Wataniya Palestine Mobile Telecommunication

Public Shareholding Company

Financial Statements

December 31, 2015

Building a better working world

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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, 2015 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 determines 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, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young – Middle East
License # 206/2012

Ernst + Young

Maher Abushaaban
License # 155/1998

March 22, 2016
Ramallah – Palestine

STATEMENT OF FINANCIAL POSITION
As of December 31, 2015

	Notes	2015 U.S. $	2014 U.S. $
Assets			
Non-current assets			
Property and equipment	3	32,064,736	36,678,282
Intangible assets	4	141,411,559	146,852,041
Projects in progress	5	30,049,245	26,747,644
		203,525,540	210,277,967
Current assets			
Advances to contractors		6,887,119	12,436,614
Restricted cash	6	4,001,936	3,119,155
Prepayments and other current assets	7	1,603,932	1,658,619
Inventory	8	3,927,813	1,559,457
Accounts receivable	9	8,100,789	9,065,378
Cash on hand and at banks	10	19,153,712	30,063,082
		43,675,301	57,902,305
Total Assets		247,200,841	268,180,272
Equity and liabilities			
Equity			
Paid-in share capital	11	258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(199,906,943)	(194,769,608)
Net equity		69,703,057	74,840,392
Non-current liabilities			
Provision for employees' indemnity	12	4,301,824	6,737,119
Interest-bearing loans and borrowings	13	45,743,645	60,403,613
Other non-current liability	4	54,346,654	54,346,654
		104,392,123	121,487,386
Current liabilities			
Current portion of interest-bearing loans and borrowings	13	27,000,000	21,375,000
Accounts payable		11,114,168	10,578,032
Due to related parties	14	156,771	172,505
Deferred revenues		4,580,026	5,035,093
Other current liabilities	15	17,905,265	20,164,812
Accrued project cost	16	12,349,431	14,527,052
		73,105,661	71,852,494
Total liabilities		177,497,784	193,339,880
Total Equity and Liabilities		247,200,841	268,180,272

The attached notes 1 to 29 form part of these financial statements

STATEMENT OF PROFIT OR LOSS
For the year ended December 31, 2015

	Notes	2015 U.S. $	2014 U.S. $
Revenue		83,197,778	85,310,995
Cost of services		(38,594,684)	(47,423,328)
		44,603,094	37,887,667
Finance revenues		386,948	607,695
Other income	18	4,314,515	-
Currency exchange (loss) gain		(860,212)	985,912
General and administrative expenses	19	(23,550,102)	(19,610,290)
Marketing expenses	20	(5,105,059)	(5,226,196)
Depreciation and amortization	3,4	(19,609,273)	(24,395,314)
Finance costs	21	(4,870,605)	(5,166,689)
Impairment losses	22	(446,641)	(1,345,852)
Provision for doubtful accounts	9	-	(262,540)
Loss for the year		(5,137,335)	(16,525,607)
Basic and diluted earnings per share	23	(0.020)	(0.064)

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended December 31, 2015

	2015	2014
	U.S. $	U.S. $
Loss for the year	(5,137,335)	(16,525,607)
Other comprehensive income for the year	-	-
Total comprehensive income for the year	(5,137,335)	(16,525,607)

STATEMENT OF CHANGES IN EQUITY
For the year ended December 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 year	-	-	(5,137,335)	(5,137,335)
Balance at December 31, 2015	258,000,000	11,610,000	(199,906,943)	69,703,057
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

STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

		2015	2014
Operating activities	Note	U.S. $	U.S. $
Loss for the year		(5,137,335)	(16,525,607)
Adjustments for:			
Depreciation		10,243,709	13,142,963
Provision for employees' indemnity		1,606,120	1,780,134
Provision for doubtful accounts		-	262,540
Loss (gain) on disposal of property and equipment and intangibles		43,999	(33,546)
Impairment losses		446,641	1,345,852
Finance revenues		(386,948)	(607,695)
Finance costs		4,870,605	5,166,689
Amortization		9,365,564	11,252,351
Other income		(4,314,515)	-
Non-cash items		(305,775)	(26,263)
		16,432,065	15,757,418
Working capital changes:			
Prepayments and other current assets		54,687	(173,176)
Inventory		(2,368,356)	(772,106)
Accounts receivable		983,881	2,361,848
Accounts payable		838,919	1,880,696
Due to related parties		(15,734)	(94,263)
Deferred revenue		(455,067)	(935,053)
Other current liabilities		3,377,249	2,439,073
Employees' indemnity paid		(1,447,685)	(600,086)
Transfer to provident fund		(2,586,737)	-
Net cash flows from operating activities		14,813,222	19,864,351
Investing activities			
Purchase of property and equipment		(628,297)	(650,957)
Purchase of intangible assets		(633,393)	(259,205)
Proceeds from disposal of property and equipment		31,517	136,446
Increase in projects in progress		(14,294,934)	(12,537,149)
Advances to contractors		5,549,495	(8,162,274)
Interest received		363,655	607,695
Net cash flows used in investing activities		(9,611,957)	(20,865,444)
Financing activities			
Repayment of syndicated loan		(9,375,000)	(3,750,000)
Syndicated loan transaction costs paid		(897,987)	(911,120)
Interest paid		(4,954,867)	(3,928,352)
Restricted cash		(882,781)	(2,669,817)
Net cash flows used in financing activities		(16,110,635)	(11,259,289)
Decrease in cash and cash equivalents		(10,909,370)	(12,260,382)
Cash and cash equivalents, Beginning of year		30,063,082	42,323,464
Cash and cash equivalents, End of year	10	19,153,712	30,063,082

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. $ 1 par value each. During 2008, the Company's authorized and paid-in share capital was increased to 170,000,000 shares with U.S. $ 1 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. $ 1 par value each. The existing shareholders (WIL and PIF) subscribed for 49,300,000 shares through capitalizing a portion of the shareholders' loans and the related accrued interest. The remaining 38,700,000 shares were offered to the public at an offer price of U.S. $ 1.3 per share, resulting in a share premium of U.S. $ 11,610,000. The public offering took place during the period from November 7, 2010 to December 2, 2010.

On March 14, 2007, the Company entered into a license agreement (the License) with the Ministry of Telecommunications and Information Technology (the MTIT) to provide 2G and 3G mobile services in the West Bank and Gaza. The term of the License shall be fifteen years from the effective date being the date on which the MTIT makes the frequencies available to the Company. The effective date was originally set on August 6, 2008. On December 16, 2009, the MTIT approved the Company's request to determine September 10, 2009 as the effective date, instead of August 6, 2008, since it represents the date on which only 2G frequencies were allocated. On March 16, 2015, the MTIT approved to extend the terms of the license useful life 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 financial statements of the Company as of December 31, 2015 were authorized for issue in accordance with the Board of Directors resolution on March 7, 2016.

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 basis.

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, 2015:

IAS 24 Related Party Disclosures:

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39.

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 and amendments have been issued but are not yet effective, and have not been adopted by the Company:

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 15 Revenue from Contracts with Customers

Amendments to IAS 16 and IAS 38

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements

IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted

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 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:

Rendering of services

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.

Equipment sales

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.

Interest income

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. In addition, the Company's taxable income will be subject to 50% of the nominal tax rate until December 31, 2030. During 2012, the right for this exemption was deferred for the years 2012 and 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	15
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.

Expenditures 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 expenditures are capitalized only when they increase 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

2015	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, 2015	55,588,596	21,640,029	15,660,260	1,824,713	1,977,373	6,050,201	33,638	102,774,810
Additions	4,191,793	421,414	1,063,812	88,417	67,486	236,567	-	6,069,489
Disposals	(4,570,400)	(50,203)	(343,793)	(67,375)	(121,078)	(2,810)	-	(5,155,659)
At December 31, 2015	55,209,989	22,011,240	16,380,279	1,845,755	1,923,781	6,283,958	33,638	103,688,640
Accumulated depreciation and impairment								
At January 1, 2015	33,463,740	12,887,296	12,229,883	1,347,230	1,170,390	4,966,496	31,493	66,096,528
Impairment loss*	318,706	44,377	-	-	467	260	-	363,810
Depreciation charge for the year	7,024,409	873,681	1,305,463	310,682	317,457	410,978	1,039	10,243,709
Disposals	(4,529,466)	(22,875)	(342,997)	(61,857)	(120,138)	(2,810)	-	(5,080,143)
At December 31, 2015	36,277,389	13,782,479	13,192,349	1,596,055	1,368,176	5,374,924	32,532	71,623,904
Net carrying amount								
At December 31, 2015	**18,932,600**	**8,228,761**	**3,187,930**	**249,700**	**555,605**	**909,034**	**1,106**	**32,064,736**

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								
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 amounted to U.S. $ 1,295,144 and U.S. $ 4,480,387 as of December 31, 2015 and 2014, respectively.

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 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 issued a decree which granted the Company an extension of the 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 year by U.S. $ 3,116,657.

The movement on intangible assets is as follows:

	License	Software	Total
	U.S. $	U.S. $	U.S. $
<u>**Cost**</u>			
At January 1, 2015	184,871,337	21,598,425	206,469,762
Additions during the year	-	4,007,913	4,007,913
At December 31, 2015	184,871,337	25,606,338	210,477,675
<u>**Accumulated Amortization**</u>			
At January 1, 2015	51,172,074	8,445,647	59,617,721
Amortization for the year	6,042,153	3,323,411	9,365,564
Impairment loss	-	82,831	82,831
At December 31, 2015	57,214,227	11,851,889	69,066,116
Net carrying amount			
At December 31, 2015	127,657,110	13,754,449	141,411,559
At December 31, 2014	133,699,263	13,152,778	146,852,041

5. Projects in progress

	2015	2014
	U.S. $	U.S. $
Network equipment	20,621,746	22,771,066
Billing system	3,869,629	1,728,605
Capitalized interest cost	2,124,272	1,452,298
IT systems	1,166,423	-
Network infrastructure	1,044,503	216,583
Renovations	551,960	131,911
Data center expansion phase	190,001	333,035
Sites electricity	43,398	1,763
Others	437,313	112,383
	30,049,245	26,747,644

The movement on projects in progress is as follows:

	2015	2014
	U.S. $	U.S. $
Beginning balance	26,747,644	24,735,263
Additions	12,117,313	17,206,629
Transferred to property and equipment and intangible assets	(8,815,712)	(14,995,985)
Impairment loss	-	(198,263)
Ending Balance	30,049,245	26,747,644

The estimated cost to complete the above projects as of December 31, 2015 is U.S. $ 8,853,047.

6. Restricted cash

This balance represents as of December 31, 2015 an amount of U.S. $3,927,141 restricted in relation to the syndicated loan agreement (Note 13) and an amount of U.S. $ 74,795 in relation to a letter of credit granted from local banks to the Company.

7. Prepayments and other current assets

	2015	2014
	U.S. $	U.S. $
Prepaid sites' rent	716,156	635,002
Prepaid warranty	580,271	381,517
Due from employees	55,548	58,396
Prepaid rent expense	41,906	93,060
Prepaid advertisement	13,206	144,096
Prepaid insurance	-	200,021
Other	196,845	146,527
	1,603,932	1,658,619

8. Inventory

	2015	2014
	U.S. $	U.S. $
Spare parts	2,361,083	-
Handsets	670,980	651,430
SIM cards	644,537	107,219
Scratch cards	131,446	165,337
Accessories	119,767	635,471
	3,927,813	1,559,457

9. Accounts receivable

	2015	2014
	U.S. $	U.S. $
Receivables from subscribers	10,476,056	8,416,979
Interconnection partners	3,489,347	5,301,637
Roaming partners and other receivables	380,674	1,588,049
	14,346,077	15,306,665
Allowance for doubtful accounts	(6,245,288)	(6,241,287)
	8,100,789	9,065,378

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

	2015	2014
	U.S. $	U.S. $
Beginning Balance	6,241,287	6,725,835
Provision for the year	-	262,540
Foreign currency difference	4,001	(747,088)
Ending Balance	6,245,288	6,241,287

As at December 31, 2015, 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. $
2015	6,365,166	1,132,326	408,785	89,775	74,812	29,925	8,100,789
2014	1,984,137	774,995	557,919	577,722	420,145	4,750,460	9,065,378

The Company expects to recover all unimpaired receivables.

10. Cash on hand and at banks

	2015	2014
	U.S. $	U.S. $
Cash on hand	58,031	49,083
Cash at banks and short term deposits	19,095,681	30,013,999
	19,153,712	30,063,082

As of December 31, 2015, the Company has ten short term deposits amounting to U.S. $ 17,654,848 (2014: U.S. $ 25,296,398) at local banks with an average interest rate of 2.44% (2014: 1.98%).

11. Paid-in share capital

	2015	2014
	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

12. Provision for employees' indemnity

	Employees' indemnity	Provident fund	Total
	U.S. $	U.S. $	U.S. $
2015			
Balance, beginning of year	4,422,145	2,314,974	6,737,119
Additions	921,749	987,154	1,908,903
Payments during the year	(893,995)	(553,690)	(1,447,685)
Transfer to provident fund*	-	(2,586,737)	(2,586,737)
Currency exchange	(203,399)	(106,377)	(309,776)
Balance, end of year	4,246,500	55,324	4,301,824
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

* During the year 2015, the Company employees elected the provident fund committee to manage and invest their contributions. Thus, the Company transferred the balance to the provident fund committee account which is separately administered.

13. Interest-bearing loans and borrowings

	2015	2014
	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)	958,284	785,557
Accrued interest (PIF)	722,472	592,169
	6,680,756	6,377,726
Third parties' loans		
Local banks' loans **	44,175,000	49,050,000
IFC loan**	29,700,000	34,200,000
	73,875,000	83,250,000
Less: transaction costs directly attributable to third parties' loans***	(7,812,111)	(7,849,113)
	72,743,645	81,778,613
Non-current portion	45,743,645	60,403,613
Current portion	27,000,000	21,375,000
	72,743,645	81,778,613

* 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, 2015, the Company extended the repayment date till December 9, 2016.

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

		U.S. $
Matures during	2016	27,000,000
		27,000,000
Matures during	2017	18,750,000
	2018	18,750,000
	2019	9,375,000
		46,875,000
		73,875,000

*** 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.

14. Due to related parties

	2015	2014
	U.S. $	U.S. $
Ooredoo Group LLC	156,771	172,505
	156,771	172,505

15. Other current liabilities

	2015	2014
	U.S. $	U.S. $
Accrued interconnection and roaming cost	3,308,644	3,398,144
Accrued bonus	2,784,820	1,070,421
Accrued license fees*	1,183,475	6,068,938
Accrued sales commission	1,021,418	2,454,348
Accrued payroll	962,594	346,038
Marketing costs	738,316	880,951
Due to VAT	638,234	533,666
Employees vacations provision	365,467	400,129
Accrued interest and commitment fees	274,513	922,802
Accrued transaction costs attributable to issuance of shares	23,195	23,351
Other	6,604,589	4,066,024
	17,905,265	20,164,812

* This item represents the license fee payable to Palestine National Authority at 7% of the Company's annual gross service revenues. During the year 2015, the Company received a resolution from The Council of Ministers stating that the Company will be exempted from the royalty fees for five years starting from the year 2014. Therefore, the accrual balance for the year 2014 amounting to U.S. $ 4,314,515 was reclassified to other income (Note18).

16. Accrued project cost

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

17. 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. In addition, the Company's taxable income will be subject to 50% of the nominal tax rate until December 31, 2030. During 2012, the right for this exemption was deferred for the years 2012 and 2013. Therefore, the exemption is extended until 2016.

18. Other income

During the year 2015, the Company received a resolution from The Council of Ministers stating that the Company will be exempted from the royalty fees for five years starting from the year 2014. Therefore, the accrual balance for the year 2014 amounting to U.S. $ 4,314,515 was reclassified to other income and the Company ceased to calculate and record royalty fees thereafter.

19. General and administrative expenses

	2015	2014
	U.S. $	U.S. $
Salaries and related expenses	13,603,119	11,673,567
System support	2,494,565	1,719,179
Rent	1,688,140	1,752,718
Professional and consulting fees	1,353,796	476,037
Accommodation, travel and transportation	643,117	716,156
Water, electricity and fuel	409,220	476,171
Warehousing and logistics	408,000	608,000
Insurance	374,562	378,974
Software license expense	162,664	180,164
Security services	155,898	158,300
Subscription fees	139,297	166,249
Maintenance	131,239	114,972
Telephone, fax and mail	83,405	85,791
Bank charges	75,995	65,201
Stationery and supplies	16,665	14,155
Other	1,810,420	1,024,656
	23,550,102	19,610,290

20. Marketing expenses

	2015	2014
	U.S. $	U.S. $
Media advertisements	2,313,427	2,431,864
Promotions	1,024,280	759,654
Sponsorships	1,015,656	1,014,917
Research	116,317	182,352
Designs and exhibitions	108,200	168,651
Other marketing expenses	527,179	668,758
	5,105,059	5,226,196

21. Finance costs

	2015	2014
	U.S. $	U.S. $
Interest on loans and borrowings	3,935,616	4,250,252
Amortization of transaction costs	934,989	916,437
	4,870,605	5,166,689

22. Impairment losses

	2015	2014
	U.S. $	U.S. $
Impairment loss on property and equipment (Note 3)	363,810	1,147,589
Impairment loss on intangible assets (Note 4)	82,831	-
Impairment loss on project in progress (Note 5)	-	198,263
	446,641	1,345,852

23. Basic and Diluted Earnings Per Share

	2015	2014
Loss for the year (U.S. $)	(5,137,335)	(16,525,607)
Weighted average number of shares (Share)	258,000,000	258,000,000
Basic and diluted loss per share (U.S. $)	(0.020)	(0.064)

24. 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:

	2015	2014
	U.S. $	U.S. $
Contracts and purchase orders	14,263,911	14,515,377
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. 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 year by U.S. $ 3,116,657 (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 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	444,808
After one year but not more than five years	37,158
	481,966

25. 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	2015	2014
		U.S. $	U.S. $
Interest-bearing loans and borrowings (note 13)	Shareholder	5,000,000	5,000,000
Accrued interest	Shareholder	1,680,756	1,377,726
Due to related parties (note 14)	Shareholder	156,771	172,505
Accrued key management personnel compensation	Key management	1,238,037	226,484

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

	2015	2014
	U.S. $	U.S. $
Finance costs	303,030	301,199
Key management personnel compensation	1,071,686	135,110
Revenue from shareholders	6,252	16,367

26. 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	8,100,789	8,100,789
Other current assets	252,393	252,393
	8,353,182	8,353,182
Financial liabilities		
Interest-bearing loans and borrowings	72,743,645	72,743,645
Other non-current liability	54,346,654	54,346,654
Accounts payable	11,114,168	11,114,168
Due to related parties	156,771	156,771
Other current liabilities	17,905,265	17,905,265
Accrued project cost	12,349,431	12,349,431
	168,615,934	168,615,934

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

27. 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, 2015. 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. $
2015		
U.S. $	+15	(85,940)
U.S. $	-10	57,293
2014		
U.S. $	+15	(84,487)
U.S. $	-10	56,325

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. $
2015		
U.S. $	+5%	85,746
U.S. $	-5%	(85,746)
2014		
U.S. $	+5%	(153,666)
U.S. $	-5%	153,666

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 9).

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, 2015, based on contractual payment dates and current market interest rates.

December 31, 2015	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	3,591,239	26,227,055	49,656,211	79,474,505
Accounts payable	11,114,168	-	-	11,114,168
Due to related parties	-	156,771	-	156,771
Other current liabilities	-	17,905,265	-	17,905,265
Other noncurrent liabilities	-	-	54,346,654	54,346,654
Total liabilities	14,705,407	44,289,091	104,002,865	162,997,363

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	10,578,032	-	-	10,578,032
Due to related parties	-	172,505	-	172,505
Other current liabilities	-	20,164,812	-	20,164,812
Other noncurrent liabilities	-	-	54,346,654	54,346,654
Total liabilities	13,367,741	42,896,731	119,764,299	176,028,771

28. 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, 2015 and the year ended December 31, 2014. Capital comprises paid-in share capital, share premium and accumulated losses, and is measured at U.S.$ 69,703,057 as at December 31, 2015 (2014: U.S.$ 74,840,392).

29. 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.