

Wataniya Palestine Mobile  
Telecommunication  
Public Shareholding Company  
Unaudited Interim Condensed  
Financial Statements  
June 30, 2011

## **Report on review of Interim Condensed Financial Statements to the Board of Directors of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company**

### **Introduction**

We have reviewed the accompanying interim condensed financial statements of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company) as at June 30, 2011, comprising of the interim statement of financial position as at June 30, 2011 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes.

The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

A stylized, handwritten-style signature of 'Ernst & Young' in blue ink.

July 28, 2011

Wataniya Palestine Mobile Telecommunication  
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION  
June 30, 2011

		June 30, 2011	December 31, 2010
		Unaudited	Audited
	Notes	U.S. \$	U.S. \$
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment, net		64,934,954	68,550,659
Projects in progress	3	2,935,489	2,011,967
Advances to contractors		1,980,329	1,530,225
Intangible assets	4	164,193,817	170,359,601
		<u>234,044,589</u>	<u>242,452,452</u>
<b>Current assets</b>			
Prepayments and other current assets		8,551,579	9,634,712
Inventory		1,089,391	1,040,355
Accounts receivable		10,160,179	6,486,577
Cash in hand and at banks	5	50,707,217	92,192,012
		<u>70,508,366</u>	<u>109,353,656</u>
<b>Total Assets</b>		<u>304,552,955</u>	<u>351,806,108</u>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(122,678,592)	(106,913,676)
<b>Net equity</b>		<u>146,931,408</u>	<u>162,696,324</u>
<b>Non-current liabilities</b>			
Provision for employees' indemnity		1,567,420	1,390,075
Interest-bearing loans and borrowings	6	61,562,471	68,854,305
Other non-current liability		56,538,597	54,346,654
		<u>119,668,488</u>	<u>124,591,034</u>
<b>Current liabilities</b>			
Current portion of interest-bearing loans and borrowings	6	15,788,000	15,788,000
Accounts payable		3,214,167	7,029,586
Due to related parties		179,014	2,713,531
Deferred revenues		2,595,371	2,557,062
Accrued expenses		14,411,715	13,540,640
IPO oversubscription payables		104,969	22,274,369
Accrued project cost		1,659,823	615,562
		<u>37,953,059</u>	<u>64,518,750</u>
<b>Total liabilities</b>		<u>157,621,547</u>	<u>189,109,784</u>
<b>Total Equity and Liabilities</b>		<u>304,552,955</u>	<u>351,806,108</u>

The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication  
Public Shareholding Company

INTERIM STATEMENT OF INCOME

For the three-month and six-month periods ended June 30, 2011

	Notes	Three Months Ended June 30		Six Months Ended June 30	
		2011	2010	2011	2010
		Unaudited		Unaudited	
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
Revenue		19,950,905	9,149,532	35,322,232	13,154,817
Cost of service		(11,713,613)	(9,752,004)	(21,550,099)	(15,331,294)
		8,237,292	(602,472)	13,772,133	(2,176,477)
Finance revenue		93,770	8,627	161,533	32,630
Currency exchange gain (loss)		163,052	(249,273)	520,510	(129,337)
General and administrative expenses		(4,310,663)	(4,658,546)	(8,610,213)	(9,123,169)
Marketing expenses		(1,357,839)	(1,205,767)	(3,137,521)	(2,214,908)
Depreciation and amortization		(6,407,879)	(6,284,637)	(12,662,353)	(12,177,711)
Finance costs	7	(2,619,131)	(2,315,525)	(5,209,213)	(4,516,980)
Provision for doubtful accounts		(534,610)	(21,591)	(599,792)	(34,303)
<b>Loss for the period</b>		<b>(6,736,008)</b>	<b>(15,329,184)</b>	<b>(15,764,916)</b>	<b>(30,340,255)</b>
<b>Basic and diluted earnings per share</b>	8	<b>(0.03)</b>	<b>(0.09)</b>	<b>(0.06)</b>	<b>(0.18)</b>

The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication  
Public Shareholding Company

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INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the three-month and six-month periods ended June 30, 2011

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	Unaudited		Unaudited	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
<b>Loss for the period</b>	(6,736,008)	(15,329,184)	(15,764,916)	(30,340,255)
Other comprehensive income for the period	-	-	-	-
<b>Total loss and comprehensive income for the period</b>	<u>(6,736,008)</u>	<u>(15,329,184)</u>	<u>(15,764,916)</u>	<u>(30,340,255)</u>

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The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication  
Public Shareholding Company

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INTERIM STATEMENT OF CHANGES IN EQUITY  
For the six-month period ended June 30, 2011

	Paid-in share capital	Share premium	Accumulated losses	Net equity
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance at January 1, 2011	258,000,000	11,610,000	(106,913,676)	162,696,324
Total loss and comprehensive income for the period	-	-	(15,764,916)	(15,764,916)
<b>Balance at June 30, 2011</b> <b>(Unaudited)</b>	<u>258,000,000</u>	<u>11,610,000</u>	<u>(122,678,592)</u>	<u>146,931,408</u>
Balance at January 1, 2010	170,000,000	-	(46,605,002)	123,394,998
Total loss and comprehensive income for the period	-	-	(30,340,255)	(30,340,255)
<b>Balance at June 30, 2010</b> <b>(Unaudited)</b>	<u>170,000,000</u>	<u>-</u>	<u>(76,945,257)</u>	<u>93,054,743</u>

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The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication  
Public Shareholding Company

INTERIM STATEMENT OF CASH FLOWS  
For the six-month period ended June 30, 2011

		Six Months Ended June 30	
		2011	2010
		Unaudited	Unaudited
		U.S. \$	U.S. \$
<b>Operating activities</b>	<b>Note</b>		
Loss for the period		(15,764,916)	(30,340,255)
Adjustments for:			
Depreciation		6,496,569	6,011,927
Provision for employees' indemnity		345,713	403,563
Provision for doubtful accounts		599,792	34,303
Loss from disposal of property and equipment		2,386	6,738
Finance revenue		(161,533)	(32,630)
Finance costs		5,209,213	4,516,980
License amortization		6,165,784	6,165,784
		<u>2,893,008</u>	<u>(13,233,590)</u>
Working capital changes:			
Prepayments and other current assets		1,083,133	(1,669,620)
Inventory		(49,036)	172,365
Accounts receivable		(4,273,394)	(2,598,108)
Accounts payable		(3,815,419)	4,100,973
Deferred revenues		38,309	479,224
Accrued expenses		1,223,517	4,609,119
Employees' indemnity paid		(168,368)	(19,983)
Net cash flows used in operating activities		<u>(3,068,250)</u>	<u>(8,159,620)</u>
<b>Investing activities</b>			
Purchase of property and equipment		(1,139,030)	(1,305,432)
Proceeds from sale of property and equipment		216,533	-
Increase in projects in progress		(1,840,014)	(3,061,247)
Advances to contractors		(450,104)	39,812
Interest received		161,533	32,630
Net cash flows used in investing activities		<u>(3,051,082)</u>	<u>(4,294,237)</u>
<b>Financing activities</b>			
Shareholders' loan		-	10,000,000
Syndicated loan		(7,894,000)	-
Syndicated loan transaction cost paid		(97,415)	(1,073,961)
Interest paid		(2,670,131)	(1,507,730)
Due to related parties		(2,534,517)	627,400
IPO oversubscription paid		(22,169,400)	-
Change in cash restricted at bank		(9,684,780)	-
Net cash flows (used in) from financing activities		<u>(45,050,243)</u>	<u>8,045,709</u>
<b>Decrease in cash and cash equivalents</b>		<u>(51,169,575)</u>	<u>(4,408,148)</u>
Cash and cash equivalents, beginning of period		<u>92,192,012</u>	<u>15,149,025</u>
<b>Cash and cash equivalents, end of period</b>	<b>5</b>	<u><u>41,022,437</u></u>	<u><u>10,740,877</u></u>

The attached notes 1 to 10 form part of these interim condensed financial statements

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
June 30, 2011

**1. Activities**

Wataniya Palestine Mobile Telecommunication Company (the Company), located in Ramallah, was registered and incorporated in Palestine on January 27, 2007 as a Private Limited Shareholding Company under registration No. 562499541. On October 25, 2010, the legal form of the Company was changed to a Public Shareholding Company under registration No. 562601328.

The Company was formed with an authorized share capital of 5,000,000 shares with U.S. \$ one par value each. During 2008, the Company's authorized and paid-in share capital was increased to 170,000,000 shares with U.S. \$ one par value each. The Company's General Assembly in its extraordinary meeting held on October 25, 2010 agreed to increase the Company's authorized share capital to 258,000,000 shares with U.S. \$ one par value each. The existing shareholders (WIL and PIF) subscribed for 49,300,000 shares through capitalizing a portion of the shareholders' loans and the related accrued interest. The remaining 38,700,000 shares were offered to the public at an offer price of U.S. \$ 1.3 per share, resulting in a share premium of U.S. \$ 11,610,000. The public offering took place during the period from November 7, 2010 to December 2, 2010.

On March 14, 2007, the Company entered into a license agreement (the License) with the Ministry of Telecommunications and Information Technology (the MTIT) to provide 2G and 3G mobile services in the West Bank and Gaza. The term of the License shall be fifteen years from the effective date being the date on which the MTIT makes the frequencies available to the Company. The effective date was originally set on August 6, 2008. On December 16, 2009, the MTIT approved the Company's request to determine September 10, 2009 as the effective date, instead of August 6, 2008, since it represents the date on which the frequencies were actually allocated.

The Company started its operations on November 1, 2009.

The Company's main activities are offering, managing, and selling wireless telecommunication services, as well as constructing and operating wireless telecommunication stations and telephone networks.

The interim condensed financial statements of the Company were authorized for issuance by the Board of Directors on July 28, 2011.

**2. Summary of significant accounting policies**

**Basis of preparation**

The interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with Company's annual financial statements as of December 31, 2010. The results for the period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2011.

The interim condensed financial statements have been presented in United States Dollar, which is the functional currency of the company.



### Changes in accounting policies

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2010, except that the Company has adopted the following new and amended IFRS and IFRIC Interpretations effective January 1, 2011. Adoption of these standards and interpretations did not have any effect on the results of operations or financial position of the Company.

IAS 24 Related Party Disclosures (Amended).

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

IFRIC 14 Prepayments of a Minimum Funding Requirements (Amendment)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

### 3. Projects in progress

The movement on projects in progress is as follows:

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
Beginning balance	2,011,967	7,945,219
Additions	2,884,275	3,666,106
Transferred to property and equipment	(1,960,753)	(9,599,358)
	<u>2,935,489</u>	<u>2,011,967</u>

### 4. Intangible assets

The movement on intangible assets is as follows:

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
License	184,871,337	184,871,337
Amortization	(20,677,520)	(14,511,736)
	<u>164,193,817</u>	<u>170,359,601</u>

The movement on license amortization is as follows:

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
Beginning balance	(14,511,736)	(2,077,972)
Amortization for the period/year	(6,165,784)	(12,433,764)
	<u>(20,677,520)</u>	<u>(14,511,736)</u>

The company started amortizing the License on November 1, 2009 being the date on which it commenced its operations.

## 5. Cash in hand and at banks

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
Cash on hand	54,567	42,656
Cash at banks and short term deposits	50,652,650	92,149,356
	<u>50,707,217</u>	<u>92,192,012</u>

As of June 30, 2011, the Company has five short term deposits amounting to U.S. \$ 39,281,070 (2010: U.S. \$ 69,333,706) at local banks with an annual interest rate of 0.97% (2010: 0.53%).

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following as of June 30, 2011:

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
Cash on hand	54,567	42,656
Cash at banks and short term deposits	50,652,650	92,149,356
Cash restricted at bank*	(9,684,780)	-
	<u>41,022,437</u>	<u>92,192,012</u>

\* This amount is restricted in accordance with one of the Company's syndicated loan agreements.

## 6. Interest-bearing loans and borrowings

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
<b>Shareholders' loans</b>		
Wataniya International FZ - LLC (WIL)	2,850,000	2,850,000
Palestine Investment Fund, PLC (PIF)	2,150,000	2,150,000
Accrued interest (WIL)	180,128	93,147
Accrued interest (PIF)	133,527	69,581
	<u>5,313,655</u>	<u>5,162,728</u>
<b>Third parties loans</b>		
Local banks' loans *	29,997,000	33,000,000
IFC loan*	27,270,000	30,000,000
Ericsson loan*	19,089,000	21,000,000
ECA loan*	750,000	1,000,000
	<u>77,106,000</u>	<u>85,000,000</u>
<b>Less:</b> transaction costs directly attributable to third parties' loans	<u>(5,069,184)</u>	<u>(5,520,423)</u>
	<u>77,350,471</u>	<u>84,642,305</u>
Non-current portion	61,562,471	68,854,305
Current portion	<u>15,788,000</u>	<u>15,788,000</u>
	<u>77,350,471</u>	<u>84,642,305</u>

- \* On January 19, 2009, the Company signed syndicated loan agreements with various lenders for a total amount of U.S. \$ 85,000,000. The loans bear annual interest rate ranging from Libor plus 5.31% to 6.34% and are repayable in semi annual installments commencing January 15, 2011 and ending January 15, 2016. All the Company's assets are mortgaged as collaterals for these loans. Accrued interest as of June 30, 2011 amounted to U.S. \$ 961,596 (2010: U.S \$ 1,074,813).

## 7. Finance cost

	June 30, 2011	June 30, 2010
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Interest on other non-current liability	2,191,943	2,023,956
Interest on loans and borrowings	2,468,616	2,014,711
Amortization of transaction costs	548,654	478,313
	<u>5,209,213</u>	<u>4,516,980</u>

## 8. Basic and Diluted Earnings Per Share

	June 30, 2011	June 30, 2010
	Unaudited	Unaudited
Loss for the period (U.S. \$)	<u>(15,764,916)</u>	<u>(30,340,255)</u>
Weighted average for subscribed capital during the period (Shares)	<u>258,000,000</u>	<u>170,000,000</u>
Basic and diluted earnings per share (U.S. \$)	<u>(0.06)</u>	<u>(0.18)</u>

## 9. Commitments and contingencies

As of the interim condensed financial statements date, the Company has outstanding contractual commitments resulting from purchases, services and construction contracts, as well as its license.

Following is a summary of the outstanding commitments:

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
Contracts and purchase orders	<u>1,987,910</u>	<u>1,436,063</u>
License*	<u>141,600,000</u>	<u>141,600,000</u>

- \* The Company entered into a license agreement with MTIT for a total price of U.S. \$ 354,000,000. The portion of the license price of U.S. \$ 141,600,000 relating to Gaza was not recognized in the interim condensed financial statements as the Company was not granted access to launch services in Gaza.

The Company entered into an agreement to lease the office building on January 27, 2007. The lease has a life of five years with an option to renew included in the contract.

Future minimum rentals payable under operating lease are as follows:

	June 30, 2011	December 31, 2010
	Unaudited	Audited
	U.S. \$	U.S. \$
Within one year	319,796	383,695
After one year but not more than five years	-	32,052
	<u>319,796</u>	<u>415,747</u>

#### 10. Related party transactions

Related parties represent associated companies, shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Balances with related parties included in the interim statement of financial position were as follows:

	Nature of Relationship	June 30, 2011	December 31, 2010
		Unaudited	Audited
		U.S. \$	U.S. \$
Interest-bearing loans and borrowings	Shareholders	<u>5,000,000</u>	<u>5,000,000</u>
Due to related parties	Shareholders	<u>179,014</u>	<u>2,713,531</u>
Accounts receivable	Shareholders	<u>5,726</u>	<u>10,239</u>
Accrued interest	Shareholders	<u>313,655</u>	<u>162,728</u>

Transactions with related parties included in the interim condensed income statement were as follows:

	June 30, 2011	June 30, 2010
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Finance cost (Including capitalized interest)	<u>150,927</u>	<u>937,353</u>
Key management personnel compensation	<u>298,712</u>	<u>620,174</u>
Revenue from shareholders	<u>27,208</u>	<u>32,727</u>