Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
June 30, 2012

P.O. Box 1373
7th Floor,
PADICO House Bldg. - Al-Masyoun
Ramallah-Palestine
Tel: +972 22421011
Fax: +972 22422324
www.ey.com

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, 2012 comprising of the interim statement of financial position as at June 30, 2012 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and other 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

July 16, 2012

INTERIM STATEMENT OF FINANCIAL POSITION
June 30, 2012

	Notes	June 30, 2012 Unaudited U.S. $	December 31, 2011 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		57,173,095	61,185,943
Projects in progress	3	18,382,657	4,605,319
Advances to contractors		679,993	1,662,030
Intangible assets	4	160,463,956	164,782,708
Restricted cash		9,479,906	9,480,558
		246,179,607	241,716,558
Current assets			
Prepayments and other current assets		7,999,283	8,348,772
Inventory		1,615,931	1,721,276
Accounts receivable		8,828,924	7,200,912
Cash in hand and at banks	5	18,925,121	29,466,668
		37,369,259	46,737,628
Total Assets		283,548,866	288,454,186
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(144,634,921)	(133,092,929)
Net equity		124,975,079	136,517,071
Non-current liabilities			
Provision for employees' indemnity		2,959,362	1,876,463
Interest-bearing loans and borrowings	6	47,153,343	54,373,720
Other non-current liability		54,346,654	54,346,654
		104,459,359	110,596,837
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	15,538,000	15,788,000
Accounts payable		12,482,152	5,840,932
Due to related parties		605,774	219,275
Deferred revenues		2,918,797	2,757,129
Accrued expenses		13,154,351	13,679,574
IPO oversubscription payables		56,040	70,775
Accrued project cost	7	9,359,314	2,984,593
		54,114,428	41,340,278
Total liabilities		158,573,787	151,937,115
Total Equity and Liabilities		283,548,866	288,454,186

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-month and six-month periods ended June 30, 2012

		Three Months Ended June 30		Six Months Ended June 30	
		2012	2011 (restated note 12)	2012	2011 (restated note 12)
		Unaudited		Unaudited	
	Notes	U.S. $	U.S. $	U.S. $	U.S. $
Revenue		21,299,313	19,950,905	41,210,023	35,322,232
Cost of service		(12,343,428)	(11,713,613)	(24,297,418)	(21,550,099)
		8,955,885	8,237,292	16,912,605	13,772,133
Finance revenue		65,267	93,770	155,780	161,533
Currency exchange gain		221,432	163,052	241,946	520,510
General and administrative expenses		(5,284,117)	(4,310,663)	(10,751,981)	(8,610,213)
Marketing expenses		(1,512,791)	(1,357,839)	(2,930,780)	(3,137,521)
Depreciation and amortization		(6,006,347)	(5,591,385)	(11,924,808)	(11,038,336)
Finance costs	8	(1,307,579)	(1,506,288)	(2,646,124)	(3,017,270)
Provision for doubtful accounts		(348,575)	(534,610)	(598,630)	(599,792)
Loss for the period		(5,216,825)	(4,806,671)	(11,541,992)	(11,948,956)
Basic and diluted earnings per share	9	(0.02)	(0.02)	(0.04)	(0.05)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month and six-month periods ended June 30, 2012

	Three Months Ended June 30		Six Months Ended June 30	
	2012	2011 (restated note 12)	2012	2011 (restated note 12)
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Loss for the period	(5,216,825)	(4,806,671)	(11,541,992)	(11,948,956)
Other comprehensive income for the period	-	-	-	-
Total loss and comprehensive income for the period	(5,216,825)	(4,806,671)	(11,541,992)	(11,948,956)

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

INTERIM STATEMENT OF CHANGES IN EQUITY
For the six-month period ended June 30, 2012

	Paid-in share capital	Share premium	Accumulated losses	Net equity
	U.S. $	U.S. $	U.S. $	U.S. $
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	-	-	(11,541,992)	(11,541,992)
Balance at June 30, 2012 (Unaudited)	258,000,000	11,610,000	(144,634,921)	124,975,079
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	-	-	(11,948,956)	(11,948,956)
Balance at June 30, 2011 (Unaudited, restated Note 12)	258,000,000	11,610,000	(118,862,632)	150,747,368

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CASH FLOWS
For the six-month period ended June 30, 2012

		Six Months Ended June 30	
		2012	2011 (restated note 12)
Operating activities	Note	U.S. $	U.S. $
Loss for the period		(11,541,992)	(11,948,956)
Adjustments for:			
Depreciation		6,560,308	6,496,569
Provision for employees' indemnity		1,082,899	345,713
Provision for doubtful accounts		598,630	599,792
Loss from disposal of property and equipment		21,762	2,386
Finance revenue		(155,780)	(161,533)
Finance costs		2,646,124	3,017,270
License amortization		5,364,500	4,541,767
		4,576,451	2,893,008
Working capital changes:			
Prepayments and other current assets		349,489	1,083,133
Inventory		105,345	(49,036)
Accounts receivable		(2,226,642)	(4,273,394)
Accounts payable		6,641,220	(3,815,419)
Deferred revenues		161,668	38,309
Accrued expenses		(426,296)	1,223,517
Employees' indemnity paid		-	(168,368)
Net cash flows from (used in) operating activities		9,181,235	(3,068,250)
Investing activities			
Purchase of property and equipment		(1,074,883)	(1,139,030)
Proceeds from sale of property and equipment		20,925	216,533
Increase in projects in progress		(9,963,629)	(1,840,014)
Advances to contractors		982,037	(450,104)
Interest received		155,780	161,533
Net cash flows used in investing activities		(9,879,770)	(3,051,082)
Financing activities			
Syndicated loan		(7,894,000)	(7,894,000)
Syndicated loan transaction cost paid		(289,280)	(97,415)
Interest paid		(2,032,148)	(2,670,131)
Due to related parties		386,499	(2,534,517)
IPO oversubscription paid		(14,735)	(22,169,400)
Change in cash restricted at bank		652	(9,684,780)
Net cash flows used in financing activities		(9,843,012)	(45,050,243)
Decrease in cash and cash equivalents		(10,541,547)	(51,169,575)
Cash and cash equivalents, beginning of period		29,466,668	92,192,012
Cash and cash equivalents, end of period	5	18,925,121	41,022,437

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

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 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.

The interim condensed financial statements of the Company were authorized for issuance by the Board of Directors on July 16, 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 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, 2011. The results for the period ended June 30, 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 except that the Company has adopted the following new and amended IFRS's during the period. Adoption of these standards did not have any effect on the results of operations or financial position of the Company.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements
IAS 1 Financial Statement Presentation: Presentation of items of Other Comprehensive Income

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:

	June 30, 2012	December 31, 2011
	Unaudited	Audited
	U.S. $	U.S. $
Beginning balance	4,605,319	2,011,967
Additions	16,338,350	10,699,165
Transfers to property and equipment and intangible assets	(2,561,012)	(8,105,813)
	18,382,657	4,605,319

The estimated cost to complete the projects in progress as of June 30, 2012 is U.S. $ 11,303,415.

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	-	1,045,748	1,045,748
At June 30, 2012	184,871,337	6,974,482	191,845,819
<u>Accumulated Amortization</u>			
At January 1, 2012	23,670,547	2,346,816	26,017,363
Amortization	4,566,861	797,639	5,364,500
At June 30, 2012	28,237,408	3,144,455	31,381,863
<u>Net carrying amount</u>			
At June 30, 2012	156,633,929	3,830,027	160,463,956
At December 31, 2011	161,200,790	3,581,918	164,782,708

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, 2012	2011
	U.S. $	U.S. $
Cash on hand	54,904	58,047
Cash at banks and short term deposits	18,870,217	29,408,621
	18,925,121	29,466,668

As of June 30, 2012, the Company has seven short term deposits amounting to U.S. $ 16,584,020 (2011: U.S $ 27,738,574) at local banks with an average interest rate of 1.64% (2010: 1.54%).

6. Interest-bearing loans and borrowings

	June 30, 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)	353,754	266,910
Accrued interest (PIF)	266,423	200,908
	5,620,177	5,467,818
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
	61,318,000	69,212,000
Less: transaction costs directly attributable to third parties' loans	(4,246,834)	(4,518,098)
	62,691,343	70,161,720
Non-current portion	47,153,343	54,373,720
Current portion	15,538,000	15,788,000
	62,691,343	70,161,720

* 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, 2012 amounted to U.S. $ 781,055 (2011: U.S $ 870,982).

In June, 2012 the company signed new loan agreements with various lenders for a total amount of U.S. $ 125,000,000. The loans bear annual interest rate of LIBOR plus 5% and are repayable in quarterly installments commencing September 15, 2014 and ending June 15, 2019. The company will use a portion of this loan to repay the outstanding balance of the existing syndicated loan and the remaining balance will be used to finance the build out of its mobile network in the Gaza Strip, the expansion of its existing network in the West Bank. All the Company's assets are mortgaged as collaterals for this loan.

7. Accrued project cost

Accrued project cost increased by U.S $ 6,374,721 due to the increase in projects in progress account (Note 3).

8. Finance cost

	June 30, 2012	June 30, 2011
	Unaudited	Unaudited
	U.S. $	U.S. $
Interest on loans and borrowings	2,085,580	2,468,616
Amortization of transaction costs	560,544	548,654
	2,646,124	3,017,270

9. Basic and Diluted Earnings Per Share

	June 30, 2012	June 30, 2011
	Unaudited	Unaudited
Loss for the year (U.S. $)	(11,541,992)	(11,948,956)
Weighted average number of shares	258,000,000	258,000,000
Basic and diluted loss per share (U.S. $)	(0.04)	(0.05)

10. Commitments and contingencies

As of the 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, 2012	December 31, 2011
	U.S. $	U.S. $
Contracts and purchase orders	1,494,829	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 provided a performance guarantee to MTIT on February 29, 2012, to guarantee the payment of any penalties that the company may become liable for, to cover any commitments related to the mobile services coverage granted to the company, as stated in the license agreement, and to guarantee the quality of the services provided by the company. The guarantee amounted to U.S. $ 5,160,000 as of June 30, 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 statement of financial position were as follows:

	Nature of relationship	2012	2011
		U.S. $	U.S. $
Interest-bearing loans and borrowings	Shareholder	5,000,000	5,000,000
Due to related parties	Shareholder	605,774	219,275
Accounts receivable	Shareholder	3,004	7,368
Accrued interest	Shareholder	620,177	467,818

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

	2012	2011
	U.S. $	U.S. $
Interest expense on shareholders' loans	152,359	150,927
Key management personnel compensation	457,389	298,712
Revenue from shareholders	21,137	27,208

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 six months ended June 30, 2011 is as follows:

	June 30, 2011		
	Before adjustment	Adjustment	After adjustment
	U.S. $	U.S. $	U.S. $
Depreciation and amortization	(12,662,353)	1,624,017	(11,038,336)
Finance costs	(5,209,213)	2,191,943	(3,017,270)
Loss for the period	(15,764,916)	3,815,960	(11,948,956)