

Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
September 30, 2013



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

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



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

Introduction

We have reviewed the accompanying interim condensed financial statements of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company) as at September 30, 2013, comprising of the interim statement of financial position as at September 30, 2013 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes.

The Board of Directors is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young - Middle East

December 8, 2013

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
As at September 30, 2013

		September 30, 2013	December 31, 2012
		Unaudited	Audited
	Notes	U.S. \$	U.S. \$
Assets			
Non-current assets			
Property and equipment, net		47,327,267	54,429,592
Projects in progress	3	21,891,383	19,576,928
Advances to contractors		1,108,004	657,615
Intangible assets	4	148,009,130	155,433,618
		<u>218,335,784</u>	<u>230,097,753</u>
Current assets			
Prepayments and other current assets		2,187,526	5,784,193
Inventory		951,890	1,309,778
Accounts receivable		12,365,865	11,857,100
Cash on hand and at banks	5	43,077,830	44,599,394
		<u>58,583,111</u>	<u>63,550,465</u>
Total Assets		<u>276,918,895</u>	<u>293,648,218</u>
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(174,399,339)	(156,919,119)
Net equity		<u>95,210,661</u>	<u>112,690,881</u>
Non-current liabilities			
Provision for employees' indemnity		5,416,376	3,813,957
Interest-bearing loans and borrowings	6	71,328,897	73,367,443
Other non-current liability		54,346,654	54,346,654
		<u>131,091,927</u>	<u>131,528,054</u>
Current liabilities			
Current portion of interest- bearing loans and borrowings	6	13,875,000	12,000,000
Accounts payable		7,511,659	7,523,560
Due to related parties		335,020	163,089
Deferred revenues		5,053,875	4,039,283
Accrued expenses		16,241,571	16,577,799
Accrued project cost		7,599,182	9,125,552
		<u>50,616,307</u>	<u>49,429,283</u>
Total liabilities		<u>181,708,234</u>	<u>180,957,337</u>
Total Equity and Liabilities		<u>276,918,895</u>	<u>293,648,218</u>

The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF INCOME

For the three-month and nine-month periods ended September 30, 2013

	Notes	Three Months Ended September 30		Nine Months Ended September 30	
		2013	2012	2013	2012
		Unaudited		Unaudited	
		U.S. \$	U.S. \$	U.S. \$	U.S. \$
Revenue		22,078,156	21,662,150	66,357,510	62,872,173
Cost of service		(11,958,365)	(12,854,051)	(36,729,676)	(37,151,469)
		10,119,791	8,808,099	29,627,834	25,720,704
Finance revenue		159,914	79,941	468,470	235,721
Currency exchange (loss) gain		(557,466)	163,916	(614,144)	405,862
General and administrative expenses		(6,010,687)	(4,991,853)	(18,371,912)	(15,743,834)
Marketing expenses		(1,495,866)	(1,583,077)	(4,173,518)	(4,513,857)
Depreciation and amortization		(6,560,465)	(6,117,630)	(19,242,384)	(18,042,438)
Finance costs	7	(1,310,768)	(1,168,851)	(3,916,006)	(3,814,975)
Provision for doubtful accounts		(250,630)	(554,931)	(1,258,560)	(1,153,561)
Loss for the period		<u>(5,906,177)</u>	<u>(5,364,386)</u>	<u>(17,480,220)</u>	<u>(16,906,378)</u>
Basic and diluted earnings per share	8	<u>(0.023)</u>	<u>(0.021)</u>	<u>(0.068)</u>	<u>(0.066)</u>

The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month and nine-month periods ended September 30, 2013

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
	Unaudited		Unaudited	
	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Loss for the period	(5,906,177)	(5,364,386)	(17,480,220)	(16,906,378)
Other comprehensive income for the period	-	-	-	-
Total loss and comprehensive income for the period	<u>(5,906,177)</u>	<u>(5,364,386)</u>	<u>(17,480,220)</u>	<u>(16,906,378)</u>

The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CHANGES IN EQUITY
For the nine-month period ended September 30, 2013

	<u>Paid-in share capital</u> U.S. \$	<u>Share premium</u> U.S. \$	<u>Accumulated losses</u> U.S. \$	<u>Net equity</u> U.S. \$
Balance at January 1, 2013	258,000,000	11,610,000	(156,919,119)	112,690,881
Total loss and comprehensive income for the period	-	-	(17,480,220)	(17,480,220)
Balance at September 30, 2013 (unaudited)	<u>258,000,000</u>	<u>11,610,000</u>	<u>(174,399,339)</u>	<u>95,210,661</u>
Balance at January 1, 2012	258,000,000	11,610,000	(133,092,929)	136,517,071
Total loss and comprehensive income for the period	-	-	(16,906,378)	(16,906,378)
Balance at September 30, 2012 (unaudited)	<u>258,000,000</u>	<u>11,610,000</u>	<u>(149,999,307)</u>	<u>119,610,693</u>

The attached notes 1 to 10 form part of these interim condensed financial statements

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF CASH FLOWS

For the nine-month period ended September 30, 2013

	September 30, 2013	September 30, 2012
	Unaudited	Unaudited
	U.S. \$	U.S. \$
Operating activities		
Loss for the period	(17,480,220)	(16,906,378)
Adjustments for:		
Depreciation	10,698,671	9,921,155
Provision for employees' indemnity	2,118,579	1,466,023
Provision for doubtful account	1,258,560	1,153,561
Loss on disposal of property and equipment	17,167	17,107
Finance revenue	(468,470)	(235,721)
Finance costs	3,916,006	3,814,975
Amortization	8,543,713	8,121,283
	<u>8,604,006</u>	<u>7,352,005</u>
Working capital changes:		
Prepayments and other current assets	3,596,667	1,425,747
Inventory	357,888	308,696
Accounts receivable	(1,767,325)	(3,517,014)
Accounts payable	181,695	7,613,819
Deferred revenues	1,014,592	534,197
Accrued expenses	(352,965)	2,252,999
Provision for employees' indemnity paid	(708,174)	(95,051)
Net cash flows from operating activities	<u>10,926,384</u>	<u>15,875,398</u>
Investing activities		
Purchase of property and equipment and intangibles	(1,102,942)	(1,325,361)
Proceed from disposal of property and equipment	28,988	40,789
Increase in projects in progress	(7,499,609)	(11,964,128)
Advances to contractors	(450,389)	433,672
Interest received	468,470	235,721
Net cash flows used in investing activities	<u>(8,555,482)</u>	<u>(12,579,307)</u>
Financing activities		
Syndicated loan	-	(15,788,000)
Syndicated loan transaction cost paid	(1,041,583)	(1,843,920)
Interest paid	(3,021,232)	(3,203,721)
Due to related parties	171,931	(53,566)
IPO oversubscription paid	(1,582)	(23,239)
Change in restricted cash at bank	-	595,092
Net cash flows used in financing activities	<u>(3,892,466)</u>	<u>(20,317,354)</u>
Decrease in cash and cash equivalents	<u>(1,521,564)</u>	<u>(17,021,263)</u>
Cash and cash equivalents, beginning of period	<u>44,599,394</u>	<u>29,466,668</u>
Cash and cash equivalents, end of period	<u><u>43,077,830</u></u>	<u><u>12,445,405</u></u>

The attached notes 1 to 10 form part of these interim condensed financial statements

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS
September 30, 2013

1. Activities

Wataniya Palestine Mobile Telecommunication Company (the Company), located in Ramallah, was registered and incorporated in Palestine on January 27, 2007 as a Private Limited Shareholding Company under registration No. 562499541. On October 25, 2010, the legal form of the Company was changed to a Public Shareholding Company under registration No. 562601328.

The Company was formed with an authorized share capital of 5,000,000 shares with U.S. \$ one par value each. During 2008, the Company's authorized and paid-in share capital was increased to 170,000,000 shares with U.S. \$ one par value each. The Company's General Assembly in its extraordinary meeting held on October 25, 2010 resolved to increase the Company's authorized share capital to 258,000,000 shares with U.S. \$ one par value each. The existing shareholders (WIL and PIF) subscribed for 49,300,000 shares through capitalizing portion of the shareholders' loans and the related accrued interest. The remaining 38,700,000 shares were offered to the public at an offer price of U.S. \$ 1.3 per share, resulting in a share premium of U.S. \$ 11,610,000. The public offering took place during the period from November 7, 2010 to December 2, 2010.

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

The Company started its operations on November 1, 2009.

The Company's main activities are offering, managing, and selling wireless telecommunication services, as well as constructing and operating wireless telecommunication stations and telephone networks.

The interim condensed financial statements of the Company as at September 30, 2013 were authorized for issuance by the Board of Directors on December 8, 2013.

2. Summary of significant accounting policies

Basis of preparation

The interim condensed financial statements of the Company have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at December 31, 2012. The results for the period ended September 30, 2013 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2013.

The interim condensed financial statements have been presented in United States Dollar, which is the functional currency of the Company.

Changes in accounting policies

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended December 31, 2012. except that the Company has adopted the following new and amended IFRS's during the period. Adoption of these standards did not have any effect on the results of operations or financial position of the Company.

IAS 1 - Financial Statement Presentation - Presentation of Items of Other Comprehensive Income
IFRS 7 Financial instruments: Disclosures - offsetting financial assets and financial liabilities (amendments)
IFRS 13 - Fair Value Measurement

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

IFRS 9 Financial Instruments: Classification and Measurement

3. Projects in progress

The movement on projects in progress is as follows:

	September 30, 2013	December 31, 2012
	U.S. \$	U.S. \$
Beginning balance	19,576,928	4,605,319
Additions	5,973,239	21,282,583
Transfers to property and equipment and intangible assets	(3,658,784)	(6,310,974)
	<u>21,891,383</u>	<u>19,576,928</u>

4. Intangible assets

The movement on intangible assets is as follows:

	License*	Software	Total
	U.S. \$	U.S. \$	U.S. \$
<u>Cost</u>			
At January 1, 2013	184,871,337	7,484,071	192,355,408
Additions	-	1,119,225	1,119,225
At September 30, 2013	<u>184,871,337</u>	<u>8,603,296</u>	<u>193,474,633</u>
<u>Accumulated Amortization</u>			
At January 1, 2013	32,854,452	4,067,338	36,921,790
Amortization for the period	6,850,289	1,693,424	8,543,713
At September 30, 2013	<u>39,704,741</u>	<u>5,760,762</u>	<u>45,465,503</u>
<u>Net carrying amount</u>			
At September 30, 2013	<u>145,166,596</u>	<u>2,842,534</u>	<u>148,009,130</u>
At December 31, 2012	<u>152,016,885</u>	<u>3,416,733</u>	<u>155,433,618</u>

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

5. Cash on hand and at banks

	September 30, 2013	December 31, 2012
	<u>U.S. \$</u>	<u>U.S. \$</u>
Cash on hand	114,965	155,913
Cash at banks and short term deposits	42,962,865	44,443,481
	<u>43,077,830</u>	<u>44,599,394</u>

As at September 30, 2013, the Company has eleven short term deposits amounting to U.S. \$ 33,712,806 (2012: U.S. \$ 33,351,976) at local banks with an annual interest rate of 1.82% (2012: 1.63%).

6. Interest-bearing loans and borrowings

	September 30, 2013	December 31, 2012
	<u>U.S. \$</u>	<u>U.S. \$</u>
Shareholders' loans		
Wataniya International FZ - LLC (WIL)	2,850,000	2,850,000
Palestine Investment Fund, PLC (PIF)	2,150,000	2,150,000
Accrued interest (WIL)	570,397	440,976
Accrued interest (PIF)	429,899	332,222
	<u>6,000,296</u>	<u>5,773,198</u>
Third parties' loans		
Local banks' loans	51,000,000	51,000,000
IFC loan	36,000,000	36,000,000
	<u>87,000,000</u>	<u>87,000,000</u>
Less: transaction costs directly attributable to third parties' loans	<u>(7,796,399)</u>	<u>(7,405,755)</u>
	<u>85,203,897</u>	<u>85,367,443</u>
Non-current portion	71,328,897	73,367,443
Current portion	13,875,000	12,000,000
	<u>85,203,897</u>	<u>85,367,443</u>

7. Finance costs

	September 30, 2013	September 30, 2012
	<u>U.S. \$</u>	<u>U.S. \$</u>
Interest on loans and borrowings	3,265,067	2,970,244
Amortization of transaction costs	650,939	844,731
	<u>3,916,006</u>	<u>3,814,975</u>

8. Basic and Diluted Earnings Per Share

	September 30, 2013	September 30, 2012
Loss for the period (U.S. \$)	<u>(17,480,220)</u>	<u>(16,906,378)</u>
Weighted average for subscribed capital during the period (Shares)	<u>258,000,000</u>	<u>258,000,000</u>
Basic and diluted earnings per share (U.S. \$)	<u>(0.068)</u>	<u>(0.066)</u>

9. Commitments and contingencies

As at the interim condensed financial statements date, the Company has outstanding contractual commitments resulting from purchases, services and construction contracts, as well as its license.

Following is a summary of the outstanding commitments:

	September 30, 2013	December 31, 2012
	<u>U.S. \$</u>	<u>U.S. \$</u>
Contracts and purchase orders	<u>25,651,265</u>	<u>242,231</u>
License *	<u>159,653,346</u>	<u>159,653,346</u>

* The Company entered into a license agreement with MTIT for a total price of U.S. \$ 354,000,000. The unpaid portion of the license cost, net of the related non-current liability, of U.S. \$159,653,346 represents the unrecognized liability in the financial statements resulting from MTIT not fulfilling its obligations in relation with granting the Company access to Gaza, 3G frequencies and International Gateways.

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

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

	September 30, 2013	December 31, 2012
	<u>U.S. \$</u>	<u>U.S. \$</u>
Within one year	<u>415,194</u>	<u>407,062</u>
After one year but not more than five years	<u>1,789,127</u>	<u>2,225,984</u>
	<u>2,204,321</u>	<u>2,633,046</u>

10. Related party transactions

Related parties represent associated companies, shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Balances with related parties included in the interim condensed statement of financial position are as follows:

	<u>Nature of Relationship</u>	<u>September 30, 2013</u>	<u>December 31, 2012</u>
		<u>U.S. \$</u>	<u>U.S. \$</u>
Accounts receivable	Shareholders	<u>5,579</u>	<u>2,659</u>
Interest-bearing loans and borrowings	Shareholders	<u>5,000,000</u>	<u>5,000,000</u>
Due to related parties	Shareholders	<u>335,020</u>	<u>163,089</u>
Accrued interest	Shareholders	<u>1,000,296</u>	<u>773,198</u>

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

	<u>September 30, 2013</u>	<u>September 30, 2012</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Interest expense on shareholders' loans	<u>227,098</u>	<u>228,766</u>
Key management personnel compensation	<u>756,391</u>	<u>636,357</u>
Revenue from shareholders	<u>37,081</u>	<u>29,424</u>