Wataniya Palestine Mobile
Telecommunication
Public Shareholding Company
Unaudited Interim Condensed
Financial Statements
June 30, 2015

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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, 2015 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, 2015

Wataniya Palestine Mobile Telecommunication
Public Shareholding Company

INTERIM STATEMENT OF FINANCIAL POSITION
June 30, 2015

	Note	June 30, 2015 Unaudited U.S. $	December 31, 2014 Audited U.S. $
Assets			
Non-current assets			
Property and equipment, net		34,029,222	36,678,282
Projects in progress	3	27,764,248	26,747,644
Intangible assets	4	144,918,245	146,852,041
		206,711,715	210,277,967
Current assets			
Advances to contractors		5,831,817	12,436,614
Restricted cash		2,918,776	3,119,155
Prepayments and other current assets		2,290,007	1,658,619
Inventory		4,183,441	1,559,457
Accounts receivable		10,931,654	9,065,378
Cash on hand and at banks	5	21,004,201	30,063,082
		47,159,896	57,902,305
Total Assets		253,871,611	268,180,272
Equity and liabilities			
Equity			
Paid-in share capital		258,000,000	258,000,000
Share premium		11,610,000	11,610,000
Accumulated losses		(202,709,624)	(194,769,608)
Net equity		66,900,376	74,840,392
Non-current liabilities			
Provision for employees' indemnity		7,236,109	6,737,119
Interest-bearing loans and borrowings	6	54,976,949	60,403,613
Other non-current liability		54,346,654	54,346,654
		116,559,712	121,487,386
Current liabilities			
Current portion of interest-bearing loans and borrowings	6	23,250,000	21,375,000
Accounts payable		5,217,929	9,294,855
Due to related parties		141,444	172,505
Deferred revenues		5,608,171	5,035,093
Other current liabilities		25,690,651	21,447,989
Accrued project cost		10,503,328	14,527,052
		70,411,523	71,852,494
Total liabilities		186,971,235	193,339,880
Total Equity and Liabilities		253,871,611	268,180,272

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, 2015

		Three Months Ended June 30		Six Months Ended June 30	
		2015	2014	2015	2014
		Unaudited		Unaudited	
	Note	U.S. $	U.S. $	U.S. $	U.S. $
Revenue		21,090,548	21,509,186	40,277,877	42,801,320
Cost of service		(10,217,017)	(11,472,984)	(21,234,849)	(23,790,470)
		10,873,531	10,036,202	19,043,028	19,010,850
Finance revenues		96,792	156,772	205,278	320,366
Currency exchange loss		(1,337,613)	(187,612)	(1,174,000)	(205,937)
General and administrative expenses		(6,106,707)	(5,143,434)	(11,450,089)	(10,247,693)
Marketing expenses		(1,169,985)	(1,313,604)	(2,386,284)	(2,183,804)
Depreciation and amortization		(4,939,930)	(5,916,133)	(9,714,383)	(12,003,535)
Finance costs	7	(1,228,961)	(1,295,179)	(2,463,566)	(2,577,091)
Provision for doubtful accounts		-	(116,217)	-	(262,540)
Loss for the period		(3,812,873)	(3,779,205)	(7,940,016)	(8,149,384)
Basic and diluted earnings per share	8	(0.015)	(0.015)	(0.031)	(0.032)

INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the three-month and six-month periods ended June 30, 2015

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	Unaudited		Unaudited	
	U.S. $	U.S. $	U.S. $	U.S. $
Loss for the period	(3,812,873)	(3,779,205)	(7,940,016)	(8,149,384)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	(3,812,873)	(3,779,205)	(7,940,016)	(8,149,384)

INTERIM STATEMENT OF CHANGES IN EQUITY
For the six-month period ended June 30, 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 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**
Balance at January 1, 2014	258,000,000	11,610,000	(178,244,001)	91,365,999
Total comprehensive income for the period	-	-	(8,149,384)	(8,149,384)
Balance at June 30, 2014 (unaudited)	**258,000,000**	**11,610,000**	**(186,393,385)**	**83,216,615**

INTERIM STATEMENT OF CASH FLOWS
For the six-month period ended June 30, 2015

	June 30, 2015	June 30, 2014
	Unaudited	Unaudited
Operating activities	U.S. $	U.S. $
Loss for the period	(7,940,016)	(8,149,384)
Adjustments for:		
Depreciation	5,139,461	6,279,467
Provision for employees' indemnity	1,005,664	1,092,516
Provision for doubtful account	-	262,540
Loss (gain) on disposal of property and equipment	359,360	(6,527)
Finance revenue	(205,278)	(320,366)
Finance costs	2,463,566	2,577,091
Amortization	4,574,922	5,724,068
	5,397,679	7,459,405
Working capital changes:		
Prepayments and other current assets	(631,388)	(690,669)
Inventory	(2,623,984)	124,260
Accounts receivable	(1,849,427)	2,977,541
Accounts payable	(3,924,540)	(2,520,946)
Deferred revenues	573,078	(47,619)
Other current liabilities	4,954,892	1,585,120
Provision for employees' indemnity paid	(659,060)	(289,976)
Net cash flows from operating activities	1,237,250	8,597,116
Investing activities		
Purchase of property and equipment and intangibles	(476,321)	(398,834)
Proceed from disposal of property and equipment	22,038	41,306
Increase in projects in progress	(10,076,932)	(4,815,012)
Advances to contractors	6,604,797	(2,827,456)
Interest received	188,429	320,366
Net cash flows used in investing activities	(3,737,989)	(7,679,630)
Financing activities		
Repayment of loans	(3,750,000)	-
Syndicated loan transaction cost paid	(414,467)	(440,817)
Interest paid	(2,562,993)	(1,977,130)
Due to related parties	(31,061)	(43,018)
Restricted cash	200,379	76,208
Net cash flows used in financing activities	(6,558,142)	(2,384,757)
Decrease in cash and cash equivalents	(9,058,881)	(1,467,271)
Cash and cash equivalents, beginning of the period	30,063,082	42,323,464
Cash and cash equivalents, end of the period	21,004,201	40,856,193

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. On March 16, 2015, the MTIT approved to extend the terms of 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 interim condensed financial statements of the Company as at June 30, 2015 were authorized for issuance by the Board of Directors on July 21, 2015.

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, 2014. The results for the period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2015.

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.

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

IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts with Customers.

3. Projects in progress

The movement on projects in progress is as follows:

	June 30, 2015	December 31, 2014
	U.S. $	U.S. $
Beginning balance	26,747,644	24,735,263
Additions	6,053,208	17,206,629
Transfers to property and equipment and intangible assets	(5,036,604)	(14,995,985)
Impairment loss	-	(198,263)
	27,764,248	26,747,644

4. Intangible assets

The movement on intangible assets is as follows:

	License*	Software	Total
	U.S. $	U.S. $	U.S. $
Cost			
At January 1, 2015	184,871,337	21,598,425	206,469,762
Additions	-	68,491	68,491
Transferred from Project in progress	-	2,572,635	2,572,635
At June 30, 2015	184,871,337	24,239,551	209,110,888
Accumulated Amortization			
At January 1, 2015	51,172,074	8,445,647	59,617,721
Amortization for the period	2,996,246	1,578,676	4,574,922
At June 30, 2015	54,168,320	10,024,323	64,192,643
Net carrying amount			
At June 30, 2015	130,703,017	14,215,228	144,918,245
At December 31, 2014	133,699,263	13,152,778	146,852,041

* 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 issues a presidential decree which granted the Company an extension of 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 period by U.S. $ 1,545,521.

5. Cash on hand and at banks

	June 30, 2015	December 31, 2014
	U.S. $	U.S. $
Cash on hand	124,222	49,083
Cash at banks and short term deposits	20,879,979	30,013,999
	21,004,201	30,063,082

As at June 30, 2015, the Company has eleven short term deposits amounting to U.S. $ 17,037,599 (2014: U.S. $ 25,296,398) at local banks with an annual interest rate of 1.79 % (2014: 1.98%).

6. Interest-bearing loans and borrowings

	June 30, 2015	December 31, 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)	871,772	785,557
Accrued interest (PIF)	657,094	592,169
	6,528,866	6,377,726
Third parties' loans		
Local banks' loans	47,100,000	49,050,000
IFC loan	32,400,000	34,200,000
	79,500,000	83,250,000
Less: transaction costs directly attributable to third parties' loans	(7,801,917)	(7,849,113)
	78,226,949	81,778,613
Non-current portion	54,976,949	60,403,613
Current portion	23,250,000	21,375,000
	78,226,949	81,778,613

7. Finance costs

	June 30, 2015	June 30, 2014
	U.S. $	U.S. $
Interest on loans and borrowings	2,001,903	2,124,816
Amortization of transaction costs	461,663	452,275
	2,463,566	2,577,091

8. Basic and Diluted Earnings Per Share

	June 30, 2015	June 30, 2014
Loss for the period (U.S. $)	(7,940,016)	(8,149,384)
Weighted average for subscribed capital during the period (Shares)	258,000,000	258,000,000
Basic and diluted earnings per share (U.S. $)	(0.031)	(0.032)

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, 2015	December 31, 2014
	U.S. $	U.S. $
Contracts and purchase orders	17,191,575	14,515,377
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. This change has resulted in a decrease in the amortization expense for the period by U.S. $ 1,545,521 (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 with an option to renew the contract.

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

	June 30, 2015	December31, 2014
	U.S. $	U.S. $
Within one year	438,315	431,853
After one year but not more than five years	260,103	661,722
	698,418	1,093,575

10. Related party transactions

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

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

	Nature of Relationship	June 30, 2015	December 31, 2014
		U.S. $	U.S. $
Interest-bearing loans and borrowings	Shareholders	5,000,000	5,000,000
Accrued interest	Shareholders	1,528,866	1,377,726
Due to related parties	Shareholders	141,444	172,505
Accounts receivable	Shareholders	1,786	-

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

	June 30, 2015	June 30, 2014
	U.S. $	U.S. $
Interest expense on shareholders' loans	151,140	149,850
Key management personnel compensation	367,500	438,896
Revenue from shareholders	12,653	23,355

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:

	June 30, 2015
	U.S. $
Financial assets	
Accounts receivable	10,931,654
Other current assets	74,529
	11,006,183
Financial liabilities	
Interest-bearing loans and borrowings	78,226,949
Other non-current liability	54,346,654
Accounts payable	5,217,929
Due to related parties	141,444
Other current liabilities	25,690,651
Accrued project cost	10,503,328
	174,126,955

- 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.