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

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, 2014, and the related interim condensed income statement, 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 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

Ernst + Young

April 30, 2014

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
As at March 31, 2014

	Notes	March 31, 2014 Unaudited U.S. $	December 31, 2013 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		42,333,943	44,819,600
Projects in progress	3	25,682,062	24,735,263
Advances to contractors		4,047,594	4,274,340
Intangible assets	4	145,550,430	148,450,379
		217,614,029	222,279,582
Current assets			
Prepayments and other current assets		2,825,648	1,485,443
Inventory		915,140	787,351
Accounts receivable		12,553,599	12,436,854
Cash on hand and at banks	5	41,971,730	42,772,802
		58,266,117	57,482,450
Total Assets		275,880,146	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		(182,614,180)	(178,244,001)
Net equity		86,995,820	91,365,999
Non-current liabilities			
Provision for employees' indemnity		6,273,176	6,005,810
Interest-bearing loans and borrowings	6	67,680,058	69,472,097
Other non-current liability		54,346,654	54,346,654
		128,299,888	129,824,561
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	17,625,000	15,750,000
Accounts payable		8,291,672	7,738,771
Due to related parties		261,538	266,768
Deferred revenues		5,556,302	5,970,146
Other current liabilities		20,835,065	18,988,215
Accrued project cost		8,014,861	9,857,572
		60,584,438	58,571,472
Total liabilities		188,884,326	188,396,033
Total Equity and Liabilities		275,880,146	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 period ended March 31, 2014

	Notes	March 31, 2014 Unaudited U.S. $	March 31, 2013 Unaudited U.S. $
Revenue		21,292,134	20,383,480
Cost of service		(12,317,486)	(11,270,905)
		8,974,648	9,112,575
Finance revenue		163,594	136,013
Currency exchange loss		(18,325)	(81,249)
General and administrative expenses		(5,104,259)	(5,964,347)
Marketing expenses		(870,200)	(1,158,003)
Depreciation and amortization		(6,087,402)	(6,294,461)
Finance costs	7	(1,281,912)	(1,288,771)
Provision for doubtful accounts		(146,323)	(752,116)
Loss for the period		(4,370,179)	(6,290,359)
Basic and diluted earnings per share	8	(0.017)	(0.024)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month period ended March 31, 2014

	March 31, 2014	March 31, 2013
	Unaudited	Unaudited
	U.S. $	U.S. $
Loss for the period	(4,370,179)	(6,290,359)
Other comprehensive income for the period	-	-
Total loss and comprehensive income for the period	(4,370,179)	(6,290,359)

INTERIM STATEMENT OF CHANGES IN EQUITY
For the three-month period ended March 31, 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	-	-	(4,370,179)	(4,370,179)
Balance at March 31, 2014 (unaudited)	258,000,000	11,610,000	(182,614,180)	86,995,820
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	-	-	(6,290,359)	(6,290,359)
Balance at March 31, 2013 (unaudited)	258,000,000	11,610,000	(163,209,478)	106,400,522

INTERIM STATEMENT OF CASH FLOWS
For the three-month period ended March 31, 2014

	March 31, 2014	March 31, 2013
	Unaudited	Unaudited
Operating activities	U.S. $	U.S. $
Loss for the period	(4,370,179)	(6,290,359)
Adjustments for:		
Depreciation	3,178,817	3,531,265
Provision for employees' indemnity	379,111	623,718
Provision for doubtful account	146,323	752,116
Finance revenue	(163,594)	(136,013)
Finance costs	1,281,912	1,288,771
Amortization	2,908,585	2,763,196
	3,360,975	2,532,694
Working capital changes:		
Prepayments and other current assets	(1,340,205)	386,251
Inventory	(127,789)	238,713
Accounts receivable	(263,068)	843,535
Accounts payable	638,624	(3,282,723)
Deferred revenues	(413,844)	380,540
Other current liabilities	1,857,726	(1,880,746)
Provision for employees' indemnity paid	(197,468)	-
Net cash flows from (used in) operating activities	3,514,951	(781,736)
Investing activities		
Purchase of property and equipment and intangibles	(12,608)	(265,402)
Proceed from disposal of property and equipment	1,126	-
Increase in projects in progress	(3,479,824)	(2,274,726)
Advances to contractors	226,746	(425,876)
Interest received	163,594	136,013
Restricted cash	62,901	-
Net cash flows used in investing activities	(3,038,065)	(2,829,991)
Financing activities		
Syndicated loan transaction cost paid	(215,888)	(426,570)
Interest paid	(993,939)	(988,761)
Due to related parties	(5,230)	6,750
IPO oversubscription paid	-	(989)
Net cash flows used in financing activities	(1,215,057)	(1,409,570)
Decrease in cash and cash equivalents	(738,171)	(5,021,297)
Cash and cash equivalents, beginning of period	42,323,464	44,599,394
Cash and cash equivalents, end of period	41,585,293	39,578,097

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 March 31, 2014 were authorized for issuance by the Board of Directors on April 30, 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 March 31, 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.

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, 2014	December 31, 2013
	U.S. $	U.S. $
Beginning balance	24,735,263	19,576,928
Additions	1,637,113	11,404,966
Transfers to property and equipment and intangible assets	(690,314)	(6,246,631)
	25,682,062	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	-	5,736	5,736
Transferred from Project in Progress	-	2,900	2,900
At March 31, 2014	184,871,337	11,953,048	196,824,385
Accumulated Amortization			
At January 1, 2014	42,013,264	6,352,106	48,365,370
Amortization for the period	2,258,337	650,248	2,908,585
At March 31, 2014	44,271,601	7,002,354	51,273,955
Net carrying amount			
At March 31, 2014	140,599,736	4,950,694	145,550,430
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

	March 31, 2014	December 31, 2013
	U.S. $	U.S. $
Cash on hand	160,801	59,128
Cash at banks and short term deposits	41,810,929	42,713,674
	41,971,730	42,772,802

As at March 31, 2014, the Company has eleven short term deposits amounting to U.S. $ 37,766,833 (2013: U.S. $ 38,235,979) at local banks with an annual interest rate of 1.68% (2013: 1.66%).

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following as at March 31, 2014 and 2013:

	March 31, 2014	March 31, 2013
	U.S. $	U.S. $
Cash on hand	160,801	110,602
Cash at banks and short term deposits	41,810,929	39,467,495
	41,971,730	39,578,097
Restricted cash	(386,437)	-
	41,585,293	39,578,097

6. Interest-bearing loans and borrowings

	March 31, 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)	656,202	613,874
Accrued interest (PIF)	494,585	462,653
	6,150,787	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	(7,845,729)	(7,854,430)
	85,305,058	85,222,097
Non-current portion	67,680,058	69,472,097
Current portion	17,625,000	15,750,000
	85,305,058	85,222,097

7. Finance costs

	March 31, 2014	March 31, 2013
	U.S. $	U.S. $
Interest on loans and borrowings	1,057,323	1,079,805
Amortization of transaction costs	224,589	208,966
	1,281,912	1,288,771

8. Basic and Diluted Earnings Per Share

	March 31, 2014	March 31, 2013
Loss for the period (U.S. $)	(4,370,179)	(6,290,359)
Weighted average for subscribed capital during the period (Shares)	258,000,000	258,000,000
Basic and diluted earnings per share (U.S. $)	(0.017)	(0.024)

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, 2014	December 31, 2013
	U.S. $	U.S. $
Contracts and purchase orders	7,648,678	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:

	March 31, 2014	December31, 2013
	U.S. $	U.S. $
Within one year	422,396	419,274
After one year but not more than five years	769,485	876,661
	1,191,881	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	March 31, 2014	December 31, 2013
		U.S. $	U.S. $
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Due to related parties	Shareholders	261,538	266,768
Accounts receivable	Shareholders	2,020	6,273
Accrued interest	Shareholders	1,150,787	1,076,527

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

	March 31, 2014	March 31, 2013
	U.S. $	U.S. $
Interest expense on shareholders' loans	74,260	75,079
Key management personnel compensation	220,146	210,877
Revenue from shareholders	5,825	5,614

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, 2014:

	March 31, 2014
	U.S. $
Financial assets	
Accounts receivable	12,553,599
Other current assets	1,028,188
	13,581,787
Financial liabilities	
Interest-bearing loans and borrowings	85,305,058
Other non-current liability	54,346,654
Accounts payable	8,291,672
Due to related parties	261,538
Other current liabilities	20,835,065
Accrued project cost	8,014,861
	177,054,848

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.
- Interest bearing loan and borrowings and other noncurrent liabilities The fair value of interest-bearing loans and borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.