Wataniya Palestine Mobile Telecommunication

Public Shareholding Company

Unaudited Interim Condensed Financial Statements

June 30, 2016

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

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Wataniya Palestine Mobile Telecommunication - Public Shareholding Company (the Company) as of June 30, 2016 and the related interim condensed statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

Ernst & Young – Middle East
License # 206/2012

Ernst + Young

July 21, 2016

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
June 30, 2016

	Note	June 30, 2016 Unaudited U.S. $	December 31, 2015 Audited U.S. $
Assets			
Non-current assets			
Property and equipment		28,277,217	32,064,736
Projects in progress	3	26,734,733	30,049,245
Intangible assets	4	140,881,022	141,411,559
		195,892,972	203,525,540
Current assets			
Advances to contractors		8,577,175	6,887,119
Restricted cash		3,944,452	4,001,936
Prepayments and other current assets		2,875,129	1,603,932
Inventory		4,320,385	3,927,813
Accounts receivable		12,746,755	8,100,789
Cash on hand and at banks	5	11,703,427	19,153,712
		44,167,323	43,675,301
Total Assets		240,060,295	247,200,841
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(198,879,546)	(199,906,943)
Net equity		70,730,454	69,703,057
Non-current liabilities			
Provision for employees' indemnity		4,858,132	4,301,824
Interest-bearing loans and borrowings	6	47,867,185	45,743,645
Other non-current liability		54,346,654	54,346,654
		107,071,971	104,392,123
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	19,500,000	27,000,000
Accounts payable		10,918,297	11,114,168
Due to related parties		177,759	156,771
Deferred revenues		4,523,334	4,580,026
Other current liabilities		18,316,853	17,905,265
Accrued project cost		8,821,627	12,349,431
		62,257,870	73,105,661
Total liabilities		169,329,841	177,497,784
Total Equity and Liabilities		240,060,295	247,200,841

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

INTERIM STATEMENT OF PROFIT OR LOSS
For the three-month and six-month periods ended June 30, 2016

		Three Months Ended June 30		Six Months Ended June 30	
		2016	2015	2016	2015
		Unaudited		Unaudited	
	Note	U.S. $	U.S. $	U.S. $	U.S. $
Revenue		20,913,462	21,090,548	41,424,102	40,277,877
Cost of service		(8,781,064)	(10,217,017)	(17,863,714)	(21,234,849)
		12,132,398	10,873,531	23,560,388	19,043,028
Finance income		78,414	96,792	185,773	205,278
Currency exchange loss		(41,969)	(1,337,613)	(57,909)	(1,174,000)
General and administrative expenses		(5,051,166)	(6,106,707)	(10,149,346)	(11,450,089)
Marketing expenses		(1,348,555)	(1,169,985)	(2,599,069)	(2,386,284)
Depreciation and amortization		(5,046,274)	(4,939,930)	(9,850,147)	(9,714,383)
Finance costs	7	(1,029,398)	(1,228,961)	(2,178,506)	(2,463,566)
Recovery from provision of impairment of accounts receivables		1,085,084	-	2,116,213	-
Profit (loss) for the period		778,534	(3,812,873)	1,027,397	(7,940,016)
Basic and diluted earnings per share	8	0.003	(0.015)	0.004	(0.031)

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

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month and six-month periods ended June 30, 2016

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Profit (loss) for the period	778,534	(3,812,873)	1,027,397	(7,940,016)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	778,534	(3,812,873)	1,027,397	(7,940,016)

INTERIM STATEMENT OF CHANGES IN EQUITY
For the six-month period ended June 30, 2016

	Paid-in share capital	Share premium	Accumulated losses	Net equity
	U.S. $	U.S. $	U.S. $	U.S. $
Balance at January 1, 2016	258,000,000	11,610,000	(199,906,943)	69,703,057
Total comprehensive income for the period	-	-	1,027,397	1,027,397
Balance at June 30, 2016 (unaudited)	258,000,000	11,610,000	(198,879,546)	70,730,454
Balance at January 1, 2015	258,000,000	11,610,000	(194,769,608)	74,840,392
Total comprehensive income for the period	-	-	(7,940,016)	(7,940,016)
Balance at June 30, 2015 (unaudited)	258,000,000	11,610,000	(202,709,624)	66,900,376

INTERIM STATEMENT OF CASH FLOWS
For the six-month period ended June 30, 2016

	Note	June 30, 2016 Unaudited U.S. $	June 30, 2015 Unaudited U.S. $
Operating activities			
Profit (loss) for the period		1,027,397	(7,940,016)
Adjustments for:			
Depreciation		4,864,223	5,139,461
Provision for employees' indemnity		1,065,222	1,005,664
Recovery from provision of impairment of accounts receivables		(2,116,213)	-
(Gain) loss on disposal of property and equipment		(977)	359,360
Finance income		(185,773)	(205,278)
Finance costs		2,178,506	2,463,566
Amortization		4,985,924	4,574,922
		11,818,309	5,397,679
Working capital changes:			
Prepayments and other current assets		(1,259,193)	(631,388)
Inventory		(392,572)	(2,623,984)
Accounts receivable		(2,529,753)	(1,849,427)
Accounts payable		(117,854)	(3,924,540)
Due to related parties		20,988	(31,061)
Deferred revenues		(56,692)	573,078
Other current liabilities		425,792	4,954,892
Transfer to provident fund		(272,489)	-
Provision for employees' indemnity paid		(314,442)	(659,060)
Net cash flows from operating activities		7,322,094	1,206,189
Investing activities			
Purchase of property and equipment and intangibles		(38,520)	(476,321)
Proceed from disposal of property and equipment		27,957	22,038
Projects in progress		(5,733,843)	(10,076,932)
Advances to contractors		(1,690,056)	6,604,797
Interest received		173,769	188,429
Net cash flows used in investing activities		(7,260,693)	(3,737,989)
Financing activities			
Repayment of loans		(5,625,000)	(3,750,000)
Syndicated loan transaction cost paid		(262,487)	(414,467)
Interest paid		(1,681,683)	(2,562,993)
Restricted cash		57,484	200,379
Net cash flows used in financing activities		(7,511,686)	(6,527,081)
Decrease in cash and cash equivalents		(7,450,285)	(9,058,881)
Cash and cash equivalents, beginning of the period		19,153,712	30,063,082
Cash and cash equivalents, end of the period	5	11,703,427	21,004,201

The attached notes 1 to 11 form part of these interim condensed 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 Wataniya International FZ – LLC (WIL) and Palestine Investment Fund, PLC (PIF) subscribed for 49,300,000 shares through capitalizing portion of the shareholders' loans and the related accrued interest. The remaining 38,700,000 shares were offered to the public at an offer price of U.S. $ 1.3 per share, resulting in a share premium of U.S. $ 11,610,000. The public offering took place during the period from November 7, 2010 to December 2, 2010.

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

The Company started its operations on November 1, 2009.

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

The interim condensed financial statements of the Company as at June 30, 2016 were authorized for issuance by the Board of Directors on July 21, 2016.

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, 2015. The results for the period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2016.

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

Changes in accounting policies

The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements in the previous year.

3. Projects in progress

The movement on projects in progress is as follows:

	June 30, 2016	December 31, 2015
	U.S. $	U.S. $
Beginning balance	30,049,245	26,747,644
Additions	2,206,039	12,117,313
Transfers to property and equipment and intangible assets	(5,520,551)	(8,815,712)
	26,734,733	30,049,245

The estimated cost to complete the above projects as of June 30, 2016 is U.S. $ 7,816,435.

4. Intangible assets

The movement on intangible assets is as follows:

	License*	Software	Total
	U.S. $	U.S. $	U.S. $
Cost			
At January 1, 2016	184,871,337	25,606,338	210,477,675
Transferred from Project in progress	-	4,455,387	4,455,387
At June 30, 2016	184,871,337	30,061,725	214,933,062
Accumulated Amortization			
At January 1, 2016	57,214,227	11,851,889	69,066,116
Amortization for the period	3,012,800	1,973,124	4,985,924
At June 30, 2016	60,227,027	13,825,013	74,052,040
Net carrying amount			
At June 30, 2016	124,644,310	16,236,712	140,881,022
At December 31, 2015	127,657,110	13,754,449	141,411,559

* 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 presidential decree which granted the Company an extension of useful life of the License by additional 5 years.

5. Cash on hand and at banks

	June 30, 2016	December 31, 2015
	U.S. $	U.S. $
Cash on hand	114,937	58,031
Cash at banks and short term deposits	11,588,490	19,095,681
	11,703,427	19,153,712

As at June 30, 2016, the Company has eight short-term deposits amounting to U.S. $ 10,760,516 (2015: U.S. $ 17,654,848) at local banks with an average interest rate of 2.59% (2015: 2.44%).

6. Interest-bearing loans and borrowings

	June 30, 2016	December 31, 2015
	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)	1,047,578	958,284
Accrued interest (PIF)	789,834	722,472
	6,837,412	6,680,756
Third parties' loans		
Local banks' loans	41,250,000	44,175,000
IFC loan	27,000,000	29,700,000
	68,250,000	73,875,000
Less: transaction costs directly attributable to third parties' loans	(7,720,227)	(7,812,111)
	67,367,185	72,743,645
Non-current portion	47,867,185	45,743,645
Current portion	19,500,000	27,000,000
	67,367,185	72,743,645

7. Finance costs

	June 30, 2016	June 30, 2015
	U.S. $	U.S. $
Interest on loans and borrowings	1,824,135	2,001,903
Amortization of transaction costs	354,371	461,663
	2,178,506	2,463,566

8. Basic and Diluted Earnings Per Share

	June 30, 2016	June 30, 2015
Profit (loss) for the period (U.S. $)	1,027,397	(7,940,016)
Weighted average for subscribed capital during the period (Shares)	258,000,000	258,000,000
Basic and diluted earnings per share (U.S. $)	0.004	(0.031)

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:

	June 30, 2016	December 31, 2015
	U.S. $	U.S. $
Contracts and purchase orders	12,065,037	14,263,911
License *	159,653,346	159,653,346

* The Company entered into a license agreement with MTIT for a total price of U.S. $ 354,000,000. The unpaid portion of the license cost, net of the related non-current liability, of U.S. $159,653,346 represents the unrecognized liability in the financial statements resulting from MTIT not fulfilling its obligations in relation with granting the Company access to Gaza, 3G frequencies and International Gateways. In addition, the Company's management changed the estimated useful life of the License from 15 years to 20 years.

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:

	June 30, 2016	December31, 2015
	U.S. $	U.S. $
Within one year	260,103	444,808
After one year but not more than five years	-	37,158
	260,103	481,966

10. Related party transactions

Related parties represent shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. The Company's management approves pricing policies and terms of these transactions.

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

	Nature of Relationship	June 30, 2016	December 31, 2015
		U.S. $	U.S. $
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Accrued interest	Shareholders	1,837,412	1,680,756
Due to related parties	Shareholders	177,759	156,771
Accrued key management personnel compensation	Key management	1,717,431	1,238,037

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

	June 30, 2016	June 30, 2015
	U.S. $	U.S. $
Interest expense on shareholders' loans	156,656	151,140
Key management personnel compensation	479,394	367,500
Revenue from shareholders	10,987	12,653

11. Fair value of financial instruments

Set out below the details of the financial instruments, other than cash on hand and at banks, held by the Company as of June 30, 2016 and December 31, 2015:

	Carrying amount		**Fair value**	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	U.S. $	U.S. $	U.S. $	U.S. $
Financial assets				
Accounts receivable	12,746,755	8,100,789	12,746,755	8,100,789
Other current assets	217,701	252,393	217,701	252,393
	12,964,456	8,353,182	12,964,456	8,353,182
Financial liabilities				
Interest-bearing loans and borrowings	67,367,185	72,743,645	67,367,185	72,743,645
Other non-current liability	54,346,654	54,346,654	54,346,654	54,346,654
Accounts payable	10,918,297	11,114,168	10,918,297	11,114,168
Due to related parties	177,759	156,771	177,759	156,771
Other current liabilities	18,316,853	17,905,265	18,316,853	17,905,265
Accrued project cost	8,821,627	12,349,431	8,821,627	12,349,431
	159,948,375	168,615,934	159,948,375	168,615,934

- The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.
- The fair values of accounts receivable, other current assets, accounts payable, due to related parties, accrued project cost, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of interest-bearing loans and borrowings and non-current liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.