Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
March 31, 2011

ERNST & YOUNG

P.O. Box 1373
Sixth Floor, Trust Building
Jerusalem Street
Ramallah - Palestine

Tel: 00 970 2 2421011
Fax: 00 970 2 2422324
www.ey.com/me

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, 2011, comprising of the interim statement of financial position as at March 31, 2011 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.

Ernst + Young

April 20, 2011

INTERIM STATEMENT OF FINANCIAL POSITION
March 31, 2011

	Notes	March 31, 2011 Unaudited U.S. $	December 31, 2010 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		66,365,279	68,550,659
Projects in progress	3	2,526,263	2,011,967
Advances to contractors		1,975,283	1,530,225
Intangible assets	4	167,293,742	170,359,601
		238,160,567	242,452,452
Current assets			
Prepayments and other current assets		9,568,062	9,634,712
Inventory		830,474	1,040,355
Accounts receivable		8,606,969	6,486,577
Cash and cash equivalents	5	47,919,832	92,192,012
		66,925,337	109,353,656
Total Assets		305,085,904	351,806,108
Equity and liabilities			
Equity			
Paid in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(115,942,584)	(106,913,676)
Net equity		153,667,416	162,696,324
Non-current liabilities			
Provision for employees' indemnity		1,448,453	1,390,075
Interest-bearing loans and borrowings	6	61,248,437	68,854,305
Other non-current liability		55,425,754	54,346,654
		118,122,644	124,591,034
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	15,788,000	15,788,000
Accounts payable		5,728,296	7,029,586
Due to related parties		128,144	2,713,531
Deferred revenues		2,119,056	2,557,062
Accrued expenses		8,682,604	13,540,640
IPO oversubscription payables		288,326	22,274,369
Accrued project cost		561,418	615,562
		33,295,844	64,518,750
Total liabilities		151,418,488	189,109,784
Total Equity and Liabilities		305,085,904	351,806,108

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

INTERIM STATEMENT OF INCOME
For the three-months ended March 31, 2011

	Notes	March 31, 2011 Unaudited U.S. $	March 31, 2010 Unaudited U.S. $
Revenue		15,371,327	4,005,285
Cost of service		(9,836,486)	(5,579,290)
		5,534,841	(1,574,005)
Finance revenue		67,763	24,003
Currency exchange gain		357,458	119,936
General and administrative expenses		(4,299,550)	(4,477,335)
Marketing expenses		(1,779,682)	(1,009,141)
Depreciation and amortization		(6,254,474)	(5,893,074)
Finance costs	7	(2,590,082)	(2,201,455)
Provision for doubtful accounts		(65,182)	-
Loss for the period		(9,028,908)	(15,011,071)
Basic and diluted earnings per share	8	(0.03)	(0.09)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-months ended March 31, 2011

	March 31, 2011	March 31, 2010
	Unaudited	Unaudited
	U.S. $	U.S. $
Loss for the period	(9,028,908)	(15,011,071)
Other comprehensive income for the period	-	-
Total loss and comprehensive income for the period	(9,028,908)	(15,011,071)

INTERIM STATEMENT OF CHANGES IN EQUITY
For the three months ended March 31, 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	-	-	(9,028,908)	(9,028,908)
Balance at March 31, 2011	258,000,000	11,610,000	(115,942,584)	153,667,416
Balance at January 1, 2010	170,000,000	-	(46,605,002)	123,394,998
Total loss and comprehensive income for the period	-	-	(15,011,071)	(15,011,071)
Balance at March 31, 2010	170,000,000	-	(61,616,073)	108,383,927

INTERIM STATEMENT OF CASH FLOWS
For the three months ended March 31,2011

	March 31, 2011	March 31, 2010
	Unaudited	Unaudited
Operating activities	U.S. $	U.S. $
Loss for the period	(9,028,908)	(15,011,071)
Adjustments for:		
Depreciation	3,188,615	2,827,215
Provision for employees' indemnity	150,102	226,530
Provision for doubtful account	65,182	-
Finance revenue	(67,763)	(24,003)
Finance costs	2,590,082	2,201,455
License amortization	3,065,859	3,065,859
Working capital changes:		
Prepayments and other current assets	66,650	(1,156,858)
Inventory	209,881	207,104
Accounts receivable	(2,185,574)	(1,198,021)
Accounts payable	(1,301,290)	2,413,827
Deferred revenues	(438,006)	(46,849)
Accrued expenses	(4,463,981)	1,953,796
Employees' indemnity paid	(91,724)	(4,644)
Net cash flows used in operating activities	(8,240,875)	(4,545,660)
Investing activities		
Purchase of property and equipment	(390,889)	(541,277)
Proceed from disposal of property and equipment	205,944	-
Increase in projects in progress	(1,386,730)	(1,560,363)
Advances to contractors	(445,058)	12,023
Interest received	67,763	24,003
Net cash flows used in investing activities	(1,948,970)	(2,065,614)
Financing activities		
Syndicated loan	(7,894,000)	-
Syndicated loan transaction cost paid	(58,420)	(624,673)
Interest paid	(1,558,485)	(854,451)
Due to related parties	(2,585,387)	-
IPO oversubscription paid	(21,986,043)	-
Change in cash restricted at bank	(9,767,055)	-
Net cash flows used in financing activities	(43,849,390)	(1,479,124)
Decrease in cash and cash equivalents	(54,039,235)	(8,090,398)
Cash and cash equivalents, beginning of period	92,192,012	15,149,025
Cash and cash equivalents, end of period	38,152,777	7,058,627

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
March 31, 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 management on April 20, 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 the Company's annual financial statements as of December 31, 2010. The results for the period ended March 31, 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

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, 2011	December 31, 2010
	Unaudited	Audited
	U.S. $	U.S. $
Beginning balance	2,011,967	7,945,219
Additions	1,332,586	3,666,106
Transfers to property and equipment	(818,290)	(9,599,358)
	2,526,263	2,011,967

4. Intangible assets

The movement on intangible assets is as follows:

	March 31, 2011	December 31, 2010
	Unaudited	Audited
	U.S. $	U.S. $
License	184,871,337	184,871,337
Accumulated amortization	(17,577,595)	(14,511,736)
	167,293,742	170,359,601

The movement on license amortization is as follows:

	March 31, 2011	December 31, 2010
	Unaudited	Audited
	U.S. $	U.S. $
Beginning balance	(14,511,736)	(2,077,972)
Amortization for the period/year	(3,065,859)	(12,433,764)
	(17,577,595)	(14,511,736)

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

5. Cash and cash equivalents

	March 31, 2011 Unaudited U.S. $	December 31, 2010 Audited U.S. $
Cash on hand	46,360	42,656
Cash at banks and short term deposits	47,873,472	92,149,356
	47,919,832	92,192,012

As of March 31, 2011, the Company has six short term deposits amounting to U.S. $ 36,285,003 (2010: U.S. $ 69,333,706) at local banks with an annual interest rate of 0.77% (2010: 0.53%).

For the purpose of the statement of cash flow, cash and cash equivalents comprise the following as of March 31, 2011:

	March 31, 2011 Unaudited U.S. $	December 31, 2010 Audited U.S. $
Cash on hand	46,360	42,656
Cash at banks and short term deposits	47,873,472	92,149,356
Cash restricted at bank*	(9,767,055)	-
	38,152,777	92,192,012

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

6. Interest-bearing loans and borrowings

	March 31, 2011 Unaudited U.S. $	December 31, 2010 Audited 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)	136,669	93,147
Accrued interest (PIF)	101,320	69,581
	5,237,989	5,162,728
Third parties loans		
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
	77,106,000	85,000,000
Less: transaction costs directly attributable to third parties' loans	(5,307,552)	(5,520,423)
	77,036,437	84,642,305
Non-current portion	61,248,437	68,854,305
Current portion	15,788,000	15,788,000
	77,036,437	84,642,305

* 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, 2011 amounted to U.S. $ 919,983 (2010: U.S $ 1,074,813).

7. Finance costs

	March 31, 2011	March 31, 2010
	Unaudited	Unaudited
	U.S. $	U.S. $
Interest on loans and borrowings	1,239,689	996,399
Interest on other non-current liabilities	1,079,100	976,661
Amortization of transaction costs	271,293	228,395
	2,590,082	2,201,455

8. Basic and Diluted Earnings Per Share

	March 31, 2011	March 31, 2010
	Unaudited	Unaudited
Loss for the period (U.S. $)	(9,028,908)	(15,011,071)
Weighted average for subscribed capital during the period (Shares)	258,000,000	170,000,000
Basic and diluted earnings per share (U.S. $)	(0.03)	(0.09)

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:

	March 31, 2011	December 31, 2010
	Unaudited	Audited
	U.S. $	U.S. $
Contracts and purchase orders	2,297,722	1,436,063
License *	141,600,000	141,600,000

* 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 the operating lease are as follows:

	March 31, 2011	December 31, 2010
	Unaudited	Audited
	U.S. $	U.S. $
Within one year	375,458	383,695
After one year but not more than five years	148,718	32,052
	524,176	415,747

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 condensed statement of financial position are as follows:

	Nature of Relationship	March 31, 2011	December 31, 2010
		Unaudited	Audited
		U.S. $	U.S. $
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Due to related parties	Shareholders	128,144	2,713,531
Accounts Receivable	Shareholders	4,689	10,239

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

	March 31, 2011	March 31, 2010
	Unaudited	Unaudited
	U.S. $	U.S. $
Interest expense on shareholders' loans	75,261	459,744
Key management personnel compensation	163,500	157,000
Revenue from shareholders	13,448	16,444