PALESTINE TELECOMMUNICATIONS COMPANY P.L.C.

UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

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Report on review of interim condensed consolidated financial statements to the Board of Directors of Palestine Telecommunications Company P.L.C.

We have reviewed the accompanying interim condensed consolidated statement of financial position of Palestine Telecommunications Company P.L.C as of June 30, 2016, and the related interim condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes.

The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated 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 consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young – Middle East
License # 206/2012

Ernst + Young

Ramallah - Palestine
August 2, 2016

Interim condensed consolidated statement of financial position
As at June 30, 2016

	Notes	June 30, 2016 Unaudited JD '000s	December 31, 2015 Audited JD '000s
Assets			
Non-current assets			
Property, plant and equipment		142,327	151,650
Investment properties		38,437	35,716
Intangible assets		25,288	26,716
Projects in progress		4,583	3,039
Materials		6,919	7,542
Investment in associates		35,346	42,688
Available-for-sale investments		145,996	154,306
Other financial assets		84,388	89,199
		483,284	510,856
Current assets			
Inventories		3,002	3,454
Accounts receivable		89,067	78,614
Other current assets		74,589	81,247
Financial assets held for trading		8,210	8,671
Cash and cash equivalents	5	59,400	63,491
		234,268	235,477
Total assets		717,552	746,333
Equity and liabilities			
Equity			
Paid-in share capital		131,625	131,625
Statutory reserve	6	32,906	32,906
Voluntary reserve		6,756	6,756
Special reserve		7,950	7,950
Foreign currency translation		(32)	(65)
Available-for-sale reserve		(457)	8,219
Retained earnings		337,229	355,659
Total Equity		515,977	543,050
Non-current liabilities			
Non-current interest-bearing loans	8	-	8,881
Provision for employees' indemnity		37,312	38,518
		37,312	47,399
Current liabilities			
Accounts payable		39,680	29,870
Current interest-bearing loans and borrowings	8	37,269	24,778
Provision for income tax	9	10,077	15,320
Other current liabilities		77,237	85,916
		164,263	155,884
Total liabilities		201,575	203,283
Total equity and liabilities		717,552	746,333

Interim condensed consolidated income statement
For the three-month and six-month period ended June 30, 2016

	Notes	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
		Unaudited		Unaudited	
		JD '000s	JD '000s	JD '000s	JD '000s
Revenues		83,707	84,928	164,139	163,869
Telecommunication services cost		(5,074)	(5,725)	(10,185)	(10,909)
License fees		(5,874)	(6,218)	(11,524)	(12,031)
Other costs		(3,574)	(4,068)	(7,225)	(4,649)
		69,185	68,917	135,205	136,280
Operating and administrative expenses		(43,279)	(46,518)	(90,066)	(90,386)
Loss from investments		(3,575)	(1,948)	(1,722)	(911)
Finance costs		(318)	(558)	(674)	(960)
Other income (expenses)		(832)	3,786	2,903	4,458
Profit before income tax		**21,181**	**23,679**	**45,646**	**48,481**
Income tax expense	9	(2,741)	(3,220)	(4,845)	(5,804)
Profit for the period		**18,440**	**20,459**	**40,801**	**42,677**
Basic and diluted earnings per share		**0.140**	**0.155**	**0.310**	**0.324**

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

Interim condensed consolidated statement of other comprehensive income
For the three-month and six-month period ended June 30, 2016

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	Unaudited		Unaudited	
	JD '000s	JD '000s	JD '000s	JD '000s
Profit for the period	18,440	20,459	40,801	42,677
Other comprehensive income:				
Items to be reclassified to income statement in subsequent periods:				
Net (losses) gains on available-for-sale investments	(539)	2,112	(8,676)	(6,231)
Foreign currency translation	3	(18)	33	(46)
Other comprehensive income for the period	**(536)**	**2,094**	**(8,643)**	**(6,277)**
Total comprehensive income for the period	**17,904**	**22,553**	**32,158**	**36,400**

Palestine Telecommunications Company P.L.C.

Interim condensed consolidated statement of changes in equity
For the six months ended June 30, 2016

	Paid-in share capital	Reserves			Foreign currency translation	Available-for-sale reserve	Retained earnings	Total equity
		Statutory	Voluntary	Special				
	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s
Balance at January 1, 2016	131,625	32,906	6,756	7,950	(65)	8,219	355,659	543,050
Profit for the period	-	-	-	-	-	-	40,801	40,801
Other comprehensive income	-	-	-	-	33	(8,676)	-	(8,643)
Total comprehensive income for the period	-	-	-	-	33	(8,676)	40,801	32,158
Cash dividends (note 7)	-	-	-	-	-	-	(59,231)	(59,231)
Balance at June 30, 2016 (unaudited)	**131,625**	**32,906**	**6,756**	**7,950**	**(32)**	**(457)**	**337,229**	**515,977**
Balance at January 1, 2015	131,625	32,906	6,756	7,950	(34)	11,306	331,830	522,339
Profit for the period	-	-	-	-	-	-	42,677	42,677
Other comprehensive income	-	-	-	-	(46)	(6,231)	-	(6,277)
Total comprehensive income for the period	-	-	-	-	(46)	(6,231)	42,677	36,400
Cash dividends (note 7)	-	-	-	-	-	-	(59,231)	(59,231)
Balance at June 30, 2015 (unaudited)	**131,625**	**32,906**	**6,756**	**7,950**	**(80)**	**5,075**	**315,276**	**499,508**

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

Interim condensed consolidated statement of cash flows
For the six months ended June 30, 2016

	Notes	Six months ended June 30, 2016 Unaudited JD '000s	Six months ended June 30, 2015 Unaudited JD '000s
Operating activities			
Profit before income tax		45,646	48,481
Adjustments for:			
Depreciation and amortization		22,661	21,776
Provision for doubtful accounts		3,505	4,563
Assets' impairment loss		-	400
Loss from investments		1,722	911
Interest revenues		(1,138)	(3,072)
Provision for employees' indemnity		3,006	3,502
Finance costs		674	960
Other non-cash items		963	1,060
		77,039	**78,581**
Working capital adjustments:			
Accounts receivable		(14,540)	(7,254)
Inventory		452	22
Other current assets		13,434	5,912
Accounts payable		9,810	(9,913)
Other current liabilities		(10,431)	47
Income tax paid		(10,436)	(9,298)
Employees' indemnity paid		(4,212)	(206)
Net cash flows from operating activities		**61,116**	**57,891**
Investing activities			
Net financial assets		(923)	(1,472)
Dividends received		4,713	3,433
Granted loans		-	(3,349)
Repayment of granted loans		-	38,522
Interest revenues received		1,098	239
Purchase of investment properties		(2,721)	(2,512)
Increase in projects in progress, property, plant and equipment and materials		(12,831)	(13,390)
Net cash flows (used in) from investing activities		**(10,664)**	**21,471**
Financing activities			
Cash dividends paid		(57,479)	(56,180)
Interest bearing-loans and borrowings		3,610	15,784
Finance costs paid		(674)	(960)
Net cash flows used in financing activities		**(54,543)**	**(41,356)**
(Decrease) increase in cash and cash equivalents		**(4,091)**	**38,006**
Cash and cash equivalents, beginning of period		63,491	31,097
Cash and cash equivalents, end of period	5	**59,400**	**69,103**

Notes to the interim condensed consolidated financial statements
June 30, 2016

1. Corporate information

Palestine Telecommunications Company P.L.C. (PALTEL) is a limited liability public shareholding company registered and incorporated in Nablus Palestine on August 2, 1995. PALTEL commenced its operations on January 1, 1997. PALTEL operates under the Telecommunication Law No. (3) of 1996 decreed by the Palestinian National Authority (PNA), and the license granted by Ministry of Telecommunication and Information Technology (MTIT) which will expire during November 2016, currently Palestine Telecommunication Company (the Group) is working with MTIT on license renewal.

PALTEL is mainly engaged in providing, managing, and rendering wire line and wireless services.

The interim condensed consolidated financial statements of Palestine Telecommunications Company P.L.C. for the six months ended June 30, 2016 were authorized for issuance by the Board of Directors on August 2, 2016.

2. Interim consolidated financial statements

PALTEL's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

	Ownership %		Share Capital (JD) 2016	
	2016	2015	Subscribed	Paid
Palestine Cellular Communications (Jawwal)	100	100	25,000,000	25,000,000
Hadara for Technological Investment	100	100	7,100,000	6,833,750
Palmedia for Multimedia Services	100	100	7,000,000	7,000,000
Hulul for Information Technology	100	100	12,500,000	12,500,000
Reach Communication Services	100	100	3,500,000	3,500,000
Ayla for Consultancy and Investment Services	100	100	1,000,000	1,000,000
Jerusal for Real Estate Investment	100	100	100,000	100,000
Palvest S.P.C.	100	100	94,285	94,285

The Group operates in the Palestinian National Authority territories, except for Ayla which operates in Jordan and Palvest S.P.C. which operates in Bahrain.

3. Significant accounting policies

The interim condensed consolidated financial statements for the six months ended June 30, 2016 have been prepared in accordance with IAS 34 Interim Financial Reporting. The Interim consolidated financial statements have been presented in Jordanian Dinars, and all values except when otherwise indicated, are rounded to the nearest thousand (JD '000s).

The interim condensed consolidated financial statements do not include all information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of December 31, 2015.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2015, except for the following amended standards effective as of January 1, 2016. The Group does not expect these standards to have any impact on the Group's financial position or performance.
The Group has not early adopted any other standards that have been issued but is not yet effective.

IAS 16 and IAS 38 (Amendments) – Clarifications of acceptable methods of depreciation and amortization

Amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments are not expected to have any impact to the Group.

IFRS 5 (Amendments) – Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IAS 1 (Amendments) – Disclosure initiatives

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(s) 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
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

IFRS 10 and IAS 28 (Amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. Amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

4. Seasonality of operations

Due to the seasonal nature of the Group's operations, the results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the financial year ending December 31, 2016.

5. Cash and cash equivalents

For the purpose of the interim condensed consolidated statement of cash flows, cash and cash equivalents comprise the following at June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
	JD '000s	JD '000s
Cash in hand	597	565
Cash at banks and short term deposits	58,803	68,538
	59,400	69,103

6. Statutory reserve

Statutory reserve represents accumulation of profits transferred at 10% of annual net profit in accordance with the Companies' Law. This reserve is not available for distribution to shareholders. The Group ceased to transfer any portion of profits as the statutory reserve balance reached 25% of share capital.

7. Cash dividends

The General Assembly approved in its meeting held on March 28, 2016 the declaration of a cash dividend of JD 0.45 per share totaling JD 59,231,000.

The General Assembly approved in its meeting held on March 24, 2015 the declaration of a cash dividend of JD 0.45 per share totaling JD 59,231,000.

8. Interest bearing loans and borrowings

During the period, the Group repaid an amount of JD 8.9 Million from interest bearing loans, the outstanding balance of interest bearing loans amounted to JD 17.8 Million as of June 30, 2016.

During the period, the Group signed new overdraft agreements with local and regional banks, with a total ceiling of USD 25,000,000 (equivalent to JD 17.73 Million). Annual interest rates on outstanding overdraft balance are set at LIBOR plus premium of 1.75%

Total overdrafts outstanding balance as of June 30, 2016 amounted to JD 19.5 Million. Unutilized ceilings amounted to JD 8.9 Million.

9. Provision for income tax

Currently, PALTEL and Jawwal's taxable income are entitled to a partial income tax exemption at 50% of the nominal tax rate until December 31, 2014 and December 31, 2021, respectively. During the period, the nominal income tax rate was 20%.

During 2012, the Group elected to voluntarily defer its right for the partial exemption for a period of two years ending December 31, 2013. Thereafter, PALTEL and Jawwal's taxable income will be subject to 50% of the nominal tax rate until December 31, 2016 and December 31, 2023, respectively.

Following is the movement on the provision for income tax during the six months ended June 30, 2016 and the year ended December 31, 2015:

	June 30, 2016	December 31, 2015
	JD '000s	JD '000s
Provision, beginning of period / year	15,320	14,394
Income tax expense for the period / year	5,365	11,461
Discounts on income tax advances	(520)	(804)
Income tax advances	(10,436)	(9,641)
Translation difference from ILS to JD	348	(90)
Provision, end of period / year	10,077	15,320

Following are the details of the income tax expense related to the six months ended June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
	JD '000s	JD '000s
Income tax related to the period	5,365	6,289
Discounts on income tax advances	(520)	(485)
	4,845	5,804

10. Commitments and contingencies

As of the financial statements date, the Group has outstanding contractual commitments resulting from purchases, services and construction contracts. The contractual commitments represent the difference between total contract cost and the amounts of materials or services received as of the financial statements date. Following is a summary of the outstanding commitments, which are due during the following years:

	June 30, 2016	December 31, 2015
	JD '000s	JD '000s
Purchase orders and letters of credit	32,024	24,558
	32,024	24,558

Most of the outstanding commitments mature within one year of the date of the interim condensed consolidated financial statements.

11. Related party transactions

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

Following are the balances of related parties included in the interim condensed consolidated statement of financial position as of June 30, 2016 and December 31, 2015:

	Nature of relationship	June 30, 2016 JD '000s	December 31, 2015 JD '000s
Interest-bearing loans and borrowings	Major shareholders (banks)	15,360	23,042
Bank overdraft	Major shareholders (banks)	3,343	2,756
Due from related parties	Major shareholders and associates	7,611	11,155
Long term loans to associates	Associates	90,770	90,263
Short term loans to associates	Associates	12,503	12,503

Following are the transactions with related parties included in the interim condensed consolidated income statement for the six months ended June 30, 2016 and 2015:

	Nature of relationship	June 30, 2016 JD '000s	June 30, 2015 JD '000s
Finance costs	Major shareholders (banks)	313	645
Interest revenue	Major shareholder and associate	2,293	2,833
Key management personnel compensation:			
Short term benefits		1,192	1,216
Termination benefits		116	112

In addition, the Group acts as a guarantor against a loan granted to an associate. According to the guarantee agreement, the Group guarantees only 25% of the loan's outstanding balance which amounted to USD 10 million (JD 7.09 million) as of June 30, 2016.

12. Financial instruments

Fair value measurement

The Group uses the following hierarchy for determining and disclosing the fair value of its assets:

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which all inputs, which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: Valuation techniques which use inputs that have a significant effect on the recorded fair value, and are not based on observable market data.

There have been no transfers among the levels mentioned above during the period.

The following table provides the fair value measurement hierarchy of the Group's assets as of June 30, 2016:

	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)
	JD '000s	JD '000s	JD '000s
Assets measured at fair value:			
Available-for-sale investments - quoted	142,288	-	-
Financial assets held for trading	8,210	-	-
Currency forward contracts	871	-	-

The following table provides the fair value measurement hierarchy of the Group's assets as of December 31, 2015:

	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)
	JD '000s	JD '000s	JD '000s
Assets measured at fair value:			
Available-for-sale investments - quoted	149,960	-	-
Financial assets held for trading	8,671	-	-
Currency forward contracts	608	-	-

Fair values of financial assets and liabilities

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments carried in the financial statements:

	Carrying amount		Fair Value	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	JD '000s	JD '000s	JD '000s	JD '000s
Financial assets				
Available-for-sale investments - quoted	142,288	149,960	142,288	149,960
Accounts receivable	89,067	78,614	89,067	78,614
Financial assets held for trading	8,210	8,671	8,210	8,671
Other financial assets	116,344	116,722	116,344	116,722
Cash and cash equivalents	59,400	63,491	59,400	63,491
	415,309	417,458	415,309	417,458
Financial liabilities				
Interest-bearing loans and borrowings	37,269	33,659	37,269	33,659
Accounts payable	39,680	29,870	39,680	29,870
Other financial liabilities	62,065	69,817	62,065	69,817
	139,014	133,346	139,014	133,346

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 financial assets, cash and cash equivalents, accounts payable, and other financial liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair values of the quoted available-for-sale investments and financial assets held for trading is based on price quotations at the reporting date.
- The fair value of interest-bearing loans and borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms and credit risk.

13. Segment reporting

The Group's operating segments are the wireline, wireless, data, media services, in addition to investing activities segment. The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit.

The wireline segment is a provider of wireline communication services and the operator of the telephone networks in Palestine.

The wireless segment is a provider of wireless communication services and the operator of a cellular network in Palestine.

The data segment is a major provider of internet services, leased lines, and ADSL services in Palestine.

The media segment is a provider of media services in Palestine.

The investing activities segment represents all investment activities of the Group.

Segment reporting (continued)

The following tables present revenues, profit before tax, and other segment information regarding the Group's operating segments for the six months ended June 30, 2016:

	Wireline	Wireless	Data	Media	Investing	Eliminations	Total
Revenues	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s
Segment revenues from external customers	38,818	109,232	15,182	907	-	-	164,139
Inter-segment revenues (eliminated)	7,212	87	1,714	176	-	(9,189)	-
Total revenues	46,030	109,319	16,896	1,083	-	(9,189)	164,139
Results							
Segment profit (loss) before tax	4,226	30,950	12,422	(230)	(1,722)	-	45,646

The following table presents segments' assets and liabilities as of June 30, 2016:

Assets and liabilities	Wireline	Wireless	Data	Media	Investing	Eliminations	Total
Segment assets	345,325	244,536	8,788	1,823	227,989	(110,909)	717,552
Segment liabilities	119,891	80,812	4,450	3,506	-	(7,084)	201,575

Segment reporting (continued)

The following tables present revenues, profit before tax, and other segment information regarding the Group's operating segments for the six months ended June 30, 2015:

	Wireline	Wireless	Data	Media	Investing	Eliminations	Total
Revenues	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s	JD '000s
Segment revenues from external customers	38,010	111,203	13,841	815	-	-	163,869
Inter-segment revenues (eliminated)	8,864	289	1,751	62	-	(10,966)	-
Total revenues	46,874	111,492	15,592	877	-	(10,966)	163,869
Results							
Segment profit (loss) before tax	3,192	34,760	11,429	11	(911)	-	48,481

The following table presents segments' assets and liabilities as of December 31, 2015:

Assets and liabilities	Wireline	Wireless	Data	Media	Investing	Eliminations	Total
Segment assets	396,689	243,873	8,138	2,269	241,382	(146,018)	746,333
Segment liabilities	122,316	83,482	4,244	3,706	-	(10,465)	203,283