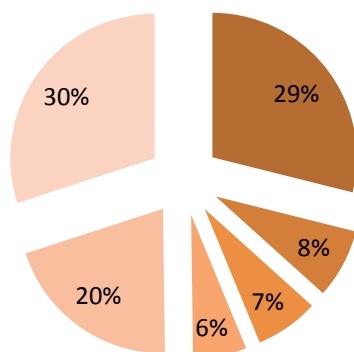


Ownership Structure



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Current Overview:

Palestine Telecommunication Co. (PALTEL) is the national telecommunications provider in Palestine. Established in August 1995, PALTEL commenced operations on January 1, 1997 with a paid up capital of JD 45 million, which further increased to JD 67.5 million in 1999. PALTEL is a shareholding company listed on the Palestine Securities Exchange and Abu-Dhabi Stock Market.

PALTEL offers a wide range of services including fixed lines, internet, data communications, mobile services, payphones, telecommunication services and media services through its six subsidiaries and affiliates. PALTEL's subsidiaries and affiliates are; Hulul Business Solutions (100%), Palestine Cellular Communication Company "Jawwal" (100%), Hulul(100%), Hadara for Technological Investments Company (100%), Palmedia (100%), Palestine Electric and Electronic Company (32.30%), and VTEL Holdings (United Arab of Emirates) (25%). The main shareholders of PALTEL include Palestine Development and Investment Company (PADICO) with 28.90%, Arab Bank with 7.78%, Palestine Commercial Services Company with 7.10%, and Cairo Amman Bank with 6.00%. Other companies and individuals are also major shareholders of the company, while the free float is estimated at 30.00%.

On November 15, 1996, PALTEL was granted a 20-year license by the Palestinian National Authority (PNA) to develop and provide telecom services within the PNA territories. Under the terms of the agreement, PALTEL has the exclusive right to provide such services in the PNA's territories for a 10-year period for fixed line services. It also has the exclusive right to provide such services for mobile users for a 5-year period or upon reaching 120,000 subscribers, whichever comes first. According to the agreement, PALTEL has to pay the PNA 7% of its annual operating revenues in license fees.

Market Data

Palestine Telecommunication Co. (PALTEL)

PALTEL PS (Bloomberg)

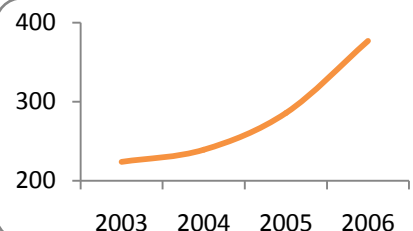
Close (06/12/2007): JD 4.71

52-wks low: JD 3.12

52-wks high: JD 5.05

Average Daily Traded Volume: 127,660.14

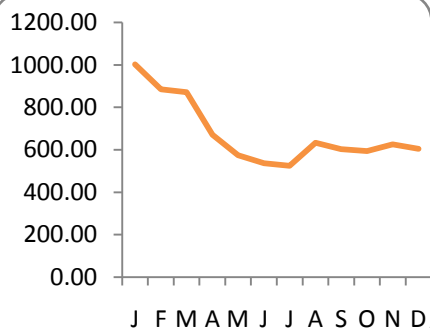
Total Assets (JD million)



Financial Position:

- 2006 witnessed a 16.7% growth in Operational Profits as opposed to 2005.
- Operational Profits increased by 23% during the first 9 months of 2007 compared to the same period in 2006.
- Total assets grew by 31.875% in 2006 compared to 2005.
- Total assets grew by 7.85% during the first 9 months of 2007 compared to the same period in 2006.
- Operational revenues increased by 21.2% in 2006 compared to 2005
- Operational revenues increased by 22.9% during the first 9 months of 2007 compared to the same period in 2006.
- Total Consolidated expenses increased from JD 71,977,433 in 2005 to JD 89,219,824 in 2006, a 24% change.
- Total Consolidated expenses reached JD 81,764,172 during the 3rd qtr. of 2007, an increase of 25% compared to the same period in 2006.
- Total Equity attributable to the company's shareholders in 2006 totalled JD 238,202,708 in 2006 compared to JD 202,292,439 in 2005.
- Total Equity attributable to the company's shareholders totalled JD 257,188,100 during the first 9 months of 2007.
- Net Profit attributed to the Shareholders for the year ending 2006 was JD 56,161,562 compared to JD 70,063,832 in 2005.
- Net Profit attributed to the Shareholders reached JD 45,333,632 by the end of the 3rd quarter of 2007 compared to JD 40,035,428 during the same period in 2006, an increase of 13.23%.

AI-Quds Index Performance (2006)



1. Return on Investment	20.26%
2. Return on Shareholder's Equity	23.58%
3. Profit Margin	30.37%
4. NP Before Tax to Operational Revenues	31.30%
5. Total Loans to Assets	18.70%
6. Liabilities to Total Assets	36.90%
7. Liabilities to Shareholder's Equity	58.38%
8. Long Term Loans to Shareholder's Equity	16.40%
9. Current Ratio	1.31
10. Operational Revenues to Total Assets	49.00%

	2007e	2008e	2009e	2010e	2011e
Net Income	67.3 million	81.0 million	95.7	111.9	141.8
Dep&Amort	26.2 million	30.9	36.5	43	50.77
CAPEX	-24.00	-28.3	-33.4	-39.4	-46.5
NWC	-13.3	-15.7	-13.9	-21.8	-25.8
Dividends	26.3 m	26.3 m	26.3 m	26.3 m	26.3 m
FCF	34.9	41.3	75.6	91.6	119.9

e: Awaq Investments Estimates

History:

Upon its establishment, Paltel inherited its infrastructure initially from an already existing fixed line network (copper cable based). The network was modernized over the years to meet the expansionary plans of Paltel.

In January, 1997 Paltel started providing its services in the fixed lines only, and thereafter expanded to offering mobile services through Jawwal in December, 2000. Through a consolidation of four Internet Service Providers (ISPs), (PIS in Gaza, PALNET, POL in the West Bank, and InterPAL in East Jerusalem) . Hadara was created in July, 2005 to take internet service to the next level by offering DSL service that was not available at that time. It is worth noting that Hadara capitalizes on Paltel's infrastructure modernization.

Paltel Today:

Paltel continues its mission to maximize shareholder values by continuing to develop Palestine's Information Communication Technology (ICT) sector through constant development of its three main companies Paltel (fixed lines), Jawwal (Mobile services), and Hadara (Data & Internet services).

Paltel's current priority is to modernize its infrastructure through the update of its switches as to accommodate future growth. In addition, Paltel's international hubs will further facilitate global connections at reasonable costs through a modernized network. Due to the current political situation, Paltel is facing hindrances in moving equipment in the territories (both Gaza Strip and the West Bank) which is effecting the implementation timeline of any project.

Fixed Lines (PALTEL):

Fixed line subscribers decline is a global trend. This is especially true for residential subscribers. Paltel has witnessed the same trend in 2006. However, the growth in commercial lines dampens the decline along with the substantial increase in data subscribers. Paltel has included the development of the wholesale business in its three-year strategy via the introduction of new services.

Internet (HADARA):

Paltel through Hadara is currently the leader in data and internet services. Hadara has 70% of the ISP market share in the West Bank and Gaza with a penetration rate of 30% and a subscriber growth rate of 10-12% monthly. West Bank makes up 70% of the market by revenues while Gaza Strip makes up the remaining 30%. Both corporate and retail clients are being served by Hadara.

Valuations Analysis

Valuation Method

1. DCF	7.69
2. DDM	1.18
3. P/E Method	6.57
4. P/BV Method	6.99
5. EV/EBITDA Method	8.97
6. Fixed Asset Valuation	-
Valuation Price	6.99
Current Market Price	4.71
Current Market Value	Undervalued
Margin	48.41%

Continue (HADARA):

Both the retail and wholesale models are being followed. It is noted that Paltel is the local backbone for Hadara while the connection to the main internet backbone comes from Paltel's U.K hub and Bezeq amongst others.

A new company model currently being implemented so as to expand Hadara. Hadara's plans are to move from an access provider only to being a content provider along with offering Value Added Services (VAS). Revenues will start affecting the bottom line later in 2008 after adequate time has passed for the implementation. The four ISP merger that formed Hadra is, as of this point, not fully cleaned up and still up until this point not fully coherent. The economic deterioration is affecting the bottom line; communications services have proved quite inelastic up to now but this should not be the case in the future if the economical circumstances deteriorate acutely.

Growth of internet services is expected in the foreseeable future for two main reasons:

1. Group works hard to keep up and progress.
2. Communication is limited due to the circumstances to one of few choices.

Hadara seeks to diversify its geographical source of revenue by using its creation "Edutainment", an Arabic software for children that will be also sold outside the territories starting with 1948 territories beyond the green-line followed by neighboring Arab countries and then the rest of the world. This is expected to insure a stream of income flowing in to support subsidies in services to Palestinian territories present under current political circumstances.

Mobile (JAWWAL)

Jawwal, Paltel's mobile services provider continues to be the leading revenue generator for the group. Since its commercial launch in October, 1999, Jawwal was able to increase its revenues from JD 28 million in 2001 to JD 104 million in 2006. Jawwal subscribers increased from 195,000 in 2001 to over 800,000 in 2006 and today Jawwal has 75% of the Palestinian market share. Jawwal has recently announced that the number of subscribers reached 1,000,000. There is still a large market share lost in Palestine given the political situation; it's a political linked growth. Moreover, 50% of the Palestinian population is under the age of 15 indicating potential market to target in the next few years. A second mobile operator, Wataniya Palestine Mobile Telecommunication Co., obtained the license recently for JD251 million.

The new operator will require innovation technological update in order to compete. Looking at the Jordanian experience, the mobile industry has a prosperous future with more companies entering the mobile services market.

Analysis:

Paltel's growth in revenues over the past five years averaged around 19% with 2005 growth over 2004 peaking at 25.4%. The anticipated future growth taking into consideration the current situation, increase in subscribers, and increase in services is forecasted around 18%. Paltel's goal is to trim down on running cost and expenses and alleviate efficiency along with synergies . A project is underway to improve the network by implementing Media Gateway Management (MGM) switches substituting 200 stations currently operating today to 6 instead. In addition, all support services will be consolidated to several central offices. Paltel seeks to be more efficient by shedding some of the excess labor force. A leaner company is a healthier one and has a better growth potential.

As for the valuation, we used four different models and weighted them differently in accordance to the industry. Paltel's EBITDA stood at JD 84,812,970 in 2006 and is expected to reach JD 104,740,514 in 2007. The EV/EBITDA ratio in 2006 was 8.97 compared to the average EV/EBITDA for its peers which was 8.0. Given all the political and economic turmoil in the West Bank and Gaza, Paltel managed to perform very well if not even better than some of its peers in the region. Moreover, earnings before taxes and interest (EBIT) stood at JD 61,141,050 in 2006 due to losses in investments, however, it is expected to increase to JD 78,553,884 in 2007 as the regional markets performance is expected to improve, therefore, the fair value of financial assets is expected to increase.

Paltel's debt to equity ratio has increased from 41.42% (0.4142) in 2005 to 53.88% (0.5388), an increase of 40%. This increase is mainly due to the increase in interest-bearing loans and borrowings from JD15,804,653 million in 2005 to JD38,948,051 million in 2006. The long-term maturity schedule for the next five years is as follows:

2007 JD 41,106,620 million	2010 JD 9,936,192.52 million
2008 JD 40,976,123 million	2011 JD 4,819,801.20 million
2009 JD 11,870,042.56 million	2012 JD 1,685,274.52 million

Paltel's revenues jumped from JD 152,602,100 million in 2005 to JD 184,933,825 in 2006 an increase of 21.19%. As a result, the EV/Sales ratio for Paltel in 2006 was 4.11, compared to Jordan Telecom (Orange) which had an EV/Sales ratio of 2.8 in 2006.

Continue Analysis:

Paltel continues to face many challenges such as entering new equipments and moving them around the West Bank and Gaza Strip under the current troubled political situation. In addition, the deteriorating economic situation is affecting disposable income of the Palestinian people. Surprisingly though, Paltel has performed very well during 2005 and 2006, the worst two years in the Palestinian conflict since the second intifada broke. Palestine was at a brink of a civil war when Hamas declared victory in the legislative elections and municipal council elections in 2006. The Paltel experience in the troubled territories is a unique and interesting situation to watch in the near future as the political and economic status is far from clear.

Following the valuation, and in light of our detailed forecast, we believe Palestine Telecommunication Company's current market price is undervalued by 48.41%. We have a 'BUY' recommendation on PALTEL.

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