Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
June 30, 2014

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

Building a better working world

90 Years in MENA

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

We have reviewed the accompanying interim condensed statement of financial position of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company) as of June 30, 2014, and the related interim condensed income statement, 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 Accounting 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 20, 2014

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
June 30, 2014

	Notes	June 30, 2014 Unaudited U.S. $	December 31, 2013 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		39,965,310	44,819,600
Projects in progress	3	34,948,396	24,735,263
Advances to contractors		7,101,796	4,274,340
Intangible assets	4	143,164,894	148,450,379
		225,180,396	222,279,582
Current assets			
Prepayments and other current assets		2,176,112	1,485,443
Inventory		663,091	787,351
Accounts receivable		9,196,773	12,436,854
Cash on hand and at banks	5	41,229,323	42,772,802
		53,265,299	57,482,450
Total Assets		278,445,695	279,762,032
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(186,393,385)	(178,244,001)
Net equity		83,216,615	91,365,999
Non-current liabilities			
Provision for employees' indemnity		6,900,136	6,005,810
Interest-bearing loans and borrowings	6	65,883,405	69,472,097
Other non-current liability		54,346,654	54,346,654
		127,130,195	129,824,561
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	19,500,000	15,750,000
Accounts payable		5,126,039	7,738,771
Due to related parties		223,750	266,768
Deferred revenues		5,922,527	5,970,146
Other current liabilities		20,571,171	18,988,215
Accrued project cost		16,755,398	9,857,572
		68,098,885	58,571,472
Total liabilities		195,229,080	188,396,033
Total Equity and Liabilities		278,445,695	279,762,032

The attached notes 1 to 11 form part of these interim condensed financial statements

INTERIM STATEMENT OF INCOME
For the three-month and six-month periods ended June 30, 2014

		Three Months Ended June 30		Six Months Ended June 30	
		2014	2013	2014	2013
		Unaudited		Unaudited	
	Notes	U.S. $	U.S. $	U.S. $	U.S. $
Revenue		21,509,186	23,895,874	42,801,320	44,279,354
Cost of service		(11,472,984)	(13,500,406)	(23,790,470)	(24,771,311)
		10,036,202	10,395,468	19,010,850	19,508,043
Finance revenue		156,772	172,543	320,366	308,556
Currency exchange (loss) gain		(187,612)	24,571	(205,937)	(56,678)
General and administrative expenses		(5,143,434)	(6,396,878)	(10,247,693)	(12,361,225)
Marketing expenses		(1,313,604)	(1,519,649)	(2,183,804)	(2,677,652)
Depreciation and amortization		(5,916,133)	(6,387,458)	(12,003,535)	(12,681,919)
Finance costs	7	(1,295,179)	(1,316,467)	(2,577,091)	(2,605,238)
Provision for doubtful accounts		(116,217)	(255,814)	(262,540)	(1,007,930)
Loss for the period		(3,779,205)	(5,283,684)	(8,149,384)	(11,574,043)
Basic and diluted earnings per share	8	(0.01)	(0.02)	(0.03)	(0.04)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month and six-month periods ended June 30, 2014

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Loss for the period	(3,779,205)	(5,283,684)	(8,149,384)	(11,574,043)
Other comprehensive income for the period	-	-	-	-
Total loss and comprehensive income for the period	(3,779,205)	(5,283,684)	(8,149,384)	(11,574,043)

INTERIM STATEMENT OF CHANGES IN EQUITY
For the six-month period ended June 30, 2014

	Paid-in share capital	Share premium	Accumulated losses	Net equity
	U.S. $	U.S. $	U.S. $	U.S. $
Balance at January 1, 2014	258,000,000	11,610,000	(178,244,001)	91,365,999
Total loss and comprehensive income for the period	-	-	(8,149,384)	(8,149,384)
Balance at June 30, 2014	**258,000,000**	**11,610,000**	**(186,393,385)**	**83,216,615**
Balance at January 1, 2013	258,000,000	11,610,000	(156,919,119)	112,690,881
Total loss and comprehensive income for the period	-	-	(11,574,043)	(11,574,043)
Balance at June 30, 2013	**258,000,000**	**11,610,000**	**(168,493,162)**	**101,116,838**

INTERIM STATEMENT OF CASH FLOWS
For the six-month period ended June 30, 2014

	June 30, 2014	June 30, 2013
	Unaudited	Unaudited
Operating activities	U.S. $	U.S. $
Loss for the period	(8,149,384)	(11,574,043)
Adjustments for:		
Depreciation	6,279,467	7,097,049
Provision for employees' indemnity	1,092,516	1,393,210
Provision for doubtful account	262,540	1,007,930
(Gain) loss on disposal of property and equipment	(6,527)	4,427
Finance revenue	(320,366)	(308,556)
Finance costs	2,577,091	2,605,238
Amortization	5,724,068	5,584,870
	7,459,405	5,810,125
Working capital changes:		
Prepayments and other current assets	(690,669)	1,740,482
Inventory	124,260	166,458
Accounts receivable	2,977,541	(1,525,141)
Accounts payable	(2,520,946)	(266,854)
Deferred revenues	(47,619)	809,617
Other current liabilities	1,585,120	1,161,614
Provision for employees' indemnity paid	(289,976)	(325,747)
Net cash flows from operating activities	8,597,116	7,570,554
Investing activities		
Purchase of property and equipment and intangibles	(398,834)	(955,274)
Proceed from disposal of property and equipment	41,306	859
Increase in projects in progress	(4,815,012)	(4,538,773)
Advances to contractors	(2,827,456)	(358,691)
Interest received	320,366	308,556
Restricted cash	76,208	-
Net cash flows used in investing activities	(7,603,422)	(5,543,323)
Financing activities		
Syndicated loan transaction cost paid	(440,817)	(774,976)
Interest paid	(1,977,130)	(2,021,373)
Due to related parties	(43,018)	6,750
Net cash flows used in financing activities	(2,460,965)	(2,789,599)
Decrease in cash and cash equivalents	(1,467,271)	(762,368)
Cash and cash equivalents, beginning of the period	42,323,464	44,599,394
Cash and cash equivalents, end of the period	40,856,193	43,837,026

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
June 30, 2014

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.

The interim condensed financial statements of the Company as at June 30, 2014 were authorized for issuance by the Board of Directors on July 20, 2014.

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 at December 31, 2013. The results for the period ended June 30, 2014 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2014.

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 in the previous year, except that the Company has adopted the new standards and interpretations effective as of January 1, 2014, adoption of these standards did not have any effect on the results of operations or financial position of the Company.

IAS 32 – Amendments: Offsetting Financial Assets and Financial Liabilities.
These amendments clarify the meaning of currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Company.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

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, 2014	December 31, 2013
	U.S. $	U.S. $
Beginning balance	24,735,263	19,576,928
Additions	11,712,838	11,404,966
Transfers to property and equipment and intangible assets	(1,499,705)	(6,246,631)
	34,948,396	24,735,263

4. Intangible assets

The movement on intangible assets is as follows:

	License*	Software	Total
	U.S. $	U.S. $	U.S. $
Cost			
At January 1, 2014	184,871,337	11,944,412	196,815,749
Additions	-	173,682	173,682
Transferred from Project in progress	-	264,901	264,901
At June 30, 2014	184,871,337	12,382,995	197,254,332
Accumulated Amortization			
At January 1, 2014	42,013,264	6,352,106	48,365,370
Amortization for the period	4,541,766	1,182,302	5,724,068
At June 30, 2014	46,555,030	7,534,408	54,089,438
Net carrying amount			
At June 30, 2014	138,316,307	4,848,587	143,164,894
At December 31, 2013	142,858,073	5,592,306	148,450,379

* 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

	June 30, 2014	December 31, 2013
	U.S. $	U.S. $
Cash on hand	125,740	59,128
Cash at banks and short term deposits	41,103,583	42,713,674
	41,229,323	42,772,802

As at June 30, 2014, the Company has eleven short term deposits amounting to U.S. $ 36,507,243 (2013: U.S. $ 41,124,724) at local banks with an annual interest rate of 1.71% (2013: 1.66%).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:

	June 30, 2014	June 30, 2013
	U.S. $	U.S. $
Cash on hand	125,740	116,774
Cash at banks and short term deposits	41,103,583	43,720,252
	41,229,323	43,837,026
Restricted cash	(373,130)	-
	40,856,193	43,837,026

6. Interest-bearing loans and borrowings

	June 30, 2014	December 31, 2013
	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)	699,288	613,874
Accrued interest (PIF)	527,089	462,653
	6,226,377	6,076,527
Third parties' loans		
Local banks' loans	51,000,000	51,000,000
IFC loan	36,000,000	36,000,000
	87,000,000	87,000,000
Less: transaction costs directly attributable to third parties' loans	(7,842,972)	(7,854,430)
	85,383,405	85,222,097
Non-current portion	65,883,405	69,472,097
Current portion	19,500,000	15,750,000
	85,383,405	85,222,097

7. Finance costs

	June 30, 2014	June 30, 2013
	U.S. $	U.S. $
Interest on loans and borrowings	2,124,816	2,178,639
Amortization of transaction costs	452,275	426,599
	2,577,091	2,605,238

8. Basic and Diluted Earnings Per Share

	June 30, 2014	June 30, 2013
Loss for the period (U.S. $)	(8,149,384)	(11,574,043)
Weighted average for subscribed capital during the period (Shares)	258,000,000	258,000,000
Basic and diluted earnings per share (U.S. $)	(0.03)	(0.04)

9. Commitments and contingencies

As at 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, 2014	December 31, 2013
	U.S. $	U.S. $
Contracts and purchase orders	30,163,936	12,938,076
License *	159,653,346	159,653,346

* 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.

The Company entered into an agreement to lease the office building on January 27, 2007. During 2012, the Company renewed the contract for additional 5 years with an option to renew the contract.

Following is the future minimum rentals payable under non-cancellable operating lease:

	June 30, 2014	December31, 2013
	U.S. $	U.S. $
Within one year	425,548	419,274
After one year but not more than five years	661,260	876,661
	1,086,808	1,295,935

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	June 30, 2014	December 31, 2013
		U.S. $	U.S. $
Accounts receivable	Shareholders	4,286	6,273
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Due to related parties	Shareholders	223,750	266,768
Accrued interest	Shareholders	1,226,377	1,076,527

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

	June 30, 2014	June 30, 2013
	U.S. $	U.S. $
Interest expense on shareholders' loans	149,850	150,924
Key management personnel compensation	438,896	492,793
Revenue from shareholders	23,355	5,250

11. Fair value of financial instruments

Set out below the details of the financial instruments, other than cash on hand and at banks, held by the Company:

	June 30, 2014
	U.S. $
Financial assets	
Accounts receivable	9,196,773
Other current assets	118,069
	9,314,842
Financial liabilities	
Interest-bearing loans and borrowings	85,383,405
Other non-current liability	54,346,654
Accounts payable	5,126,039
Due to related parties	223,750
Other current liabilities	20,571,171
Accrued project cost	16,755,398
	182,406,417

- The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- The fair values of accounts receivable, other current assets, accounts payable, due to related parties, accrued project cost, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of interest-bearing loans and borrowings and non-current liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.