Emirates Integrated Telecommunications Company, PJSC

Financial statements

31 December 2006

Emirates Integrated Telecommunications Company, PJSC

Financial Statements
for the period from 28 December 2005 to 31 December 2006

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Directors' Report

We are pleased to place before you our report and the audited financial statements of Emirates Integrated Telecommunications Company PJSC – du ("the Company") for the period ended 31 December 2006. This report reflects the first year of our journey in establishing the new telecommunication operator in the UAE.

1) Overview of activities during the year – The building of du

On 31 December 2005 du acquired from Tecom Investments FZ LLC the business and assets of Sama Communications Company, DIC Telecom (International Operations) and its technology division. Under this deal du acquired a subscriber base of 19,100 containing both Enterprise Customers and a Consumer base. The directors believe that this acquisition gives the Company a solid foundation from which to launch its strategic vision for integrated telecommunications services across the United Arab Emirates.

On 12 February 2006 the Telecommunications Regulatory Authority and du signed a 20 year license to provide wireline, wireless, international and data telecommunications services across the entire country. Also in February the Company completed the successful launch of its Brand "du" to the press and public. This was an important step in establishing with the public the brand and its associated values.

In April 2006, the Company was listed on the Dubai Financial Market through the sale by the founding shareholders of 20% of the issued and paid up share capital of the Company. The public response to the share sale was a testament to the anticipation and the confidence that the public held for the new operator.

In December 2006 an agreement was reached with Etisalat on interconnection, carving an important milestone in our journey to launch.

Over the past year there has also been significant investments made in building the infrastructure of the Company particularly in world class networks and IT systems. In addition to investing heavily in rolling out our infrastructure we have been recruiting, building our operational capabilities and more importantly developing our human capital which will be responsible for delivering our commitment to excellent customer service.

2) Overview of planned activities in 2007 – A busy year ahead

In November 2006 the Company undertook a number booking campaign and due to high demand extended this until mid January. Around 750,000 numbers were booked in this period from around 500,000 Consumers and Enterprises.

In the first week of February we announced our products, services and tariff plans for the commercial launch of our mobile services on 11 February. Due to the high demand from the number booking campaign, fulfilment will commence by courier on 11 February with all channels opening by 25 February. At launch the Company will have significant presence in all Emirates through 11 own shops and kiosks, 90 premium dealers which will supply all our services, whilst in addition there will also be over 1,000 other points of sale.

During the year the Company will continue with its investment programme in our mobile network to ensure that we will be able to meet the expected demand for our mobile services. 2007 will also be the year in which we roll out our next generation network which will be the foundation for providing fixed mobile convergent services to our customers which we anticipate will be launched in the latter part of the year.

Our commitment to the UAE and its people will also remain a focal point in 2007. At du, we view corporate social responsibility as an essential cornerstone in building our corporate culture.

3) Overview of the results for 2006

The Board of Directors have taken the decision to prepare the Company's results in compliance with the International Financial Reporting Standards. We believe that in doing this we are setting a basic building stone in our journey to achieve the highest standards in Corporate Governance.

Our results for the year reflect the start up nature of our business and the required heavy investment in Infrastructure and operational readiness. Our Income Statement shows a net loss for the period of AED 609m equating to a loss of AED 0.15 per share. We invested AED 2.3bn during the period including the acquisition cost which amounted to AED1.1bn resulting in a net cash balance as at31 December 2006 of AED 1.64bn.

Finally, the Board of Directors would like to express its gratitude and appreciation to all customers, advisors, suppliers and staff for their support and hard work in establishing the Company over the last year and we look forward to our second year and all that it promises.

On behalf of the Board of Directors

Ahmad bin Byat
Chairman

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 2006, and the income statement, statement of changes in equity and statement of cash flows for the period 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 2006, and its financial performance and its cash flows for the period 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 period ended 31 December 2006, which may have had a material adverse effect on the business of the Company or its financial position.

KPMG

KPMG
Munther Dajani
Registration No. 268

15 February 2007

Balance sheet
at 31 December 2006

	Note	AED 000
Non-current assets		
Property, plant and equipment	*4*	1,122,499
IT software	*5.1*	180,997
Telecommunications license fee	*5.2*	119,128
Indefeasible right of use	*5.3*	125,848
Goodwill	*6.1*	549,050
Total non-current assets		2,097,522
Current assets		
Deferred fees	*5.4*	13,300
Inventories	*7*	90,393
Accounts receivable	*8*	129,089
Other receivables	*9*	120,100
Due from a related party	*6.2*	38,171
Cash and cash equivalents	*10*	1,646,278
Total current assets		2,037,331
Current liabilities		
Accounts payable and accruals	*11*	540,102
Net current assets		1,497,229
Non-current liabilities		
Fees payable	*12*	197,112
End of service benefits	*13*	6,562
Total non-current liabilities		203,674
Net assets		3,391,077
Represented by:		
Share capital	*14*	4,000,000
Accumulated losses		(608,923)
Shareholders' equity		3,391,077

The financial statements were approved on 14 February 2007 by:

Ahmad bin Byat
Chairman

Osman Sultan
Chief Executive Officer

The notes set out on pages 8 to 16 form part of these financial statements.
The Independent Auditors Report is set out on page 3.

Income statement
for the period from 28 December 2005 to 31 December 2006

	Note	**AED 000**
General and administrative expenses	*15*	(956,417)
Other income	*16*	225,668
Finance income	*17*	146,280
Pre-incorporation expenses	*18*	(24,454)
Loss for the period		(608,923)
Loss Per Share (AED)	*19*	(0.15)

The notes set out on pages 8 to 16 form part of these financial statements.

The Independent Auditors Report is set out on page 3.

Statement of cash flows

for the period from 28 December 2005 to 31st December 2006

	AED 000
Net pre-operating cash flows before changes in working capital (refer note 20)	(415,471)
Increase in inventories	(90,393)
Increase in accounts receivable	(129,089)
Increase in other receivables	(120,100)
Increase in accounts payable and accruals	495,916
Increase in amounts due from a related party	(38,171)
Net cash used in pre operating activities	(297,308)
Cash flows from investing activities	
Purchase of property, plant and equipment	(690,836)
Acquisition of businesses during the period (refer note 6.1)	(1,133,237)
Purchase of software	(187,653)
Payment of telecommunication license fees	(12,450)
Payment for Indefeasible Right of Use	(32,238)
Net cash used in investing activities	(2,056,414)
Cash flow from financing activities	
Introduction of share capital	4,000,000
Net cash provided by financing activities	4,000,000
Net increase in cash and cash equivalents (refer note 10)	1,646,278

The notes set out on pages 8 to 16 form part of these financial statements.

The Independent Auditors Report is set out on page 3.

Statement of changes in equity
for the period from 28 December 2005 to 31 December 2006

	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**

The notes set out on pages 8 to 16 form part of these financial statements.

The Independent Auditors Report is set out on page 3.

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 Company's principal objective is to provide fixed, mobile, broadband, broadcasting and associated telecommunications services in the UAE. Management expects that the commercial operations of the Company will commence in February 2007.

The principal address of the Company is P.O Box 502666 Dubai, United Arab Emirates.

2 Basis of preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") 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 measurements

The 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 significant risk of material adjustment in the next year mainly comprise of residual value and useful lives of items of property, plant and equipment, provision for bad and doubtful debts and provision for slow moving inventories.

3 Principal 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.

Depreciation methods, useful lives and residual value are reassessed at the reporting date. Comparative figures have not been presented as this is the first accounting period of the Company following its registration.

Notes to the financial statements *(Continued)*

3 Principal 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 revalued amounts less accumulated depreciation. 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 period 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. When commissioned, capital work in progress is transferred to property, plant and equipment and depreciated in accordance with the Company policies.

(ii) Goodwill

Goodwill represents the excess of 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, other than goodwill, from the date that they are available for use which are as follows:

	Years
Telecommunications license fees	20
Indefeasible right of use	15
IT software	5

(iv) Inventories

Inventories are measured at the lower of cost and estimated net realisable value. Costs 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) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses, if any. Bad debts are written off when identified.

(vi) Cash and cash equivalents

Cash and cash equivalents comprises cash on 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.

Notes to the Financial Statements *(Continued)*

3 Principal 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 were 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 contribution.

(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.

(xii) 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.

(xiv) Foreign currency transactions

Transactions denominated in foreign currencies are translated to AED at the foreign exchange rates 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 rates ruling at the date of transaction. Exchange differences are dealt with in the income statement.

(xv) Revenue recognition

Service revenue includes amounts invoiced for 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.

Return on deposits is accrued on a time proportion basis with reference to the principal outstanding and the applicable rate of return.

4 Property, plant and equipment

	Buildings AED 000	Plant and equipment AED 000	Furniture & fixture 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	581,985	1,195,784
At 31 December 2006	**47,177**	**535,821**	**28,719**	**2,082**	**581,985**	**1,195,784**
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)**
Impairment of equipment	-	(7,774)	-	-	-	(7,774)
Net book value						
At 31 December 2006	**44,971**	**468,154**	**25,584**	**1,805**	**581,985**	**1,122,499**

5 Intangible assets and deferred fees

5.1 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**
Amorttisation			
At 28 December 2005	-	-	-
Charge for the period	(8,762)	-	(8,762)
At 31 December 2006	**(8,762)**	**-**	**(8,762)**
Net book value			
At 31 December 2006	**64,355**	**116,642**	**180,997**

5.2 Telecommunication licence fees

2006
AED 000

As at 28 December 2005	-
Recognised asset during the period	124,500
Amortisation for the period	(5,372)
Balance as of 31 December 2006	119,128
	=======

Telecommunications licence fees 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 by TRA.

Notes to the Financial Statements *(Continued)*

5 Intangible assets and deferred fees *(Continued)*

5.3 Indefeasible right of use

	2006 AED 000
As at 28 December 2005	-
Recognised asset during the period	128,657
Amortisation for the period	(2,809)
Balance as of 31 December 2006	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.

5.4 Deferred fees

	2006 AED 000
Deferred annual license fees, numbering fees and spectrum fees	13,300
	=======

Spectrum/frequency authorisation fees have been charged by the TRA for the authorisation of various frequencies to be used by the Company. Numbering fees have been charged by the Telecommunication Regulation Authority for the allocation of the right of use of mobile number ranges.

6 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, individual directors or by the Board of Directors.

6.1 Acquisition of businesses

During the period 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/ 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

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

	2006 **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	704,860
	=======

The Company has re-valued the assets acquired as of 31 December 2005 to their fair values within the 1 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:

2006	**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	549,050
	=======

Notes to the Financial Statements *(Continued)*

6 Related party transactions *(Continued)*

6.2 Due from a related party

	2006 AED 000
Tecom Investments FZ LLC	38,171
	=======

During the period from pre-incorporation to 31 December 2006, significant intercompany transactions took place between the Company and Tecom. These transactions were in the form of expenses paid by Tecom on behalf of the Company in the course of setting it up, and billing to customers and collections on behalf of the Company. All such transactions were performed by Tecom at cost without an extra charge to the Company.

6.3 Compensation to key management personnel

	2006 AED 000
Salaries and other short term employee benefits	22,112
End of service benefits	763
	22,875

7 Inventories

	2006 AED 000
Inventories	93,000
Less: Provision for slow moving and obsolete inventory	(2,607)
	90,393

8 Accounts receivables

	2006 AED 000
Trade receivables	161,564
Less: Provision for doubtful debts	(32,475)
	129,089
	=======

9 Other receivables

	2006 AED 000
Supplier advances	41,334
Prepayments	44,207
Interest receivable	14,840
Staff loans	14,627
Unbilled revenue	3,197
Deposits	1,895

	120,100
	=======

Notes to the Financial Statements *(Continued)*

10 Cash and bank balances	**2006**
	AED 000
The balances were held:	
At banks	
- in deposit accounts	1,646,224
- in call accounts	-
In hand	54
	1,646,278
	=========

During the period, the balances in deposit accounts earned interest ranging from 4.75% to 6.2% per annum.

11 Accounts payable and accruals	**2006**
	AED 000
Trade payables	203,967
Staff accruals	57,699
Accruals	270,084
Customer deposits	3,325
Retention payable	3,981
Other	1,046
	540,102
	=======

12 Fees payable	**2006**
	AED 000
Total fees	222,012
Less: Current portion	(24,900)
Non-current Portion	197,112
	=======

These comprise fees payable to TRA.

13 End of service benefits	**2006**
	AED 000
Provision made during the period	6,562
Paid during the period	-
Balance at 31 December	6,562
	=====

14 Share capital	**2006**
	AED 000
Authorised, issued and fully paid	
(4,000,000,000 shares of AED 1 each)	4,000,000
	========

Notes to the Financial Statements *(Continued)*

15 General and administrative expenses

	For the period from 28 Dec 2005 to 31 Dec 2006 AED 000
Payroll and employee related expenses	353,124
Consulting fees	108,799
Regulatory fees	98,474
Advertising and publicity	97,574
Depreciation and amortisation expenses	82,454
Repairs and maintenance	49,769
Rent	48,236
Provision for receivables and inventories	35,082
Impairment of equipment	7,774
Miscellaneous	75,131
	956,417

16 Other income

Other income comprises revenue and cost of sales arising from the acquired business from the date of acquisition to 31 December 2006 amounting to AED 434,025 thousands and AED 208,357 thousands, respectively. These amounts have been netted off as pre-operating income in the income statement as the Company had not launched its own brand and operation up to 31 December 2006.

17 Finance income

	For the period from 28 Dec 2005 to 31 Dec 2006 AED 000
Interest income	145,233
Exchange gain	1,047
	146,280

18 Pre-incorporation expenses

	For the period from 28 Dec 2005 to 31 Dec 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)*

19 Loss Per Share

	2006
Net loss for the period (AED 000)	(608,923)
Number of shares (Number in 000)	4,000,000
Loss Per Share (AED)	(0.15)

20 Cash flow from pre-operating activities

	For the period from 28 Dec 2005 to 31 Dec 2006 AED 000
Loss for the period	(608,923)
Adjustment for:	
Depreciation of property plant and equipment	65,511
Amortisation of intangible assets	16,943
Impairment of equipment	7,774
Provision for end of service benefits	6,562
Amortization of fees charged by TRA	96,662
Net pre-operating cash flows before changes in working capital	(415,471)

21 Contingent liabilities and commitments

The Company has outstanding capital commitments and outstanding bank guarantees amounting to AED 783,698 thousands and AED 8,600 thousands, respectively as of 31 December 2006.

22 Financial instruments

Financial assets of the Company include cash and bank balances, trade and other receivables, amounts due from related parties and financial liabilities of the Company include trade and other payables.

Interest rate risk

The Company's deposits with banks carry interest at agreed rates. The Company does not have significant interest rate risk.

Credit risk

Cash is placed with local banks. Trade and other receivables include contract receivables, retentions and other receivables and are stated at cost less impairment losses. These receivables are subject to market credit risks, which are closely monitored by management.

Foreign currency risk

The Company deals mainly in US Dollar and AED and does not have other significant exposures to foreign currency. The exchange rate of the AED has been pegged against the US Dollar since November 1980.

Fair value

The fair values of the Company's financial instruments approximate their carrying values.

23 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 transferred annually at the end of each financial year to anon-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 incurred a loss this year, no transfers were made.