses)	212,212	1,534	213,746
Additions	5,623	24	5,647
At 31 December 2012	**217,835**	**1,558**	**219,393**
Depreciation:			
Balance at 1 January 2012	-	158	158
Charge for the year	-	28	28
At 31 December 2012	-	**186**	**186**
Net carrying amount:			
At 31 December 2012	**217,835**	**1,372**	**219,207**

	Freehold land *BD '000*	*Buildings* *BD '000*	*Total* *BD '000*
Cost:			
Balance at 1 January 2011	470,605	3,109	473,714
Additions	-	150	150
Transfer to assets held for distribution	(50,455)	-	(50,455)
Impairment 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

10 INVESTMENT PROPERTIES (continued)

Based on the impairment assessment at the year end, no impairment loss was required to be recognised for the year ended 31 December 2012. Impairment loss of BD 209,663 thousand was recognised for the year ended 31 December 2011.

The investment properties comprise of a 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.

Investment properties are unencumbered at the statement of financial position date. The fair value of the investment properties at 31 December 2012 was BD 223,142 thousand (2011: BD 218,839 thousand).

Investment properties of BD 84,794 thousand (2011: BD 128,772 thousand), are leased out under operating leases.

All freehold land included in investment properties are registered in the name of the Group.

11 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 2012	904	221,790	267,431	1,011,311	4,141	63,010	206,306	1,774,893
Additions	-	3,022	89,777	11,686	1,058	3,862	80,468	189,873
Transfers	-	5,249	30,695	54,644	369	14,014	(104,971)	-
Disposals	-	(278)	(82,035)	(14,938)	(359)	(1,573)	(3,736)	(102,919)
Write offs	-	-	(53)	(139)	(58)	(11)	(12)	(273)
At 31 December 2012	**904**	**229,783**	**305,815**	**1,062,564**	**5,151**	**79,302**	**178,055**	**1,861,574**
Depreciation:								
At 1 January 2012	-	43,456	40,738	290,937	2,657	56,360	-	434,148
Charge for the year	-	7,738	23,063	70,300	1,226	5,140	-	107,467
Relating to transfers	-	-	(10,331)	(1,370)	-	11,701	-	-
Relating to disposals	-	(223)	(3,376)	(13,288)	(341)	(1,342)	-	(18,570)
Relating to write offs	-	-	-	(83)	(23)	(10)	-	(116)
At 31 December 2012	**-**	**50,971**	**50,094**	**346,496**	**3,519**	**71,849**	**-**	**522,929**
Net carrying amount:								
At 31 December 2012	**904**	**178,812**	**255,721**	**716,068**	**1,632**	**7,453**	**178,055**	**1,338,645**

11 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 offs	-	(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 disposals	-	(492)	(7,387)	(31,672)	(1,785)	21,458	-	(19,878)
Relating to write offs	-	(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

11 PROPERTY, PLANT AND EQUIPMENT (continued)

(i) Assets on lease

Gulf Air B.S.C. (c) ("Gulf Air")'s headquarters are situated on land belonging to the Government of the Kingdom of Bahrain (the "Government") that has been made available on a rent free basis until 31 December 2010. During 2011, the Government 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 577 thousand (2011: BD 288 thousand) has been made in the consolidated financial statements. In addition, Aluminium Bahrain B.S.C. ("Alba") uses land leased from the Government and from The Bahrain Petroleum Company B.S.C. (c). These leases are rent free. Bahrain Airport Company B.S.C. (c) ("BAC") had a long term license agreement with the Government through the Ministry of Finance for the use of Bahrain airport land for 100 years, commencing 1 April 2008, at a rent of BD 1 per annum. This license was surrendered on 20 June 2012 and on the same day entered into an agreement with the Ministry of Finance to lease the airport land, installations, structures, terminal building and runway for 95 years 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 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 48,841 thousand (2011: BD 43,505 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 197,081 thousand (2011: BD 167,508 thousand) and plant and machinery and other equipment of BD 16,899 thousand (2011: BD 12,985 thousand) which are secured by charges 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 85,676 thousand (2011: BD 88,538 thousand) in respect of aircraft scheduled for delivery between 2012 and 2020 and other capital projects of BD 92,379 thousand (2011: BD 117,768 thousand).

12 OTHER ASSETS

	2012	*2011*
	BD '000	*BD '000*
Deposits	**10,298**	10,507
Receivable from associates	**143,315**	135,737
Miscellaneous assets	**8,125**	8,270
	161,738	154,514

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 2020 (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 13,753 thousand (2011: BD 17,191 thousand), McLaren Automotive Limited of BD 120,493 thousand (2011: BD 117,530 thousand) and McLaren Group Limited BD 8,619 thousand (2011: nil) . 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 in 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 2012 was 1.73% (2011: 1.39%).

12 OTHER ASSETS (continued)

The amount receivable from McLaren Automotive Limited represents loans provided by the Group to finance the company's expansion project. The effective interest rate as of 31 December 2012 was 4.64% (2011: 4.67%). The loans are partly secured by pledge of shares by the other shareholders of McLaren Automotive Limited. The effective interest rate on the loan provided to McLaren Group Limited as of 31 December 2012 was 5.3% (2011: 5.3%).

Miscellaneous assets include a receivable of BD 3,238 thousand (2011: BD 3,670 thousand) which is secured against borrowings (note 14).

13 GOODWILL

	2012 *BD '000*	*2011* *BD '000*
Balance at beginning of the year	**787,778**	787,778
Impairment loss recognised during the year	**(206,661)**	-
Balance at end of the year	**581,117**	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 2012 in respect of the goodwill relating to Alba, using the services of an independent valuer.

The recoverable amount of the Alba cash generating unit was 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 Gulf Cooperation Council economic conditions in general and the aluminium industry in particular. In addition, a growth rate of 3% (2011: 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% (2011: 12%), which reflects market specific risks relating to Alba.

Based on the independent valuation, the value in use has fallen below the carrying value of Alba cash generating unit by BD 206,661 thousand. Management consider that the value in use has fallen below the carrying amount due to reduction in projected cash flows primarily on account of weak aluminium prices outlook on the backdrop of poor global sentiments about recovery in construction and infrastructure industries as a result of ongoing economic crisis. Consequently, an impairment loss of BD 206,661 thousand (2011: nil) has been recognised in these consolidated financial statements. The whole of the impairment loss has been recognised against the goodwill allocated to the Alba cash generating unit

13 GOODWILL (continued)

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 a material change to the recoverable amount. However, an increase in the rate used to discount the projected cash flows by 1% would result in a further reduction in the recoverable amount of the cash generating unit by BD 117,946 thousand (2011: BD 145,698 thousand). A change in LME price by USD 100/mt throughout the forecast period would result in a change in the recoverable amount of the cash generating unit as of 31 December 2012 by BD 175,531 thousand.

14 BORROWINGS

	Effective interest rates		*Total*	*Total*
	2012	*2011*	***2012***	*2011*
			BD '000	*BD '000*
Bank overdrafts (note 3)	**3.25%**	6.38%	**2**	203
Murabaha borrowings	**3.34%-6.5%**	3.7%	**35,438**	43,355
Short term loans (i)	**0.95%-4%**	0.92%-4.15%	**56,395**	54,214
Working capital revolving credit	**1.4%-2.28%**	1.5%-3.44%	**65,800**	60,160
Aluminium Bahrain B.S.C. project loans	**0.94%-3.26%**	0.78%-3.26%	**171,525**	197,933
Aluminium Bahrain B.S.C. refinancing loan	**-**	0.89%-1.27%	**-**	58,705
Other term loans (ii)	**1.91%-5.21%**	2.39%-6%	**456,688**	467,176
Finance lease obligations (iii)	**3.06%**	3.10%	**144,271**	131,770
Loan from the shareholder (iv)	**5%**	5%	**694**	694
			930,813	1,014,210

(i) This includes short term loans of BD 17,160 thousand (2011: BD 13,084 thousand) availed from financial institutions in the Kingdom of Bahrain by the assignment of certain trade receivables.

(ii) Other term loans comprise of the following:

- Loans amounting to BD 47,516 thousand (2011: BD 35,322 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 3.84% (2011: 4.16%).
- Loans amounting to BD 5,403 thousand (2011: BD 6,876 thousand) which are secured against certain other receivables of the Group (note 12). The effective interest rate at the year end was 5.14% (2011: 5.07%).
- Unsecured loans amounting to BD 87,087 thousand (2011: BD 145,145 thousand). The effective interest rate at the year end was 2.04% (2011: 2.56%).
- 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 2012 was BD 280,669 thousand (2011: BD 279,833 thousand).
- MYR 300 million (BD 36,013 thousand) Sukuk issued by the Company during the year. The Sukuk is unsecured, carries profit at 5.5% per annum and due for repayment in 2017 .The Sukuk is hedged through a cross currency swap whereby the MYR 300 million is swapped to US$ 96,774 thousand with profit rate at 5% per annum (note 4).

14 BORROWINGS (continued)

(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:

	2012		2011	
	Minimum payments BD '000	*Present value of payments BD '000*	*Minimum payments BD '000*	*Present value of payments BD '000*
Within one year	**25,366**	**21,309**	27,859	24,233
After one year but not more than five years	**75,327**	**63,713**	57,746	49,205
After five years	**62,411**	**59,249**	62,336	58,332
	163,104	**144,271**	147,941	131,770
Less: Finance charges	**(18,833)**	**-**	(16,171)	-
Present value of minimum lease payments	**144,271**	**144,271**	131,770	131,770

(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 (2011: 5%).

15 TRADE ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2012 BD '000	*2011 BD '000*
Trade accounts payable *(i)*	**266,631**	153,474
Accrued expenses *(ii)*	**231,403**	156,065
Unearned revenue	**38,406**	47,593
Other payables	**31,540**	33,012
	567,980	390,144

(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 (2011: BD 3,000 thousand) in respect of legal claims (refer note 28). It also includes restructuring provisions in connection with Gulf Air of BD 70,000 thousand (2011: nil) (refer note 26)

16 EMPLOYEES' END OF SERVICE BENEFITS

	2012 BD '000	*2011 BD '000*
Balance at beginning of the year	**13,230**	12,640
Provision for the year	**2,421**	2,427
Payments during the year	**(2,376)**	(1,837)
Balance at end of the year	**13,275**	13,230

17 OBLIGATIONS RELATING TO ACQUIRED ENTITIES

	2012 *BD '000*	*2011* *BD '000*
Balance at beginning of the year	**171,352**	196,103
Movements during the year	**(28,245)**	(24,751)
Balance at end of the year	**143,107**	171,352

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.

18 SHARE CAPITAL AND CAPITAL CONTRIBUTION

	2012 *BD '000*	*2011* *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 received investment properties valued at BD 623 thousand (2011: nil) and cash of BD 15,346 thousand (2011: BD 14,650 thousand) from the shareholder as capital contribution.

During 2011, the Group had transferred investment properties with a carrying value of BD 384,128 thousand to the shareholder with a corresponding reduction in capital contribution.

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 each, 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.

19 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 year as the Group reported losses.

20 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 2012	**16,018**	**(596)**	**(25,059)**	**(9,637)**
Total other comprehensive income (loss) for the year	**20,525**	**(1,234)**	**5,295**	**24,586**
Balance at 31 December 2012	**36,543**	**(1,830)**	**(19,764)**	**14,949**
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)

(i) Cash flow hedges reserve represents the change in fair value of cross currency swaps and share of associates' change in fair value of derivatives during the year. These hedges have been assessed as highly effective.

21 MOVEMENT IN NON-CONTROLLING INTERESTS

Movement in non-controlling interests represents the net movement in treasury shares held by Aluminium Bahrain B.S.C. ("Alba").

22 REVENUE

	2012 BD '000	*2011 BD '000*
Metals and minerals	**744,935**	882,514
Transportation	**392,202**	387,632
Other	**25,621**	21,077
	1,162,758	1,291,223

23 DIRECT COSTS

	2012 BD '000	*2011 BD '000*
Raw materials, spares and consumables	**391,102**	434,149
Staff costs	**129,143**	143,218
Depreciation	**103,043**	100,716
Fuel	**182,234**	188,829
Operating lease rentals	**42,542**	42,550
Repairs and maintenance	**92,036**	102,118
Others	**176,095**	139,282
	1,116,195	1,150,862

In addition to the above staff costs, selling and distribution expenses and administrative expenses include staff costs of BD 12,370 thousand and BD 44,856 thousand respectively (2011: BD 12,347 thousand and BD 46,376 thousand respectively).

24 OTHER OPERATING INCOME

	2012 BD '000	2011 BD '000
Settlement of legal claims (i)	**31,960**	-
Gain on deemed disposal of investment in associate (note 9)	**-**	21,748
Miscellaneous	**10,812**	21,055
	42,772	42,803

(i) Settlement of legal claims

On 9 October 2012, Alba entered into an out-of-court settlement agreement with Alcoa Inc., Alcoa World Alumina L.L.C. and members of its senior management (together, "Alcoa"). The settlement agreed was a combination of cash amounting to BD 31,960 thousand (US$ 85,000 thousand) as well as concessions on long term alumina supply and related agreements. Settlement amount of BD 15,980 thousand was received in 2012 and the balance is due in October 2013. The Group recognised the cash settlement of BD 31,960 thousand as other operating income.

25 GOVERNMENT ASSISTANCE

	2012 BD '000	2011 BD '000
Government assistance	**196,473**	11,637

The Government assistance comprises of BD 185,000 thousand (2011:nil) received by Gulf Air through BMHC and BD 11,473 thousand (2011: BD 11,637 thousand) by Bahrain Flour Mills Company B.S.C. from the Ministry of Finance on behalf of the Government of the Kingdom of Bahrain.

In accordance with the Royal Decree number 54 for the year 2012, the Government of the Kingdom of Bahrain has transferred an amount of BD 185 million to Gulf Air through BMHC in order to support its restructuring plan. There are no unfulfilled conditions or contingencies attached to this assistance.

The amount received by Bahrain Flour Mills Company B.S.C. is to enable it to sell flour at a controlled price.

26 OTHER OPERATING EXPENSES

	2012 BD '000	2011 BD '000
Loss on disposal and write-off of property, plant and equipment	**11,435**	7,603
Restructuring costs (note)	**70,770**	-
Other	**-**	(64)
	82,205	7,539

Note:

During the prior years, the Board of Directors of Gulf Air ratified a restructuring plan to streamline revenues and optimise costs of the airline. During 2012, the Board of Directors carried out a detailed assessment of its restructuring plan and reliably estimated the associated costs as well as the appropriate timeline to execute this plan using independent consulting firms.

26 OTHER OPERATING EXPENSES (continued)

The plan is expected to be completed in 2013. Gulf Air has paid BD 770 thousand during the year relating to restructuring costs and restructuring provisions of BD 70,000 thousand were made as at 31 December 2012 [note 15 (ii)] for the following:

- BD 40,000 thousand to phase out the older Airbus A319, A330 and A340 and Embraer E190 aircraft from Gulf Air fleet as part of its restructuring plan. This amount relates to the expected lease rentals and maintenance required to return the aircraft in good condition to the manufacturers and lessors.
- BD 30,000 thousand to settle the voluntary redundancy scheme formulated by the Board of Directors of Gulf Air to reduce the workforce.

27 IMPAIRMENT LOSSES

	2012 *BD '000*	*2011* *BD '000*
Impairment losses on non-trading investments (note 8)	**1,239**	12,801
Impairment loss on investment in associates (note 9)	**19,011**	94,067
Impairment loss on investment properties (note 10)	**-**	209,663
Impairment loss on goodwill (note 13)	**206,661**	-
	226,911	316,531

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.

	2012 *BD '000*	*2011* BD '000
Aircraft (note)	**1,396,925**	1,746,096
Other - Due within one to five years of the reporting date	**51,680**	40,581
	1,448,605	1,786,677

Note:

At 31 December 2012, aircraft commitments of BD 21,909 thousand (2011: BD 150,535 thousand) are due within one year, BD 360,400 thousand (2011: BD 576,362 thousand) are due within one to five years and BD 1,014,616 thousand (2011: BD 1,019,199 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 2012 are as follows:

	2012 *BD '000*	*2011* *BD '000*
Within one year	**38,921**	42,122
After one year but not more than five years	**81,692**	79,976
After five years	**28,589**	21,859
	149,202	143,957

(iii) *Letters of credit*

The commitments on outstanding letters of credit as at 31 December 2012 were BD 14,566 thousand (2011: BD 20,837 thousand). The commitments are expected to be settled within one year.

28 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

In addition, the Group's bankers have issued letters of credit to counterparties for derivative transactions amounting to BD 3,760 thousand (2011: BD 11,290 thousand).

Contingencies

(i) *Guarantees*

The Group has issued guarantees to banks and other institutions amounting to BD 19,146 thousand (2011: BD 19,557 thousand).

(ii) *Law suits*

a) Law suits have been filed against Gulf Air in the Kingdom of Bahrain and in other jurisdictions where Gulf Air's 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 15 (ii)].

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 lawsuit in the United States District Court for the Western District of Pennsylvania against Alcoa, Inc., Alcoa World Alumina LLC, a member of its senior management (together, "Alcoa") and Victor Dahdaleh. In the complaint, Alba alleged that Alcoa conspired to bribe certain former members of its senior management and officials of the Government of the Kingdom of Bahrain to ensure, among other things, that Alcoa continued to benefit from Alba's alumina purchases at inflated prices. Among other remedies, Alba sought damages for illicit activities that took place from 1993 to 2008.

In March 2008, the Court granted the U.S. Government's unopposed motion to intervene and stay discovery, as the U.S. Government conducted a criminal investigation related to the same allegations. The stay was lifted in November 2011, and on 11 June 2012, the Court denied motions filed by Alcoa and the other defendants seeking to dismiss the lawsuit. On 9 October 2012, the Company reached a settlement with the Alcoa defendants comprised of a combination of cash and a long-term alumina supply arrangement. The lawsuit against Victor Dahdaleh 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.

It is not practical to estimate the effects of the law suits (c) to (d) 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:

	2012			
	Shareholder BD '000	***Entities controlled by the shareholder BD '000***	***Associate BD '000***	***Total BD '000***
Income				
Revenue	**218**	**359**	**94,909**	**95,486**
Government assistance	**196,473**	**-**	**-**	**196,473**
Other operating income	**649**	-	**210**	**859**
Interest income	**-**	-	**7,031**	**7,031**
	197,340	**359**	**102,150**	**299,849**
Expenses				
Direct costs	**3,690**	**158,548**	**21,552**	**183,790**
Administrative expenses	**288**	**-**	**8,463**	**8,751**
Interest expense	**35**	-	**7,187**	**7,222**
	4,013	**158,548**	**37,202**	**199,763**

	2011			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Income				
Revenue	75	195	131,507	131,777
Government assistance	11,637	-	-	11,637
Other operating income	9,607	-	-	9,607
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

Details of land leased from related parties, free of rent, are disclosed in note 11.

During the year, the Group acquired investment properties valued at BD 5,000 thousand from an associate.

29 RELATED PARTY TRANSACTIONS (continued)

Balances with related parties included in the consolidated statement of financial position are as follows:

	2012			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associate BD '000*	*Total BD '000*
Assets				
Other assets (note 12)	-	-	143,315	143,315
Trade accounts receivable, prepayments and other assets	1,936	128	20,978	23,042
Cash and bank balances	-	-	153,481	153,481
	1,936	128	317,774	319,838
Liabilities				
Borrowings	694	-	159,546	160,240
Trade accounts payable, accrued expenses and other liabilities	5,413	146,381	33,818	185,612
	6,107	146,381	193,364	345,852

	2011			
	Shareholder BD '000	*Entities controlled by the shareholder BD '000*	*Associates BD '000*	*Total BD '000*
Assets				
Other assets (note 12)	-	-	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

Compensation of key management personnel

The remuneration of members of key management personnel for the year was BD 6,289 thousand (2011: BD 6,286 thousand).

Fees to the directors of the Group companies provided for during the year was BD 519 thousand (2011: BD 668 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 periodic 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 Board Audit and Risk 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 Board Audit and Risk 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 Board Audit and Risk 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 Committee
The Management Committee regularly reviews several aspects of Company's various 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 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 30% of the outstanding accounts receivable as of 31 December 2012 (2011: 34%).

(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 2012, based on contractual payment dates and current market interest rates.

31 December 2012	***Less than 3 months BD000***	***3 to 12 months BD000***	***1 to 5 years BD000***	***More than 5 years BD000***	***Total BD000***
Borrowings	**166,221**	**228,964**	**538,471**	**63,163**	**996,819**
Derivatives	**1,617**	**11,813**	**25,341**	-	**38,771**
Trade accounts payable and other liabilities	**203,261**	**74,836**	**864**	-	**278,961**
Obligations relating to acquired entities	**16,111**	**14,293**	**144,702**	-	**175,106**
	387,210	**329,906**	**709,378**	**63,163**	**1,489,657**

31 December 2011	*Less than 3 months BD000*	*3 to 12 months BD000*	*1 to 5 years BD000*	*More than 5 years BD000*	*Total BD000*
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

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 and cross currency swaps 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 2012, 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, 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*	
		2012	*2011*	***2012***	*2011*
		BD000	*BD000*	***BD000***	*BD000*
Euro	**10%**	**(19,012)**	(21,154)	**(1,901)**	(2,115)
Pound Sterling	**10%**	**79,930**	66,241	**7,993**	6,624
Indian Rupee	**10%**	**3,242**	2,078	**324**	208

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 significant portion 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 loss for the year BD '000*
2012	**+100**	**(3,008)**	**(733)**	**(3,741)**
	-100	**3,008**	**733**	**3,741**
2011	+100	(5,222)	(377)	(5,599)
	-100	5,222	377	5,599

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 2012, with all other variables held constant.

	Increase/ decrease in LME price	*Effect on net income for the year BD000*
2012	**10%**	**3,432**
	-10%	**(3,260)**
2011	10%	(5,631)
	-10%	(5,350)

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 17,931 thousand (2011: BD 19,393 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% (2011: 10%) increase in the net asset values of funds will decrease the net loss by BD 7,341 thousand (2011: BD 6,266 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 2012 BD*	*Effect on equity 2011 BD*
Quoted and unquoted investments	**+ 10%**	**20,868**	20,432

(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 2012 and the comparative period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity.

	2012 BD '000	*2011 BD '000*
Borrowings	**930,813**	1,014,210
Derivative financial instruments	**38,771**	64,970
Total debt	**969,584**	1,079,180
Less: cash and bank balances (note 3)	**(290,146)**	(259,765)
Net debt	**679,438**	819,415
Total equity	**2,401,612**	2,565,275
Gearing ratio	**28%**	32%

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 8 and deposits which are interest free and details of which are disclosed in note 12, 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 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
	BD '000	***BD '000***	***BD '000***	***BD '000***
Derivative financial instruments (assets)	**-**	**104**	**-**	**-**
Investments carried at fair value through statement of income	**-**	**73,412**	**-**	**73,412**
Non-trading investments	**5,211**	**-**	**203,672**	**208,883**
Derivative financial instruments (liabilities)		**38,771**	**-**	**38,771**

31 December 2011	*Level 1*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*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

During the years 2012 and 2011 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.

The movements in level 3 financial instruments measured at fair value are as follows:

	2012	*2011*
	BD '000	*BD '000*
At beginning of the year	**197,622**	210,759
Sale during the year	**(732)**	(315)
Fair value changes	**8,020**	(4,962)
Impairment loss	**(1,238)**	(12,663)
Instruments transferred from cost to fair value	**-**	4,803
Balance at end of the year	**203,672**	197,622

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 activities not included above.

There are no material transfers between operating segments.

32 OPERATING SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2012 was as follows:

2012	*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	**744,935**	**400,583**	**-**	**1,719**	**-**	**15,521**	**1,162,758**
Share of results of associates	**1,466**	**(3,005)**	**22,643**	**(4,284)**	**23,980**	**4,966**	**45,766**
Impairment losses	**206,661**	**-**	**19,011**	**-**	**-**	**1,239**	**226,911**
Net income (loss)	**(107,440)**	**(84,813)**	**4,141**	**(4,379)**	**23,980**	**(13,218)**	**(181,729)**
Investment in associates	**14,155**	**137,450**	**293,219**	**90,795**	**308,746**	**35,128**	**879,493**
Total assets	**1,812,333**	**841,468**	**470,872**	**246,164**	**316,952**	**407,769**	**4,095,558**

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	1,076	(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

Geographic information

An analysis of the revenue by geographic location is as follows:

	2012 BD '000	*2011 BD '000*
Kingdom of Bahrain	**448,895**	518,895
Asia	**144,150**	206,672
Rest of Middle East and North Africa	**366,064**	341,116
Rest of the world	**203,649**	224,540
	1,162,758	1,291,223

32 OPERATING SEGMENT INFORMATION (continued)

Customers
Revenue from a customer amounted to BD 141,370 thousand being more than 10% of the consolidated revenue of the Group (2011: 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).

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*	
	2012	*2011*	***2012***	*2011*
	BD '000	*BD '000*	***BD '000***	*BD '000*
ASSETS				
Cash and bank balances	**290,146**	259,765	-	-
Derivative financial instruments	**104**	-	-	-
Trade accounts receivable, prepayments and other assets	**178,264**	154,558	**2,940**	6,040
Inventories	**158,919**	174,996	-	-
Investments carried at fair value through statement of income	**70,848**	60,271	**2,564**	2,393
Non-trading investments	-	-	**211,573**	204,771
Investment in associates	-	-	**879,493**	859,762
Investment properties	-	-	**219,207**	213,588
Property, plant and equipment	-	-	**1,338,645**	1,340,745
Other assets	**4,270**	6,163	**157,468**	148,351
Goodwill	-	-	**581,117**	787,778
	702,551	655,753	**3,393,007**	3,563,428
LIABILITIES				
Borrowings	**369,377**	243,307	**561,436**	770,903
Derivative financial instruments	**14,775**	30,646	**23,996**	34,324
Trade accounts payable, accruals and other liabilities	**518,108**	331,317	-	520
Employees' end of service benefits	-	-	**13,275**	13,230
Obligations relating to acquired entities	**28,763**	28,247	**114,344**	143,105
	931,023	633,517	**713,051**	962,082
Liquidity gap	**(228,472)**	22,236	**2,679,956**	2,601,346

Note: Trade accounts payable exclude the effect of unearned income and deferred income of BD 38,406 thousand and BD 11,466 thousand (2011: BD 45,692 thousand and BD 12,615 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 and leases for aircrafts. 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 values and useful lives annually and future depreciation charges 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 (including goodwill)

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 10 and 13.

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 2012, an impairment loss of BD 1,239 thousand (2011: BD 12,801 thousand) has been recognised for available for sale assets. The carrying amount of available-for-sale assets was BD 211,573 thousand (2011: BD 204,771 thousand).

34 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Estimates and assumptions (continued)

Restructuring costs

Restructuring provisions are recognised only if events have occurred that give rise to a constructive obligation as of the consolidated statement of financial position date, include only direct expenditure which is necessarily entailed by the restructuring plan and not associated with the ongoing activities of the Gulf Air. In determining the amounts that can be provided for and presented as restructuring costs, estimates are made by the management on the approximate number of employees who will be compensated under voluntary redundancy scheme, settlement to lessors of aircraft whose operating leases are intended to be terminated early and other relevant restructuring expenses.

At 31 December 2012, the total carrying amount of estimated restructuring provisions was BD 70,000 thousand (2011: nil).

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

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	167,860
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)	(325,266)
		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	*2010*
	BD '000	*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 *BD '000*	*2010* *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 *BD '000*	*2010* *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:

		Neither past	*Past due but not impaired*				
	Total	*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 *BD '000*	*2010* *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 *BD '000*	*2010* *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 *BD '000*	*2010* *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	**0.69%-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)		Effect on consolidated statement of income	
		2011 BD '000	2010 BD '000	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*	*Level 2*	*Level 3*	*Total*
	BD '000	*BD '000*	*BD '000*	*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*	*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	-	2,607	-	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	*2010*
	BD '000	*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***	***Transportation 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*	*Transportation 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).

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