

31 May 2010

**A Message from the CEO**

Dubai Holding ("DH") was established in 2004 with a mandate to consolidate and lead Dubai's large-scale infrastructure and investment projects. In 2006, Dubai Holding Commercial Operations Group ("DHCOG") was established to consolidate various interests in the diverse operating businesses; namely Dubai Properties Group, Jumeirah Group and TECOM Investments.

DHCOG stood out amongst its peers to achieve a credit rating and subsequently issue a US\$2 billion debut bond in the debt capital market. The creation of Dubai Holding Investment Group ("DHIG") in the same year emphasized DH's strategy of separating its operating and investment arms. Since its foundation, DH has been committed to setting standards and principles in line with international best practices.

I am pleased to share with you the positive outlook for DHCOG in the coming years. Throughout the past 18 months, we have taken substantive measures to address cash preservation and optimization of working capital. We have also completed a rigorous internal organizational re-alignment of various DHCOG subsidiaries. This has resulted in improvements in our financial positioning and created a stronger, leaner and more robust organization that is ready to capitalize on future growth opportunities.

Our ability to adapt quickly and effectively to changes in the global economic environment and re-focus our efforts and strategies gives me great confidence for the years ahead.

**Financial results**

DHCOG's total revenue reached AED 9.5 billion for the year ended 31 December 2009 (2008: AED 13.2 billion). EBITDA, excluding impairments, for the year was AED 1.0 billion (2008: AED 19.0 billion). The decline in revenues and operating profits is mainly attributed to a decrease in land sales due to the significant reduction in market demand and delays in project handovers; such projects include parts of the Business Bay-Executive Towers project and The Villa Phase I amongst others. Most of these projects will be delivered during 2010 and will reflect positively in the financial statements. The outcome of DHCOG's business re-alignment in 2009 has led to operational efficiencies that will materialize during 2010 and will be reflected through a strong improvement in operating profits.

DHCOG's total assets reduced to AED 124.5 billion (2008: AED 171.4 billion) due to the significant decline in the real estate market. As a result, DHCOG took appropriate impairment charges; and shareholders' equity was reduced to AED 14.6 billion (2008: AED 37.1 billion). It is important to note that DHCOG records all land, granted by the Government, at the value as at the date of grant. The fair market value of the land is higher than the value at which it is reported today.

DHCOG has recorded a net loss, excluding impairments, of AED 1.0 billion for the year ended 31 December 2009 (2008: Net profit<sup>1</sup> of AED 17.4 billion). Impairment charges on the Statement of Income for the year ended 2009 stood at AED 22.5 billion (2008: AED 7.6 billion). Impairment charges recorded were, in accordance with IFRS accounting standards, reflecting our conservative view of the real estate market.

### **Strategic Initiatives**

DHCOG carried out a major business re-alignment during the course of 2009, organizing its subsidiaries into vertical sectors, grouping together businesses in similar industries, to enable streamlining of operations and extraction of synergies. This resulted in the consolidation of its real estate businesses and enabled the Group to be more efficient and resilient to external global market conditions. DH continues to maintain the separation of DHCOG and its subsidiaries from its investment arm following DHCOG's standalone rating exercise in 2006.

### **Performance of key subsidiaries**

**Real Estate:** DHCOG's real estate subsidiary, Dubai Properties Group ("DPG") develops and manages commercial, residential and mixed-use real estate projects. These projects are executed in alignment with the vision of the Government of Dubai.

In response to material changes in market conditions, DHCOG realigned its real estate portfolio, consolidating the property projects of Sama Dubai LLC and Tatweer Dubai LLC into DPG, achieving operational efficiencies and rationalizing supply. In addition, DPG reviewed its existing and future pipeline portfolio of projects, giving priority to the most strategic, profitable and financeable projects. We are committed to seeing commenced projects through to completion. Whilst projects in early stages of development have been either deferred, or suspended, until economic conditions improve.

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1. Net Profit includes the *Release of Government Grants* which is reported separately from Top Line Revenues

In 2009, DPG deferred handover of some of its projects. Accordingly, revenue recognition from such projects is deferred to 2010. In addition, challenging market conditions has driven the decision to conservatively take impairment charges on its real estate portfolio. These two factors were the main challenges that DPG faced in 2009. However, looking forward, DPG anticipates that by 2012, approximately 21,000 units is expected to be completed and handed over.

The real estate market is expected to continue to face challenges in 2010 and 2011 until the excess supply of the existing and expected inventory is absorbed by stronger demand. However, demand for completed units is expected to remain robust as a result of strong investor appetite given price correction and overall economic recovery in the region.

**Hospitality:** Jumeirah Group assets include luxury properties in Dubai, London and New York, and business hotels, resorts, serviced apartments, restaurants and an academy for hospitality management.

In 2009, the global hospitality industry faced challenges due to recessionary forces driving occupancy and Revenue Per Available Room (RevPar) levels down. The UAE in general, and Dubai in particular, was not immune to global recessionary forces, however, the impact of such recessionary pressures was less severe than other global markets. This is evident from the continuing strong air passenger traffic in Dubai which resulted in a lower decrease in occupancy levels.

Jumeirah Group was less impacted due its strong brand, high-end appeal and higher value proposition. In 2009, Jumeirah Group's traditionally strong occupancy rates fell only slightly amid the economic downturn to 73.4 per cent across its portfolio.

In 2010 Jumeirah Group expects average occupancy rates to improve by 2.3 per cent and RevPar to increase by 4 per cent compared to 2009, however, this is dependent upon growth of both the global economy and travel sector. Jumeirah Group's resilience to the global economic weakness positions itself well ahead of its peers and it will continue to be a major driver of growth for DHCOG in the coming years.

**Business Parks and Telecom:** TECOM Investments' portfolio is in the knowledge-intensive industries. TECOM Investments' largest subsidiary, TECOM Business Parks attracts multi-national as well as regional ICT, Media, Education, Science and Energy, and Manufacturing and Logistics companies into its 11 business parks across Dubai. Additionally, through Emirates International Telecommunications LLC ("EIT"), TECOM Investments holds stakes in telecommunications companies such as Tunisie Telecom and Maltacom.

TECOM Investments also holds stakes in other telecom investments such as du, an integrated telecom service provider in the UAE, Axiom, the largest mobile distributor in the Middle East, and Interoute, the operator of Europe's most densely connected voice and data network. The Telecom sector has proven resilient to the economic downturn; TECOM Investments and its subsidiaries have performed strongly in 2009.

Despite the challenging market conditions in 2009, TECOM Investments' business parks maintained strong growth and profitability as a result of its unique market position. Although the commercial real estate market in Dubai experienced a price correction, unlike its competitors, TECOM Investments did not respond by significantly dropping its lease rates. This is due to its adopted strategy of maintaining moderate growth rates in lease rentals during previous years, when lease rates in the market were growing at unsustainable levels. This strategy, coupled with TECOM Investment's significant efforts in improving operational efficiencies, has led to its ability to continue to perform relatively well in 2009. The business parks achieved strong occupancy rates in its mature business parks, driving strong recurring revenue.

TECOM Investments is likely to maintain strong recurring revenues mainly attributed to its business parks' ability to retain existing tenants and attract new customers as a result of its unique value proposition of providing industry-specific service and facilities.

## **Outlook**

DHCOG's portfolio of companies have endured a challenging year, however, the key initiatives undertaken place us in a strong position, enabling DHCOG to shift in line and adapt to current market conditions.

DPG has a well balanced lease portfolio ranging from apartments, villas and hotels, to commercial office and retail properties. Additionally it has a large strategic land bank for future developments. DPG is therefore well placed to take advantage of market opportunities as the recovery gathers pace.

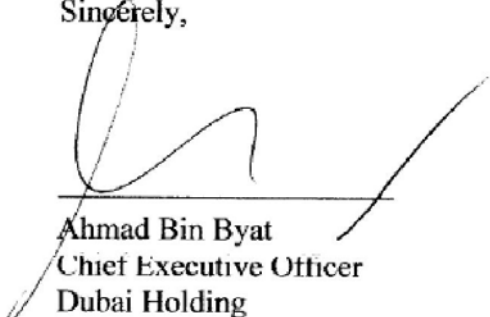
On the hospitality front, in spite of the economic downturn, Jumeirah Group continues to build on its market share in 2009, especially in Dubai. The Group finished 2009 in a commendable financial position with robust performance in net profit. Jumeirah Group is making excellent progress on its global expansion with 32 signed management agreements, 20 hotels under construction and expectations that at least ten of these will open during the next 18 months. Recently, Jumeirah Group reaffirmed its growth strategy of having 60 hotels under agreement, in development or open by 2012.

TECOM Investments is well positioned to weather the current Dubai property market challenges due to its diversified customer base, competitive pricing, and improved operational efficiency. With the exception of projects currently under construction and close to completion, no new commercial space is being planned for delivery in the near term.

Meanwhile, the telecommunications sector has proven resilient to the economic downturn and all of the investments by TECOM Investment's telecom subsidiary, Emirates International Telecom, are forecasted to continue to perform strongly in 2010, with Tunisie Telecom delivering revenue as well as net income growth.

While 2009 has been globally a challenging year, the key initiatives undertaken by DHCOG in the past 18 months makes us well poised for the years to come; the business re-alignment efforts, financial measures and strategic decisions, places DHCOG in a strong position to capitalize on emerging opportunities as market conditions improve.

Sincerely,



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Ahmad Bin Byat  
Chief Executive Officer  
Dubai Holding