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

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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 September 30, 2012 comprising of the interim statement of financial position as at September 30, 2012 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the nine-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

October 16, 2012

INTERIM STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2012

	Notes	September 30, 2012 Unaudited U.S. $	December 31, 2011 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		55,336,278	61,185,943
Projects in progress	3	18,822,905	4,605,319
Advances to contractors		1,228,358	1,662,030
Intangible assets	4	157,863,176	164,782,708
Restricted cash	5	8,885,466	9,480,558
		242,136,183	241,716,558
Current assets			
Prepayments and other current assets		6,923,025	8,348,772
Inventory		1,412,580	1,721,276
Accounts receivable		9,564,365	7,200,912
Cash on hand and at banks	6	12,445,405	29,466,668
		30,345,375	46,737,628
Total Assets		272,481,558	288,454,186
Equity and liabilities			
Equity			
Paid-in share capital	1	258,000,000	258,000,000
Share premium	1	11,610,000	11,610,000
Accumulated losses		(149,999,307)	(133,092,929)
Net equity		119,610,693	136,517,071
Non-current liabilities			
Provision for employees' indemnity		3,247,435	1,876,463
Interest-bearing loans and borrowings	7	38,315,297	54,373,720
Other non-current liability		54,346,654	54,346,654
		95,909,386	110,596,837
Current liabilities			
Current portion of interest-bearing loans and borrowings	7	15,288,000	15,788,000
Accounts payable		13,454,751	5,840,932
Due to related parties		165,709	219,275
Deferred revenues		3,291,326	2,757,129
Accrued expenses		15,470,330	13,679,574
IPO oversubscription payables		47,536	70,775
Accrued project cost	8	9,243,827	2,984,593
		56,961,479	41,340,278
Total liabilities		152,870,865	151,937,115
Total Equity and Liabilities		272,481,558	288,454,186

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF INCOME
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012

		Three Months Ended September 30		Nine Months Ended September 30	
		2012	2011 (restated note 13)	2012	2011 (restated note 13)
		Unaudited		Unaudited	
	Notes	U.S. $	U.S. $	U.S. $	U.S. $
Revenue		21,662,150	19,828,550	62,872,173	55,150,782
Cost of service		(12,854,051)	(11,699,382)	(37,151,469)	(33,249,481)
		8,808,099	8,129,168	25,720,704	21,901,301
Finance revenue		79,941	94,193	235,721	255,726
Currency exchange gain (Loss)		163,916	(1,677,543)	405,862	(1,157,033)
General and administrative expenses		(4,991,853)	(4,451,955)	(15,743,834)	(13,062,168)
Marketing expenses		(1,583,077)	(1,156,143)	(4,513,857)	(4,293,664)
Depreciation and amortization		(6,117,630)	(5,713,726)	(18,042,438)	(16,752,062)
Finance costs	9	(1,168,851)	(1,417,550)	(3,814,975)	(4,434,820)
Provision for doubtful accounts		(554,931)	(1,043,248)	(1,153,561)	(1,643,040)
Loss for the period		(5,364,386)	(7,236,804)	(16,906,378)	(19,185,760)
Basic and diluted earnings per share	10	(0.021)	(0.028)	(0.066)	(0.074)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2012

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011 (restated note 13)	2012	2011 (restated note 13)
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Loss for the period	(5,364,386)	(7,236,804)	(16,906,378)	(19,185,760)
Other comprehensive income for the period	-	-	-	-
Total loss and comprehensive income for the period	(5,364,386)	(7,236,804)	(16,906,378)	(19,185,760)

INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 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	-	-	(16,906,378)	(16,906,378)
Balance at September 30, 2012 (Unaudited)	258,000,000	11,610,000	(149,999,307)	119,610,693
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	-	-	(19,185,760)	(19,185,760)
Balance at September 30, 2011 (Unaudited, restated Note 13)	258,000,000	11,610,000	(126,099,436)	143,510,564

Wataniya Palestine Mobile Telecommunication
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INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2012

		Nine Months Ended September 30	
		2012	2011 (restated note 13)
		Unaudited	Unaudited
Operating activities	Note	U.S. $	U.S. $
Loss for the period		(16,906,378)	(19,185,760)
Adjustments for:			
Depreciation		9,921,155	9,901,773
Provision for employees' indemnity		1,466,023	579,635
Provision for doubtful accounts		1,153,561	1,643,040
Loss from disposal of property and equipment		17,107	14,405
Interest revenue		(235,721)	(255,726)
Finance costs		3,814,975	4,434,820
License amortization		8,121,283	6,850,289
		7,352,005	3,982,476
Working capital changes:			
Prepayments and other current assets		1,425,747	1,011,745
Inventory		308,696	(182,962)
Accounts receivable		(3,517,014)	(3,645,281)
Accounts payable		7,613,819	(1,367,458)
Deferred revenues		534,197	(9,579)
Accrued expenses		2,252,999	584,535
Employees' indemnity paid		(95,051)	(295,790)
Net cash flows from operating activities		15,875,398	77,686
Investing activities			
Purchase of property and equipment		(1,325,361)	(1,671,757)
Proceeds from sale of property and equipment		40,789	249,628
Increase in projects in progress		(11,964,128)	(5,027,151)
Advances to contractors		433,672	(42,955)
Interest received		235,721	255,726
Net cash flows used in investing activities		(12,579,307)	(6,236,509)
Financing activities			
Syndicated loan		(15,788,000)	(15,788,000)
Syndicated loan transaction cost paid		(1,843,920)	(109,412)
Interest paid		(3,203,721)	(3,821,516)
Due to related parties		(53,566)	(2,540,906)
IPO oversubscription paid		(23,239)	(22,189,229)
Change in cash restricted at bank		595,092	(9,578,884)
Net cash flows used in financing activities		(20,317,354)	(54,027,947)
Decrease in cash and cash equivalents		(17,021,263)	(60,186,770)
Cash and cash equivalents, beginning of period		29,466,668	92,192,012
Cash and cash equivalents, end of period	6	12,445,405	32,005,242

The attached notes 1 to 13 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 Wataniya International FZ – LLC and Palestine Investment Fund, PLC (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 October 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 September 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
IFRS 10 - Consolidated Financial Statements
IFRS 11 - Joint Arrangements
IFRS 12 - Disclosure of Involvement with Other Entities
IFRS 13 - Fair Value Measurement

3. Projects in progress

The movement on projects in progress is as follows:

	September 30, 2012	December 31, 2011
	Unaudited	Audited
	U.S. $	U.S. $
Beginning balance	4,605,319	2,011,967
Additions	18,223,362	10,699,165
Transfers to property and equipment and intangible assets	(4,005,776)	(8,105,813)
	18,822,905	4,605,319

The estimated cost to complete the projects in progress as of September 30, 2012 is U.S. $ 11,239,105.

4. Intangible assets

The movement on intangible assets is as follows:

	License	Software	Total
	U.S. $	U.S. $	U.S. $
Cost			
At January 1, 2012	184,871,337	5,928,734	190,800,071
Additions	-	1,201,751	1,201,751
At September 30, 2012	184,871,337	7,130,485	192,001,822
Accumulated Amortization			
At January 1, 2012	23,670,547	2,346,816	26,017,363
Amortization	6,875,383	1,245,900	8,121,283
At September 30, 2012	30,545,930	3,592,716	34,138,646
Net carrying amount			
At September 30, 2012	154,325,407	3,537,769	157,863,176
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. Restricted cash

This account represents the cash restricted to the benefit of Standard bank in relation with the syndicated loan with an average interest rate of 0.16%.

6. Cash on hand and at banks

	September 30, 2012	December 31, 2011
	U.S. $	U.S. $
	Unaudited	Audited
Cash on hand	110,233	58,047
Cash at banks and short term deposits	12,335,172	29,408,621
	12,445,405	29,466,668

As of September 30, 2012, the Company has seven short term deposits amounting to U.S. $ 9,589,064 (2011: U.S $ 27,738,574) at local banks with an average interest rate of 1.63% (2011: 1.54%).

7. Interest-bearing loans and borrowings

	September 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)	397,306	266,910
Accrued interest (PIF)	299,278	200,908
	5,696,584	5,467,818
Third parties loans		
Local banks' loans *	20,988,000	26,994,000
IFC loan*	19,080,000	24,540,000
Ericsson loan*	13,356,000	17,178,000
ECA loan*	-	500,000
	53,424,000	69,212,000
Less: transaction costs directly attributable to third parties' loans	(5,517,287)	(4,518,098)
	53,603,297	70,161,720
Non-current portion	38,315,297	54,373,720
Current portion	15,288,000	15,788,000
	53,603,297	70,161,720

* On January 19, 2009, the Company signed syndicated loan agreement with various lenders for a total amount of U.S. $ 85,000,000. The loan bears annual interest rate ranging from LIBOR plus 5.31% to 6.34% and is repayable in semiannual 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 September 30, 2012 amounted to U.S. $ 408,739 (2011: U.S $ 870,982).

In June, 2012 the company signed new loan agreement with various lenders for a total amount of U.S. $ 125,000,000. The loan bears annual interest rate of LIBOR plus 5% and is 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 building of its mobile network in Gaza Strip, and expansion of the Company's existing network in the West Bank. All the Company's assets are mortgaged as collateral for this loan.

8. Accrued project cost

Accrued project cost increased by U.S $ 6,259,234 due to the increase in projects in progress account (Note 3).

9. Finance cost

	September 30, 2012	September 30, 2011
	Unaudited	Unaudited
	U.S. $	U.S. $
Interest on loans and borrowings	2,970,244	3,604,698
Amortization of transaction costs	844,731	830,122
	3,814,975	4,434,820

10. Basic and Diluted Earnings Per Share

	September 30, 2012	September 30, 2011
	Unaudited	Unaudited
Loss for the period \ year (U.S. $)	(16,906,378)	(19,185,760)
Weighted average number of shares	258,000,000	258,000,000
Basic and diluted loss per share (U.S. $)	(0.066)	(0.074)

11. 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:

	September 30, 2012	December 31, 2011
	U.S. $	U.S. $
	Unaudited	Audited
Contracts and purchase orders	5,436,557	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 September 30, 2012.

12. 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	September 30, 2012	December 31, 2011
		U.S. $	U.S. $
		Unaudited	Audited
Interest-bearing loans and borrowings	Shareholder	5,000,000	5,000,000
Due to related parties	Shareholder	165,709	219,275
Accounts receivable	Shareholder	2,356	7,368
Accrued interest	Shareholder	696,584	467,818

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

	September 30, 2012	September 30, 2011
	U.S. $	U.S. $
	Unaudited	Unaudited
Interest expense on shareholders' loans	228,766	228,823
Key management personnel compensation	636,357	297,712
Revenue from shareholders	29,424	33,554

13. 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 nine months ended September 30, 2011 is as follows:

	September 30, 2011		
	Before adjustment	Adjustment	After adjustment
	U.S. $	U.S. $	U.S. $
Depreciation and amortization	(19,201,547)	2,449,485	(16,752,062)
Finance costs	(7,774,509)	3,339,689	(4,434,820)
Loss for the period	(24,974,934)	5,789,174	(19,185,760)