



MUMTALAKAT

BAHRAIN INVESTMENTS

ANNUAL
REPORT
2008



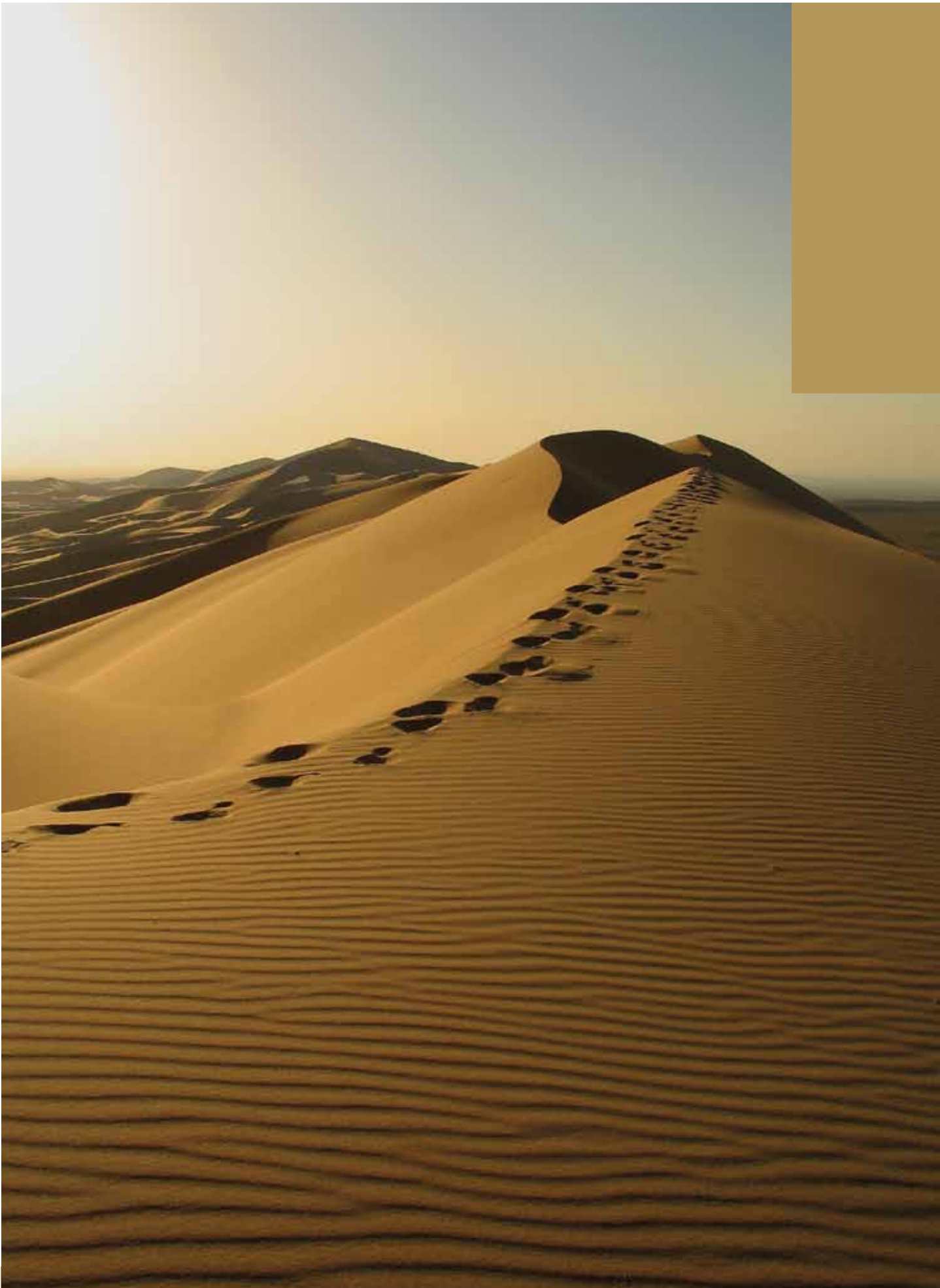
**H.H. Shaikh Khalifa
Bin Salman Al Khalifa**
The Prime Minister



**H.M. King Hamad
Bin Isa Al Khalifa**
The King of
The Kingdom of Bahrain



**H.H. Shaikh Salman
Bin Hamad Al Khalifa**
The Crown Prince and
Deputy Supreme
Commander of the BDF



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ABOUT MUMTALAKAT

Mumtalakat is the investment company for Bahrain, and was established in 2006 as an independent holding company for the Government of Bahrain's non-oil and non-gas assets.

With more than 35 commercial enterprises within its portfolio, Mumtalakat's investment strategy is to create a balanced portfolio of investments across different markets, geographies and asset classes to generate long term financial growth.

Vision

To be the investment company for Bahrain delivering high-value growth within selected industry segments.

To operate in line with global standards.

Mission

Develop a balanced portfolio of international, regional, and national investments.

Achieve high returns on our investments.

Spread risk through geographic and asset-class diversification.



2008 YEAR IN SUMMARY

Financials

Revenue increased 13%, compared to 2007, to BD1.4 billion (US\$3.7 billion).

Pre-impairment income of BD300 million (US\$795 million).

Assets under management at BD3.4 billion (US\$9 billion).

Executed a successful BD188 million (US\$500 million) syndicated loan.

Investments

Realigned our short term investment strategy in response to the economic downturn.

Invested in our portfolio of domestic assets.

Launched new business ventures.

Operations

Continued to hire best in class global talent to build Mumtalakat's institutional capabilities.

CHAIRMAN'S STATEMENT

It is my pleasure to introduce Mumtalakat's second Annual Report for the financial year ended 31 December 2008. It has been a challenging year for global, regional and local economies, as the full effects of the global financial crisis began to be felt across the world.

However, despite the intensely challenging financial environment which impacted Mumtalakat's performance, I am pleased to report that Mumtalakat has made further strides during the year in making itself into a strategically significant institution for the long term benefit of Bahrain's economy.

Mumtalakat's ultimate ambition is to create long term financial value on behalf of the Kingdom of Bahrain. As such Mumtalakat acts as a holding company for the non-oil and non-gas assets of the Government of Bahrain. Mumtalakat is tasked with creating value from its portfolio of commercial assets and is closely involved in delivering and overseeing the execution of the business strategies of the companies it owns.

It is the need to enhance our portfolio so as to generate significant additional value that has seen our Board of Directors and executive management team continue their efforts to create a world class organization, operating at the highest levels of transparency, corporate governance, integrity and efficiency. The team and the business we are building must be able to apply international best practice across all business disciplines, as well as being able to offer global insight into financial investment, corporate strategy and operational excellence.



Finally, on behalf of the Board of Directors, the executive management and Mumtalakat employees, I would like to express deep gratitude and appreciation to His Majesty King Hamad Bin Isa Al Khalifa, King of Bahrain, His Highness Shaikh Khalifa Bin Salman Al Khalifa, the Prime Minister and His Highness Shaikh Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander of the BDF and Chairman of the Economic Development Board (EDB) for their continued support.

I would also like to personally thank everyone at Mumtalakat and the employees of our portfolio companies as they all contribute to Bahrain and its economic growth. We look forward to the continued successful development of Mumtalakat.

A handwritten signature in black ink, written in Arabic script. The signature is fluid and cursive, with a long horizontal line extending to the left. It is positioned above the printed name and title.

Ahmed bin Mohammed Al Khalifa
Chairman, Board of Directors



BOARD OF DIRECTORS

(From top, left to right)

**H.E. Shaikh Ahmed Bin Mohammed Al Khalifa
(Chairman)**

**H.E. Shaikh Mohammed Bin Essa Al Khalifa
(Vice Chairman)**

Dr. Essam Abdulla Fakhro

Mr. Murad Ali Murad

Mr. Talal Ali Al Zain

Mrs. Sabah K. Almoayyed

Dr. Zakaria Ahmed Hejris

Mr. Jawad Habib Jawad

Dr. Samer Majed Al Jishi

CHIEF EXECUTIVE'S REPORT

Mumtalakat remains a young investment company and the past year has seen us continue to build up the business' capacity to implement the stated long term strategy of creating a balanced portfolio of national, regional and international investments.

This long term objective of creating a portfolio to deliver sustained growth on behalf of the Kingdom of Bahrain requires us to build an institution with robust corporate governance policies and frameworks. We made good progress during the course of the year in cementing our capabilities and initiated a range of programmes to develop a business infrastructure that will form the foundations for an institution that will serve Bahrain well into the coming decades.

2008 was a challenging year as companies and national economies continued to struggle with the global economic slowdown. The collapse of Lehman Brothers in September marked a turning point in the financial downturn, with the lack of liquidity and confidence in global financial markets leading to a general slowdown across the world's economies. Stock markets fell to their lowest levels for several generations and we ended 2008 facing one of the biggest economic downturns since 1929, the first year of the Great Depression.

Given market conditions, we adjusted the focus of our investment strategy during the year to focus on our domestic portfolio. Our long term strategy remains to create value through a portfolio of international, regional and domestic investments spread across different geographies and sectors. When stability returns to global financial markets and opportunities to invest in and to realise value become achievable again, we will seek to grow our international portfolio of investments. In fact, we made a number of small investments as well as a local realisation during the year.



We also continued our recruitment efforts across the business to ensure we have the right skill sets in place to execute our strategy. We are seeking to build a truly international organisation, which will ultimately reflect the diversity of our intended long term portfolio.

We are building an institution that will serve the Kingdom of Bahrain for many years to come. Our starting point is generating returns from our investments, but we have a much larger role to play in the future of Bahrain. Our future and our success are an important part of Bahrain's Economic Vision 2030, launched in October 2008, which envisages a transformation of its economy and society to enable Bahrain to continue to thrive in the global market place. We have an important part to play in the execution of this vision.

Mumtalakat's investment strategy

Mumtalakat acts as the investment holding company for the non-oil and non-gas assets of the Government of Bahrain and rather than investing hydrocarbon derived revenues, it is tasked with creating value from its portfolio of company assets. Its long term investment strategy is to create a globally balanced portfolio of investments across different markets, geographies and asset classes to generate financial growth, using a defined asset allocation strategy. During the year, as international markets became increasingly volatile Mumtalakat's investment strategy shifted towards its existing portfolio of assets. We decided that we should take the opportunity of the downturn in global financial markets to implement a short term strategic shift to focus on investing in our domestic portfolio to ensure they are well positioned ahead of any economic recovery. Mumtalakat remains committed to its global investment strategy and constantly reviews opportunities in its target markets as they arise.

Investment Update

This year Mumtalakat took its first steps in implementing its strategy to build and extract value from its portfolio of commercial assets and made some of its first international investments. A significant return was generated by the business with the disposal of a local real estate development, which saw a doubling of investment capital over an 18 month period. Two investments were made during the year; the first, an Indian telecoms infrastructure fund; the second, a globally structured distressed opportunities fund.

Importantly for the local economy, new businesses were formed during the year. The Bahrain Airport Company, charged with the commercial and operational management of Bahrain's international airport, a strategically significant asset for the country's economy, was created in January 2008. In response to the growing strategic imperative for certainty of food supply for the nation, the Bahrain Food Holding Company was also created, to focus on developing local and regional food production capabilities as well as to seek and develop international food production and supply opportunities. Lastly, Sakhir City Development Holding Company, was formed during the year. The company will seek to create a multi-purpose business development zone which will attract local, regional and international investors to set up in a purpose built business environment adjacent to Bahrain's International Circuit, home to Bahrain's Formula 1 track.

As well as developing new businesses, Mumtalakat also saw financial and operational progress in its existing portfolio of assets. Alba delivered a record performance in terms of profit for the year. New commercial initiatives at Gulf Air saw overall yields improving by 12% against 2007 and revenue per



available seat capacity improving by 16%. Batelco, Bahrain's leading telecoms operator, increased its revenues by 9% to BD319 million and generated a net profit of BD108 million. Bahrain became the first country in the world to have national coverage for both 3.5G wireless and a New Generation Fixed Broadband Network resulting in over 70% broadband penetration. Batelco's regional expansion strategy continued to deliver, with 31% of total revenues and 19% of EBITDA derived from its international operations.

Mumtalakat undertook a successful financing through a syndicated loan in August which raised \$500 million for general corporate purposes. The syndication was led by Mumtalakat's own portfolio company, National Bank of Bahrain, which secured the financing in challenging market conditions.

Financial Performance

Mumtalakat's financial performance for the year ended December 31, 2008 was impacted by the effects of the global downturn with our reported profitability affected by the impairment of various financial investments in our financial services portfolio. During this period of economic and financial turbulence, it is Mumtalakat's policy to manage its balance sheet prudently, to ensure that it is in a financially strong position ahead of any economic recovery. For the twelve months of 2008, Mumtalakat reported a 13% increase in revenue to BD1.447 billion compared to the BD1.277 billion for the twelve months to 31 December 2007. Impairment charges of BD370 million, largely attributable to Mumtalakat's holdings in Gulf International Bank and Gulf Investment Corporation, were booked during the period leading to a net loss of BD69.3 million compared to a net income of BD170 million for 2007. Excluding the impairment charges, Mumtalakat generated a profit of BD300 million compared to BD282 million for 2007.

Total assets for Mumtalakat reduced by 7.6% to BD4.8 billion from BD5.3 billion, with total equity for the year standing at BD2.9 billion, from 2007's figure of BD3 billion. However, we believe the action taken to impair the value of financial instruments will put the portfolio in a solid position to weather what will, in our estimation, be another challenging year for financial markets and businesses across the world. Our prudence and financial discipline means that we will enter 2009 with a strong balance sheet, which will enable us to continue to fund our investment strategy.

People

A fundamental part of our business are the people who work for Mumtalakat. As the business grows to manage our expansion, we will need to ensure that we have people that have skill sets of international standards to help us effectively manage a growing portfolio of global investments as well as helping us secure future investment opportunities whilst delivering organic growth through management excellence.

Social Investment

As well as its responsibilities as part of the long term future of Bahrain, Mumtalakat also believes in being responsible for the communities and the people with which its portfolio companies interact and affect. As an investment company we understand that we need to invest in the communities around us. During the year we made contributions to a number of local organisations focused on helping people manage physical and mental disabilities. We also made several contributions to support training and development initiatives within Bahrain.



Looking Ahead

Having established the framework for our investment strategy, we intend to implement a strategic asset allocation programme during the course of 2009 to enable Mumtalakat to align its investments to support our strategy of delivering long term growth.

Yours sincerely,

Talal Al Zain
Chief Executive, Mumtalakat

PORTFOLIO CASE STUDIES

BAHRAIN AIRPORT COMPANY

Bahrain Airport Company (“BAC”) was formed by Mumtalakat in 2008 to establish a platform for Bahrain to pursue its strategic objective of becoming a regional and international aviation centre of excellence. BAC will manage the development of Bahrain International Airport to become a long term strategic hub in the region.

Bahrain International Airport (“BIA”) provides a gateway to the region. BIA is the major hub for Gulf Air, which operates over 600 weekly flights. 35 other international airlines including British Airways, Cathay Pacific, KLM and Lufthansa operate a total of 580 extra services per week to a total of 52 destinations.

In 2008, BIA’s volumes grew by 16% totalling 8.7 million passengers, while aircraft movements also increased by 7% to 101,230.

In addition to being the fastest growing cargo hub in the region with a number of international carriers such as Emirates Cargo, British Airways Cargo, Air France Cargo and Lufthansa Cargo, the airport is both the Middle East Regional Distribution Centre and a designated “super-hub” for DHL’s worldwide network. DHL’s services not only include significant operations to support the reconstruction of Afghanistan and Iraq, but also include a major regional hub for distribution by air and surface including trans-causeway trucking services to Saudi Arabia, Kuwait and the United Arab Emirates. Over 3 million tonnes of cargo cross the causeway annually. Terminal facilities are under constant review and



improvement. Recent developments include a unique separate First and Business Class Check-In Lounge providing specialized services for premium passengers with discrete check-in and immigration facilities and direct access to the Departures Lounge. A new award winning 1,000 m² First and Business Class Lounge was also opened for Gulf Air. Located on an upper level overlooking the main apron, the lounge offers an exclusive concept of waiter service, a separate family room and electronic video games room for children. Our new Arrivals Immigration facilities and streamlined processing now enables large numbers of visitors (either individually or in groups) to be handled without delay or congestion, demonstrated successfully by the smooth handling of the annual Bahrain Formula One Grand Prix event. An airport is a dynamic environment and BAC's objective is to continue to provide both passengers and partner airlines with the very latest up-to-date facilities and above all a warm, friendly and professional service by its Bahraini staff. The airport is both a shop window to the world and the first and last impression a visitor has to Bahrain. BAC believes that the provision of these high quality facilities coupled with high standards of service and competitive pricing make the airport both an attractive hub and gateway. This has been recognised by major carriers such as British Airways and Cathay Pacific in awarding BIA "Best Airport" honours on their respective networks.

McLAREN GROUP

In January 2007, Mumtalakat acquired a 30% holding in McLaren Group: the other shareholders are Daimler Group 40%, Mr. Ron Dennis (Chairman) 15% and Tag Group 15%.

McLaren Group is a UK based company which heads a group of subsidiaries that are involved in Formula 1 racing and its associated activities, and the manufacturing of road cars.

The Group's growth story originated in a partnership between Ron Dennis and Tag Group, which acquired the McLaren Group following the death of its founder, Bruce McLaren. The McLaren Group has evolved considerably over the years and now comprises of a number of companies in a range of related activities: McLaren Racing (Formula 1 team operator); McLaren Electronic Systems (automotive electronic systems); McLaren Marketing (marketing services for Formula 1 activities and sponsors); McLaren Applied Technologies



(industrial and consumer applications of automotive technologies); Team McLaren (supporters club and e-commerce business); and Absolute Taste (catering for Formula I events and high end users). Separately, McLaren Automotive manufactures the McLaren Mercedes SLR road car, which is built with a high proportion of composite materials utilizing technologies and engineering expertise gained from the Formula I experience.

In 2008, the Vodafone McLaren Mercedes team driver, Lewis Hamilton, became Formula 1 world champion. McLaren Automotive Company continued to develop a range of road going motor cars to succeed the McLaren Mercedes SLR.



THE YEAR AHEAD

Mumtalakat has made solid progress since its formation. 2009 will see continued recruitment of highly talented individuals to bring expertise to the investment and operational teams.

Mumtalakat will continue to build the systems and processes which will help drive the business forward and maximize value from the portfolio. The primary focus of activity will be on investing in domestic assets for at least the next year, to ensure they are properly funded and well positioned to benefit from an improvement in economic conditions. 2009 will continue to be a challenging environment, financially and economically, as local, regional and international economies work to absorb the impact of 2008.



FINANCIALS

Consolidated Balance Sheet

31 December 2008

	2008 BD '000	2007 BD '000
Assets		
Cash and bank balances	160,217	119,672
Derivative financial instruments	-	841
Trade accounts receivable, prepayments and other assets	228,582	269,817
Assets held for sale	-	31,157
Inventories	237,846	155,533
Investments carried at fair value through statement of income	2,625	3,654
Non-trading investments	164,361	414,990
Investment in associates	1,048,609	1,119,481
Investment properties	816,369	910,068
Property, plant and equipment	1,393,510	1,385,371
Other assets	42,945	35,454
Goodwill	787,778	843,087
Total Assets	4,882,842	5,289,125
Liabilities and Equity		
Liabilities		
Borrowings	954,490	895,769
Derivative financial instruments	95,250	355,626
Trade accounts payable, accruals and other liabilities	490,967	394,549
Liabilities directly associated with the assets classified as held for sale	-	2,262
Employees' end of service benefits	13,920	13,365
Obligations relating to acquired entities	475,590	583,547
Total Liabilities	2,030,217	2,245,118
Equity attributable to shareholder of the parent		
Share capital	1,845,635	1,845,635
Capital contribution	816,050	909,407
Statutory reserve	21,252	21,252
Other reserves	(39,665)	(30,841)
Retained earnings	55,150	190,205
	2,698,422	2,935,658
Minority interests	154,203	108,349
Total Equity	2,852,625	3,044,007
Total Liabilities and Equity	4,882,842	5,289,125

Consolidated Statement of Income

Year ended 31 December 2008

	2008 BD '000	Period from 29 June 2006 to 31 December 2007 BD '000
Revenue	1,447,844	1,764,068
Direct costs	1,146,956	1,130,952
Gross Profit	300,888	633,116
Dividend income	5,575	22,893
(Loss) gain on investments carried at fair value through statement of income	(653)	504
Other operating income	64,389	23,086
Selling and distribution expenses	(116,883)	(83,179)
Administrative expenses	(85,309)	(66,898)
Other operating expenses	(4,952)	(1,567)
Operating Income	163,055	527,955
Share of profit of associates	74,148	41,833
Interest income	5,372	10,673
Interest expense	(42,570)	(81,391)
Fair value gain (loss) on revaluation/settlement of derivatives (net)	100,877	(141,176)
Impairment losses on non-trading investments	(314,918)	(112,091)
Impairment loss on goodwill	(55,309)	-
Net income (loss) for the year/period	(69,345)	245,803
Attributable to:		
Shareholder of the parent	(135,038)	212,523
Minority interests	65,693	33,280
	(69,345)	245,803

Consolidated Statement of Cash Flows

31 December 2008

	2008 BD '000	Period from 29 June 2006 to 31 December 2007 BD '000
Operating Activities		
Net (loss) income for the year/period	(69,345)	245,803
Adjustments for:		
Depreciation	120,600	145,014
Fair value (gain) loss on derivatives	(100,877)	141,176
Loss (gain) on investments carried at fair value through statement of income	653	(504)
(Gain) loss on non-trading investments	(30)	52
Gain on sale of investment in associate	(37,417)	-
Share of profits of associates	(74,148)	(41,833)
Impairment loss on non-trading investments	314,918	112,091
Impairment loss on goodwill	55,309	-
Provision for impairment on trade accounts and other receivables	5,945	3,366
Gain on asset held for sale	(9,250)	-
Loss on disposal and write-off of property, plant and equipment	4,895	2,093
Impairment loss on property, plant and equipment	2,450	-
Interest income	(5,372)	(10,673)
Interest expense	42,570	81,391
Employees' end of service benefits	2,848	3,890
Operating profit before changes in operating assets and liabilities	253,749	681,866
Changes in operating assets and liabilities:		
Inventories	(82,313)	(19,097)
Trade accounts receivable, prepayments and other assets	35,611	5,019
Trade accounts payable, accruals and other liabilities	79,386	68,088
Cash from operations	286,433	735,876
Interest paid	(45,501)	(85,614)
Derivative financial instruments	(158,013)	(250,922)
Employees' end of service benefits paid	(2,293)	(3,066)
Net cash from operating activities	80,626	396,274

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	2008 BD '000	Period from 29 June 2006 to 31 December 2007 BD '000
Investing Activities		
Investment in associates	(2,477)	(198,311)
Purchase of available for sale and other investments	(10,493)	(23,038)
Proceeds from sale of non-trading investments and other investments	1,196	450
Proceeds from sale of investment in associate	65,000	-
Purchase of property, plant and equipment	(120,142)	(54,398)
Proceeds from disposal of property, plant and equipment	1,515	8,697
Assets held for sale	20,999	(31,157)
Other assets	(7,781)	(368)
Dividends from associates	56,112	40,807
Net cash from (used in) investing activities	3,929	(257,318)
Financing Activities		
Issue of share capital	-	20,283
Proceeds from borrowings	400,806	343,544
Repayment of borrowings	(334,419)	(428,793)
Dividend paid to minority interests	(146)	(42,009)
Interest received	5,372	10,219
Margin deposits with brokers	25,177	8,861
Obligations relating to acquired entities	(107,957)	(87,900)
Net cash used in financing activities	(11,167)	(175,795)
Increase (decrease) in cash and cash equivalents	73,388	(36,839)
Cash and cash equivalents acquired on 29 June 2006	-	42,298
Cash and cash equivalent of subsidiary acquired on 5 May 2007	-	11,305
Cash and cash equivalent at beginning of the year	16,764	-
Cash and cash equivalents at end of the year/period	90,152	16,764

Consolidated Statement of Changes in Equity

31 December 2008

	Attributable to shareholder of the parent						Minority interests	Total equity
	Share capital BD '000	Capital contribution BD '000	Statutory reserve BD '000	Other reserves BD '000	Retained earnings BD '000	Total BD '000	BD '000	BD '000
Balance at 1 January 2008	1,845,635	909,407	21,252	(30,841)	190,205	2,935,658	108,349	3,044,007
Net movement in cumulative changes in fair values	-	-	-	(88,401)	-	(88,401)	(375)	(88,776)
Transfer to consolidated statement of income	-	-	-	143,362	-	143,362	-	143,362
Share of changes in equity of associates	-	-	-	(26,997)	(17)	(27,014)	-	(27,014)
Foreign currency translation	-	-	-	(36,788)	-	(36,788)	-	(36,788)
Net income recognised directly in equity	-	-	-	(8,824)	(17)	(8,841)	(375)	(9,216)
Net (loss) income for the period	-	-	-	-	(135,038)	(135,038)	65,693	(69,345)
Total recognised income and expense for the period	-	-	-	(8,824)	(135,055)	(143,879)	65,318	(78,561)
Withdrawals by the shareholder	-	(177,589)	-	-	-	(177,589)	-	(177,589)
Additional contribution	-	84,232	-	-	-	84,232	-	84,232
Dividend paid to minority interests	-	-	-	-	-	-	(146)	(146)
Transfer to other liabilities	-	-	-	-	-	-	(19,318)	(19,318)
Balance at 31 December 2008	1,845,635	816,050	21,252	(39,665)	55,150	2,698,422	154,203	2,852,625

Consolidated Statement of Changes in Equity

31 December 2008

	Attributable to shareholder of the parent						Minority interests	Total equity
	Share capital BD '000	Capital contribution BD '000	Statutory reserve BD '000	Other reserves BD '000	Retained earnings BD '000	Total BD '000	BD '000	BD '000
Period from 29 June 2006 to 31 December 2007								
Issue of share capital on transfer of assets	1,825,352	-	-	-	-	1,825,352	82,829	1,908,181
Net movement in cumulative changes in fair values	-	-	-	(58,020)	-	(58,020)	4,211	(53,809)
Transfer to consolidated statement of income	-	-	-	18,729	-	18,729	4,507	23,236
Share of changes in equity of associates	-	-	-	4,265	(1,066)	3,199	-	3,199
Foreign currency translation	-	-	-	4,185	-	4,185	-	4,185
Net income recognised directly in equity	-	-	-	(30,841)	(1,066)	(31,907)	8,718	(23,189)
Net income for the period	-	-	-	-	212,523	212,523	33,280	245,803
Total recognised income and expense for the period	-	-	-	(30,841)	211,457	180,616	41,998	222,614
Issue of share capital	20,283	-	-	-	-	20,283	-	20,283
Additional contribution	-	909,407	-	-	-	909,407	-	909,407
Dividend paid to minority interests	-	-	-	-	-	-	(42,009)	(42,009)
Transfer to statutory reserve	-	-	21,252	-	(21,252)	-	-	-
Adjustment to minority interests	-	-	-	-	-	-	25,531	25,531
Balance at 31 December 2007	1,845,635	909,407	21,252	(30,841)	190,205	2,935,658	108,349	3,044,007

