Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company

Financial Statements
December 31, 2014

EY
Building a better working world

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

Tel: +972 2 242 1011
Fax: +972 2 242 2324
www.ey.com

90 Years in MENA

Independent auditors' report to the shareholders of
Wataniya Palestine Mobile Telecommunication - Public Shareholding Company

We have audited the accompanying financial statements of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company), which comprise the statement of financial position as of December 31, 2014 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management 's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

February 11, 2015

STATEMENT OF FINANCIAL POSITION
As of December 31, 2014

	Notes	2014 U.S. $	2013 U.S. $
Assets			
Non-current assets			
Property and equipment, net	3	36,678,282	44,819,600
Intangible assets	4	146,852,041	148,450,379
Projects in progress	5	26,747,644	24,735,263
		210,277,967	218,005,242
Current assets			
Advances to contractors		12,436,614	4,274,340
Prepayments and other current assets	6	1,658,619	1,485,443
Inventory	7	1,559,457	787,351
Accounts receivable	8	9,065,378	12,436,854
Cash on hand and at banks	9	33,182,237	42,772,802
		57,902,305	61,756,790
Total Assets		268,180,272	279,762,032
Equity and liabilities			
Equity			
Paid-in share capital	10	258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(194,769,608)	(178,244,001)
Net equity		74,840,392	91,365,999
Non-current liabilities			
Provision for employees' indemnity	11	6,737,119	6,005,810
Interest-bearing loans and borrowings	12	60,403,613	69,472,097
Other non-current liability	4	54,346,654	54,346,654
		121,487,386	129,824,561
Current liabilities			
Current portion of interest-bearing loans and borrowings	12	21,375,000	15,750,000
Accounts payable		9,294,855	7,738,771
Due to related parties	13	172,505	266,768
Deferred revenues		5,035,093	5,970,146
Other current liabilities	14	21,447,989	18,988,215
Accrued project cost	15	14,527,052	9,857,572
		71,852,494	58,571,472
Total liabilities		193,339,880	188,396,033
Total Equity and Liabilities		268,180,272	279,762,032

The attached notes 1 to 26 form part of these financial statements

STATEMENT OF PROFIT OR LOSS
For the year ended December 31, 2014

	Notes	2014 U.S. $	2013 U.S. $
Revenue		85,310,995	89,214,709
Cost of services		(47,423,328)	(49,231,752)
		37,887,667	39,982,957
Finance revenues		607,695	625,615
Currency exchange gain (loss)		985,912	(85,869)
General and administrative expenses	16	(19,610,290)	(24,527,533)
Marketing expenses	18	(5,226,196)	(5,550,733)
Depreciation and amortization	3,4	(24,395,314)	(25,480,640)
Finance costs	17	(5,166,689)	(5,226,572)
Impairment loss of property and equipment	3,5	(1,345,852)	-
Provision for doubtful accounts	8	(262,540)	(1,062,107)
Loss for the year		(16,525,607)	(21,324,882)
Basic and diluted earnings per share	19	(0.06)	(0.08)

STATEMENT OF COMPREHENSIVE INCOME
For the year ended December 31, 2014

	2014	2013
	U.S. $	U.S. $
Loss for the year	(16,525,607)	(21,324,882)
Other comprehensive income for the year	-	-
Total loss and comprehensive income for the year	(16,525,607)	(21,324,882)

The attached notes 1 to 26 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
For the year ended December 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 comprehensive income for the year	-	-	(16,525,607)	(16,525,607)
Balance at December 31, 2014	258,000,000	11,610,000	(194,769,608)	74,840,392
Balance at January 1, 2013	258,000,000	11,610,000	(156,919,119)	112,690,881
Total comprehensive income for the year	-	-	(21,324,882)	(21,324,882)
Balance at December 31, 2013	258,000,000	11,610,000	(178,244,001)	91,365,999

STATEMENT OF CASH FLOWS
For the year ended December 31, 2014

	Note	2014 U.S. $	2013 U.S. $
Operating activities			
Loss for the year		(16,525,607)	(21,324,882)
Adjustments for:			
Depreciation		13,142,963	14,037,060
Provision for employees' indemnity		1,780,134	2,476,676
Provision for doubtful accounts		262,540	1,062,107
(Gain) Loss on disposal of property and equipment and intangibles		(33,546)	91,883
Impairment loss of property and equipment		1,345,852	-
Finance revenues		(607,695)	(625,615)
Finance costs		5,166,689	5,226,572
Amortization		11,252,351	11,443,580
Non-cash items		(26,263)	214,777
		15,757,418	12,602,158
Working capital changes:			
Prepayments and other current assets		(173,176)	4,036,726
Inventory		(772,106)	522,427
Accounts receivable		2,361,848	(1,823,211)
Accounts payable		1,880,696	492,152
Deferred revenue		(935,053)	1,930,863
Other current liabilities		2,439,073	3,043,518
Employees' indemnity paid		(600,086)	(333,167)
Net cash flows from operating activities		19,958,614	20,471,466
Investing activities			
Purchase of property and equipment		(650,957)	(1,087,691)
Purchase of Intangible assets		(259,205)	(1,675,136)
Proceeds from disposal of property and equipment		136,446	30,166
Increase in projects in progress		(12,537,149)	(10,672,946)
Advances to contractors		(8,162,274)	(3,616,725)
Interest received		607,695	625,615
Net cash flows used in investing activities		(20,865,444)	(16,396,717)
Financing activities			
Repayment of syndicated loan		(3,750,000)	-
Syndicated loan transaction costs paid		(911,120)	(1,327,139)
Interest paid		(3,928,352)	(4,677,881)
Due to related parties		(94,263)	103,679
Restricted cash		(2,669,817)	(449,338)
Net cash flows used in from financing activities		(11,353,552)	(6,350,679)
Decrease in cash and cash equivalents		(12,260,382)	(2,275,930)
Cash and cash equivalents, Beginning of year		42,323,464	44,599,394
Cash and cash equivalents, End of year	9	30,063,082	42,323,464

The attached notes 1 to 26 form part of these 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 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 financial statements of the Company as of December 31, 2014 were authorized for issue in accordance with the Board of Directors resolution on February 11, 2015.

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards.

The financial statements are presented in United States Dollar, which is the functional currency of the Company.

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in the operational existence for the foreseeable future.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following new and amended IFRS's and IAS's effective January 1, 2014:

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognizes 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.

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

Adoption of these standards and interpretations did not have any effect on the results of operations or financial position of 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
IFRS 14 Regulatory Deferral account
IFRS 15 Revenue from Contracts with Customers

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgment or complexity are described below:

Interconnection revenues and costs

The Company's management uses certain estimates to determine the amount of interconnection revenues, costs, receivables, and payables.

Useful lives of tangible and intangible assets

The Company's management reassesses the useful lives of tangible and intangible assets, and adjusts if applicable, at each financial year end.

Provision for doubtful debts

The company provides services to a broad based clients, mainly on credit terms. Estimates, based on the company's historical experience, are used in determining the level of debts that the company believes will not be collected.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received, excluding discounts and sales commissions. The following specific recognition criteria must also be met before revenue is recognized:

<u>Rendering of services</u>

Revenues from airtime are recognized when the service is rendered. Sales of prepaid cellular phone cards are recorded as deferred revenues until recognized as revenues.

<u>Equipment sales</u>

Revenues from sale of cellular phone sets are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be reliably measured.

<u>Interest income</u>

Interest income is recognized as interest accrues using the effective interest rate.

Expenses recognition

Expenses are recognized when incurred based on the accrual basis of accounting.

Income tax

According to the Palestinian Investment Promotion Agency certificate issued on October 27, 2009, the Company was granted the right to benefit from the Palestinian Law for Encouragement of Investment. Accordingly, the Company is granted full exemption from income tax for a period of five years starting from the year in which the Company commenced its operations. During 2012, the right for this exemption was deferred for a period of two years ending December 31, 2013. Therefore, the exemption is extended until 2016.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Useful Lives (years)
Network equipment	8
Network infrastructure	8
Computers	3-5
Office equipment	2-5
Furniture and fixtures	4
Leasehold improvements	5

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized, and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditures are recognized in the statement of profit or loss as the expense is incurred.

Projects in progress

Projects in progress comprise costs of direct labor, direct materials, equipment, and contractors' costs. After completion, projects in progress are transferred to property and equipment and intangible assets.

The carrying values of projects in progress are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the projects are written down to their recoverable amount.

Inventories

Inventories are stated at the lower of cost and net realizable value; cost is determined using the weighted average method. Costs are those amounts incurred in bringing each product to its present location and condition.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full or part of the amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Impairment and uncollectibility of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of profit or loss. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the statement of profit or loss;
- For assets carried at cost, impairment is the difference between carrying value and present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of restricted cash.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Loans and borrowings

Loans and borrowings are initially recognized at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets

The Company's main intangible asset is the license agreement with the Ministry of Telecommunications and Information Technology. The term of the license is fifteen years from the effective date of September 10, 2009, being the date on which the frequencies to launch operations in the West Bank were made available to the Company.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Foreign currencies

Transactions denominated in currencies other than U.S. $, occurring during the period, are translated to U.S. $ using the exchange rate at the date of the transaction. Monetary assets and liabilities, which are denominated in foreign currencies are translated into U.S. $ using the rate of exchange at the statement of financial position date. Gains or losses arising from exchange differences are reflected in the statement of profit or loss.

3. Property and equipment

2014	Network equipment U.S. $	Network infrastructure U.S. $	Computers U.S. $	Office equipment U.S. $	Furniture and fixtures U.S. $	Leasehold improvements U.S. $	Others U.S. $	Total U.S. $
Cost								
At January 1, 2014	52,799,932	21,598,446	14,234,854	1,582,693	1,800,071	5,800,179	32,310	97,848,485
Additions	2,832,508	120,396	2,373,670	321,544	199,160	403,528	1,328	6,252,134
Disposals	(43,844)	(78,813)	(948,264)	(79,524)	(21,858)	(153,506)	-	(1,325,809)
At December 31, 2014	55,588,596	21,640,029	15,660,260	1,824,713	1,977,373	6,050,201	33,638	102,774,810
Accumulated depreciation and impairment								
At January 1, 2014	24,736,196	10,203,277	12,013,887	997,940	870,876	4,176,837	29,872	53,028,885
Impairment loss*	1,147,589	-	-	-	-	-	-	1,147,589
Depreciation charge for the year	7,592,138	2,730,227	1,146,994	421,709	320,111	930,163	1,621	13,142,963
Disposals	(12,183)	(46,208)	(930,998)	(72,419)	(20,597)	(140,504)	-	(1,222,909)
At December 31, 2014	33,463,740	12,887,296	12,229,883	1,347,230	1,170,390	4,966,496	31,493	66,096,528
Net carrying amount								
At December 31, 2014	**22,124,856**	**8,752,733**	**3,430,377**	**477,483**	**806,983**	**1,083,705**	**2,145**	**36,678,282**

* This item represents an impairment loss recognized from property and equipment. The loss was recognized as a result of the obsolescence of network equipment parts. The total cost of impaired assets was U.S. $ 4,480,387.

2013	Network equipment U.S. $	Network infrastructure U.S. $	Computers U.S. $	Office equipment U.S. $	Furniture and fixtures U.S. $	Leasehold improvements U.S. $	Others U.S. $	Total U.S. $
Cost								
At January 1, 2013	51,740,063	21,252,628	12,645,988	1,346,905	1,160,247	5,424,678	31,878	93,602,387
Additions	1,078,248	504,758	1,601,621	310,741	646,033	406,888	828	4,549,117
Disposals	(18,379)	(158,940)	(12,755)	(74,953)	(6,209)	(31,387)	(396)	(303,019)
At December 31, 2013	**52,799,932**	**21,598,446**	**14,234,854**	**1,582,693**	**1,800,071**	**5,800,179**	**32,310**	**97,848,485**
Accumulated depreciation								
At January 1, 2013	17,904,770	7,570,296	9,286,989	692,597	602,202	3,087,823	28,118	39,172,795
Depreciation charge for the year	6,838,895	2,711,789	2,733,514	362,325	274,400	1,114,317	1,820	14,037,060
Disposals	(7,469)	(78,808)	(6,616)	(56,982)	(5,726)	(25,303)	(66)	(180,970)
At December 31, 2013	24,736,196	10,203,277	12,013,887	997,940	870,876	4,176,837	29,872	53,028,885
Net carrying amount								
At December 31, 2013	**28,063,736**	**11,395,169**	**2,220,967**	**584,753**	**929,195**	**1,623,342**	**2,438**	**44,819,600**

4. Intangible assets

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 West Bank and Gaza for the total price of U.S. $354,000,000. The term of the License is fifteen years from the effective date, being the date on which the frequencies to enable launch of operations in West Bank were allocated 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 the frequencies were actually allocated.

An amount of U.S. $140,000,000 of the total license price was paid by the Company on August 6, 2008. The remaining price of the license of U.S. $214,000,000 is to be paid in two installments of U.S. $80,000,000 and U.S. $134,000,000 upon reaching certain subscribers milestones and provided that the MTIT fulfills its obligations to enable the Company to provide 2G and 3G services in West Bank and Gaza as stated in the license agreement.

The Company's license includes West Bank and Gaza. The MTIT notified the Company that it can start operations in West Bank; however, the Company's right to use the frequencies in Gaza was delayed until further notice.

Therefore, the license price of U.S. $354,000,000 was allocated between West Bank and Gaza based upon the split of addressable markets in both territories and assumed subscribers and revenues for each territory. The portion of the license price relating to West Bank was estimated at U.S. $ 212,400,000, of which U.S. $140,000,000 was paid on August 6, 2008. The remaining amount of U.S. $ 72,400,000 was deferred. The portion of the license price of U.S. $ 141,600,000 relating to Gaza was not recognized in the financial statements as the Company was not granted access to launch services in Gaza. The deferred portion was initially recorded as other non-current liability at its fair value of U.S. $ 44,871,337 calculated by discounting the U.S. $ 72,400,000 to its present value using an interest rate of 8%, which approximated the Company's borrowing interest rate. The deferred portion of the price was subsequently measured at amortized cost using the effective interest method. The intangible asset was initially recorded at U.S. $ 184,871,337 being the total of the payment made on the effective date of U.S. $ 140,000,000 and the present value of the deferred portion of U.S. $ 44,871,337.

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 Ministers' Council formed a committee to review the value of the License in light of the losses incurred by the Company.

The Company started amortizing the License on November 1, 2009 being the date on which it commenced its operations.

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 during the year	-	9,654,013	9,654,013
At December 31, 2014	184,871,337	21,598,425	206,469,762
Accumulated Amortization			
At January 1, 2014	42,013,264	6,352,106	48,365,370
Amortization for the year	9,158,810	2,093,541	11,252,351
At December 31, 2014	51,172,074	8,445,647	59,617,721
Net carrying amount			
At December 31, 2014	133,699,263	13,152,778	146,852,041
At December 31, 2013	142,858,073	5,592,306	148,450,379

5. Projects in progress

	2014	2013
	U.S. $	U.S. $
Network	22,771,066	17,437,173
Billing system	1,728,605	5,300,728
Capitalized interest cost	1,452,298	809,865
Data center expansion phase	333,035	295,430
Network infrastructure	216,583	175,476
Renovations	131,911	438,924
Sites electricity	1,763	25,463
Others	112,383	252,204
	26,747,644	24,735,263

The movement on projects in progress is as follows:

	2014	2013
	U.S. $	U.S. $
Beginning balance	24,735,263	19,576,928
Additions	17,206,629	11,404,966
Transferred to property and equipment and intangible assets	(14,995,985)	(6,246,631)
Impairment loss	(198,263)	-
Ending Balance	26,747,644	24,735,263

The estimated cost to complete the above projects as of December 31, 2014 is U.S. $ 15,160,727.

6. Prepayments and other current assets

	2014	2013
	U.S. $	U.S. $
Prepaid sites' rent	635,002	656,067
Prepaid warranty	381,517	386,931
Prepaid insurance	200,021	33,609
Prepaid advertisement	144,096	10,222
Prepaid rent expense	93,060	84,292
Due from employees	58,396	70,873
Prepaid software license	6,509	23,092
Other	140,018	220,357
	1,658,619	1,485,443

7. Inventory

	2014	2013
	U.S. $	U.S. $
Handsets	651,430	215,452
Accessories	635,471	303,756
Sim cards	107,219	114,321
Scratch cards	165,337	153,822
	1,559,457	787,351

8. Accounts receivable

	2014	2013
	U.S. $	U.S. $
Receivables from subscribers	8,416,979	10,913,706
Interconnection partners	5,301,637	4,297,680
Roaming partners and other receivables	1,588,049	3,951,303
	15,306,665	19,162,689
Allowance for doubtful accounts	(6,241,287)	(6,725,835)
	9,065,378	12,436,854

Following is a summary of the movement on the provision for doubtful accounts during the year:

	2014	2013
	U.S. $	U.S. $
Beginning Balance	6,725,835	5,220,354
Provision for the year	262,540	1,062,107
Foreign currency difference	(747,088)	443,374
Ending Balance	6,241,287	6,725,835

As at December 31, 2014, the aging analysis of the unimpaired trade receivables is as follows:

		Past due but not impaired					
	Not due	1-30 days	31-60 days	61-90 days	91-120 days	More than 120 days	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2014	1,984,137	774,995	557,919	577,722	420,145	4,750,460	9,065,378
2013	5,819,900	1,177,426	370,870	179,326	991,908	3,897,424	12,436,854

The Company expects to recover all unimpaired receivables.

9. Cash and cash equivalents

	2014	2013
	U.S. $	U.S. $
Cash on hand	49,083	59,128
Cash at banks and short term deposits	33,133,154	42,713,674
	33,182,237	42,772,802

As of December 31, 2014, the Company has eleven short term deposits amounting to U.S. $ 25,296,398 (2013: U.S. $ 38,235,979) at local banks with an average interest rate of 1.98% (2013: 1.66%).

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

	2014	2013
	U.S. $	U.S. $
Cash on hand	49,083	59,128
Cash at banks and short term deposits	33,133,154	42,713,674
	33,182,237	42,772,802
Restricted cash*	(3,119,155)	(449,338)
	30,063,082	42,323,464

* This balance represents as of December 31, 2014 an amount of U.S. $2,842,617 restricted in relation to the syndicated loan agreement (Note 12) and an amount of U.S. $ 276,538 in relation to a letter of credit granted from a local bank to the Company.

10. Paid-in share capital

	2014	2013
	U.S. $	U.S. $
Wataniya International FZ – LLC (WIL)	125,001,000	125,001,000
Palestine Investment Fund, PLC (PIF)	87,794,885	87,794,885
Public shareholders	45,204,115	45,204,115
	258,000,000	258,000,000

11. Provision for employees' indemnity

	Employees' indemnity	Provident fund	Total
	U.S. $	U.S. $	U.S. $
2014			
Balance, beginning of year	4,351,284	1,654,526	6,005,810
Additions	1,153,750	950,996	2,104,746
Payments during the year	(460,537)	(139,549)	(600,086)
Currency exchange	(622,352)	(150,999)	(773,351)
Balance, end of year	4,422,145	2,314,974	6,737,119
2013			
Balance, beginning of year	2,857,668	956,289	3,813,957
Additions	1,756,605	997,012	2,753,617
Payments during the year	(246,474)	(86,693)	(333,167)
Currency exchange	(16,515)	(212,082)	(228,597)
Balance, end of year	4,351,284	1,654,526	6,005,810

12. Interest-bearing loans and borrowings

	2014	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)	785,557	613,874
Accrued interest (PIF)	592,169	462,653
	6,377,726	6,076,527
Third parties' loans		
Local banks' loans **	49,050,000	51,000,000
IFC loan**	34,200,000	36,000,000
	83,250,000	87,000,000
Less: transaction costs directly attributable to third parties' loans***	(7,849,113)	(7,854,430)
	81,778,613	85,222,097
Non-current portion	60,403,613	69,472,097
Current portion	21,375,000	15,750,000
	81,778,613	85,222,097

* On June 22, 2010, the Company entered into a loan agreement with its shareholders for a total amount of U.S. $ 30,000,000. The loan includes an unsubordinated portion of U.S $ 5,000,000 and a subordinated portion of U.S. $ 25,000,000. The loan bears annual interest rate of LIBOR plus 5.85%. The loan and the interest of the subordinated portion are had been converted to equity during the year 2010. The repayment of the loan and interest of the unsubordinated portion is to be made when the Company has the financial ability to make payment.

On September 3, 2014, the Company amended the agreement and increased the unutilized loan balance to become U.S. $ 35,000,000.

** On May 31, 2012, the Company signed new syndicated loan (the Loan) agreements with various lenders for a total amount of U.S. $ 125,000,000 to finance the expansion of the existing network in West Bank, the launch and development of the network in Gaza and its operations and to repay the old syndicated loan. The loan was divided to three phases, the first phase is related to refinancing and West bank operations, the second phase is related to Gaza operations and will not be utilized until the approval is obtained to release the network equipment to Gaza, and the third phase will be utilized when the 3G frequencies will be obtained. During December 2012, the Company received U.S. $ 75,000,000 and repaid the utilized balance of the old syndicated loan and related interest. On January 30, 2014, the Company cancelled the third phase with total amount of U.S. $ 10,000,000. The Loan bears annual interest rate of 3 months LIBOR plus 5% and repayable in quarterly installments commencing September 15, 2014 and ending June 15, 2019. The Company will be subject to 2% as commitment fees on the non-utilized portion of the loan.

On December 9, 2012, the Company signed an agreement with a local bank to finance the network equipment purchased for Gaza with a total amount of U.S. $ 12,000,000; the Company will repay this amount upon commencement of the second phase of the syndicated loan but not after December 9, 2013. The loan bears annual interest rate of 3 months LIBOR plus 5.25%. On December 9, 2014, the Company extended the repayment date till December 9, 2015.

Following is the third parties' loans principal maturities for the utilized balance:

	U.S. $
Matures during 2015	21,375,000
	21,375,000
Matures during 2016	15,000,000
2017	18,750,000
2018	18,750,000
2019	9,375,000
	61,875,000
	83,250,000

*** This item represents legal and other fees directly attributable to loans and borrowings that were incurred in relation to the loan agreements with the respective financial institutions.

13. Due to related parties

	2014	2013
	U.S. $	U.S. $
Ooredoo Group LLC	172,505	266,768
	172,505	266,768

14. Other current liabilities

	2014	2013
	U.S. $	U.S. $
Accrued license fees*	6,068,938	4,504,423
Accrued interconnection and roaming cost	3,398,144	2,391,224
Accrued sales commission	2,287,095	1,912,450
Bonus	1,070,421	2,039,274
Accrued interest and commitment fees	922,802	268,269
Marketing costs	880,951	648,983
Due to VAT	533,666	371,647
Employees vacations	400,129	471,268
Payroll tax	291,228	250,844
Accrued transaction costs attributable to issuance of shares	23,351	20,721
Other	5,571,264	6,109,112
	21,447,989	18,988,215

* This item represents the license fee payable to Palestine National Authority at 7% of the Company's annual gross service revenues.

15. Accrued project cost

This account represents the accrued cost for the projects in progress (Note 5).

16. General and administrative expenses

	2014	2013
	U.S. $	U.S. $
Salaries and related expenses	11,673,567	15,225,642
Rent	1,752,718	1,833,641
System support	1,719,179	2,244,270
Accommodation, travel and transportation	716,156	904,311
Warehousing and logistics	608,000	626,000
Water, electricity and fuel	476,171	419,913
Professional and consulting fees	476,037	772,881
Insurance	378,974	308,270
Software license expense	180,164	230,370
Security services	158,300	181,092
Subscription fees	166,249	95,222
Maintenance	114,972	100,348
Telephone, fax and mail	85,791	111,639
Bank charges	65,201	58,680
Stationery and supplies	14,155	22,506
Other	1,024,656	1,392,748
	19,610,290	24,527,533

17. Finance costs

	2014	2013
	U.S. $	U.S. $
Interest on loans and borrowings	4,250,252	4,348,108
Amortization of transaction costs	916,437	878,464
	5,166,689	5,226,572

18. Marketing expenses

	2014	2013
	U.S. $	U.S. $
Media advertisements	2,253,316	2,443,375
Sponsorships	1,014,917	1,068,323
Promotions	759,654	638,063
Research	389,566	447,050
Designs and exhibitions	168,651	183,624
Other marketing expenses	640,092	770,298
	5,226,196	5,550,733

19. Basic and Diluted Earnings Per Share

	2014	2013
Loss for the year (U.S. $)	(16,525,607)	(21,324,882)
Weighted average number of shares (Share)	258,000,000	258,000,000
Basic and diluted loss per share (U.S. $)	(0.06)	(0.08)

20. 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:

	2014	2013
	U.S. $	U.S. $
Contracts and purchase orders	14,515,377	12,938,076
License*	159,653,346	159,653,346

* As disclosed in (Note 4) to the financial statements, 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 and 3G frequencies.

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 for a total amount of U.S. $ 2,633,046 with an option to renew the contract.

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

	U.S. $
Within one year	431,853
After one year but not more than five years	661,722
	1,093,575

21. 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	2014	2013
		U.S. $	U.S. $
Interest-bearing loans and borrowings (note 12)	Shareholder	5,000,000	5,000,000
Due to related parties (note 13)	Shareholder	172,505	266,768
Accounts receivable	Shareholder	-	6,273
Accrued interest	Shareholder	1,377,726	1,076,527

Transactions with related parties included in the statement of profit or loss were as follows:

	2014	2013
	U.S. $	U.S. $
Finance costs	301,199	303,329
Key management personnel compensation	135,110	973,089
Revenue from shareholders	16,367	10,589

22. Fair value of financial instruments

Financial instruments comprise of financial assets and financial liabilities.

	Carrying Value	Fair Value
	U.S. $	U.S. $
Financial assets		
Accounts receivable	9,065,378	9,065,378
Other current assets	198,414	198,414
	9,263,792	9,263,792
Financial liabilities		
Interest-bearing loans and borrowings	81,778,613	81,778,613
Other non-current liability	54,346,654	54,346,654
Accounts payable	9,294,855	9,294,855
Due to related parties	172,505	172,505
Other current liabilities	21,447,989	21,447,989
Accrued project cost	14,527,052	14,527,052
	181,567,668	181,567,668

Financial assets consist of cash on hand and cash at banks, accounts receivable and some other current assets. Financial liabilities consist of accounts payable, interest-bearing loans, other non-current liability, due to related parties, some other current liabilities, and accrued project cost. The fair values of financial assets and financial liabilities approximate their carrying amounts.

23. Risk management

Interest rate risk

The Company is exposed to interest rate risk on its interest-bearing assets and liabilities (short term bank deposits and Interest bearing loan and borrowings). The following table demonstrates the sensitivity of the statement of profit or loss to reasonably possible changes in interest rates, with all other variables held constant.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the Company's profit for one year, based on the floating rate financial assets and financial liabilities held at December 31, 2014. There is no direct impact on the Company's equity.

	Increase/ decrease in basis points	Effect on statement of profit or loss for the year U.S. $
2014		
U.S. $	+15	(84,487)
U.S. $	-10	56,325
2013		
U.S. $	+15	(68,864)
U.S. $	-10	45,910

Foreign currency risk

The analysis calculates the effect of a reasonably possible movement of the U.S. $ currency rate against the Israeli Shekel (ILS), with all other variables held constant, on the statement of profit or loss.

	Increase/ decrease in ILS rate to U.S. $	Effect on Statement of profit or loss for the year U.S. $
2014		
U.S. $	+5%	(153,666)
U.S. $	-5%	153,666
2013		
U.S. $	+5%	2,858
U.S. $	-5%	(2,858)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Most of the Company's customers are prepaid card customers. The maximum exposure with respect to customers is the carrying amount as disclosed in (Note 8).

With respect to credit risk arising from the other financial assets, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

Liquidity risk

The Company limits its liquidity risk by securing bank loans and funding from shareholders.

The table below summarizes the maturities of the Company's undiscounted financial liabilities at December 31, 2014, based on contractual payment dates and current market interest rates.

December 31, 2014	Less than 3 months U.S. $	3 to 12 months U.S. $	1- 5 years U.S. $	Total U.S. $
Interest-bearing loans and borrowings	2,789,709	22,559,414	65,417,645	90,766,768
Accounts payable	9,294,855	-	-	9,294,855
Due to related parties	-	172,505	-	172,505
Other current liabilities	-	21,447,989	-	21,447,989
Other noncurrent liabilities	-	-	54,346,654	54,346,654
Total liabilities	12,084,564	44,179,908	119,764,299	176,028,771

December 31, 2013	Less than 3 months U.S. $	3 to 12 months U.S. $	1- 5 years U.S. $	Over 5 years U.S. $	Total U.S. $
Interest-bearing loans and borrowings	1,224,015	19,348,315	76,442,458	9,436,441	106,451,229
Accounts payable	7,738,771	-	-	-	7,738,771
Due to related parties	-	266,768	-	-	266,768
Other current liabilities	-	18,988,215	-	-	18,988,215
Other noncurrent liabilities	-	-	54,346,654	-	54,346,654
Total liabilities	8,962,786	38,603,298	130,789,112	9,436,441	187,791,637

24. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the year ended December 31, 2014 and the year ended December 31, 2013. Capital comprises paid-in share capital, share premium and accumulated losses, and is measured at U.S.$ 74,840,392 as at December 31, 2014 (2013: U.S.$ 91,365,999).

25. Concentration of risk in geographic area

The Company is carrying out the majority of its activities in Palestine. The political and economic situation in the area increases the risk of carrying out business and may adversely affect the performance.

26. Comparative figures

Some of the 2013 balance sheet items were reclassified to conform with the presentation of the current year's balance sheet. The reclassification has no effect on the loss for the year 2014.