Emirates Integrated Telecommunications Company PJSC

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Dear Shareholders,

A Year of Exceptional Performance

On behalf of the Board of Directors of du, it is a privilege to present to you our annual report for the 2008 financial year.

2008 has been a truly transformational year for du. When the company first launched its commercial services in February 2007, management had ambitious targets to make a real mark on the UAE telecommunications landscape. Our goals were to proudly contribute to the transformation of the UAE through providing customers with choice, and to make a difference on quality, innovation, and pricing.

In only two years, the company has undoubtedly achieved these goals. We have beaten our operational and financial targets and du is now the operator of choice for the majority of new subscribers in the UAE market. Having exceeded 1 million mobile active subscribers during the fourth quarter of 2007, 2008 has seen us end the year with 2.5 million active mobile subscribers, and for the first time, deliver to our shareholders du's first full year of net profit.

To reach this level of operational and financial performance in such a short period is an achievement in itself. To do so in a market with one of the highest telecommunications penetration levels in the world is truly remarkable. I am personally very proud of this success and thank every one of our employees and business partners for making it happen with such enthusiasm and dedication.

Demonstrating the success of market liberalisation

The success of du is testament to the success of the UAE government's decision to liberalise the market by introducing competition in mobile and fixed line telecommunications. Through the launch of du, the benefits to UAE mobile and fixed line telecommunications community are clear - more choice, more innovation, better pricing and more personalisation.

Leading in governance and transparency

Honesty and transparency are core values at du. We are an early adopter of the UAE legislature on corporate governance, and in 2008 we continued to improve the level of disclosure that we communicate to external audiences. We also became the first operator in the UAE to disclose 'active subscribers', the performance indicator used in the international telecoms market. We will remain committed to ensuring that as a business, du continues to be a leader in transparency and governance.

Commitment to the UAE

du takes its role in society very seriously, contributing in all areas where we believe we can make a difference. As the business grows strongly, so does the extent of activities in which we are involved. 2008 saw us develop and participate in several new projects in the areas of education, heritage, talent development and social issues.

Looking to 2009

We have come a long way in a short period but this is a long term journey and we must continually look forward and challenge ourselves. We have built a very strong base, and the next phase for du is about delivering further growth, building on the momentum that has been created so far.

Looking ahead, we continue to see many more opportunities at du. While the region is not immune to the global economic slowdown that has had an impact on businesses in many sectors, people will always want to communicate, will always need to keep in touch. It is in supporting this critical area of life that du comes into its own.

du is totally committed to serving its customers – we will continue to develop and launch services that our customers want to use in this rapidly evolving industry and current environment. As our customer base grows, 2009 will see us continue to roll out more value added products and services that are targeted at meeting the needs of our ever broadening range of customers. Ultimately, we expect to continue to build a long term, sustainable and, importantly, profitable company for all of our shareholders.

Ahmad Bin Byat
Chairman

CEO's message

When du launched commercial services in the UAE in February 2007, it became the world's first new challenger to a state monopoly to enter into all converging telecom markets simultaneously: mobile, internet, fixed and pay TV. To make a success of the company, especially in one of the most penetrated telecoms markets in the world, was an exceptional feat, one that required a highly ambitious, dynamic and innovative approach throughout the business.

I am delighted to report to our shareholders that du has met this challenge, and has, in a short period of time, established itself as the legitimate telecommunications alternative in the UAE. 2008 was an exceptional year that has seen us beating the expectations of many in the UAE, including ourselves. We have come a long way, and have laid strong foundations for further growth.

From our shareholders' point of view, du became a profitable business in the third quarter, and recorded its first ever profitable year, with full year 2008 profits, before royalty, of AED 8 million, up from a loss of AED 885 million in 2007. This was on the back of very strong revenue growth for the business. Revenues broke the AED 1 billion mark in the third quarter, and by the end of 2008 reached AED 3.95 billion.

The momentum that has been building since the launch of du in 2007 continued to grow apace throughout 2008. Having started the year with just over 1.5 million customers, another milestone achievement took place on UAE National Day, December 2 - for the first time, the number of du customers passed 3 million, more than doubling in under a year. Such rapid growth is widely recognised in the global telecoms business as a truly exceptionally achievement for a business of du's scale and youth, and comes a full year ahead of internal planning.

Our core values, that help drive our strategy and our day to day business decisions, have proved to be right for the UAE. From the beginning, du has promised to be: confident to deliver attractive products and services that customers want; friendly in its accessibility and approachability; honest in only making promises it can keep and surprising, by constantly challenging the norms. Looking throughout the du business, in each of our employees, you will see these values hard at work. The results achieved this year speak for themselves.

Continued focus on innovation

du believes in excellence. As the region's number one provider, we are constantly improving our products and setting the benchmark for service.

In 2008, du's continual introduction of innovative campaigns and new services has helped to build the momentum of subscriber growth. Credit goes to du's product development and marketing whose very unique products, services and campaigns have made a clear difference in the market place.

Just as in 2007, when we first launched our mobile services, we have introduced many 'firsts' in the region. October 2008 saw us launch My Family, a mobile plan that brings families and friends together in a more convenient and cost effective manner. du also became the first telecom operator in the region to introduce a simple, unified pan-GCC roaming tariff. We also introduced unprecedented broadband packages for both consumers and business customers.

Striving to be the customer's champion

When we entered the monopoly market in 2007, we were not only bringing a credible choice to customers, but also a differentiated offering, with new and original packages, and the market responded very quickly.

Since then, du's decision to focus on innovative services, value for money, network quality and customer satisfaction has proven to be the right approach: du is now the operator of choice for the majority of new subscribers to mobile services in the UAE. Everything that we do, every product, every service, is tailored to respond to customer needs.

Investing for future growth

While 2008 has been a year of success for du and its many shareholders, we continue to look ahead, and to invest in the future growth through developing and implementing the most appropriate technologies.

As part of an ongoing programme of improvement, in 2009 we plan to invest up to AED 2 billion in our telecommunication infrastructure to increase capacity, coverage and quality. This will enable us to better meet the requirements of our existing customer base and to position ourselves for future success.

2009 and beyond

While for du 2008 was a transformational year marked with many successes, the broader economic environment in the UAE has not been un-touched by the global slowdown. However, putting it into context, any slowdown that might occur in the UAE in 2009 will be relative: Indeed, commentators expect 2009 to be another year of growth for the telecoms industry.

I see two main opportunities for du to continue building on the strong foundation that has been laid over the past two years which will provide increased shareholder value through continued growth fuelled by sustainable profitability. Firstly, we intend to make sure that as in 2008, du remains the operator of choice for the majority of new customers. The entire du team is focused on building on our market share, and I expect to see us gain even more traction moving beyond our target market share of 30% in the year ahead.

Secondly, and the area that will see greatest attention from everyone at du, is to create new reasons for our existing customers to love du, to build ever stronger loyalty to the brand. We will focus on delivering new and unique products and services, for business and individual customers: more and faster downloads, a wider range of mobile TV channels, wider international roaming choices, faster network access, more imaginative and personalised offers and more competitive pricing packages. Of course this will not be possible without ensuring that we take our employees with us on this journey.

The first two years have been extraordinary. We have built a strong reputation and a loyal following that we will be working hard to deepen as we enter the next chapter of du's history. I would like to personally thank each and every one of the du team for bringing us this far. And on behalf of the du team, I would like to thank each of our shareholders, customers and other stakeholders in du for their support, and look forward to an even more exciting 2009 and beyond.

Osman Sultan
Chief Executive Officer

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Independent auditors' report

The Shareholders
Emirates Integrated Telecommunications Company, PJSC

Report on the financial statements

We have audited the accompanying financial statements of Emirates Integrated Telecommunications Company PJSC ("the Company"), which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and the cashflow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of risks of material misstatement of the 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 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 principles used and reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2008, and its financial performance and its 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 requirements

As required by the 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, that a physical count of inventories was carried out by Management in accordance with established principles, and the contents of the Directors' report which relate to these 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 2008, which may have had a material adverse effect on the business of the Company or its financial position.

08 FEB 2009

KPMG

Vijay Malhotra
Registration No. 48B

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Emirates Integrated Telecommunications Company PJSC

Balance sheet

As at 31 December

	Note	**2008** AED 000	2007 AED 000
Non-current assets			
Property, plant and equipment	*6*	4,283,727	2,465,877
IT software	*7.1*	425,543	348,252
Telecommunications license fee	*7.2*	106,678	112,904
Indefeasible right of use	*7.3*	108,650	117,220
Goodwill		549,050	549,050
Total non-current assets		**5,473,648**	3,593,303
Current assets			
Deferred fees	*7.4*	113	167
Inventories		52,962	36,423
Accounts receivable	*9*	599,445	393,517
Other receivables	*10*	106,275	72,626
Due from related parties	*8.1*	153,844	111,994
Prepayments		114,043	50,816
Cash and cash equivalents	*11*	1,275,611	89,226
Total current assets		**2,302,293**	754,769
Current liabilities			
Short term bank borrowings	*11*	4,901	-
Accounts payable and accruals	*12*	2,425,054	1,692,498
Due to related parties	*8.1*	11,080	-
Total current liabilities		2,441,035	1,692,498
Net current (liabilities)		**(138,742)**	(937,729)
Non-current liabilities			
Fees payable	*13*	-	133,518
Employee benefits	*14*	49,972	16,246
Long term bank borrowings	*15*	2,775,000	-
Total non-current liabilities		**2,824,972**	149,764
Net assets		**2,509,934**	2,505,810
Represented by:			
Share capital	*16*	4,000,000	4,000,000
Statutory reserve	*17*	412	-
Accumulated losses		(1,490,478)	(1,494,190)
Shareholders' equity		**2,509,934**	2,505,810

The financial statements were approved on ______February 2009 by:

0 8 FEB 2009

Ahmad bin Byat
Chairman

Osman Sultan
Chief Executive Officer

The notes set out on pages 9 to 30 form part of these financial statements.
The Independent auditors' report is set out on page 4.

Emirates Integrated Telecommunications Company PJSC

Income statement

For the year ended 31 December

	Note	2008 AED 000	2007 AED 000
Revenue		**3,950,936**	1,537,368
Cost of sales		(1,439,539)	(679,399)
Gross profit		**2,511,397**	857,969
General and administrative expenses	*18*	(2,615,670)	(1,787,798)
Finance income - net	*20*	3,335	44,562
Other income	*21*	109,186	-
Profit / (loss) before Royalty		8,248	(885,267)
Royalty	*22*	(4,124)	-
Net profit / (loss)		**4,124**	(885,267)
Basic Earnings / (loss) per Share AED	*23*	0.001	(0.221)

The notes set out on pages 9 to 30 form part of these financial statements

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

Emirates Integrated Telecommunications Company PJSC

Statement of cash flow

For the year ended 31 December

	2008 AED 000	2007 AED 000
Net operating cash flow before changes in working capital- refer to note 24	542,106	(594,870)
Change in deferred fees	54	13,133
Change in inventories	(16,539)	(30,312)
Change in accounts receivable	(205,928)	(261,231)
Change in prepayment	(63,227)	(6,609)
Change in other receivables	(33,649)	70
Change in accounts payable and accruals	310,082	426,737
Change in amounts due from related parties	(41,850)	(73,823)
Change in amounts due to related parties	11,080	-
Change in long term portion of Executive Share Option Plan	9,954	-
Payment of end of service benefits	(4,024)	(1,471)
Net cash generated from (used in) operating activities	**508,059**	(528,376)
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,032,777)	(874,523)
Proceeds from disposal of property plant and equipment	99	-
Purchase of IT software	(132,766)	(172,615)
Payment of telecommunications license fee	(37,350)	(24,900)
Interest income	1,097	43,362
Interest expenses	(9,064)	
Other income	109,186	
Net cash used in investing activities	**(2,101,575)**	(1,028,676)
Cash flow from financing activities		
Long term financing	2,775,000	-
Net cash from financing activities	**2,775,000**	-
Net increase / (decrease) in cash and cash equivalents	**1,181,484**	(1,557,052)
Cash and cash equivalents at beginning of the year (note 11)	89,226	1,646,278
Cash and cash equivalents at end of the year (note 11)	**1,270,710**	89,226

The notes set out on pages 9 to 30 form part of these financial statements.

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

Emirates Integrated Telecommunications Company PJSC

Statement of changes in equity

for the year ended 31 December

	Share capital AED 000	Accumulated losses AED 000	Statutory reserve AED 000	Total AED 000
At 1 January 2007	4,000,000	(608,923)	-	3,391,077
Loss for the year	-	(885,267)	-	(885,267)
As at 31 December 2007	4,000,000	(1,494,190)	-	2,505,810
At 1 January 2008	4,000,000	(1,494,190)	-	2,505,810
Profit for the year	-	4,124	-	4,124
Transfer to statutory reserve	-	(412)	412	-
At 31 December 2008	**4,000,000**	**(1,490,478)**	**412**	**2,509,934**

The notes set out on pages 9 to 30 form part of these financial statements.

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

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 on 28 December 2005 and registered in the commercial register under No. 77967. The principal address of the Company is P.O Box 502666 Dubai, United Arab Emirates.

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.

2 Basis of preparation

i Statement of compliance

These 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 Basis of measurement

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

iii Functional and presentation currency

These 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.

iv Use of estimates and judgments

The preparation of financial statements 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 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 , provision for slow moving inventories and share option pricing.

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 financial statements.

3 Significant accounting policies *(continued)*

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 income statement 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.

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.

iii Intangible assets

Intangible assets that are acquired by the Company, which have finite useful life, 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 license fee	20
Indefeasible right of use	15

iv 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.

v Accounts and other receivables

Accounts and other receivables are stated at amortised cost less impairment losses. Bad debts are written off when considered irrecoverable

vi Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and balances with banks under current, call and fixed deposits maturing in less than three months from the date of purchase of the instrument.

vii Trade and other payables

Trade and other payables are stated at amortised cost.

3 Significant accounting policies *(continued)*

viii 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.

ix End of service benefits

The provision for staff terminal benefits, disclosed as a long-term liability, is calculated in accordance with UAE Federal Law and is based on the liability that would arise if the employment of the entire Company's staff was terminated at the balance sheet date except for UAE national staff who are members of the UAE Federal Pension scheme into which the Company makes contributions.

x Impairment

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's carrying amount is reduced to the recoverable amount. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

xi Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the Company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

xii 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 balance sheet 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 income statement.

xiii 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.

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

xiv Recognition of finance expenses

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

3 Significant accounting policies *(continued)*

xv Executive share option plan

The company has offered cash settled share options under an executive share option plan The fair value of options granted is recognised as an employee expense spread over the period during which the executive becomes unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted at each reporting date to reflect the actual number of share options that vest and changes in the key assumption inputs in the pricing model including the share price, the share price volatility, weighted average expected life of the instruments, expected dividends, the risk-free interest rate and employee retention rate.

xvi Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, including service concession receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

4 Determination of fair values

A number of the Company's accounting policies and disclosure 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) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. Market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of IT software acquired in a business combination is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) 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.

(v) 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.

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 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, related parties and other receivables.

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.

5 Financial risk management *(continued)*

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.

Investments:-
The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have investment grade credit rating. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

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.

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 dependant on the currency requirements from time to time, and on market conditions, which are monitored on an on-going basis.

Interest risk

During the year, the company secured an underwritten syndicated term loan facility of AED 3 billion. The facility incurs interest at EIBOR /LIBOR plus 125 basis points. Management has approved a framework for interest risk management which includes entering into interest rate swaps.

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.

There were no changes in the Company's approach to capital management during the year and the Company is subject to the provisions of UAE federal law no.8 of 1984 (as amended) in respect of its capital requirements.

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 2007	47,177	535,821	28,719	2,082	668,874	1,282,673
Additions	31	1,029,449	40,624	15	342,490	1,412,609
At 31 December 2007	47,208	1,565,270	69,343	2,097	1,011,364	2,695,282
At 1 January 2008	47,208	1,565,270	69,343	2,097	1,011,364	2,695,282
Additions	-	1,284,142	60,470	-	838,204	2,182,816
Disposal of assets	-	-	-	(166)	-	(166)
Impairment provision transferred	-	(14,455)	-	-	-	(14,455)
At 31 December 2008	47,208	2,834,957	129,813	1,931	1,849,568	4,863,477
Depreciation						
At 1 January 2007	2,206	59,893	3,135	277	-	65,511
Charge for the year	1,899	125,014	18,789	682	-	146,384
At 31 December 2007	4,105	184,907	21,924	959	-	211,895
At 1 January 2008	4,105	184,907	21,924	959	-	211,895
Charge for the year	2,234	318,929	30,613	595	-	352,371
Depreciation on disposal	-	-	-	(113)	-	(113)
Impairment provision transferred	-	(5,869)	-	-	-	(5,869)
At 31 December 2008	**6,339**	**497,967**	**52,537**	**1,441**	**-**	**558,284**
Impairment / Provision for obsolescence						
At 1 January 2007	-	7,774	-	-	2,607	10,381
Charge for the year	-	812	-	-	6,317	7,129
At 31 December 2007	-	8,586	-	-	8,924	17,510
At 1 January 2008	-	8,586	-	-	8,924	17,510
Charge for the year	-	-	-	-	12,542	12,542
Impairment provision allocated	-	(8,586)	-	-	-	(8,586)
At 31 December 2008	-	-	-	-	21,466	21,466
Net book value						
At 31 December 2007	43,103	1,371,777	47,419	1,138	1,002,440	2,465,877
Net book value At 31 December 2008	**40,869**	**2,336,990**	**77,276**	**490**	**1,828,102**	**4,283,727**

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Notes *(continued)*

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 2007	73,117	116,642	189,759
Additions	222,727	-	222,727
Transfer	58,440	(58,440)	-
At 31 December 2007	354,284	58,202	412,486
At 1 January 2008	354,284	58,202	412,486
Additions	160,577	9,674	170,251
At 31 December 2008	514,861	67,876	582,737
Amortization			
At 1 January 2007	8,762	-	8,762
Charge for the year	55,472	-	55,472
At 31 December 2007	64,234	-	64,234
At 1 January 2008	64,234	-	64,234
Charge for the year	92,960		92,960
At 31 December 2008	157,194	-	157,194
Net book value			
At 31 December 2007	290,050	58,202	348,252
Net book value			
At 31 December 2008	**357,667**	**67,876**	**425,543**

7 Intangible assets and deferred fees *(continued)*

7.2 Telecommunications licence fee

	2008 **AED 000**	2007 AED 000
Opening balance	112,904	119,128
Amortisation recognised during the year	(6,226)	(6,224)
Closing balance	106,678	112,904

Telecommunications licence fee represent the fee charged by the Telecommunications Regulatory Authority ("TRA") to the Company to grant the licence to operate as a telecommunications service provider in the United Arab Emirates. The fees are being amortised on a straight-line basis over a period of 20 years from the date of granting the licence.

7.3 Indefeasible right of use

	2008 **AED 000**	2007 AED 000
Opening balance	117,220	125,848
Amortisation recognised during the year	(8,570)	(8,628)
Closing balance	108,650	117,220

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 the term of the contract

7.4 Deferred fees

	2008 **AED 000**	2007 AED 000
Deferred annual license fee, numbering fees and spectrum fees	113	167

Spectrum/frequency authorisation fees are charged for the authorisation of various frequencies to be used by the Company. Annual license fee is charged in respect of the telecommunications license awarded. Numbering fees are charged for the allocation of the right of use of mobile and fixed number ranges.

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 related parties

	2008	2007
	AED 000	AED 000
Due from related party		
Tecom Investments FZ LLC ("Tecom")	-	40,881
Axiom Telecom ("Axiom")	153,844	71,113
	153,844	111,994
Due to related party		
Tecom Investments FZ LLC ("Tecom")	11,080	-
	11,080	-

The Company has significant inter-company transactions with Tecom. These transactions comprise amounts of rent payable for certain premises and collections made on behalf of the Company.

Axiom is a distributor of the Company's products. The transactions are carried out at commercial rates. The balances mainly represent amounts due in respect of the Company's products sold to Axiom.

8.2 Compensation to key management personnel

	2008	2007
	AED 000	AED 000
Salaries and other short term employee benefits	33,424	25,943
End of service benefits	3,005	1,129
Cash settled share based benefits	23,110	-
	59,539	27,072

9 Accounts receivable

	2008	2007
	AED 000	AED 000
Trade receivables	653,046	435,380
Less: Provision for doubtful debts	(53,601)	(41,863)
	599,445	393,517

The Company's exposure to credit and currency risks and impairment losses related to accounts receivables are disclosed in note 26.

10 Other receivables

	2008 AED 000	2007 AED 000
Advances to suppliers	66,901	59,218
Interest receivable	5,241	34
Staff loans	12,181	8,519
Deposits	19,110	4,855
Other receivable	1,600	-
Derivatives*	1,242	-
	106,275	72,626

* This represents the fair value of one forward contract with a commercial bank with aggregate notional value of Euros 2.6 million .Subsequent to 31 December 2008, the forward contract has been settled.

The Company's exposure to credit and currency risks and impairment losses related to other receivables are disclosed in note 26.

11 Cash and cash equivalents

	2008 AED 000	2007 AED 000
At bank (on deposit and call accounts)	1,275,414	89,009
On hand	197	217
	1,275,611	89,226
Short term bank borrowings		
Bank overdraft	4,901	-
	4,901	-
Net cash and cash equivalents	1,270,710	89,226

Bank overdraft is unsecured and carries interest at normal commercial rates.
During the year, the balances in deposit accounts earned interest ranging from 3.6 % to 6.5 % per annum. All bank deposits are held in the UAE.

12 Accounts payable and accruals

	2008 **AED 000**	2007 AED 000
Trade payables & accruals	2,028,564	1,495,905
Payroll accruals	124,336	65,609
Customer deposits	22,972	12,337
Retention payable	16,621	7,449
Deferred revenue	208,332	110,162
Other	24,229	1,036
	2,425,054	1,692,498

The Company's exposure to currency and liquidity risk related to accounts payable and accruals is disclosed in note 26.

13 Fees payable

	2008 **AED 000**	2007 AED 000
Total fees	-	268,332
Less: Current portion	-	(134,814)
Non current portion	-	133,518

These comprise fees payable to the Telecommunications Regulatory Authority.

14 Employee benefits

	2008 **AED 000**	2007 AED 000
End of service benefits		
Opening balance	16,246	6,562
Provision made during the year	27,796	11,155
Payment made during the year	(4,024)	(1,471)
Closing balance	40,018	16,246
Cash settled share based benefits		
Total cash settled share based benefits	23,110	-
Less: Current portion classified under Payroll accruals	(13,156)	-
Non current portion	9,954	-
Total employee benefits	49,972	16,246

The Company has in place an Executive Share Option Plan ("ESOP") for selected senior managers to receive cash settled share options of the company. The ESOP was established during the current financial year and consists of a launch grant scheme and an annual grant scheme.

The launch grant scheme is a one-time grant aimed to recognise and reward the founding executive management team for the successful creation, setup and rollout of the company services. The annual grant scheme seeks to align employee and shareholder interests and reward company and employee performance over an extended period through the payment of cash amounts calculated by reference to the market price of one share as compared to its exercise price determined at the time of grant.

14 Employee benefits *(continued)*

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.

Details of the ESOP schemes are shown in the table below.

ESOP scheme	Options granted (000)	Commencement Date	Vesting Date	Expiry Date	Exercise Price (AED)	Fair Value per option (AED)
Launch grant scheme	15,550	22 Apr 2006	21 Apr 2009	21 Apr 2012	3.03	0.94
Annual grant scheme 2007	17,980	01 Jul 2007	30 Jun 2010	30 Jun 2013	5.27	0.77
Annual grant scheme 2008	23,599	01 Jul 2008	30 Jun 2011	30 Jun 2014	5.86	0.76

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. Since these are cash settled options, the fair value of the options is remeasured at each reporting date. The assumptions used to calculate the fair value of the options at 31 December 2008 were: share price of AED 2.17, expected volatility of 75%, risk free interest rate of 1.50%, expected life of options 3 to 5 years and employee retention rates of between 0% to 20%. The expected volatility is based on the historic volatility adjusted to reflect current market conditions.

15 Long term bank borrowings

During the year, the Company fully settled its short term bridge facility of AED 1 billion replacing it with its syndicated term loan facility of AED 3 billion of which AED 225 millions remains undrawn at 31 December 2008. The facility is to be repaid in full three years from the date of first draw down - not to extend beyond 30 June 2011. As of 31 December 2008, the Company satisfies all applicable financial covenants imposed by the loan agreement. Details of the loan are as follows.

	2008 **AED 000**	2007 AED 000
Long term bank borrowings	2,775,000	-
	2,775,000	-

Terms and debt repayment schedule.

Terms and conditions of the outstanding loan are as follows:

	Currency	Nominal interest rate	Year of maturity	31 December 2008 Face Value AED 000	31 December 2008 Carrying amount AED 000	31 December 2007 Face Value AED 000	31 December 2007 Carrying amount AED 000
Secured bank loan	AED	EIBOR+ 1.25%	2011	2,299,735	2,299,735	-	-
Secured bank loan	USD	LIBOR+ 1.25%	2011	475,265	475,265	-	-
				2,775,000	2,775,000	-	-

16 Share capital

	2008 AED 000	2007 AED 000
Authorised, issued and fully paid 4,000,000,000 shares of AED 1 each	4,000,000	4,000,000

17 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.

	2008 AED 000	2007 AED 000
Net profit for the year	4,124	-
Transfer to statutory reserve (10% of net profit)	412	-

18 General and administrative expenses

	2008 AED 000	2007 AED 000
Payroll and employee related expenses	698,176	583,837
Consulting, contracting and outsourcing cost	211,357	133,108
Telecommunications license and related fees	138,782	98,767
Sales and marketing expenses	253,617	267,041
Depreciation and amortisation expenses	460,128	216,615
Network operation and maintenance	562,375	264,665
Rent and utilities	179,994	140,150
Provision for receivables	31,314	19,363
Impairment of property, plant and equipment	12,542	7,129
Miscellaneous	67,385	57,123
	2,615,670	1, 787,798

19 Operating leases

Leases

Non-cancellable operating lease rentals are payable as follows:

	2008 AED 000	2007 AED 000
Less than one year	145,040	13,772
Between one and five years	326,742	101,232
More than five years	-	680,758
	471,782	795,762

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 2008, AED 172,060 thousand was recognised as an expense in the income statement in respect of operating leases (2007: AED 125,798 thousand).

20 Finance incomes and expense

	2008 AED 000	2007 AED 000
Finance income / (expense)		
Interest income	1,097	43,362
Exchange gain	11,256	1,200
Gain on disposal of assets	46	-
Finance income	12,399	44,562
Finance expense		
Gross finance cost	44,496	-
Less: capitalised finance cost (refer note 3 xiv)	(35,432)	-
Finance expense	9,064	-
Net finance income recognised in the income statement	3,335	44,562

21 Other income

During 2007, the Company entered into an agreement to vacate one of its operational sites. This agreement provided for the transfer of operations to alternate premises over an agreed time frame. The agreement provides for compensation of AED 280 million to be paid in four installments relating to this relocation. The Company has accounted for an income of AED 91.09 million during the year ended 31 December 2008 related to this agreement (2007: Nil). Furthermore, an amount of AED 42.31 million has been charged to the income statement in respect of accelerated depreciation on the assets relating to this site.

The Company also recognised AED 16.5 million (2007: Nil) in other income as compensation receivable for vacating another operational site during the current year.

22 Royalty

The company has provided for a potential royalty charge in the year estimated at 50 % of the annual net profit. No determination of the structure of the royalty fee has been advised to the company as at 31 December 2008. This estimate is based on the current practice followed by the other UAE telecom operator. A decision on the royalty is expected to be known during the course of the 2009 financial year.

	2008	2007
	AED 000	AED 000
Annual profit / (loss) before royalty	8,248	(885,267)
Estimated royalty 50% of annual profit	4,124	-

23 Basic Earnings / (loss) per share

	2008	2007
Net profit / (loss) for the year (AED 000)	4,124	(885,267)
Number of shares (number in 000)	4,000,000	4,000,000
Basic Earnings / (loss) per share AED	0.001	(0.221)

24 Cash flow from operating activities

	2008	2007
	AED 000	AED 000
Profit / (loss) for the year	4124	(885,267)
Adjustment for:		
Depreciation of property plant and equipment	352,371	146,384
Amortisation of IT software	92,960	55,472
Amortisation of intangible assets	14,796	14,852
Provision for end of service benefits	27,796	11,155
Amortisation of telecommunication fee	138,782	98,767
Impairment of property, plant and equipment	12,542	7,129
Finance income and cost	7,921	(43,362)
Other income	(109,186)	-
Net cash flows before changes in working capital	542,106	(594,870)

25 Contingent liabilities and commitments

The Company has outstanding capital commitments and outstanding bank guarantees amounting to AED 1,911,137 thousands and AED 3,960 thousands, respectively *(2007: AED 717,011 thousands and AED 10,692 thousands respectively)*.

26 Financial instruments

Credit risk
Exposure to credit risk

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

	Notes	Carrying amount		Fair values	
		2008	2007	**2008**	2007
		AED 000	AED 000	**AED 000**	AED 000
Account receivable	9	599,445	393,517	599,445	393,517
Other receivables	10	106,275	72,626	106,275	72,626
Due from related parties	8.1	153,844	111,994	153,844	111,994
		859,564	578,137	859,564	578,137

The maximum exposure to credit risk for trade receivables as at 31 December by type of customer was:

	Carrying amount	
	2008	2007
	AED 000	AED 000
Commercial	444,711	323,272
International & Wholesale	154,734	70,245
	599,445	393,517

Impairment losses
The aging of trade receivables was:

	Gross	**Impairment**	Gross	Impairment
	2008	**2008**	2007	2007
	AED 000	**AED 000**	AED 000	AED 000
Not past due	372,527		196,420	-
Past due 0-30 days	118,114		74,053	-
Past due 31-180 days	113,601	9,692	127,584	16,174
More than 180 days	48,804	43,909	37,323	25,689
	653,046	53,601	435,380	41,863

26 Financial instruments *(continued)*

Credit risk *(continued)*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Carrying amount	
	2008	2007
	AED 000	AED 000
Balance at 1 January	41,863	32,475
Impairment loss recognised	31,314	19,326
Write off during the year	(19,576)	(9,938)
Balance at 31 December	53,601	41,863

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.

Liquidity risk

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

31 December 2008

	Fair values	**Carrying amount AED 000**	Contractual cash flows 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							
Secured bank loans	2,775,000	2,775,000	2,775,000				2,775,000
Trade payables & accruals	2,361,232	2,361,232	2,361,232	2,361,232			
Customer deposits	22,972	22,972	22,972	22,972			
Retention payable	16,621	16,621	16,621	16,621			
Other	24,229	24,229	24,229	24,229			
Fees payable	-	-	-	-			
Employee benefits	49,972	49,972	49,972		-	46,965	3,007
	5,250,026	5,250,026	5,250,026	2,425,054	-	46,965	2,778,007

26 Financial instruments *(continued)*

31 December 2007

	Fair values	**Carrying amount AED 000**	Contractual cash flows 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							
Secured bank loans	-	-	-				
Trade payables & accruals	1,561,514	1,561,514	1,561,514	1,531,846	29,668	-	-
Customer deposits	12,337	12,337	12,337	12,337	-	-	-
Retention payable	7,449	7,449	7,449	7,449	-	-	-
Other	1,036	1,036	1,036	1,036			
Fees payable	133,518	133,518	133,518	-	-	133,518	-
Employee benefits	16,246	16,246	16,246			16,246	-
	1,732,100	1,732,100	1,732,100	1,552,668	29,668	149,764	-

Currency risk

Exposure to currency risk

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

	31 December 2008 AED 000 USD	**Euro**	**GBP**	December 2007 AED 000 USD	Euro
Trade receivables	66,457	10,208	1,960	40,198	3,349
Trade payables	(281,249)	(6,901)	(86)	(59,595)	(8,076)
Gross balance sheet exposure	(214,792)	3307	1874	(19,397)	(4,727)

The following significant exchange rates applied during the year:

	Average rate 2008	2007	**Reporting date spot rate 2008**	2007
USD 1	3.6735	3.6735	3.6735	3.6735
EURO 1	5.4430	5.0224	5.1360	5.446
GBP 1	6.9508	-	5.3740	-

26 Financial instruments *(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. The analysis is performed on the same basis for 2007.

	Profit/ (Loss)
	AED 000
31 December 2008	
USD	78,904
EURO	(1,800)
GBP	(1,303)

	Profit/ (Loss)
	AED 000
31 December 2007	
USD	7,126
EURO	2,374

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.

Currency risk
Exposure to interest risk

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

	Carrying Amount	
	2008	2007
	AED 000	AED 000
Variable rate instruments		
Secured loan	2,775,000	-
	2,775,000	-

26 Financial instruments *(continued)*

Currency risk ***(continued)***

Sensitivity analysis

An increase 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 2008	
Variable rate instruments	(1,614)

	Profit/ (Loss) AED 000
31 December 2007	
	-
	-

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 Segment analysis

The Company is organized and managed into two major segments, each representing a strategic business unit offering products and services to different markets.

	Commercial 2008 AED 000	International & Wholesale 2008 AED 000	Total 2008 AED 000
Segment revenue	3,339,185	611,751	3,950,936
Segment contribution	1,851,323	21,296	1,872,619
Unallocated costs			(1,871,830)
Finance income			3,335
Net profit for the year			4,124

	Commercial 2007 AED 000	International & Wholesale 2007 AED 000	Total 2007 AED 000
Segment revenue	1,203,271	334,097	1,537,368
Segment contribution	433,450	150,480	583,930
Unallocated costs			(1,513,759)
Finance income			44,562
Net loss for the year			(885,267)

The current and the non current assets used in the Company's business and liabilities contracted 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 practicable to provide segment disclosure relating to total assets and liabilities since a meaningful segregation of available data is not feasible.

28 Comparatives

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