

Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
March 31, 2015



Ernst & Young
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 statement of financial position of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company) as of March 31, 2015, and the related interim condensed statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. The management 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 - Middle East
License # 206/2012

May 12, 2015

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
As at March 31, 2015

		March 31, 2015	December 31, 2014
		Unaudited	Audited
	Notes	U.S. \$	U.S. \$
Assets			
Non-current assets			
Property and equipment, net		34,367,198	36,678,282
Projects in progress	3	29,419,193	26,747,644
Intangible assets	4	144,902,383	146,852,041
		<u>208,688,774</u>	<u>210,277,967</u>
Current assets			
Advances to contractors		7,800,430	12,436,614
Restricted cash		3,070,021	3,119,155
Prepayments and other current assets		2,064,642	1,658,619
Inventory		3,895,548	1,559,457
Accounts receivable		9,225,964	9,065,378
Cash on hand and at banks	5	23,005,812	30,063,082
		<u>49,062,417</u>	<u>57,902,305</u>
Total Assets		<u>257,751,191</u>	<u>268,180,272</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		(198,896,751)	(194,769,608)
Net equity		<u>70,713,249</u>	<u>74,840,392</u>
Non-current liabilities			
Provision for employees' indemnity		6,749,351	6,737,119
Interest-bearing loans and borrowings	6	57,681,140	60,403,613
Other non-current liability		54,346,654	54,346,654
		<u>118,777,145</u>	<u>121,487,386</u>
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	22,312,500	21,375,000
Accounts payable		5,115,547	9,294,855
Due to related parties		231,885	172,505
Deferred revenues		3,911,504	5,035,093
Other current liabilities		24,982,545	21,447,989
Accrued project cost		11,706,816	14,527,052
		<u>68,260,797</u>	<u>71,852,494</u>
Total liabilities		<u>187,037,942</u>	<u>193,339,880</u>
Total Equity and Liabilities		<u>257,751,191</u>	<u>268,180,272</u>

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

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF PROFIT OR LOSS
For the three-month period ended March 31, 2015

		March 31, 2015	March 31, 2014
		Unaudited	Unaudited
	Notes	U.S. \$	U.S. \$
Revenue		19,187,329	21,292,134
Cost of service		<u>(11,017,832)</u>	<u>(12,317,486)</u>
		8,169,497	8,974,648
Finance revenue		108,486	163,594
Currency exchange gain (loss)		163,613	(18,325)
General and administrative expenses		(5,343,382)	(5,104,259)
Marketing expenses		(1,216,299)	(870,200)
Depreciation and amortization		(4,774,453)	(6,087,402)
Finance costs	7	(1,234,605)	(1,281,912)
Provision for doubtful accounts		<u>-</u>	<u>(146,323)</u>
Loss for the period		<u><u>(4,127,143)</u></u>	<u><u>(4,370,179)</u></u>
Basic and diluted earnings per share	8	<u><u>(0.016)</u></u>	<u><u>(0.017)</u></u>

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

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month period ended March 31, 2015

	March 31, 2015	March 31, 2014
	<u>Unaudited</u>	<u>Unaudited</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Loss for the period	(4,127,143)	(4,370,179)
Other comprehensive income for the period	<u>-</u>	<u>-</u>
Total comprehensive income for the period	<u>(4,127,143)</u>	<u>(4,370,179)</u>

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

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CHANGES IN EQUITY
For the three-month period ended March 31, 2015

	Paid-in share capital	Share premium	Accumulated losses	Net equity
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Balance at January 1, 2015	258,000,000	11,610,000	(194,769,608)	74,840,392
Total comprehensive income for the period	-	-	(4,127,143)	(4,127,143)
Balance at March 31, 2015 (unaudited)	<u>258,000,000</u>	<u>11,610,000</u>	<u>(198,896,751)</u>	<u>70,713,249</u>
Balance at January 1, 2014	258,000,000	11,610,000	(178,244,001)	91,365,999
Total comprehensive income for the period	-	-	(4,370,179)	(4,370,179)
Balance at March 31, 2014 (unaudited)	<u>258,000,000</u>	<u>11,610,000</u>	<u>(182,614,180)</u>	<u>86,995,820</u>

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

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CASH FLOWS

For the three-month period ended March 31, 2015

	March 31, 2015	March 31, 2014
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Operating activities		
Loss for the period	(4,127,143)	(4,370,179)
Adjustments for:		
Depreciation	2,536,262	3,178,817
Provision for employees' indemnity	299,219	379,111
Provision for doubtful accounts	-	146,323
Finance revenue	(108,486)	(163,594)
Finance costs	1,234,605	1,281,912
Amortization	2,238,191	2,908,585
Loss from disposal of property and equipment	101,584	-
	<u>2,174,232</u>	<u>3,360,975</u>
Working capital changes:		
Prepayments and other current assets	(406,023)	(1,340,205)
Inventory	(2,336,091)	(127,789)
Accounts receivable	(160,586)	(263,068)
Accounts payable	(4,104,507)	638,624
Deferred revenues	(1,123,589)	(413,844)
Other current liabilities	4,241,182	1,857,726
Employees' indemnity paid	(361,788)	(197,468)
Net cash flows (used in) from operating activities	<u>(2,077,170)</u>	<u>3,514,951</u>
Investing activities		
Purchase of property and equipment and intangibles	(134,921)	(12,608)
Proceed from disposal of property and equipment	316	1,126
Increase in projects in progress	(5,972,475)	(3,479,824)
Advances to contractors	4,636,184	226,746
Interest received	108,486	163,594
Net cash flows used in investing activities	<u>(1,362,410)</u>	<u>(3,100,966)</u>
Financing activities		
Repayment of loans	(1,875,000)	-
loans transaction cost paid	(214,467)	(215,888)
Interest paid	(1,636,737)	(993,939)
Due to related parties	59,380	(5,230)
Restricted cash	49,134	62,901
Net cash flows used in financing activities	<u>(3,617,690)</u>	<u>(1,152,156)</u>
Decrease in cash and cash equivalents	(7,057,270)	(738,171)
Cash and cash equivalents, beginning of period	<u>30,063,082</u>	<u>42,323,464</u>
Cash and cash equivalents, end of period	<u><u>23,005,812</u></u>	<u><u>41,585,293</u></u>

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

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
March 31, 2015

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. On March 16, 2015, the MTIT approved to extend the term of license for additional five years.

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 March 31, 2015 were authorized for issuance by the Board of Directors on May 12, 2015.

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, 2014. The results for the period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2015.

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.

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

IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts with Customers

3. Projects in progress

The movement on projects in progress is as follows:

	March 31, 2015	December 31, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Beginning balance	26,747,644	24,735,263
Additions	3,152,239	17,206,629
Transfers to property and equipment and intangible assets	(480,690)	(14,995,985)
Impairment loss	-	(198,263)
	<u>29,419,193</u>	<u>26,747,644</u>

4. Intangible assets

The movement on intangible assets is as follows:

	License*	Software	Total
	<u>U.S. \$</u>	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Cost</u>			
At January 1, 2015	184,871,337	21,598,425	206,469,762
Additions	-	5,424	5,424
Transferred from project in progress	-	283,109	283,109
At March 31, 2015	<u>184,871,337</u>	<u>21,886,958</u>	<u>206,758,295</u>
<u>Accumulated Amortization</u>			
At January 1, 2015	51,172,074	8,445,647	59,617,721
Amortization for the period	1,489,846	748,345	2,238,191
At March 31, 2015	<u>52,661,920</u>	<u>9,193,992</u>	<u>61,855,912</u>
<u>Net carrying amount</u>			
At March 31, 2015	<u>132,209,417</u>	<u>12,692,966</u>	<u>144,902,383</u>
At December 31, 2014	<u>133,699,263</u>	<u>13,152,778</u>	<u>146,852,041</u>

* The Company started amortizing the License on November 1, 2009 being the date on which it commenced its operations. During 2014, the Ministers' Council formed a committee to review the value of the License in light of the losses incurred by the Company. During 2015 and based on committee's recommendations, the MTIT issues a presidential decree which granted the Company an extension of useful life

of the License by additional 5 years. Thus, the Company's management changed the estimated useful life of the License from 15 years to 20 years. This change has resulted in a decrease in the amortization expense for the period by U.S. \$ 768,491.

5. Cash on hand and at banks

	March 31, 2015	December 31, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Cash on hand	123,839	49,083
Cash at banks and short term deposits	<u>22,881,973</u>	<u>30,013,999</u>
	<u>23,005,812</u>	<u>30,063,082</u>

As at March 31, 2015, the Company has eleven short term deposits amounting to U.S. \$ 19,660,428 (2014: U.S. \$ 25,296,398) at local banks with an average interest rate of 1.83 % (2014: 1.98%).

6. Interest-bearing loans and borrowings

	March 31, 2015	December 31, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
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)	828,329	785,557
Accrued interest (PIF)	624,436	592,169
	<u>6,452,765</u>	<u>6,377,726</u>
Third parties' loans		
Local banks' loans	48,075,000	49,050,000
IFC loan	33,300,000	34,200,000
	<u>81,375,000</u>	<u>83,250,000</u>
Less: transaction costs directly attributable to third parties' loans	<u>(7,834,125)</u>	<u>(7,849,113)</u>
	<u>79,993,640</u>	<u>81,778,613</u>
Non-current portion	57,681,140	60,403,613
Current portion	<u>22,312,500</u>	<u>21,375,000</u>
	<u>79,993,640</u>	<u>81,778,613</u>

7. Finance costs

	March 31, 2015	March 31, 2014
	<u>U.S. \$</u>	<u>U.S. \$</u>
Interest on loans and borrowings	1,005,150	1,057,323
Amortization of transaction costs	229,455	224,589
	<u>1,234,605</u>	<u>1,281,912</u>

8. Basic and Diluted Earnings Per Share

	March 31, 2015	March 31, 2014
Loss for the period (U.S. \$)	<u>(4,127,143)</u>	<u>(4,370,179)</u>
Weighted average number of shares (Share)	<u>258,000,000</u>	<u>258,000,000</u>
Basic and diluted earnings per share (U.S. \$)	<u>(0.016)</u>	<u>(0.017)</u>

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:

	March 31, 2015	December 31, 2014
	U.S. \$	U.S. \$
Contracts and purchase orders	<u>24,817,846</u>	<u>14,515,377</u>
License *	<u>159,653,346</u>	<u>159,653,346</u>

* 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 addition, the Company's management changed the estimated useful life of the License from 15 years to 20 years. This change has resulted in a decrease in the amortization expense for the period by U.S. \$ 768,491 (Note 4).

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:

	March 31, 2015	December 31, 2014
	U.S. \$	U.S. \$
Within one year	<u>435,068</u>	<u>431,853</u>
After one year but not more than five years	<u>371,575</u>	<u>661,722</u>
	<u>806,643</u>	<u>1,093,575</u>

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:

	<u>Nature of Relationship</u>	<u>March 31, 2015</u> <u>U.S. \$</u>	<u>December 31, 2014</u> <u>U.S. \$</u>
Interest-bearing loans and borrowings	Shareholders	<u>5,000,000</u>	<u>5,000,000</u>
Due to related parties	Shareholders	<u>231,885</u>	<u>172,505</u>
Accrued interest	Shareholders	<u>1,452,765</u>	<u>1,377,726</u>

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

	<u>March 31, 2015</u> <u>U.S. \$</u>	<u>March 31, 2014</u> <u>U.S. \$</u>
Interest expense on shareholders' loans	<u>75,039</u>	<u>74,260</u>
Key management personnel compensation	<u>218,750</u>	<u>220,146</u>
Revenue from shareholders	<u>6,199</u>	<u>5,825</u>

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 as of March 31, 2015:

	<u>March 31, 2015</u> <u>U.S. \$</u>
<u>Financial assets</u>	
Accounts receivable	9,225,964
Other current assets	<u>245,668</u>
	<u>9,471,632</u>
<u>Financial liabilities</u>	
Interest-bearing loans and borrowings	79,993,640
Other non-current liability	54,346,654
Accounts payable	5,115,547
Due to related parties	231,885
Other current liabilities	24,982,545
Accrued project cost	<u>11,706,816</u>
	<u>176,377,087</u>

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 financial assets, accounts payable, due to related parties, accrued project cost, and other financial 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.