Emirates Integrated Telecommunications Company PJSC

Financial statements

31 December 2007

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Directors' Report

Chairman's message

Dear Shareholders,
On behalf of the board of directors, I am delighted to introduce our second financial report. 2007 was a truly ground breaking and incredible year for us. It is a year that will go down in the history of the UAE as the one in which the UAE telecoms sector truly stopped being a monopoly. It was in February 2007 that we launched our mobile services across the UAE. This marked an exhilarating start for us.

The UAE telecommunications sector is a key driving force behind the economic growth and prosperity of the Emirates. The increasing convergence of media and telecommunications has proved to be an extremely important trend in the UAE; changing the way people communicate, their entertainment preferences and in essence influencing peoples' day to day lifestyles. Operating as a fully fledged quadruple play operator, our business model gives us the overall advantage to move forward and play a lead role in developing this dynamic sector and contributing significantly to the growth.

Very encouraging financial results

Our first results following the launch of our mobile operations show strong growth in sales over prior year of 254%.. This growth has been achieved predominantly through the launch of our mobile services. Today, our mobile operation has achieved a base of 1.5 million, keeping us well on track to achieve our strategic goal of UAE market share within three years of operation, by 2009.

Board additions

During 2007 we were pleased to welcome Abdulla Hamad Rahma Al Shamsi and Ziad Abdulla Galadari to our board of directors to represent the public shareholders.

Commitment to the community

We have a responsibility to the community in which we operate. Serving the needs of our customers also includes contributing to the economic growth and overall enrichment and welfare of the UAE society. Such a young company and we are already actively engaging in various community activities.

Looking ahead

The process of launching a company as unique as du requires time and continual fine tuning to ensure we are delivering to our customer and shareholder expectations. I would like to thank all our stakeholders; our customers, our business partners, our suppliers and people of the UAE for their continued trust and support, as well to the management team, led by Osman Sultan, CEO and all our employees for their hard work and dedication and more importantly their passion and belief that together as a team, du can achieve it's vision to connect, reward and inspire its' customers.

Throughout 2008 our strategy continues to focus on the delivery of relevant products into the marketplace offering even more choice to our customers. In doing so, we will continue to deliver sustainable growth and efficiency in order to maximize value to our shareholders.

Ahmad Bin Byat
Chairman

CEO's message

It was never going to be easy given the unique context of our beginnings, but I am proud to say that we made very promising progress in 2007.

The challenge of being different

Not only did we enter a dynamic and diverse market as a quadruple play operator but it was unprecedented for a second player to enter a market where mobile penetration was already over 100%. With extremely high expectations in the market, we set ourselves the challenge of being different. A young, smart and focused company we set ourselves ambitious goals and it has truly been an exciting and successful journey so far.

2007 Financial performance

Reaching a market share of close to 30% of the UAE population and achieving revenue of AED 1,537 million less than one year after launching our mobile services puts us ahead of our plans and gives us a good start to 2008.

Mobile Services
- 1,500,000 mobile customers

Fixed Services (landline, broadband, IPTV services and broadcasting)
-46,000 fixed subscribers

Delighting our customers

We have an overriding desire to offer choice to the people of the UAE. Our strong customer centric approach together with an unusually broad scope of innovative products and tailored value propositions at launch led to a string of extraordinary achievements. A world first was our memorable number booking campaign. Out of the box thinking coupled with consumer insights, we delivered a pre-launch proposition which was not reliant on tariff or network but driven by a clear understanding of the importance of personalized mobile phone numbers to our target audience.

du was first to market with Pay by the Second, Mobile Payments, Mobile TV, Self-care, full online E-shop capability and in Q4 2007 the WoW recharge card. Such products demonstrate our commitment towards offering a different experience and better value for money to our customers. Our passion to offer long awaited choice to the people of the UAE has ensured delivery of tailored propositions and innovative packaging revolutionizing the UAE market and offering customers an exciting and fun communication and entertainment experience. One of our core values is honesty and we pride ourselves on delivering everything that we promise. Despite some setbacks along the way we have taken huge strides forward, all the while recognising the tough challenge of constantly being able to meet our promises. For us, customer satisfaction is top of mind. We have put a range of measurement tools in place to ensure sustained levels of customer experience including comprehensive brand health indicators, mystery shopper and mystery caller programs as well as other mechanisms for listening and acting upon customer feedback. These will be accelerated throughout 2008 as we aim to consistently deliver the best levels of service at all our customer touch-points.

Our brand promise

We have truly been adding life to life. We entered the market with a high profile brand launch followed by aggressive brand campaigns to raise awareness. The du brand has set a precedent within the UAE. It is strikingly unique and brings freshness and inspiration to consumers. Testimony was paid to the distinctive appeal of our brand at the Telecoms Middle East Awards, November 2007, du won the 'best brand' award for innovative branding and outstanding brand success. This has further confirmed our strength in the marketplace and our ability to talk to our customers.

Our people

The entire team did a great job in 2007. We faced challenging situations along the way but it has been a unique learning curve and it is the sheer determination of the team to succeed and focus on what is important that has helped us achieve our goals.

Our technology

State of the art technology together with creative thinking is our much relied upon catalyst. Working with leading edge technology is exciting and allows us to deliver state of the art solutions for our customers to experience. The challenges we faced at the beginning have proved to be a valuable learning curve and platform for us to better understand the requirements of our market. We are committed to improving the quality of our network infrastructure and hence the quality of calls. Today our infrastructure covers over 90% of the UAE's populated areas and we are adding base stations every day.

Taking things further

There is still plenty to do but I feel very inspired and confident that we have the right approach and talents to consolidate our foundations and build on our successes to become our customers' number one choice telecommunications provider. Our strategic framework for 2008 is driven by the same enthusiasm and passion we had for our launch. Our product roadmap will continue to generate a lot of excitement in the market as we look at leveraging our innovative technology platform to deliver enriched propositions and lifestyle orientated applications. Other key commitments which I see as vital to drive our evolution include understanding our customers' needs and behaviors to improve their satisfaction and working with our employees to create a rewarding environment. From all this, we should see year on year growth over the next few years.

All of us at du are honoured to be part of this new chapter in the UAE. Rest assured that my team will keep the momentum and determination going into 2008 and are driven to deliver results and meet the expectations of our customers and our shareholders. We all have a great deal to look forward to.

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 2007, and the income statement, statement of changes in equity and statement of cash flows 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 2007, 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 2007, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG

Vijay Malhotra
Registration No. 48B

13 FEB 2008

Balance sheet
at 31 December

	Note	2007 AED 000	2006 AED 000
Non-current assets			
Property, plant and equipment	*6*	2,465,877	1,206,781
IT software	*7.1*	348,252	180,997
Telecommunications license fee	*7.2*	112,904	119,128
Indefeasible right of use	*7.3*	117,220	125,848
Goodwill	*8.1*	549,050	549,050
Total non-current assets		3,593,303	2,181,804
Current assets			
Deferred fees	*7.4*	167	13,300
Inventories		36,423	6,111
Accounts receivable	*9*	393,517	132,286
Other receivables	*10*	72,626	72,696
Due from related parties	*8.2*	111,994	38,171
Prepayments		50,816	44,207
Cash and cash equivalents	*11*	89,226	1,646,278
Total current assets		754,769	1,953,049
Current liabilities			
Accounts payable and accruals	*12*	1,692,498	540,102
Net current (liabilities)/assets		(937,729)	1,412,947
Non-current liabilities			
Fees payable	*13*	133,518	197,112
End of service benefits	*14*	16,246	6,562
Total non-current liabilities		149,764	203,674
Net assets		2,505,810	3,391,077
Represented by:			
Share capital	*15*	4,000,000	4,000,000
Accumulated losses		(1,494,190)	(608,923)
Shareholders' equity		2,505,810	3,391,077

The financial statements were approved on 13 February 2008 by:

Ahmad bin Byat
Chairman

Osman Sultan
Chief Executive Officer

The notes set out on pages 8 to 25 form part of these financial statements.

The Independent auditors' report is set out on page 3.

Income statement
for the periods ended 31 December

	Note	**2007** AED 000	For the period from 28 December 2005 to 31 December 2006 AED 000
Revenue		1,537,368	434,025
Cost of sales		(678,904)	(208,357)
Gross profit		858,464	225,668
General and administrative expenses	*16*	(1,788,293)	(956,417)
Finance income	*18*	44,562	146,280
Pre-incorporation expenses	*19*	-	(24,454)
Loss for the period		(885,267)	(608,923)
Loss Per Share AED	*20*	(0.22)	(0.15)

The notes set out on pages 8 to 25 form part of these financial statements

The Independent auditors' report is set out on page 3.

Statement of cash flows

for the periods ended 31 December

	2007 **AED 000**	For the period from 28 Dec 05 to 31 December 2006 AED 000
Net operating cash flows before changes in working capital-refer to note 21	(594,870)	(547,625)
Change in inventories	(30,312)	(6,111)
Change in accounts receivable	(261,231)	(132,286)
Change in prepayment	(6,609)	(44,207)
Change in other receivables	70	(72,696)
Change in accounts payable and accruals	439,870	485,444
Change in amounts due from related parties	(73,823)	(38,171)
Payment of end of service benefits	(1,471)	-
Net cash used in operating activities	(528,376)	(355,652)
Cash flows from investing activities		
Purchase of property, plant and equipment	(874,523)	(775,619)
Acquisition of businesses during the period-refer to note 8.1	-	(1,133,237)
Purchase of IT software	(172,615)	(189,759)
Payment of telecommunications license fee	(24,900)	(12,450)
Payment for indefeasible right of use	-	(32,238)
Interest income	43,362	145,233
Net cash used in investing activities	(1,028,676)	(1,998,070)
Cash flow from financing activities		
Introduction of share capital	-	4,000,000
Net cash from financing activities	-	4,000,000
Net (decrease)/ increase in cash and cash equivalents	(1,557,052)	1,646,278
Cash and cash equivalents at beginning of the period (note 11)	1,646,278	-
Cash and cash equivalents at end of the period (note 11)	89,226	1,646,278

The notes set out on pages 8 to 25 form part of these financial statements.

The Independent auditors’ report is set out on page 3.

Statement of changes in equity
for the periods ended 31 December

	Share capital AED 000	Accumulated losses AED 000	Total AED 000
At 28 December 2005	-	-	-
Introduction of share capital	4,000,000	-	4,000,000
Loss for the period	-	(608,923)	(608,923)
At 31 December 2006	4,000,000	(608,923)	3,391,077
At 1 January 2007	4,000,000	(608,923)	3,391,077
Loss for the Year	-	(885,267)	(885,267)
At 31 December 2007	**4,000,000**	**(1,494,190)**	**2,505,810**

The notes set out on pages 8 to 25 form part of these financial statements.

Notes to the 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 on 28 December 2005. 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 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 financial statements.

Notes to the financial statements *(continued)*

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 identified.

vi Cash and cash equivalents

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

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 dealt with 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 New accounting and reporting standards and interpretations

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, The one standard applicable to the Company that has not been applied in preparing these financial statements is:

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Chief Executive Officer in order to assess each segment's performance and to allocate resources to them. IFRS 8 is not expected to have any significant differences compared to current disclosure.

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

5 Financial risk management *(continued)*

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.

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. No single customer accounts for more than 5 % of outstanding trade receivables.

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 the higher 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.

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.

5 Financial risk management *(continued)*

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 rate risk
The Company does not have interest bearing borrowings/deposits and is not exposed to interest rate risk.

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.

Notes to the financial statements *(continued)*

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 28 December 2005	-	-	-	-	-	-
Additions	47,177	535,821	28,719	2,082	668,874	1,282,673
At 31 December 2006	47,177	535,821	28,719	2,082	668,874	1,282,673
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**
Depreciation						
At 28 December 2005	-	-	-	-	-	-
Charge for the period	2,206	59,893	3,135	277	-	65,511
At 31 December 2006	2,206	59,893	3,135	277	-	65,511
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**
Impairment / Provision for obsolescence						
At 28 December 2005	-	-	-	-	-	-
Charge for the period	-	7,774	-	-	2,607	10,381
At 31 December 2006	**-**	**7,774**	**-**	**-**	**2,607**	**10,381**
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**
Net book value						
At 31 December 2006	44,971	468,154	25,584	1,805	666,267	1,206,781
Net book value At 31 December 2007	**43,103**	**1,371,777**	**47,419**	**1,138**	**1,002,440**	**2,465,877**

Notes to the financial statements *(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 28 December 2005	-	-	-
Additions	73,117	116,642	189,759
At 31 December 2006	73,117	116,642	189,759
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**
Amortization			
At 28 December 2005	-	-	-
Charge for the period	8,762	-	8,762
At 31 December 2006	8,762	-	8,762
At 1 January 2007	8,762	-	8,762
Charge for the year	55,472	-	55,472
At 31 December 2007	**64,234**	**-**	**64,234**
Net book value			
At 31 December 2006	64,355	116,642	180,997
Net book value			
At 31 December 2007	**290,050**	**58,202**	**348,252**

Notes to the financial statements *(continued)*

7 Intangible assets and deferred fees *(continued)*

7.2 Telecommunications licence fee

	2007 AED 000	2006 AED 000
Opening balance	119,128	-
Recognised asset during the period	-	124,500
Amortisation for the period	(6,224)	(5,372)
Closing balance	112,904	119,128

Telecommunications licence fee represent the fee charged by the Telecommunications Regulatory Authority 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

	2007 AED 000	2006 AED 000
Opening balance	125,848	-
Recognised asset during the period	-	128,657
Amortisation for the period	(8,628)	(2,809)
Closing balance	117,220	125,848

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

	2007 AED 000	2006 AED 000
Deferred annual license fee, numbering fees and spectrum fees	167	13,300

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 Acquisition of businesses

During the period ended 31 December 2006 and based on an independent valuation report, the Board of Directors approved the acquisition of the business and assets of the following wholly owned subsidiaries and division of Tecom Investments FZ LLC, a related party, with effect from 31 December 2005.

Sama Communications Company FZ LLC
DIC Telecom International Operations Limited
The technology division of Tecom Investments FZ LLC

8 Related party transactions *(continued)*

8.1 Acquisition of business *(continued)*

The goodwill arising from the acquisition as of 31 December 2005 has been calculated as follows:

	AED 000
Consideration paid	1,133,237
Less:	
Acquired property, plant and equipment	(351,244)
Acquired amount of right of use of fibre-optic cable system	(77,133)
Goodwill as initially reported	704,860

The Company has revalued the assets acquired as of 31 December 2005 to their fair values within the one year period permitted by IFRS 3 and effected the change by reducing the goodwill value and increasing the value of property, plant and equipment as summarised below:

	AED 000
Goodwill as initially reported	704,860
Less: Revaluation difference of acquired property, plant and equipment added to property, plant and equipment	(155,810)
Adjusted goodwill at 31 December 2006	549,050

8.2 Due from related parties

	2007 AED 000	2006 AED 000
Tecom Investments FZ LLC ("Tecom")	40,881	38,171
Axiom Telecom ("Axiom")	71,113	-
	111,994	38,171

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.

8.3 Compensation to key management personnel

		For the period to 31 December
	2007 AED 000	2006 AED 000
Salaries and other short term employee benefits	25,943	22,112
End of service benefits	1,129	763
	27,072	22,875

Notes to the financial statements *(continued)*

9 Accounts receivable

	2007	2006
	AED 000	AED 000
Trade receivables	435,380	164,761
Less: Provision for doubtful debts	(41,863)	(32,475)
	393,517	132,286

The Company's exposure to credit and currency risks and impairment losses related to accounts receivables are disclosed in note 23.

10 Other receivables

	2007	2006
	AED 000	AED 000
Advances to suppliers	59,218	41,334
Interest receivable	34	14,840
Staff loans	8,519	14,627
Deposits	4,855	1,895
	72,626	72,696

The Company's exposure to credit and currency risks and impairment losses related to other receivables are disclosed in note 23

11 Cash and cash equivalents

	2007	2006
	AED 000	AED 000
The balances were held:		
At banks		
- In deposit and call accounts	89,009	1,646,224
In hand	217	54
	89,226	1,646,278

During the period, the balances in deposit accounts earned interest ranging from 3.6 % to 6.5 % per annum.

12 Accounts payable and accruals

	2007	2006
	AED 000	AED 000
Trade payables & accruals	1,495,905	474,051
Payroll accruals	65,609	57,699
Customer deposits	12,337	3,325
Retention payable	7,449	3,981
Deferred revenue	110,162	-
Other	1,036	1,046
	1,692,498	540,102

The Company's exposure to currency and liquidity risk related to account payable and accruals is disclosed in note 23.

Notes to the financial statements *(continued)*

13 Fees payable

	2007 AED 000	2006 AED 000
Total fees	268,332	222,012
Less: Current portion	(134,814)	(24,900)
Non current portion	133,518	197,112

These comprise fees payable to the Telecommunications Regulatory Authority.

14 End of service benefits

	2007 AED 000	2006 AED 000
Opening balance	6,562	-
Provision made during the period	11,155	6,562
Payment made during the period	(1,471)	-
Closing balance	16,246	6,562

15 Share capital

	2007 AED 000	2006 AED 000
Authorised, issued and fully paid		
4,000,000,000 shares of AED 1 each	4,000,000	4,000,000

16 General and administrative expenses

	2007 AED 000	For the period to 31 December 2006 AED 000
Payroll and employee related expenses	478,577	306,353
Consulting, contracting and outsourcing cost	238,367	179,932
Telecommunications license and related fees	98,767	107,134
Sales and marketing expenses	244,030	98,952
Depreciation and amortisation expenses	216,709	82,454
Network operation and maintenance	261,846	50,745
Rent and utilities	140,150	54,381
Provision for receivables	19,363	32,475
Impairment of property, plant and equipment	7,129	10,381
Miscellaneous	83,355	33,610
	1,788,293	956,417

Notes to the financial statements *(continued)*

17 Operating leases

Leases

Non-cancellable operating lease rentals are payable as follows:

	For the period to 31 December	
	2007	2006
	AED 000	AED 000
Less than one year	13,772	8,221
Between one and five years	101,232	55,662
More than five years	680,758	214,190
	795,762	278,073

The Company leases a number of warehouses, premises and sites to operate its network. The leases typically run for a period of 10 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 2007 AED 125,798 thousand was recognised as an expense in the income statement in respect of operating leases (2006: AED 48,238 thousand).

18 Finance Income

	For the period to 31 December	
	2007	2006
	AED 000	AED 000
Interest income	43,362	145,233
Exchange gain	1,200	1,047
	44,562	146,280

19 Pre-incorporation expenses

	For the period to 31 December 2006 AED 000
Staff cost	12,922
Consulting fees	7,197
General and administrative expenses	4,335
	24,454

These represent expenses incurred by a related party on behalf of the Company prior to its incorporation on 28 December 2005.

Notes to the financial statements *(continued)*

20 Loss Per share

	For the period to 31 December **2007**	2006
Net loss for the period (AED 000)	(885,267)	(608,923)
Number of shares (Number in 000)	4,000,000	4,000,000
Loss Per Share AED	(0.22)	(0.15)

21 Cash flow from operating/ pre-operating activities

	For the period to 31 December **2007** **AED 000**	2006 AED 000
Loss for the period	(885,267)	(608,923)
Adjustment for:		
Depreciation of property plant and equipment	146,384	65,511
Amortisation of IT software	55,472	8,762
Amortisation of intangible assets	14,852	8,181
Provision for end of service benefits	11,155	6,562
Amortisation of telecommunication fee	98,767	107,134
Impairment of property, plant and equipment	7,129	10,381
Interest income	(43,362)	(145,233)
Net cash flows before changes in working capital	(594,870)	(547,625)

22 Contingent liabilities and commitments

The Company has outstanding capital commitments and outstanding bank guarantees amounting to AED 717,011 thousands and AED 10,692 thousands, respectively(*2006: AED 783,698 thousands and AED 8,600 thousands respectively)*.

23 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**	
		2007	2006	**2007**	2006
		AED 000	AED 000	**AED 000**	AED 000
Account receivable	9	393,517	132,286	393,517	132,286
Other receivables	10	72,626	72,696	72,626	72,696
Cash and cash equivalents	11	89,226	1,646,278	89,226	1,646,278
Due from related parties	8.2	111,994	38,171	111,994	38,171
		667,363	1,889,431	667,363	1,889,431

23 Financial Instruments *(continued)*

Credit risk *(continued)*

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

	Carrying amount	
	2007	2006
	AED 000	AED 000
Commercial	323,272	132,286
International & Wholesale	70,245	-
	393,517	132,286

Impairment losses

The aging of trade receivables was:

	Gross	**Impairment**	Gross	Impairment
	2007	**2007**	2006	2006
	AED 000	**AED 000**	AED 000	AED 000
Not past due	196,420	-	39,542	8,118
Past due 0-30 days	74,053	-	37,895	7,794
Past due 31-180 days	127,584	16,174	23,066	4,222
More than 180 days	37,323	25,689	64,258	12,341
	435,380	41,863	164,761	32,475

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

	Carrying amount	
	2007	2006
	AED 000	AED 000
Balance at 1 January	32,475	-
Impairment loss recognised	19,326	32,475
Write off during the period	(9,938)	-
Balance at 31 December	41,863	32,475

The allowance accounts in respect of trade receivables are 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.

23 Financial Instruments *(continued)*

Impairment losses *(continued)*

Liquidity risk

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

31 December 2007

			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 financials							
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	-
End of service	16,246	16,246	16,246			16,246	-
	1,732,100	1,732,100	1,732,100	1,552,668	29,668	149,764	-

31 December 2006

			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 financials							
Trade payables & accruals	531,750	531,750	531,750	501,750	30,000	-	-
Customer deposits	3,325	3,325	3,325	3,325	-	-	-
Retention payable	3,981	3,981	3,981	3,981	-	-	-
Other	1,046	1,046	1,046	1,046	-	-	
Fees payable	197,112	197,112	197,112	-	-	197,112	-
End of service	6,562	6,562	6,562	-	-	6,562	-
	743,776	743,776	743,776	510,102	30,000	203,674	-

Please refer to note 26 on Company financing.

Notes to the financial statements *(continued)*

23 Financial Instruments *(continued)*

Currency risk

Exposure to currency risk

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

	31 December 2007 **000**		31 December 2006 **000**	
	USD	**Euro**	**USD**	**Euro**
Trade receivables	40,198	3,349	-	-
Trade payables	(59,595)	(8,076)	(32,330)	(2,830)
Gross balance sheet exposure	(19,397)	(4,727)	(32,330)	(2,830)

The following significant exchange rates applied during the year:

	Average rate		**Reporting date spot rate**	
	2007	2006	**2007**	2006
USD 1	3.6735	3.6735	3.6735	3.6735
EURO 1	5.0224	4.7261	5.446	4.8401

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 2006.

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

	Profit/ (Loss) AED 000
31 December 2006	
USD	11,876
EURO	1,337

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 be the same values as the above amounts.

24 Statutory reserve

In accordance with the UAE Federal Law No 8 of 1984 as amended and the Company's Articles of Association, 10% of the net profit is required to be transferred annually, at the end of each financial year, 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. Since the Company has incurred losses to date, no transfers have been made to a statutory reserve.

25 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	International & Wholesale	Total
	2007	2007	2007
	AED 000	AED 000	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 period			(885,267)

Comparatives for the segment analysis are not presented as the Company had not commenced its commercial operations during the previous period.

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.

26 Company financing

On 11 December 2007, the Company has entered into an Agreement to establish a AED 2 Billion long-term credit facility. The arrangement provides for an interim AED 700 Million facility available immediately to be replaced by a fully underwritten facility for the total amount. The facility is repayable in 6 semi - annual instalments starting thirty months after initial drawdown. The facility will bear interest based on EIBOR plus a premium to be determined. As of 31 December 2007, the facility had not yet been used.

27 Comparatives

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