Emirates Integrated Telecommunications Company PJSC and its Subsidiary

Consolidated Financial Statements

31 December 2010

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Directors' Report

Chairman's message

Dear Shareholders,

I am pleased to present our company's annual report, together with the audited financial statements for the year ended 31 December 2010.

2010 represented another year of robust growth and considerable achievements for our company, continuing the successful trend of the last four years since we started operations. We have done this by maintaining our focus on continued innovation, offering value for money, and driving operational excellence, supported by the strong leadership of the management team.

We entered 2010 hoping to see a return to the positive sentiment that drove the UAE economy so successfully in recent years. We were not disappointed. The International Monetary Fund upgraded its GDP forecast for the UAE to 2.4%, a modest but healthy growth following contraction in 2009. Throughout the country we saw signs of a return to business confidence across a variety of sectors, which in turn meant more demand for our company's diverse products and services.

Against this, we set out to continue delivering sustainable business performance and growth, and investing in the development and enhancement of our network, service levels and people.

I am pleased to say that we progressed significantly in each of these areas. Net profit before royalty increased by 132% to AED 1.2 billion from AED 0.5 billion in 2009 a tremendous achievement. In addition we received the determination from the Federal Government on the royalty charge for 2010, and will be advised on the royalty rate for future years in due course. This determination has enabled us to crystallise our liability in respect of royalties payable to the Federal Government. The effect of the royalty decision has meant that we achieved a net profit after royalty of AED 1.3 billion compared to AED 264 million in 2009.

The most widely acknowledged success is the continued growth of our market share. By the end of 2010, according to figures from the Telecommunications Regulatory Authority ('TRA'), we held nearly 40% of the mobile market in the UAE. This is a remarkable achievement in just four years of operation, and a milestone which we are extremely proud of.

The management team has also made significant progress in optimising our capital structure. Throughout the year, we announced a number of financing agreements from diversified sources including vendor, bank and equity financing, totalling approximately US$ 1 billion. These are intended to support the rapid growth we have been witnessing and to enhance our product and service offering to attract high-value customers.

Perhaps the most prominent of these was the AED 1 billion rights issue we completed in June 2010. This equity offering was a resounding success. Despite being taken to market when no other transactions were underway, the offer was oversubscribed, which is again something we believe reaffirms the confidence shareholders and the markets have in the management and strategies we have put in place.

We now have more than four million customers in the UAE who have placed their trust in du to support their personal and work communications needs. 2010 was a year of evolution for the company, from reinforcing our foundations and supporting the growth of our subscriber base, to laying the building blocks for the next phase of du's development.

Another significant milestone was our progression to a cash flow positive status. This was a result of business performance during the year and strategic financing and investment management.

We also began to diversify in 2010, to identify and nurture new streams of revenue for our company beyond the traditional carrier offerings, in services, regional connectivity and storage, and mobile TV broadcasting. This diversification initiative will enable us to partner with companies that are experts in their specific fields, and that complement our core business. Our launch of 'Anayou', a social media platform for the Arab world, is a step in this direction.

2010 was a year in which we have been seeking to identify opportunities to deliver further value to our shareholders, our customers and indeed our employees. We expect the groundwork we have put in place in 2010 to accelerate the development of our company in 2011.

I would like to end by congratulating the entire team at du for achieving another record year of performance, while constantly seeking to reach greater heights of quality. I would particularly like to extend my thanks to the management team who have expertly navigated the company through another successful year.

Finally, I would like to thank you for your unwavering belief in our company, and your continued support.

Ahmad Bin Byat
Chairman

CEO Review

Dear Shareholders,

I am delighted to report that 2010 has been another successful year for our company, building on what has been an extraordinary period of growth for du since start of operations in 2007. Our financial results exceeded expectations and across the business our people, processes, products and services delivered on all fronts. In addition to record revenue growth we achieved company-wide operational efficiencies, while maintaining ongoing investment in our network. 2010 was also a year of evolution for du, as we began to diversify our business and future income streams through the establishment of EITC Investment Holdings Company.

Record results and strengthened market position

Our ongoing efforts to provide innovative products and services that directly address the communications needs of individuals and businesses, saw us achieve record revenues of AED 7.1 billion in 2010. This equates to an annual growth of 32%, one of the highest levels for the telecom sector in the entire region. We now have a market share of almost 40% in the UAE, an incredible feat in just four years of operation. Customers want what we have to offer: quality, innovation and value for money. This is clear from the 856,000 new customers who joined us in 2010, taking our mobile base to over 4.3 million. Our revenues benefited not only from customer additions but also from increased usage, particularly data given the rapid take up of smartphones in the UAE, leading to one of the healthiest ARPU (Average Revenue Per User) levels in this region according to financial analysts.

Robust financial health

Over the course of 2010, management has also focused on strengthening the business after a period of substantial growth and transformation. A variety of cross-functional initiatives were started in 2010 to drive cost optimisation and continuous efficiency improvements. These were implemented across the company through the work and dedication of our employees, leading to our highest ever EBITDA of AED 2 billion in 2010 and net profit before royalty of AED 1.2 billion, more than double 2009. We are conscious that the story of efficiency is not a one year story, and this is something we will continue to focus on as the company grows.

Our finest asset, our people

Our employees are the engine that drives our company. We are acutely aware that without the quality, commitment and enthusiasm of our staff such excellent results would not be achievable. As such we strive to train and motivate our employees and continue to seek to be an employer of choice for talent in the UAE. This year we introduced a new training programme - 'Great Managers' - to recognise and cultivate managers with ambition and potential. Our ongoing Emiratisation programme has also delivered strong results, increasing the number of Emiratis to 23% of the total workforce, of which one in three are executive managers. In order to maintain this trend, we launched a new graduate training programme in 2010 called Masar (meaning 'career path' in Arabic), which has proven to be highly successful. Results of studies by Gallup have shown that our employee engagement has improved significantly over the past two years, with double the number of employees now engaged year on year, placing us near the top quartile of companies worldwide. This is resulting in performance improvements across the board. Supporting our efforts to train high performing, driven employees, Gallup research demonstrates that companies with "highly engaged" workforces financially outperform their peers by a factor of 170%.

Long term diversified strategy

Beyond our continued focus on customers, 2010 was a defining year for us. As we are now entering a more mature phase in the life of our company, we are expanding our horizons from pure growth to driving value by seeking to launch new diversification initiatives through the establishment of EITC Investment Holdings Limited. This new entity has the strategic goal of identifying and nurturing new market and revenue growth opportunities that are adjacent to telecoms. We already have a number of initiatives underway and in 2010 launched the first of these, Anayou, a multi screen platform designed to facilitate the delivery of digital services through the internet, mobile and set-top TV for the very rapidly growing 21st century digital Arabia generation.

Entering 2011 stronger than ever before

2010 has been an outstanding and defining year for du, largely as a result of our unwavering focus on our mission: to delight our customers, be the employer of choice for the best talent, create optimal value for our shareholders through business excellence and innovation, and proudly contribute to the transformation of our community.

We feel confident that we are entering 2011 on a strong footing and are well positioned to take advantage of new opportunities. Extensive preparations have been made for a competitive fixed line market, and I am pleased to say we are now well positioned to take full advantage of this and other market developments.

I would like to thank each and every employee within the du family for their continued hard work, perseverance and support in seeking to deliver the best service in the market to our customers. My gratitude also goes to our shareholders for their continuous faith evidenced particularly through the oversubscription to the rights issue that we successfully executed in the past year and I would like to especially thank the members of The Board of Directors for their support and commitment.

We all look to the future with confidence and ambition.

Osman Sultan
Chief Executive Officer

KPMG

P O Box 3800
Level 32, Emirates Towers
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website www.ae-kpmg.com

Independent Auditors' Report

The Shareholders
Emirates Integrated Telecommunications Company, PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Emirates Integrated Telecommunications Company PJSC ("the Company") and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 our judgment, 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, we consider 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

Report on Other Legal and Regulatory Requirement

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit, that proper financial records have been kept by the Company, a physical count of inventories was carried out by the management in accordance with established principles, and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2010, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG

KPMG 02 MAR 2011

Vijay Malhotra
Registration No. 48B

Consolidated statement of financial position
As at 31 December

	Note	**2010 AED 000**	2009 AED 000
Non-current assets			
Property, plant and equipment	*6*	6,689,267	6,107,216
IT software	*7.1*	423,846	450,220
Telecommunications licence fee	*7.2*	94,226	100,452
Indefeasible right of use	*7.3*	91,510	100,080
Goodwill		549,050	549,050
Total non-current assets		7,847,899	7,307,018
Current assets			
Deferred fees	*7.4*	4,387	5,923
Inventories		47,300	38,931
Accounts receivable	*9*	1,122,401	900,865
Other receivables	*10*	418,369	103,961
Due from a related party	*8.1*	94,336	163,847
Prepayments		199,508	142,096
Cash and cash equivalents	*11*	2,785,478	869,264
Total current assets		4,671,779	2,224,887
Current liabilities			
Notes payable	*12.1*	-	142,868
Accounts payable and accruals	*13*	3,209,773	3,479,687
Due to a related party	*8.1*	78,109	54,287
Current portion of long term bank borrowings	*12.2*	3,153,580	-
Total current liabilities		6,441,462	3,676,842
Net current liabilities		1,769,683	1,451,955
Non-current liabilities			
Employee benefits	*14*	77,714	63,523
Long term bank borrowings	*12.2*	904,735	3,000,000
Total non-current liabilities		982,449	3,063,523
Net assets		5,095,767	2,791,540
Represented by:			
Share capital	*15*	4,571,429	4,000,000
Share premium	*16*	393,504	-
Share based payment reserve	*17*	46,345	17,482
Statutory reserve	*18*	157,868	26,825
Accumulated losses		(73,379)	(1,252,767)
Shareholders' equity		5,095,767	2,791,540

The financial statements were approved on 02 March 2011 by:

Ahmad bin Byat
Chairman

Osman Sultan
Chief Executive Officer

The notes set out on pages 9 to 34 form an integral part of these financial statements.
The Independent auditors' report is set out on page 4.

Consolidated statement of comprehensive income
For the year ended 31 December

	Note	**2010 AED 000**	2009 AED 000
Revenue		7,074,097	5,338,699
Cost of sales		(2,473,791)	(1,831,347)
Gross profit		4,600,306	3,507,352
General and administrative expenses	*19*	(3,306,525)	(3,044,490)
Finance income	*21*	50,862	6,281
Finance expense	*21*	(102,199)	(12,998)
Other (expense) / income	*22*	(16,346)	72,103
Profit before Royalty		1,226,098	528,248
Change in estimate for prior years' Royalty	*23*	268,248	-
Royalty	*23*	(183,915)	(264,124)
Profit for the year		1,310,431	264,124
Profit and comprehensive income attributable to shareholders of the Company		1,310,431	264,124
Earnings per share (AED)	*24*	0.31	0.06

The notes set out on pages 9 to 34 form an integral part of these financial statements.

The Independent auditors' report is set out on page 4.

Consolidated statement of cash flows
For the year ended 31 December

	Note	**2010 AED 000**	2009 AED 000
Cash flows from operating activities			
Net cash flows before changes in working capital	*25*	2,151,051	843,576
Change in inventories		(8,369)	14,031
Change in accounts receivable		(221,536)	(301,420)
Change in prepayments		(57,412)	(28,053)
Change in other receivables		(314,408)	2,314
Change in accounts payable and accruals		(50,973)	475,733
Change in amounts due from a related party		69,511	(10,003)
Change in amounts due to a related party		23,822	(5,261)
Change in long term portion of Executive Share Option Plan		-	(9,954)
Change in deferred fees		1,536	(5,810)
Payment of employee benefits		(6,198)	(2,341)
Net cash generated from operating activities		1,587,024	972,812
Cash flows used in investing activities			
Purchase of property, plant and equipment		(1,372,424)	(1,623,824)
Proceeds from disposal of property, plant and equipment		1,193	-
Purchase of IT software		(128,928)	(94,159)
Payment of telecommunications license fee		-	(49,800)
Finance income		50,862	6,057
Finance expense		(102,199)	(12,774)
Other income		306	32,374
Net cash used in investing activities		(1,551,190)	(1,742,126)
Cash flows from financing activities			
Notes payable		(142,868)	142,868
Issuance of share capital		571,429	-
Share premium		393,504	-
Long term borrowings		1,058,315	225,000
Net cash generated from financing activities		1,880,380	367,868
Net increase/(decrease) in cash and cash equivalents		1,916,214	(401,446)
Cash and cash equivalents at beginning of the year		869,264	1,270,710
Cash and cash equivalents at end of the year	*11*	2,785,478	869,264

The notes set out on pages 9 to 34 form an integral part of these financial statements.

The Independent auditors' report is set out on page 4.

Consolidated statement of changes in equity
For the year ended 31 December

	Share capital (Note 15)	Share premium (Note 16)	Share based payment reserve (Note 17)	Statutory reserve (Note 18)	Accumulated losses	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
At 1 January 2009	4,000,000	-	-	412	(1,490,478)	2,509,934
Profit for the year	-	-	-	-	264,124	264,124
Transfer to share based payment reserve	-	-	17,482	-	-	17,482
Transfer to statutory reserve	-	-	-	26,413	(26,413)	-
At 31 December 2009	4,000,000	-	17,482	26,825	(1,252,767)	2,791,540
At 1 January 2010	4,000,000	-	17,482	26,825	(1,252,767)	2,791,540
Issue of additional share capital	571,429		-	-	-	571,429
Share premium	-	393,504	-	-	-	393,504
Profit for the year	-	-	-	-	1,310,431	1,310,431
Transfer to share based payment reserve	-	-	28,863	-	-	28,863
Transfer to statutory reserve	-	-	-	131,043	(131,043)	-
At 31 December 2010	4,571,429	393,504	46,345	157,868	(73,379)	5,095,767

The notes set out on pages 9 to 34 form an integral part of these financial statements.

The Independent auditors' report is set out on page 4.

Notes to the consolidated financial statements

1 Legal status and principal activities

Emirates Integrated Telecommunications Company PJSC ("the Company") is a public joint stock company with limited liability. The Company was incorporated according to Ministerial resolution No. 479 of 2005 issued on 28 December 2005. The Company was registered in the commercial register under No. 77967. The principal address of the Company is P.O Box 502666 Dubai, United Arab Emirates. The consolidated financial statements of the Company as at 31 December 2010 comprises the Company and its Subsidiary.

The Company's principal objective is to provide fixed, mobile, broadband, broadcasting and associated telecommunications services in the UAE. The commercial operations of the Company commenced on 11 February 2007.

During the year, the Company established a wholly owned subsidiary; EITC Investment Holdings Limited ("the Subsidiary") incorporated as an offshore company in accordance with the offshore companies regulations of Jebel Ali Free Zone of 2003.

The principal objective of the Subsidiary is to hold investments for new non-core business activities in which the Company wishes to invest in the future, such as content, media, data and value added services for telecommunications. At 31 December 2010 there had been no commercial activities within the Subsidiary.

2 Basis of preparation

i Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB") and the requirements of UAE Federal Law No. 8 of 1984 (as amended).

ii Adoption of new accounting standards

The same accounting policies and methods of computation have been followed in these consolidated financial statements as compared with the Company's recent 2009 annual audited financial statements except for the adoption of the following which have not had any significant impact on the consolidated financial statements of the Company.

IFRS 8 Operating segments: Disclosure of information about segment assets.
IAS 7 Statement of cash flows: Classification of expenditures on unrecognised assets.
IAS 17 Leases: Classification of leases of land and buildings.
IAS 36 Impairment of assets: Unit of accounting for goodwill impairment test.

iii Basis of consolidation

A subsidiary is an entity controlled by the Group. The financial statements of a subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

iv Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention.

v Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirham ("AED") rounded to the nearest thousand. This is the currency of the country in which the Company is domiciled.

vi Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary share holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Notes to the consolidated financial statements *(continued)*

2 Basis of preparation *(continued)*

vii Use of estimates and judgments

The preparation of the consolidated financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of IFRS that have significant effect on the consolidated financial statements and estimates with a risk of material adjustment in the next year mainly comprise of residual value and useful lives of items of property, plant and equipment and intangible assets, provision for bad and doubtful debts and provision for slow moving inventories.

3 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's consolidated financials.

i Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Assets acquired from related parties are stated at their fair values at the acquisition date less accumulated depreciation and impairment losses. Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

	Years
Buildings	20-25
Plant and equipment	3-10
Furniture and fixtures	5
Motor vehicles	4

Capital work in progress is stated at cost net of any impairment losses. When commissioned, capital work in progress is transferred to property, plant and equipment and depreciated in accordance with the Company's policies.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

ii Goodwill

Goodwill represents the excess of the cost of acquisition over the fair market value of identifiable assets and liabilities acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

3 Significant accounting policies *(continued)*

iii Intangible assets

Intangible assets that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated on a straight line basis over the estimated useful lives of the intangible assets, from the date that they are available for use as follows:

	Years
IT software	5
Telecommunications licence fee	20
Indefeasible right of use	15

iv Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and such leased assets are not recognised in the Company's statement of financial position.

v Inventories

Inventories are measured at the lower of cost and estimated net realisable value. Cost includes expenses incurred in bringing each inventory item to its present location and condition and is determined on a weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

vi Financial Instruments

vi (i) Non-derivative financial assets

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company has the following non-derivative financial assets: loans and receivables, cash and cash equivalents.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise due from a related party, trade and other receivables, including service concession receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3 Significant accounting policies *(continued)*

vi Financial Instruments *(continued)*

vi (ii) Non-derivative financial liabilities

The Company has the following non-derivative financial liabilities: long term bank borrowings, bank overdrafts, notes payable, due to related party and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented at the reporting date when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

vi (iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

vii Provisions

Provisions are recognised when the Company has a present obligation, legal or constructive, arising from a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and a reasonable estimate can be made of the amount of that obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

viii End of service benefits

Payments made to state-managed pension schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution scheme.

Provision for employees' end of service benefits for non-UAE nationals is made in accordance with the Projected Unit Cost method as per IAS 19 'Employee Benefits' taking into consideration the UAE Labour Laws. The provision is recognised based on the present value of the defined benefit obligations. The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment of non-UAE nationals and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best estimate of projected annual inflation rate available at the reporting date.

ix Impairment

ix(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

3 Significant accounting policies *(continued)*

ix Impairment *(continued)*

ix(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the group of CGUs, and then to reduce the carrying amounts of the other assets in the group of CGUs on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

x Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to AED at the foreign exchange rate ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to AED at the foreign exchange rate ruling at the date of transaction. Exchange differences are recorded in the profit or loss.

xi Revenue recognition

Revenue represents amounts invoiced or accrued for telecommunications services provided comprising usage charges, fixed monthly subscription charges, internet usage charges, activation fees, processing fees and fees for value added services. Revenue from telecommunication services is recognised when services have been rendered and is net of discounts and rebates allowed.

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Interest earned on bank deposits is recognised on a time proportion basis with reference to the principal outstanding and the applicable rate of return.

3 Significant accounting policies *(continued)*

xii Recognition of finance income and expenses

Finance income comprises interest income on funds invested that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance interest is payable on borrowing facilities obtained from suppliers and financial institutions at normal commercial rates and is recognised as an expense in the statement of comprehensive income in the period in which it is incurred. Borrowing costs that are attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of the assets.

xiii Share based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

xiv Segmental information

Information regarding the Company's operating segments is reported in accordance with IFRS 8 Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewd by the Company's chief operating decision maker and used to allocate resources to the segments and to assess their performance.

xv Government grants

Government grants relating to non-monetary assets are recognised at nominal value. Grants that compensate the Company for expenses are recognised in the profit or loss on a systematic basis in the same period in which the expenses are recognised. Grants that compensate the Company for the cost of an asset are recognised in the consolidated income statement on a systematic basis over the expected useful life of the related asset upon capitalisation.

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, based on the following methods.

i Accounts and other receivables

The fair value of accounts and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

ii Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

iii Share based payment transactions

The fair value of the employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

5 Financial risk management

Overview

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

- credit risk
- liquidity risk
- market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

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

The Company's Audit Committee oversees how management monitors compliance with the Company's 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 its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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

Trade and other receivables
The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base has less of an influence on credit risk.

The management has established a credit policy under which each new customer is analysed for creditworthiness before the Company's terms and conditions are offered. The Company's review can include external ratings, when available, customer segmentation, and in some cases bank references. Credit limits are established for each customer in accordance with this policy, which represents the maximum open amount without requiring approval from senior management. These limits are reviewed periodically.

In monitoring customer credit risk, customers are classified according to their credit characteristics, including whether they are an individual or legal entity, projected business volumes, new or established businesses and existence of previous financial relationships with the Company.

The Company may require deposit or collateral in respect of granting credit for trade and other receivables, subject to results of risk assessment and the nature and volumes contemplated by the customer.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a collective loss component established in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's business and reputation.

5 Financial risk management *(continued)*

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.
The Company's exposure to market risk arises from:

- Currency risk
- Interest rate risk

Currency risk
The Company is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of Company, primarily the Euro. In respect of the Company's transactions denominated in US Dollars (USD), the Company is not exposed to the currency risk as the AED is currently pegged to the USD.

The Company does hedge the currency risk in respect of its foreign currency exposure. As the majority of the Company transactions are concluded in local currency or in US dollars, the exposure to significant foreign exchange risks is limited. Nevertheless the decision to hedge is dependent on the currency requirements from time to time, and on market conditions, which are monitored on an on-going basis.

Interest rate risk
Management has approved a framework for interest risk management which includes entering into interest rate swaps, if appropriate.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Company performance in relation to its long range business plan and its long-term profitability objectives.

6 Property, plant and equipment

	Buildings AED 000	Plant and equipment AED 000	Furniture & fixtures AED 000	Motor vehicles AED 000	Capital work in progress AED 000	Total AED 000
Cost						
At 1 January 2009	47,208	2,834,957	129,813	1,931	1,849,568	4,863,477
Additions	-	1,346,474	39,793	192	896,082	2,282,541
Transfers	-	584,734	21,068	-	(605,802)	-
At 31 December 2009	47,208	4,766,165	190,674	2,123	2,139,848	7,146,018
At 1 January 2010	47,208	4,766,165	190,674	2,123	2,139,848	7,146,018
Additions	-	792,308	20,457	-	348,633	1,161,398
Transfers	-	649,318	4,908	-	(654,226)	-
Disposal/write off of assets	-	(6,144)	(20,027)	-	-	(26,171)
At 31 December 2010	47,208	6,201,647	196,012	2,123	1,834,255	8,281,245
Depreciation / impairment / provision for obsolescence*						
At 1 January 2009	6,339	497,967	52,537	1,441	21,466	579,750
Charge / reversal for the year	2,234	412,536	49,287	318	(5,323)	459,052
At 31 December 2009	8,573	910,503	101,824	1,759	16,143	1,038,802
At 1 January 2010	8,573	910,503	101,824	1,759	16,143	1,038,802
Charge for the year	2,233	540,159	24,812	256	6,051	573,511
Disposal / write off of assets	-	(3,566)	(16,769)	-	-	(20,335)
At 31 December 2010	10,806	1,447,096	109,867	2,015	22,194	1,591,978
Net book value At 31 December 2009	38,635	3,855,662	88,850	364	2,123,705	6,107,216
Net book value At 31 December 2010	36,402	4,754,551	86,145	108	1,812,061	6,689,267

The carrying amount of the Company's buildings includes a nominal amount of AED 1 *(2009:* AED 1*)* in relation to land granted to the Company by the Government.

*Impairment / provision for obsolescence pertains to capital work in progress.

7 Intangible assets and deferred fees

7.1 IT software

	Software in use AED 000	Capital work in progress AED 000	Total AED 000
Cost			
At 1 January 2009	514,861	67,876	582,737
Additions	91,655	52,739	144,394
Transfers	4,886	(4,886)	-
At 31 December 2009	611,402	115,729	727,131
At 1 January 2010	611,402	115,729	727,131
Additions	33,572	75,443	109,015
Transfers	45,232	(45,232)	-
Disposal / write off of assets	(19)	-	(19)
At 31 December 2010	690,187	145,940	836,127
Amortisation			
At 1 January 2009	157,194	-	157,194
Charge for the year	119,717		119,717
At 31 December 2009	276,911	-	276,911
At 1 January 2010	276,911	-	276,911
Charge for the year	135,378	-	135,378
Disposal / write off of assets	(8)	-	(8)
At 31 December 2010	412,281	-	412,281
Net book value At 31 December 2009	334,491	115,729	450,220
Net book value At 31 December 2010	277,906	145,940	423,846

Intangible assets and deferred fees *(continued)*

7.2 Telecommunications licence fee

	2010	2009
	AED 000	AED 000
Opening balance	100,452	106,678
Amortisation for the year	(6,226)	(6,226)
Closing balance	94,226	100,452

Telecommunications licence fee represents the fee charged by the Telecommunications Regulatory Authority to the Company to grant the licence to operate as a telecommunications service provider in the UAE. The fees are being amortised on a straight-line basis over a period of 20 years which is the term of the licence, from the date of granting the licence.

7.3 Indefeasible right of use

	2010	2009
	AED 000	AED 000
Opening balance	100,080	108,650
Amortisation for the year	(8,570)	(8,570)
Closing balance	91,510	100,080

Indefeasible right of use represents the fee charged by an operator of a fibre-optic cable system for the right to use its submarine fibre-optic circuits and cable system. The fees are amortised on a straight-line basis over a period of 15 years from the date of activation of the cable system.

7.4 Deferred fees

	2010	2009
	AED 000	AED 000
Deferred annual licence fee, numbering fees and spectrum fees	4,387	5,923

An annual licence fee is charged in respect of the telecommunications licence awarded. Numbering fees are charged for the allocation of the right of use of mobile and fixed number ranges. Spectrum fees are charged for the authorisation of various frequencies used by the Company.

8 Related party transactions

Related parties comprise the shareholders of the Company, its directors, key management personnel and entities over which they exercise significant influence. Transactions with related parties are on terms and conditions approved by the Company's management or by the Board of Directors.

8.1 Due from/to a related party

	2010	2009
	AED 000	AED 000
Due from a related party		
Axiom Telecom LLC ("Axiom")	94,336	163,847
Due to a related party		
Tecom Investments FZ LLC ("Tecom")	78,109	54,287

8 Related party transactions *(continued)*

8.1 Due from/to a related party *(continued)*

All transactions with related parties are carried out at commercial rates. Telecom services to related parties are provided at normal market value and are excluded from reportable related party transactions. The following table reflects the gross value of transactions with related parties for the year.

	2010	2009
	AED 000	AED 000
Tecom Investments FZ LLC ("Tecom"):		
Office rent and services	58,567	63,794
Infrastructure cost	923	48,700
Axiom Telecom LLC ("Axiom") – Authorised distributor – Net Sales	1,142,633	930,482
Eros Electronics – Authorised distributor –Net Sales	409,776	327,292
Injazat Data Systems LLC –Data centre rent and services	12,927	5,737

8.2 Compensation to key management personnel

	2010	2009
	AED 000	AED 000
Short term employee benefits	30,929	25,494
Termination benefits	1,128	608
Post employment benefits	411	465
Share based benefits*	20,753	(1,506)
Directors' remuneration**	14,504	9,000
	67,725	34,061

* During the year the Company modified its Executive Share Option Plan as a result of the rights issue made during the year (Refer note 17).

** Directors remuneration for 2010 includes an amount of AED 5.6 million relating to the 2009 year as a result of the shareholders approval at the 2010 annual general meeting of the Directors' 2009 fees. An amount of AED 8.7 million has been accrued for the 2010 Directors' fees.

9 Accounts receivable

	2010	2009
	AED 000	AED 000
Trade receivables	1,342,079	983,664
Less: Provision for doubtful debts (Refer note 9.1)	(219,678)	(82,799)
	1,122,401	900,865

9 Accounts receivable *(continued)*

9.1 Movement in provision for doubtful debts

The movement in the provision for doubtful debts in respect of trade receivables during the year was as follows:

	2010	2009
	AED 000	AED 000
Opening balance	82,799	53,601
Impairment loss recognised	154,070	43,933
Write off during the year	(17,191)	(14,735)
Closing balance	219,678	82,799

The Company's exposure to credit and currency risks and impairment losses related to accounts receivables are disclosed in note 27.

10 Other receivables

	2010	2009
	AED 000	AED 000
Advances to suppliers	395,592	70,746
Interest receivable	9,856	1,980
Staff loans	3,010	6,191
Deposits	9,911	25,044
	418,369	103,961

The Company's exposure to credit and currency risks and impairment losses related to other receivables are disclosed in note 27.

11 Cash and cash equivalents

	2010	2009
	AED 000	AED 000
At bank (on deposit and call accounts)	2,784,960	868,920
On hand	518	344
Net cash and cash equivalents	2,785,478	869,264

During the year, the balances in deposit accounts earned interest ranging from 1 % to 5.25 % per annum. All bank deposits are held in the UAE.

12 Loans and borrowings

12.1 Notes payable

	2010	2009
	AED 000	AED 000
Notes payable	-	142,868

12 Loans and borrowings *(continued)*

12.1 Notes payable *(continued)*

The Company issued promissory notes during 2009 to a supplier amounting to AED 142.87 million (USD 38.89 million). The notes were repayable over a period of one year and carried a fixed interest rate of 4.5% p.a which is accumulated annually. The promissory notes were paid in full during the year 2010.

12.2 Long term bank borrowings

Details of the loan are as follows:

	2010	2009
	AED 000	AED 000
Long term bank borrowings (i)	3,000,000	3,000,000
Buyer credit arrangements (ii)	1,058,315	-
	4,058,315	3,000,000
Less: Current portion of long term bank borrowings	(3,000,000)	-
Current portion of buyer credit arrangement	(153,580)	-
	904,735	3,000,000

(i) The Company has a AED 3 billion long term loan facility. The facility is to be repaid in full, three years from the date of first draw down - not to extend beyond 30 June 2011 and has hence been classified as a current liability.

(ii) During the year, the Company utilised the following buyer credit arrangements obtained from two suppliers:

(a) AED 265.8 million (USD 72.4 million) of an available AED 312.2 million (USD 85 million). The facility is to be repaid in full, three years from the date of the agreement (29 September 2009). The facility carries an interest rate of LIBOR + 2.6% per annum.

(b) AED 767.9 million (USD 209.0 million) of an available AED 987.1 million (USD 268.7 million). The facility is to be repaid in ten equal bi-annual installments commencing January 2011. The facility carries an average interest rate of 2.85% per annum.

(c) AED 24.7 million (USD 6.7 million) of an available AED 760.4 million (USD 207.0 million). The facility is to be repaid in ten equal bi-annual installments commencing September 2012. The facility carries an average interest rate of LIBOR + 1.2% per annum.

Terms and debt repayment schedule

Terms and conditions of the outstanding loans are as follows:

				31 December 2010		31 December 2009	
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value AED 000**	**Carrying amount AED 000**	Face value AED 000	Carrying amount AED 000
Secured bank loan	AED	EIBOR+ 1.25%	2011	2,524,735	2,524,735	2,524,735	2,524,735
Secured bank loan	USD	LIBOR+ 1.25%	2011	475,265	475,265	475,265	475,265
Buyer credit agreement	USD	LIBOR+ 2.6%	2012	265,761	265,761	-	-
Buyer credit agreement	USD	2.85 %	2015	767,901	767,901	-	-
Buyer credit agreement	USD	LIBOR+ 1.2%	2017	24,653	24,653	-	-
				4,058,315	4,058,315	3,000,000	3,000,000

13 Accounts payable and accruals

	2010 **AED 000**	2009 AED 000
Trade payables & accruals	2,468,903	2,716,498
Payroll accruals	130,334	142,018
Customer deposits	52,391	36,368
Retention payable	19,651	21,599
Deferred revenue	330,572	270,173
Accrued royalties	183,915	268,248
Other	24,007	24,783
	3,209,773	3,479,687

Other payables and accruals include an accrued loss of AED 450 thousand (*2008*: gain of AED 1,242 thousand) due to change in the fair value of three forward contracts with a commercial bank with aggregate notional value of Euros 2.9 million (AED 15,254 thousand), (*2008:* Euros 2.6 million (AED 13,354 thousand)). In 2008, the gain was disclosed under other receivables (Refer note 10).

The Company's exposure to currency and liquidity risk related to accounts payable and accruals is disclosed in note 27.

14 Employee benefits

	2010 **AED 000**	2009 AED 000
End of service benefits		
Opening balance	63,523	40,018
Charge for the year	20,389	25,846
Payments during the year	(6,198)	(2,341)
Closing balance	77,714	63,523

The provision was recognised based on the following significant assumptions:

	2010	2009
Average period of employment	7 to10 years	-
Average annual rate of salary increase	5%	-
Discount rate	3.55%	-

15 Share capital

	2010	2009
Authorised share capital (par value AED 1 each)	4,571,428,571	4,000,000,000

	2010 **AED 000**	2009 AED 000
Issued and fully paid up - opening balance	4,000,000	4,000,000
Issued during the year	571,429	-
Issued and fully paid up – closing balance	4,571,429	4,000,000

On 11 May 2010, the shareholders in an Extraordinary General Meeting approved an increase in the Company's share capital by issuing 571,428,571 new ordinary shares at 75% premium amounting to AED 1.75 (par value AED 1.00) each to shareholders on a pro rata basis. The shares were issued on 27 June 2010.

16 Share premium

	2010	2009
	AED 000	AED 000
Premium on issue of common share capital (Note 15)	428,571	-
Less: Expenses relating to issue of common share capital	(35,067)	-
	393,504	-

17 Share based payment reserve

Share based payment reserve

	2010	2009
	AED 000	AED 000
Share based payment reserve	46,345	17,482

The Company has in place an Executive Share Option Plan ("ESOP") for selected senior managers to receive equity settled share options of the Company. The ESOP consists of a launch grant scheme and an annual grant scheme.

Options in the ESOP vest upon completion of a defined service period and expire on the earlier of their expiry date or termination of the executives' employment. There are no voting or dividend rights attached to the options. The exercise price is determined by taking the average of the daily closing share price of the 30 calendar days preceding the share scheme service period commencement date.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The fair value of the options is calculated using the Black-Scholes option pricing model.

On 21 January 2010, the Company modified its ESOP in respect of the launch grant amending the exercise price from AED 3.03 to AED 1.00. All other terms and conditions of the scheme remained the same. The modification of the ESOP resulted in an increase in the fair value of the share options granted and a corresponding expense recognised in the income statement of AED 19.0 million. The assumptions used in calculating the fair value of the modified options were: share price of AED 2.86, expected volatility of 49%, risk free interest rate of 1% and an expected life of options from modification date of 1.6 years.

On 4 May 2010, the Company modified its ESOP as a result of the rights issue. The table below reflects the adjustments made for each of the grant schemes. All other terms and conditions of the ESOP remained the same.

ESOP scheme	**Number of unexercised original options granted**	**Number of amended options granted**	**Exercise price before amendment**	**Exercise Price after amendment**
Launch grant scheme	14,110,000	14,829,438	AED 1.00	AED 1.00
2007 annual grant scheme	15,872,103	16,681,377	AED 5.27	AED 5.01
2008 annual grant scheme	23,630,068	24,834,906	AED 5.86	AED 5.58
2009 annual grant scheme	26,039,189	27,364,859	AED 2.79	AED 2.65

This resulted in an increase in fair value of the share options granted of AED 4,846,129 and an expense recognised in the profit and loss during the year of AED 1,979,096.

The assumptions used to calculate the fair value of the modified options were: share price of AED 2.51, expected volatility of 42% – 50%, risk free interest rate of 1.0% – 2.5%, an expected life of options from modification date of 1.5 years to 4.7 years, and employee retention rate of 95% - 100%.

On 1 July 2010, 27,211,781 options were granted in relation to the 2010 annual grant scheme at an excercise price of AED 2.10. The assumptions used to calculate the fair value of the options at measurement date were: share price of AED 1.91, volatility of 42%, risk free rate of 1.25% , an expected option life of 4.5 years and employee retention rate of 85% - 100%.

Notes to the consolidated financial statements *(continued)*

17 Share based payment reserve *(continued)*

Details of the ESOP schemes and the assumptions used to calculate the fair value of the options as at 31 December 2010 are shown in the table below:

Share scheme	Options granted (000)	Commencement date	Vesting date	Expiry date	Fair value per option (AED)
Launch grant scheme	14,829	22 Apr 2006	21 Apr 2009	21 Apr 2012	1.55
Annual grant scheme 2007	16,681	01 Jul 2007	30 Jun 2010	30 Jun 2013	0.28
Annual grant scheme 2008	24,835	01 Jul 2008	30 Jun 2011	30 Jun 2014	0.28
Annual grant scheme 2009	27,365	01 Jul 2009	30 Jun 2012	30 Jun 2015	0.93
Annual grant scheme 2010	27,529	01 Jul 2010	30 Jun 2013	30 Jun 2016	0.63

The assumptions used to calculate the fair value of the options are:

Share scheme	Stock Price at Measurement date	Expected volatility	Risk-free interest rate	Employee retention rate
Launch grant scheme	2.51	50%	1.00%	100%
Annual grant scheme 2007	2.51	47%	1.75%	100%
Annual grant scheme 2008	2.51	42%	2.50%	100%
Annual grant scheme 2009	2.51	42%	2.50%	95-100%
Annual grant scheme 2010	1.91	42%	1.25%	85-100%

18 Statutory reserve

In accordance with the UAE Federal Law No 8 of 1984 and the Company's Articles of Association, 10% of the net profit is required to be transferred annually to a non-distributable statutory reserve. Such transfers are required to be made until the balance of the statutory reserve equals one half of the Company's paid up share capital.

	2010 **AED 000**	2009 AED 000
Opening balance	26,825	412
Transfer to statutory reserve (10% of net profit)	131,043	26,413
Closing balance	157,868	26,825

19 General and administrative expenses

	2010	2009
	AED 000	AED 000
Payroll and employee related expenses	809,142	745,937
Outsourcing and contracting	332,208	209,767
Consulting	41,314	45,085
Telecommunications licence and related fees	174,876	133,090
Sales and marketing expenses	320,389	309,596
Depreciation and amortisation expenses	717,634	598,888
Network operation and maintenance	565,797	626,314
Rent and utilities	138,886	264,442
Provision for receivables	130,856	43,933
Impairment of property, plant and equipment	6,051	2,622
Miscellaneous	69,372	64,816
	3,306,525	3,044,490

20 Operating leases

Leases

Non-cancellable operating lease rentals are payable as follows:

	2010	2009
	AED 000	AED 000
Less than one year	205,956	235,081
Between one and five years	349,071	758,462
More than five years	10,139	-
	565,166	993,543

The Company leases a number of warehouses, premises and sites to operate its network. The leases typically run for a period of 5 years with an option to renew the lease after that date. Lease contracts can contain terms to allow for annual increase to reflect market rentals.

During the year ended 31 December 2010, AED 200,391 thousand was recognised as an expense in the statement of comprehensive income in respect of operating leases (*2009*: AED 247,929 thousand).

21 Finance income and expense

	2010 AED 000	2009 AED 000
Finance income		
Interest income	50,862	6,281
Finance expense		
Gross finance expense	146,051	135,603
Less: Capitalised finance expense (refer note 3 (xii))	(53,709)	(122,829)
Net finance expense	92,342	12,774
Exchange loss	9,857	224
	102,199	12,998

22 Other expense and income

During 2007, the Company entered into an agreement to vacate one of its operational sites. The Company has accounted for income of AED 48.91 million for the year 2009 (*2010:* Nil). Other expenses for 2010 include AED 12.0 million provided against potential legal claims (*2009:* AED 1.15 million).

23 Royalty

The Company had provided for a potential royalty charge at 50% of the annual net profit based on the current practice followed by the other UAE telecom operator as no determination had been made by the Federal Government. The Company has now received confirmation via UAE Cabinet Decision dated 16 January 2011 that Royalty is payable commencing 1 January 2010. As such the provision for the years 2008 and 2009 has been reversed. The aforementioned Cabinet Decision stated a 15% Royalty for the year ended 31 December 2010. The Company will be advised of the Royalty for future years in due course. Since the Cabinet Decision is an event which occurred subsequent to 31 December 2010, the financial statements have been adjusted accordingly as the event provides evidence of conditions that existed at the date of the statement of financial position.

	2010 AED 000	2009 AED 000
Annual profit before royalty	1,226,098	528,248
Royalty at 15% (2009: 50%) of annual profit	183,915	264,124

23.1 Movement in provision for Royalty

	2010 AED 000	2009 AED 000
Opening balance	268,248	4,124
Charge during the year	183,915	264,124
Change in estimate written back to profit and loss	(268,248)	-
Closing balance	183,915	268,248

24 Earnings per share

	2010	2009
Net profit for the year (AED 000)	1,310,431	264,124
Weighted average of shares (number in 000)	4,292,759	4,000,000
Earning per share AED	0.31	0.06

25 Cash flows from operating activities

	2010 AED 000	2009 AED 000
Profit for the year	1,310,431	264,124
Adjustment for:		
Depreciation of property, plant and equipment	567,460	464,375
Amortisation of IT software	135,378	119,717
Amortisation of intangible assets	14,796	14,796
Provision for end of service benefits	20,389	25,846
Impairment of property, plant and equipment	6,051	2,622
Finance income and expense	51,337	6,717
Equity-settled share based payment transactions	28,863	17,482
Other expense / (income)	16,346	(72,103)
Net cash flows before changes in working capital	2,151,051	843,576

26 Contingent liabilities and commitments

The Company has outstanding capital commitments and outstanding bank guarantees amounting to AED 1,624,246 thousand and AED 19,090 thousand, respectively (*2009:* AED 2,131,003 thousand and AED 21,046 thousand respectively).

27 Financial instruments

27.1 Credit risk

Exposure to credit risk

The carrying amount and the fair values of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Notes	Carrying amount		Fair values	
		2010 AED 000	2009 AED 000	2010 AED 000	2009 AED 000
Accounts receivable	*9*	1,122,401	900,865	1,122,401	900,865
Other receivables	*10*	418,369	103,961	418,369	103,961
Due from a related party	*8.1*	94,336	163,847	94,336	163,847
		1,635,106	1,168,673	1,635,106	1,168,673

27 Financial instruments *(continued)*

27.1 Credit risk *(continued)*

Impairment losses

The ageing of trade receivables is as follows:

	Gross 2010 AED 000	**Impairment 2010 AED 000**	Gross 2009 AED 000	Impairment 2009 AED 000
Not past due	526,113	-	466,263	-
Past due 0-30 days	230,905	407	160,425	2,862
Past due 31-180 days	382,468	73,669	151,797	19,814
More than 180 days	202,593	145,602	205,179	60,123
	1,342,079	219,678	983,664	82,799

The allowance in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the financial asset directly.

27.2 Liquidity risk

The following are the contractual maturities of financial liabilities along with fair values:

31 December 2010

			Contractual cash flows				
	Fair values	**Carrying amount AED 000**	Total AED 000	6 months or less AED 000	6-12 months AED 000	1-2 years AED 000	Above 2 years AED 000
Non-derivative financial liabilities							
Long term bank borrowings	4,058,315	4,058,315	4,058,315	3,076,790	76,790	314,556	590,179
Trade payables & accruals	2,929,809	2,929,809	2,929,809	2,929,809	-	-	-
Customer deposits	52,391	52,391	52,391	52,391	-	-	-
Retention payable	19,651	19,651	19,651	19,651	-	-	-
Accrued royalties	183,915	183,915	183,915	-	183,915	-	-
Other	24,007	24,007	24,007	24,007	-	-	-
Due to a related party	78,109	78,109	78,109	78,109			
Employee benefits	77,714	77,714	77,714		-	77,714	-
	7,423,911	7,423,911	7,423,911	6,180,757	260,705	392,270	590,179

27 Financial instruments *(continued)*

27.2 Liquidity risk *(continued)*

31 December 2009

			Contractual cash flows				
	Fair values	**Carrying amount AED 000**	Total AED 000	6 months or less AED 000	6-12 months AED 000	1-2 years AED 000	Above 2 years AED 000
Non-derivative financial liabilities							
Long term bank borrowings	3,000,000	3,000,000	3,000,000	-	-	3,000,000	-
Trade payables & accruals	3,128,689	3,128,689	3,128,689	3,128,689	-	-	-
Customer deposits	36,368	36,368	36,368	36,368	-	-	-
Retention payable	21,599	21,599	21,599	21,599	-	-	-
Accrued royalties	268,248	268,248	268,248	-	268,248	-	-
Other	24,783	24,783	24,783	24,783	-	-	-
Due to a related party	54,287	54,287	54,287	54,287			
Employee benefits	63,523	63,523	63,523		-	63,523	-
	6,597,497	6,597,497	6,597,497	3,265,726	268,248	3,063,523	-

27.3 Currency risk

Exposure to currency risk

The Company's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2010			December 2009		
	USD	**Euro**	**GBP**	**USD**	**Euro**	**GBP**
Trade receivables	119,553	7,750	1,326	124,937	10,310	1,307
Trade payables	(257,196)	(8,935)	(202)	(260,799)	(6,396)	(344)
Gross balance sheet exposure	(137,643)	(1,185)	1,124	(135,862)	3,914	963

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2010	**2009**	**2010**	**2009**
USD 1	3.6735	3.6735	3.6735	3.6735
EURO 1	4.8875	5.1295	4.9158	5.2601
GBP 1	5.6809	5.7222	5.7321	5.9360

Notes to the consolidated financial statements *(continued)*

27 Financial instruments *(continued)*

27.3 Currency risk *(continued)*

Exposure to currency risk *(continued)*

Sensitivity analysis

A 10 percent strengthening of the AED against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit / (Loss)
	AED 000
31 December 2010	
USD	50,563
EURO	579
GBP	(639)

	AED 000
31 December 2009	
USD	49,909
EURO	(2,007)
GBP	(551)

Conversely a 10 percent weakening of the AED against the above currencies at 31 December will have had the exact reverse effect.

In each of the above cases the impact on equity would have the same values as the above amounts.

27.4 Interest risk

Exposure to interest risk

The interest rate profile of the Company's interest bearing financial instruments was

	Carrying Amount	
	2010	2009
	AED 000	AED 000
Variable rate instruments		
Long term bank borrowings	3,000,000	3,000,000
Buyer credit arrangements	1,058,315	-
	4,058,315	3,000,000

27 Financial instruments *(continued)*

27.4 Interest risk *(continued)*

Exposure to interest risk *(continued)*

Sensitivity analysis

An increase / (decrease) of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit / (Loss)
	AED 000
31 December 2010	
Variable rate instruments	(17,285)

	Profit / (Loss)
	AED 000
31 December 2009	
Variable rate instruments	(9,476)

Conversely a decrease in interest rates by 100 basis points will have had the exact reverse effect.
In each of the above cases the impact on equity would have the same values as the above amounts.

27.5 Fair value

The fair value of the Company's financial instruments approximates their carrying value.

Fair value hierarchy

The Company has financial instruments which are measured at fair value as at the reporting date but not valued at the quoted market price. Therefore, the following level wise disclosure analysing financial instruments carried at fair value, by valuation method has not been made.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

28 Segment analysis

The Company has operations only in the UAE.

The Company is organised into four major business segments as follows:

-Fixed segment provides wire line services to the enterprise and consumer markets. Services include broadband, IPTV, IP/VPN business internet and telephony.

-Mobile segment offers mobility services to the enterprise and consumer markets. Services include mobile voice and data, mobile content and mobile broadband WIFI.

-Wholesale segment provides voice and data services to national and international carriers and operators. Services include termination of inbound international voice traffic, international roaming agreements and point-to-point leased line connectivity.

-Broadcasting segment delivers integrated satellite and broadcasting services to broadcasters and media companies.

Segment results represent the gross operating profit before general and administrative expenses, finance income and expense, other income and expense and royalty. This is the measure reported to the Company's Board of Directors for the purpose of resource allocation and assessment of segment performance.

31 December 2010

	Fixed	**Mobile**	**Wholesale**	**Broadcasting**	**Total**
	2010	**2010**	**2010**	**2010**	**2010**
	AED 000	**AED 000**	**AED 000**	**AED 000**	**AED 000**
Segment revenue	1,177,235	5,311,790	426,999	158,073	7,074,097
Segment contribution	898,115	3,420,624	220,718	60,849	4,600,306
Unallocated costs					(3,306,525)
Finance income and expense & other income					(67,683)
Profit before royalty					1,226,098
Change in estimate for prior years' Royalty					268,248
Royalty					(183,915)
Profit for the year					1,310,431

28 Segment analysis *(continued)*

31 December 2009

	Fixed	Mobile	Wholesale	Broadcasting	Total
	2009	2009	2009	2009	2009
	AED 000	AED 000	AED 000	AED 000	AED 000
Segment revenue	970,268	3,727,353	495,689	145,389	5,338,699
Segment contribution	785,023	2,427,373	248,451	46,505	3,507,352
Unallocated costs					(3,044,490)
Finance income and expense & other income					65,386
Profit before royalty					528,248
Royalty					(264,124)
Profit for the period					264,124

The Company's assets and liabilities have not been identified to any of the reportable segments as the majority of the operating fixed assets are fully integrated between segments. The Company believes that it is not practical to provide segment disclosure relating to total assets and liabilities since a meaningful segregation of available data is not feasible.

29 Comparatives

Comparatives have been reclassified wherever necessary to conform to the presentation adopted in the current year.

The reclassifications are not considered material and do not impact the financial statement as at the beginning of the earliest comparative period. Thus a third statement of financial position at the beginning of the earliest comparative period has not been presented.