

Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
March 31, 2012

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 March 31, 2012, comprising of the interim statement of financial position as at March 31, 2012 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the three-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 handwritten signature in blue ink that reads 'Ernst + Young'.

April 24, 2012

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
March 31, 2012

		March 31, 2012	December 31, 2011
		Unaudited	Audited
	Notes	U.S. \$	U.S. \$
Assets			
Non-current assets			
Property and equipment, net		58,750,597	61,185,943
Projects in progress	3	18,662,870	4,605,319
Advances to contractors		1,156,248	1,662,030
Intangible assets	4	162,295,738	164,782,708
Restricted cash		9,479,906	9,480,558
		<u>250,345,359</u>	<u>241,716,558</u>
Current assets			
Prepayments and other current assets		7,906,575	8,348,772
Inventory		1,904,646	1,721,276
Accounts receivable		8,301,196	7,200,912
Cash on hand and at banks	5	21,059,030	29,466,668
		<u>39,171,447</u>	<u>46,737,628</u>
Total Assets		<u>289,516,806</u>	<u>288,454,186</u>
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(139,418,096)	(133,092,929)
Net equity		<u>130,191,904</u>	<u>136,517,071</u>
Non-current liabilities			
Provision for employees' indemnity		2,662,007	1,876,463
Interest-bearing loans and borrowings	6	46,931,494	54,373,720
Other non-current liability		54,346,654	54,346,654
		<u>103,940,155</u>	<u>110,596,837</u>
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	15,538,000	15,788,000
Accounts payable		6,258,695	5,840,932
Due to related parties		187,972	219,275
Deferred revenues		3,212,679	2,757,129
Accrued expenses		13,801,816	13,679,574
IPO oversubscription payables		61,008	70,775
Accrued project cost	7	16,324,577	2,984,593
		<u>55,384,747</u>	<u>41,340,278</u>
Total liabilities		<u>159,324,902</u>	<u>151,937,115</u>
Total Equity and Liabilities		<u>289,516,806</u>	<u>288,454,186</u>

The attached notes 1 to 12 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF INCOME
For the three-months ended March 31, 2012

		March 31, 2012	March 31, 2011 (restated note 12)
		<u>Unaudited</u>	<u>Unaudited</u>
	<u>Notes</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
Revenue		19,910,710	15,371,327
Cost of service		<u>(11,953,990)</u>	<u>(9,836,486)</u>
		7,956,720	5,534,841
Finance revenue		90,513	67,763
Currency exchange gain		20,514	357,458
General and administrative expenses		(5,467,864)	(4,299,550)
Marketing expenses		(1,417,989)	(1,779,682)
Depreciation and amortization		(5,918,461)	(5,446,951)
Finance costs	8	(1,338,545)	(1,510,982)
Provision for doubtful accounts		<u>(250,055)</u>	<u>(65,182)</u>
Loss for the period		<u><u>(6,325,167)</u></u>	<u><u>(7,142,285)</u></u>
Basic and diluted earnings per share	9	<u><u>(0.02)</u></u>	<u><u>(0.03)</u></u>

The attached notes 1 to 12 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-months ended March 31, 2012

	March 31, 2012	March 31, 2011 (restated Note 12)
	<u>Unaudited</u>	<u>Unaudited</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Loss for the period	(6,325,167)	(7,142,285)
Other comprehensive income for the period	<u>-</u>	<u>-</u>
Total loss and comprehensive income for the period	<u>(6,325,167)</u>	<u>(7,142,285)</u>

The attached notes 1 to 12 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CHANGES IN EQUITY
For the three months ended March 31, 2012

	Paid-in share capital <u>U.S. \$</u>	Share premium <u>U.S. \$</u>	Accumulated losses <u>U.S. \$</u>	Net equity <u>U.S. \$</u>
Balance at January 1, 2012	258,000,000	11,610,000	(133,092,929)	136,517,071
Total loss and comprehensive income for the period	<u>-</u>	<u>-</u>	<u>(6,325,167)</u>	<u>(6,325,167)</u>
Balance at March 31, 2012	<u><u>258,000,000</u></u>	<u><u>11,610,000</u></u>	<u><u>(139,418,096)</u></u>	<u><u>130,191,904</u></u>
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	<u>-</u>	<u>-</u>	<u>(7,142,285)</u>	<u>(7,142,285)</u>
Balance at March 31, 2011 <i>(restated Note 12)</i>	<u><u>258,000,000</u></u>	<u><u>11,610,000</u></u>	<u><u>(114,055,961)</u></u>	<u><u>155,554,039</u></u>

The attached notes 1 to 12 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CASH FLOWS
For the three months ended March 31, 2012

	March 31, 2012	March 31, 2011 (restated Note 12)
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Operating activities		
Loss for the period	(6,325,167)	(7,142,285)
Adjustments for:		
Depreciation	3,249,037	3,188,615
Provision for employees' indemnity	785,544	150,102
Provision for doubtful account	250,055	65,182
Loss on disposal of property and equipment	16,719	-
Finance revenue	(90,513)	(67,763)
Finance costs	1,338,545	1,510,982
Amortization	2,669,424	2,258,336
	<u>1,893,644</u>	<u>(36,831)</u>
Working capital changes:		
Prepayments and other current assets	442,197	66,650
Inventory	(183,370)	209,881
Accounts receivable	(1,350,339)	(2,185,574)
Accounts payable	417,763	(1,301,290)
Deferred revenues	455,550	(438,006)
Accrued expenses	208,010	(4,463,981)
Employees' indemnity paid	-	(91,724)
	<u>1,883,455</u>	<u>(8,240,875)</u>
Net cash flows from (used in) operating activities		
Investing activities		
Purchase of property and equipment and intangibles	(12,035)	(390,889)
Proceed from disposal of property and equipment	18,127	205,944
Increase in projects in progress	(1,736,523)	(1,386,730)
Advances to contractors	505,782	(445,058)
Interest received	90,513	67,763
	<u>(1,134,136)</u>	<u>(1,948,970)</u>
Net cash flows used in investing activities		
Financing activities		
Syndicated loan	(7,894,000)	(7,894,000)
Syndicated loan transaction cost paid	(154,136)	(58,420)
Interest paid	(1,068,404)	(1,558,485)
Due to related parties	(31,303)	(2,585,387)
IPO oversubscription paid	(9,767)	(21,986,043)
Change in cash restricted at bank	652	(9,767,055)
	<u>(9,156,958)</u>	<u>(43,849,390)</u>
Net cash flows used in financing activities		
Decrease in cash and cash equivalents	(8,407,639)	(54,039,235)
Cash and cash equivalents, beginning of period	<u>29,466,668</u>	<u>92,192,012</u>
Cash and cash equivalents, end of period	<u><u>21,059,029</u></u>	<u><u>38,152,777</u></u>

The attached notes 1 to 12 form part of these interim condensed financial statements

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
March 31, 2012

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 resolved 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 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 only 2G frequencies were 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.

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The interim condensed financial statements of the Company were authorized for issuance by the management on April 24, 2012.

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 information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as of December 31, 2011. The results for the period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2012.

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, 2011.

The following IFRS have been issued but are not yet effective, and have not been adopted by the Company:

IFRS 9 Financial Instruments: Classification and Measurement

3. Projects in progress

The movement on projects in progress is as follows:

	March 31, 2012	December 31, 2011
	Unaudited	Audited
	U.S. \$	U.S. \$
Beginning balance	4,605,319	2,011,967
Additions	15,076,507	10,699,165
Transfers to property and equipment and intangible assets	(1,018,956)	(8,105,813)
	<u>18,662,870</u>	<u>4,605,319</u>

4. Intangible assets

The movement on intangible assets is as follows:

	License	Software	Total
	U.S. \$	U.S. \$	U.S. \$
<u>Cost</u>			
At January 1, 2012	184,871,337	5,928,734	190,800,071
Additions	-	182,454	182,454
At March 31, 2012	<u>184,871,337</u>	<u>6,111,188</u>	<u>190,982,525</u>
<u>Accumulated Amortization</u>			
At January 1, 2012	23,670,547	2,346,816	26,017,363
Amortization for the period	2,283,430	385,994	2,669,424
At March 31, 2012	<u>25,953,977</u>	<u>2,732,810</u>	<u>28,686,787</u>
<u>Net carrying amount</u>			
At March 31, 2012	<u>158,917,360</u>	<u>3,378,378</u>	<u>162,295,738</u>
At December 31, 2011	<u>161,200,790</u>	<u>3,581,918</u>	<u>164,782,708</u>

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

5. Cash on hand and at banks

	March 31, 2012	December 31, 2011
	Unaudited	Audited
	U.S. \$	U.S. \$
Cash on hand	60,705	58,047
Cash at banks and short term deposits	20,998,325	29,408,621
	<u>21,059,030</u>	<u>29,466,668</u>

As of March 31, 2012, the Company has seven short term deposits amounting to U.S. \$ 18,850,760 (2011: U.S. \$ 27,738,574) at local banks with an annual interest rate of 1.67% (2011: 1.54%).

6. Interest-bearing loans and borrowings

	March 31, 2012	December 31, 2011
	Unaudited	Audited
	U.S. \$	U.S. \$
Shareholders' loans		
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)	310,338	266,910
Accrued interest (PIF)	233,670	200,908
	<u>5,544,008</u>	<u>5,467,818</u>
Third parties loans		
Local banks' loans *	23,991,000	26,994,000
IFC loan*	21,810,000	24,540,000
Ericsson loan*	15,267,000	17,178,000
ECA loan*	250,000	500,000
	<u>61,318,000</u>	<u>69,212,000</u>
Less: transaction costs directly attributable to third parties' loans	<u>(4,392,514)</u>	<u>(4,518,098)</u>
	<u>62,469,494</u>	<u>70,161,720</u>
Non-current portion	46,931,494	54,373,720
Current portion	15,538,000	15,788,000
	<u>62,469,494</u>	<u>70,161,720</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 March 31, 2012 amounted to U.S. \$ 785,214 (2011: U.S \$ 870,982).

7. Accrued project cost

Accrued project cost increased by U.S \$ 13,339,984 due to the increase in project in progress account (Note 3).

8. Finance costs

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Interest on loans and borrowings	1,058,827	1,239,689
Amortization of transaction costs	279,718	271,293
	<u>1,338,545</u>	<u>1,510,982</u>

9. Basic and Diluted Earnings Per Share

	<u>March 31, 2012</u>	<u>March 31, 2011</u>
	Unaudited	Unaudited
Loss for the period (U.S. \$)	(6,325,167)	(7,142,285)
Weighted average for subscribed capital during the period (Shares)	258,000,000	258,000,000
Basic and diluted earnings per share (U.S. \$)	<u>(0.02)</u>	<u>(0.03)</u>

10. 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:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
	Unaudited	Audited
	U.S. \$	U.S. \$
Contracts and purchase orders	1,764,594	226,277
License *	159,653,346	159,653,346
Performance guarantee **	5,160,000	-

* The Company entered into a license agreement with MTIT for a total price of U.S. \$ 354,000,000. The unpaid portion of the license cost, net of the related non-current liability, of U.S. \$159,653,346 represents the unrecognized liability in the financial statements resulting from MTIT not fulfilling its obligations in relation with granting the Company access to Gaza, 3G frequencies and International Gateways.

** In compliance with its telecom license, the company entered into a good performance guarantee with MTIT on February 29, 2012, to guarantee the payment of any penalties that the company could become payable for, or to cover any commitments related to the mobile services coverage granted to the company as stated in the license agreement and the commitment to the quality of the services provided by the company. The commitment amounted to U.S. \$ 5,160,000 as of March 31, 2012.

11. 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 condensed statement of financial position are as follows:

	Nature of Relationship	March 31, 2012	December 31, 2011
		Unaudited	Audited
		U.S. \$	U.S. \$
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Due to related parties	Shareholders	187,972	219,275
Accounts receivable	Shareholders	2,681	7,368
Accrued interest	Shareholders	544,008	467,818

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

	March 31, 2012	March 31, 2011
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Interest expense on shareholders' loans	76,191	75,261
Key management personnel compensation	99,000	163,500
Revenue from shareholders	10,142	13,448

12. Comparative figures

Based on the fact that the Company is unable to utilize all the benefits granted in the license agreement resulting from MTIT not fulfilling its obligations related to 3G frequencies and International Gateways portion of the license, the Company prospectively changed its accounting estimates related to the remaining license cost as of January 1, 2011. Accordingly, the Company started to amortize only the paid amount of the license less accumulated amortization as of December 31, 2010 over the remaining useful life of the license. Further the Company stopped calculating interest on the deferred liability until the time it reaches an agreement with MTIT regarding the 3G frequencies and international Gateways portion of the license.

The effect of the change on the income statement for the three months ended March 31, 2011 is as follows:

	March 31, 2011		
	Before adjustment	Adjustment	After adjustment
	U.S. \$	U.S. \$	U.S. \$
Depreciation and amortization	(6,254,474)	807,523	(5,446,951)
Finance costs	(2,590,082)	1,079,100	(1,510,982)
Loss for the period	(9,028,908)	1,886,623	(7,142,285)