

Company Background

Overview

Palestine Telecommunications Company was founded in 1995, and started its operations in 1997 as an operator and provider of telecommunications services: fixed line, cellular, internet, data transmission and leased lines. Palestine Telecommunications plays a major role in raising the Palestinian economy and supports its development. It employs about 1600 employees. Its capital reached JD 131,625 million and its shareholders base as of December 31, 2012 reached 7,579 that consists of individuals, companies, institutions, Palestinian investment committees and legal bodies.

Operational performance of the Group's companies and their financial results have revealed a marked improvement in all aspects of operations management among the previous years.

PALTEL has its remarkable and distinguished position between other companies in Palestine, where it represents prominent, respected and highly qualified businessmen that occupy high positions in the country which support the economic status in the region. Sabih Masri, Chairman of the Board is an internationally respected business executive, founded and presently manages investment companies and financial economic institutions active in Palestine and throughout the region. He is also the Chairman of the Board of Directors of the Arab Bank. Three representatives of Palestine Development & Investment PADICO are members of PALTEL's board of directors, given that PADICO is the largest shareholder and depends heavily on a large portion of PALTEL's operations results. Other members of the board represent wide sectors that are related to services, investment and financial sectors.

Major Shareholders

PADICO: Palestine Development & Investment Co. (PADICO) is a Palestine-based public shareholding company engaged, together with its subsidiaries, in investment activities in diversified economic sectors, including tourism, real estate, infrastructure, manufacturing, education, finance, telecommunications and agriculture.

PIF: The Palestine Investment Fund (PIF) as an independent investment company, which aims to strengthen the local economy through key strategic investments, while maximizing long-run returns for its ultimate shareholder; the people of Palestine.

Board of Directors

Sabih Taher Masri- Chairman
Arab Supply & Trading Company - Ammar Aker
GMS Holdings - Ghiath Munir Sukhtian
Cairo Amman Bank - Farouq A. Zuaier
Arab Bank - Basel Abdel Nabi
Al-Maseera International Company - Ma'moon Abu Shahla
Aswaq for Investment Portfolios L.L.C - Mr. Bassem Abd Al-haleem
Palestine Development and Investment - Sharhabil Al-Zaim
Birzeit Pharmaceutical Co. - Talal Nasiruddin
Palestine Development & Investment - Laith Muneeb Rashid Al Masri
Palestine Development & Investment - Samir Othman Halileh

Quotes

PSE: PALTEL

Bloomberg: PALTEL.PS

ISIN: PS5002111951

Sector: Services

Trading Currency: JOD

Key Market Data

Date: 14/04/2013

Closing: JD4.78

YTD: -7.18%

PE: 7.66x

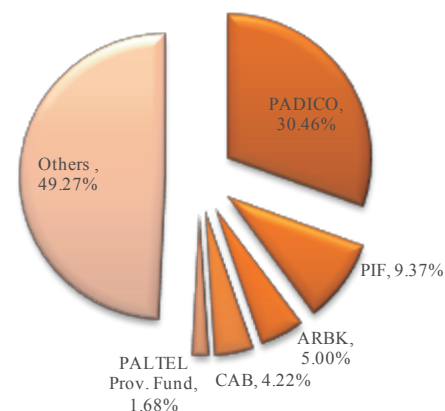
P/BV: 1.38x

52 High/ Low: 5.30/4.40

Free Float at 51.32%

M. Cap: \$887,401,121

O. Shares: 131,625,000



Arab Bank: is one of the largest financial institutions in the Middle East and has been the road map for leading to significant role in developing Arab economies through financing strategic infrastructural projects across the Middle East /North Africa region (MENA).

Cairo Amman Bank CAB: has been keen on employing its strong capital and its five-decade, well-founded experience to play a distinguished leading role in promoting the national economy through providing a distinct and inclusive range of services and successful banking solutions that fulfill the various needs of its customers.

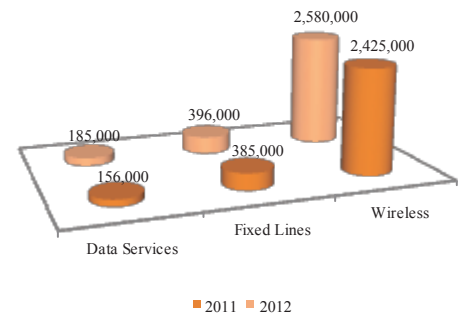
Subscribers base hit 3.16 million; growth rate of 6.57%

Palestine Telecommunications PALTEL reported a growth of 6.57% in its total number of subscribers to reach 3.16 million as of December 31, 2012; including fixed line, wireless (Mobile) and data services compared to 2.97 million at the end of 2011.

Wireless services subscribers - which account for 81.62% of the total figure -, increased by 6.39% to reach 2.58 million in 2012 compared to 2011. Sustaining the strong performance in the wireless subscribers came amid raising the competition in the Palestinian Telecommunications sector.

Fixed line subscribers- the second contributor by 12.53%- reached 0.40 million at the end of 2012, up by 2.86% compared to the end of 2011. According to PALTEL; this increase is attributed to the intensive offered price campaigns which aim to increase the service's usage through providing several motives and advantages to subscribers.

Data services (ADSL) subscribers - which contributed the least to the total base by 5.85%-, increased 18.60%, standing at 0.18 million in 2012. This was accompanied with a rise in the penetration rate of ADSL among fixed line to reach 46.8% compared to 40.50% in 2011.



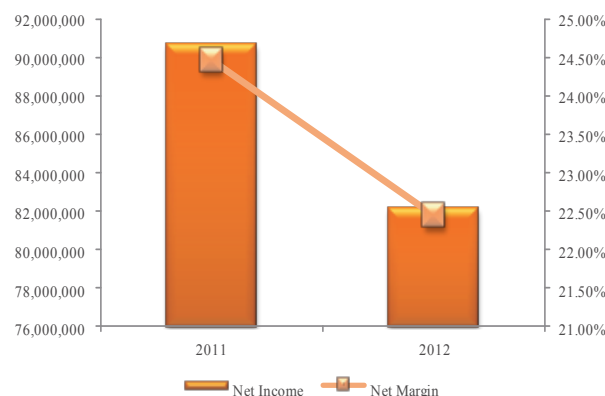
Financial performance in 2012

Net Income drops 9.49% in 2012 on an effective tax rate of 22.25%

Paltel Group, the telecommunications leader in Palestine providing mobile, fixed and data services announced its results for the year ending 31 December 2012 amid a country's status that continues to be affected by changes in the taxation laws, fluctuation in currency exchange rates and the overall slowdown in economic activities in the region.

Palestine Telecommunications PALTEL noted a net bottom line figure of JD82.13 million in 2012 compared to JD90.74 million in the same period of 2011; down by 9.49% due to the new adopted income tax law by the Palestinian National Authority to apply 20% rate on companies instead of 15%, in addition to starting to apply the board of directors' decision to postpone the 50% tax exemption for two years starting from the year 2012. Noting that net income before tax EBT increased by 4.58% reflecting PALTEL's improved operational indicators and enhanced by reduction in investment losses compared to the year 2011. This came in parallel to a general

short term regression in the economic growth of Palestine due to political stalemate, reduced donor funding and a fiscal crisis in the public sector, to record a net margin of 22.45% and earnings per share of JD0.624 in 2012.



Lower ARPU's in all sectors

PALTEL recorded a decrease of 1.28% in its revenues to stand at JD365.85 million in 2012 compared to JD370.60 million in the same period of 2011 despite the growth in its total subscribers' base.

The change in the currency exchange rate of the official reporting currency - Jordanian Dinar- and the collection currency - Israeli Shekel - had a remarkable effect on the reported revenues figures.

In this context, despite the growth in the Wireless-mobile subscribers that was supported by several acquisition campaigns and new products and services that targeted existing and prospective customers, the average revenues per user ARPU for the wireless service subscribers per month reached JD9.2 in 2012 compared to JD10.4 in the same period of 2011; down by 11.54% affected by larger customer base, low ARPU of new customers in addition to offering larger discounts to the customers and exchange rate differentiations.

Moreover, the fixed line ARPU hit JD13.6 in 2012 compared to JD15.0 in 2011; down by 9.33%. Data services sector a decline of 26.4% in ARPU due to decreasing the participation price of the BSA system. In addition, penetration rate of the ADSL lines (per landline) increased from 40.5% at the end of 2011 to 46.8% at the end of 2012.

Palestine Telecommunications (PALTEL)

Revenues Breakdown; drop in the major contributors

In aggregate, the insignificant decrease in revenues came as a result of the decrease in the revenues of the group sectors; fixed lines by 8.20% , wireless by 1.70% and media 5.8%.

Fixed and wireless calls revenues– the largest contributor to operating revenues by 61.55%- dropped by 4.45% in 2012 from JD235.68 million to JD225.19 million., parallel to another drop in subscription revenues by 2.37% to stand at JD54.38 million and contributing by 14.86% to total operating revenues– the second contributor.

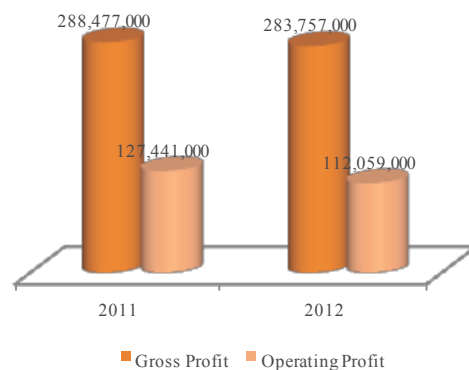
Interconnection revenues on the other hand increased by 3.70% to hit JD45.26 million in 2012 accounting for 12.37% of the figure. Also, data services revenues soared by 56.43% from JD11.90 million in 2011 to JD18.61 million in 2012, balancing back the other drops in the major items.

Item	2011	2012	Δ
Fixed and wireless calls revenues	235,681,000	225,188,000	-4.45%
Interconnection revenues	43,649,000	45,265,000	3.70%
Subscription revenues	55,702,000	54,380,000	-2.37%
Mobiles sales revenues	19,023,000	18,720,000	-1.59%
Data service revenues	11,898,000	18,612,000	56.43%
Others	4,652,000	3,687,000	-20.74%
Total	370,605,000	365,852,000	-1.28%

Stability in gross margin vs. sharp drop in operating margin

Cost of revenues which represents: telecommunications services costs, license fees and other costs slightly decreased by 0.04% to settle at JD82.09 million in 2012 to record a gross profit of JD283.76 million and gross margin of 77.56% in 2012 compared to 77.84% in 2011.

Within cost of revenues; telecommunication services costs that mainly comprise of interconnection costs and international roaming due to other telecommunications companies advanced by 8.90% hitting JD32.37million and accounting for 39.43% of total cost of revenues. On the other hand, license fees decreased by 2.02% standing at JD26.64 million following the drop in the fixed and wireless calls revenues, whereby PALTEL pays the Palestinian National Authority PNA a license fee of 7% on all fixed line and wireless operating revenues, while other costs that represent mainly: commissions paid to employees and dealers, cost of mobile handsets sold, cost of SIM cards and prepaid scratch cards, cost of media services and others decreased by 8.45% standing at JD23.08 million.



General & administrative expenses amounted to JD171.70 million in 2012; up by 6.62% compared to 2011. By amounts, the depreciation expense and advertising expense increased by the highest amounts when together reached JD58.13 million in 2012 compared to JD49.79 million in 2011, accounting for 33.85% of total G&A expenses.

In consequence, operating income settled at JD112.06 million in 2012 with an operating margin of 30.63%; down 12.07% compared to JD1.27.44 million with a margin of 34.39% in 2011.

Major reduction in investment losses

PALTEL's investment losses were lowered to JD6.84 million in 2012 compared to losses of JD18.17 in 2011; a reduction of 62.33%.

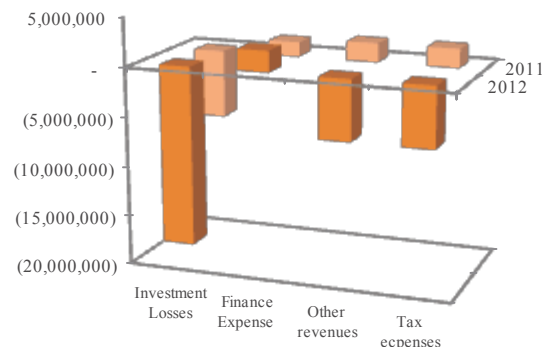
This item reflects mainly the company's stake of unquoted associates' results of operations, which contribute by the largest amount. stake of associates' results of operations recorded losses of JD5.78 million in 2012 compared to a loss of JD13.50 million in 2011. PALTEL owns a stake of 25.3% in VTEL Holding with a carrying amount of JD22.33 million, and a stake of 50% in Jericho Gate Real Estate Investment Company with a carrying amount of JD15.95 million as of the end of 2012. its worth mentioning that PALTEL sold its 40.30% in Pal Aqar for Real Estate Investment Company during 2012.

Available for sale financial assets impairment settled at negative figure of JD3.31 million in 2012. on the other hand, PALTEL reported stocks dividends of JD2.84 million that added up to conclude this total investment losses reduction.

On the other hand, other revenues item reported a figure of JD1.90 million in 2012 compared to an expense of JD6.13 million in 2011, enhanced by reporting foreign currency exchange gains and lowering the intangible assets impairment.

EBIT grows by 3.86%

Finance costs also decreased by 30.51% to aggregate at JD1.48 million in 2012 in parallel to the significant reduction in total loans. Tax expenses increased to JD23.51 million in 2012 compared to JD10.27 million in 2011 and significantly up by 128.98%, recording an effective tax rate of 22.25% in 2012 compared to 10.16% in 2011. This came in conjunction with the new adopted income tax law in addition to PALTEL's board of directors' decision to postpone benefiting from the tax exemption.



Item (JD)	2011	2012	Δ
Revenues	370,605,000	365,852,000	-1.28%
Gross Profit	288,477,000	283,757,000	-1.64%
Operating Profit	127,441,000	112,059,000	-12.07%
EBIT	103,137,000	107,117,000	3.86%
Net Income	90,744,000	82,132,000	-9.49%

Current assets enriched by investment expansion in quoted stocks

PALTEL's total assets increased by 7.25% in 2012 to aggregate at JD616.52 million compared to JD574.84 million at the end of 2011. This came as a result of an increase by 13.60% in the major contributor to total assets by 70.43%- noncurrent assets- despite a decline of 5.35% in current assets.

Noncurrent assets stood at JD434.22 million in 2012 compared to JD382.23 million at the end of 2011, following a growth of 70.06% in the available for sale investments that contribute about 19.51% from noncurrent assets and represent PALTEL's investments in quoted and unquoted equities. It should be mentioned that PALTEL has raised its ownership in the Arab Bank (ARBK:JR) to 1.59% and in the National Bank (TNB:PS) to 14.00%.

Item (JD)	2011	2012	Δ
Property, Plant and equipment	207,508,000	198,651,000	-4.27%
Available-for-sale investments	49,818,000	84,718,000	70.06%
Cash and cash equivalents	63,179,000	46,213,000	-26.85%
Total assets	574,842,000	616,521,000	7.25%
Loans	35,450,000	22,288,000	-37.13%
Total Liabilities	146,112,000	157,848,000	8.03%
Paid in capital	131,625,000	131,625,000	0.00%
Retained earnings	250,497,000	279,979,000	11.77%
Shareholders' equity	428,730,000	458,573,000	6.96%

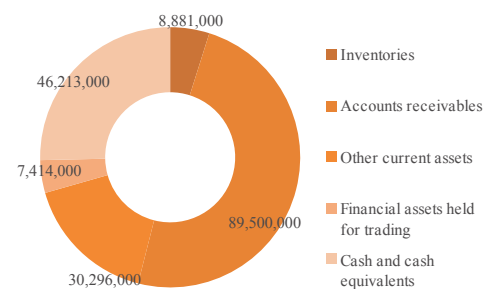
New loans of JD30.56 million to associates companies

PALTEL signed three loans agreements with VTEL MEA and VTEL Holding - associates companies - to grant them three long term loans with a total of JD30.56 million, whereby interest will be paid quarterly while the loan to be paid as a lump sum after 48 months.

On the other hand, investment in associates decreased by 13.22% to settle at JD38.29 million in 2012 following losses incurred by these companies. Moreover a decrease was witnessed in property, plant and equipment, project in progress and materials by 4.27%, 48.55% and 2.48% to aggregate at JD198.56 million, JD3.50 million and JD15.83 million respectively.

Varied changes in current assets constituents amid operations expansion

Current assets decreased to JD182.30 million in 2012 compared to JD192.61 million at the end of 2011; down by 5.35% following a reduction in cash and cash equivalents by 26.85% settling at JD46.21 million in 2012 due to PALTEL's operations expansion. Accounts receivables increased on the other hand by 19.96% to stand at JD89.50 million in 2012; PNA's receivables accounted for 23.76% of the original gross accounts receivables. While, other current assets dropped by 24.24% to JD30.29 million in 2012 after closing the balance of prepaid license fees.

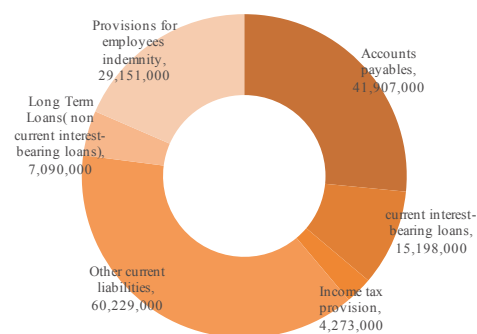


Total loans drop by 37.13% in 2012

Total liabilities increased by 8.03% to aggregate at JD157.95 million in the 2012 compared to JD146.11 million at the end of 2011. This was attributable to an increase of 23.17% in current liabilities- the major contributor to total liabilities by 77.04%- to stand at JD121.71 million in 2012 compared to JD98.73 million at the end of 2011 opposed to a decrease of 23.51% in noncurrent liabilities – the contributor to total liabilities by 22.96%-to hit JD36.24 million in 2012 compared to JD47.38 million at the end of 2011.

The increase in current liabilities came as a result of an increase of 29.29% in accounts payables to amount for JD41.91 million in 2012 due to the increment of the accrued license fees after completing the clearing process of the fees from the prepaid payment to the Palestinian National Authority PNA as installments. Moreover, other current liabilities increased by 22.49% contributing 49.53% from current liabilities to stand at JD60.23 million in 2012 due to the increase in advances in the value added taxes accounts, deferred revenues and accrued expenses.

Moreover an increase was witnessed in current interest bearing loans by 7.18% reaching JD15.20 million in 2012, while long term loans declined by 66.67% to reach JD7.09 million in 2012. In total, loans-debt position amounted to JD22.29 million in 2012 compared to JD35.45 million in 2011.

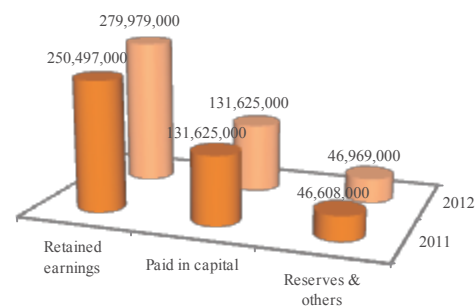


Non current interest-bearing loans	21,270,000	7,090,000	-66.67%
Current interest-bearing loans	14,180,000	15,198,000	7.18%
Total loans	35,450,000	22,288,000	-37.13%

Retained earnings accumulate at JD 279.98 million; 2.13x capital

PALTEL's shareholders equity increased by 6.96% to aggregate at JD458.57 million in 2012 compared to JD428.73 million at the end of 2011 supported by an increase of 11.77% in retained earnings to amount for JD279.98 million in 2011.

Total reserves amounted to JD46.97 million in 2012 with no significant change compared to 2011.



Key financial ratios

Item	2011	2012	Δ
Current Ratio	1.95	1.50	-23.16%
Quick Ratio	1.48	1.18	-20.43%
Cash Ratio	0.72	0.44	-39.04%
Net Working Capital	0.16	0.10	-39.72%
Debt to Equity Ratio	34.08%	34.42%	1.00%
Equity Ratio	74.58%	74.38%	-0.27%
Loans to equity	8.27%	4.86%	-41.22%
Loans to assets	6.17%	3.62%	-41.38%
Fixed Assets to Equity	48.40%	43.32%	-10.50%
Interest Coverage	48.49	72.47	49.46%
Total Assets Turnover Ratio	65.82%	118.68%	80.31%
Fixed Assets Turnover Ratio	186.38%	368.34%	97.62%
Working Capital Turnover	394.77%	602.75%	52.68%
Gross Margin	77.84%	77.56%	-0.36%
Operating Margin	34.39%	30.63%	-10.93%
Net Margin	24.49%	22.45%	-8.31%
ROaA	16.12%	26.64%	65.32%
ROaE	22.13%	35.82%	61.87%

Fundamentals History

Item	2005	2006	2007	2008	2009	2010	2011	2012
Price	13.6	4.96	4.93	4.94	5.14	5.28	5.29	5.15
EPS	0.692	0.427	0.498	0.678	0.534	0.656	0.689	0.624
BV	1.998	1.810	2.107	2.528	2.668	2.973	3.257	3.465
P/BV	6.81	2.74	2.34	1.95	1.93	1.78	1.62	1.49
Market cap \$	1,377,000,000	652,860,000	648,911,250	650,227,500	676,552,500	694,980,000	696,296,250	956,091,166
Trading volume	64,459,316	34,553,532	29,285,441	50,671,360	19,622,320	23,510,626	18,191,089	13,731,826
Turnover	4.68%	5.29%	4.51%	7.79%	2.90%	3.38%	2.61%	1.44%
PE	19.65	11.62	9.90	7.29	9.62	8.05	7.67	8.25
Dividends	0.20	0.20	0.25	0.40	0.35	0.40	0.40	0.45*
Dividend yield	1.02%	1.72%	2.52%	5.49%	3.64%	4.97%	5.21%	5.45%
Dividend Payout	28.90%	46.87%	50.22%	59.04%	65.50%	60.98%	58.02%	72.12%

* PALTEL's GA meeting was held on April 4, 2013. The GA approved cash dividends of 45% of the paid up capital.

Total shareholders return; IRR of 20.65%

In the case of calculating the total shareholders return for PALTEL's stock using the Internal Rate of Return (IRR); the IRR for all cash flows paid to investors since the company's inception until the end of the fiscal year 2012 - taking into account the stock's market price as of December 31, 2012- concludes a rate of 20.65% per annum.

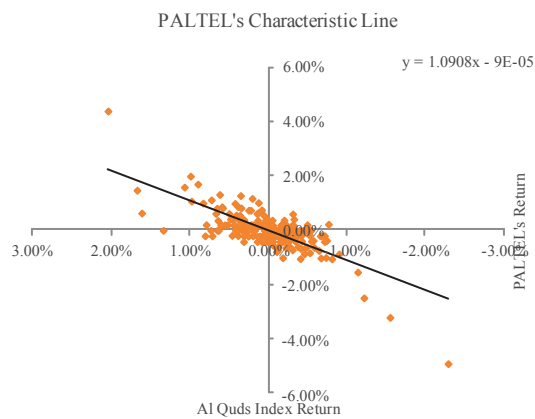
This essentially represents an indication of the overall return generated for shareholders - expressed in percentage terms -, including:

- Cash dividends paid to shareholders.
- Bonus stocks dividends
- Stocks subscription

Key market ratios

Item	2011	2012	Δ
EPS	0.689	0.624	-9.49%
BV	3.26	3.48	6.96%
PE	7.67	8.25	7.56%
P/BV	1.58	1.48	-6.51%
Earnings Yield	13.03%	12.12%	-7.03%
Price to Sales	1.88	1.85	-1.38%
Q Ratio	1.21	1.10	-9.23%
Cash to Market Cap	10.26%	7.91%	-22.87%

Stock's performance in 2012



Item	2012
Beta	1.09
High	5.58
Low	4.4
Closing	5.15
Discount to high	-7.71%
Premium to low	17.05%
Moving Average Price MAP	5.08
Closing to MAP	1.42%
Volume Weighted Price VWP	5.18
Closing to VWP	-0.55%



Common size balance sheet

Item	2010	%	2011	%	2012	%
Current assets						
Inventories	8,926,000	1.62%	6,592,000	1.15%	8,881,000	1.44%
Accounts receivable	69,642,000	12.63%	74,607,000	12.98%	89,500,000	14.52%
Prepayments and other current assets	54,401,000	9.87%	39,988,000	6.96%	30,296,000	4.91%
Financial assets held for trading	9,764,000	1.77%	8,243,000	1.43%	7,414,000	1.20%
Cash and cash equivalents	70,527,000	12.79%	63,179,000	10.99%	46,213,000	7.50%
Total Current assets	213,260,000	38.69%	192,609,000	33.51%	182,304,000	29.57%
Noncurrent assets						
Property, Plant and equipment	190,173,000	34.50%	207,508,000	36.10%	198,651,000	32.22%
Intangible assets	33,438,000	6.07%	29,722,000	5.17%	34,264,000	5.56%
Projects in progress	4,378,000	0.79%	6,809,000	1.18%	3,503,000	0.57%
Materials	16,504,000	2.99%	16,229,000	2.82%	15,827,000	2.57%
Investment in associates	42,024,000	7.62%	44,124,000	7.68%	38,290,000	6.21%
Available-for-sale investments	19,244,000	3.49%	49,818,000	8.67%	84,718,000	13.74%
Real-Estate Investment	-	-	6,753,000	1.17%	7,138,000	1.16%
Prepayment on account	32,240,000	5.85%	21,270,000	3.70%	51,826,000	8.41%
Total Noncurrent assets	338,001,000	61.31%	382,233,000	66.49%	434,217,000	70.43%
Total assets	551,261,000	100.00%	574,842,000	100.00%	616,521,000	100.00%
Current Liabilities						
Accounts payable	34,623,000	21.65%	32,414,000	22.18%	41,907,000	26.53%
Current interest-bearing loans	15,619,000	9.77%	14,180,000	9.70%	15,198,000	9.62%
Income Tax impairments	-	-	2,967,000	2.03%	4,373,000	2.77%
Other current liabilities	48,730,000	30.48%	49,169,000	33.65%	60,229,000	38.13%
Total Current Liabilities	98,972,000	61.90%	98,730,000	67.57%	121,707,000	77.06%
Noncurrent liabilities						
Long Term Loans(non current interest-bearing loans)	35,450,000	22.17%	21,270,000	14.56%	7,090,000	4.49%
Provisions for employees indemnity	25,465,000	15.93%	26,112,000	17.87%	29,151,000	18.46%
Total Noncurrent liabilities	60,915,000	38.10%	47,382,000	32.43%	36,241,000	22.94%
Total liabilities	159,887,000	100.00%	146,112,000	100.00%	157,948,000	100.00%
Paid in capital	131,625,000	33.63%	131,625,000	30.56%	131,625,000	28.70%
statutory reserve	32,906,000	8.41%	32,906,000	7.64%	32,906,000	7.18%
voluntary reserve	6,756,000	1.73%	6,756,000	1.57%	6,756,000	1.47%
special reserve	7,950,000	2.03%	7,950,000	1.85%	7,950,000	1.73%
foreign currency translation	-26,000	-0.01%	-31,000	-0.01%	-50,000	-0.01%
Available-for-sale reserve	-240,000	-0.06%	-973,000	-0.23%	-593,000	-0.13%
Retained earnings	212,403,000	54.27%	250,497,000	58.16%	279,979,000	61.05%
Shareholders' equity	391,374,000	100.00%	430,738,000	100.00%	458,573,000	100.00%

Common size income statement

Item	2010	%	2011	%	2012	%
Revenues	338,300,000	100.00%	370,200,000	100.00%	365,850,000	100.00%
Telecommunication Services Costs	28,050,000	8.29%	29,728,000	8.03%	32,374,000	8.85%
License Fees	24,756,000	7.32%	27,185,000	7.34%	26,636,000	7.28%
Other Costs	26,052,000	7.70%	25,215,000	6.81%	23,085,000	6.31%
Gross Income	259,442,000	76.69%	288,072,000	77.82%	283,755,000	77.56%
Operating & Administrative Expenses	147,692,000	43.66%	161,036,000	43.50%	171,698,000	46.93%
Operating Income	111,750,000	33.03%	127,036,000	34.32%	112,057,000	30.63%
Finance cost	2,239,000	0.66%	2,127,000	0.57%	1,478,000	0.40%
Loss from Investments	9,723,000	2.87%	18,169,000	4.91%	6,845,000	1.87%
Other Expenses	9,297,000	2.75%	5,730,000	1.55%	1,903,000	0.52%
Profit before income tax	90,491,000	26.75%	101,010,000	27.29%	105,637,000	28.87%
Income Tax Expense	4,155,000	1.23%	10,266,000	2.77%	23,507,000	6.43%
Net Income	86,336,000	25.52%	90,744,000	24.51%	82,130,000	22.45%

Disclaimer

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