

Flash Result Report - 1H 2011

Palestine Telecommunications (PALTEL)

Palestine Stock Exchange

| Ticker | Sector | Trading Currency | ISIN | Free Float | Current Price | Forward PE | Market Capitalization | 52 Week high | 52 Week low |
|--------|----------|------------------|--------------|------------|---------------|------------|-----------------------|--------------|-------------|
| PALTEL | Services | JOD | PS5002111951 | 56.07% | 5.32 | 7.23x | 989,507,945 | 5.55 | 4.95 |

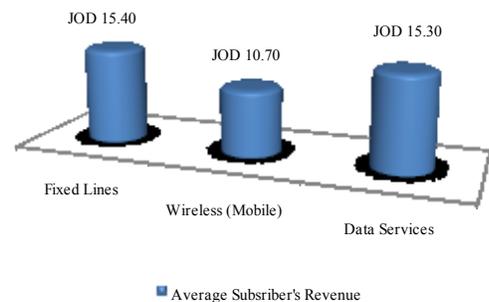
Company Background

Palestine Telecommunications has been established in 1995 as a public shareholding company and started its operations on January 1997 as an operator and provider of telecommunications services; fixed line, cellular, internet, data transmission and leased lines. Palestine Telecommunications has become an essential basis of the Palestinian Economy that supports its development and constitutes an investment compass as it is the main contributor in the Palestinian economy, and it employs about 1600 employees. Palestine Telecommunications' capital reached JD 131,625 million and its shareholders base as of June 30, 2011 reached 7,589 : that consists of individuals, companies, institutions, Palestinian investment committees and legal bodies. The company has skilled unique accomplishments among the past years in various aspects of telecommunications and information technology, where the company introduced to the Palestinian Community all the services and instruments of telecommunications and internet, and the company' activities have expanded enormously to meet the high ambitions and the efforts have integrated during the year of 2005 to outcome PALTEL Group which includes; Paltel Corporation (Paltel), Palestine Cellular Communications (Jawwal), Hadara Technologies, PalMedia that is specialized in media and advertising, Reach, Paltel Academy, Paltel Group for development institute; to be an integrated weight unit with a unique new experience among the local and global levels to attain a beneficiary subscribers from Paltel Group companies of 2.84 million at the end of June 2011. PALTEL's share price is currently calculated in Al Quds Index formula and weighs around 50%. Also, its is the largest company in the PEX in term of market capitalization. According to PALTEL, "the restructuring of the Group companies created new strategic directions which led to a refocus on core business operations in the fixed, mobile and data services. In turn, the implementation of a new operational focus resulted in the steady growth of revenues and profits across all companies as a result of the Group's ability to adapt and adjust to evident market changes".

| Shareholders (more than 5% of capital) | # of Shares 2010 | % of Ownership 2010 |
|---|------------------|---------------------|
| Palestine Development & Investment | 39,056,674 | 29.67% |
| Palestine Investment Fund | 8,776,649 | 6.67% |
| Blakeney L.P.T | 6,940,994 | 5.27% |

Growth in Subscribers Base by 3.92%

- Palestine Telecommunications PALTEL reported a growth of 3.92% in its total number of subscribers to reach 2.84 million as of June 30, 2011; including fixed line, wireless (Mobile) and data services compared to 2.73 million in 2010.
- Wireless services subscribes - which account for 81.63% of the total figure -, increased slightly by 2.52% to reach 2.31 million in 1H 2011 compared to 2010, but rising significantly by 11.75% compared to 1H 2010. The approximate stability in the wireless subscribers came amid rising the competition in the Palestinian Telecommunications sector. Also, average monthly revenue for wireless' subscriber stabled at JD10.70 in 1H 2011.
- Fixed line subscribers reached 0.38 million in 1H 2011, up by 5.51% compared to the end of 2010. 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. On the other hand, average monthly revenue for fixed line' subscriber reached JD 15.4 in 1H 2011, down from JD15.8 in 2010.
- Data services' subscribers - which contributed the least to the total base-, increased significantly by 27.78% , standing at 0.14 million in 1H 2011. This was accompanied by a decline in the average monthly revenue for data services' subscriber from JD18 in 2010 to JD15.30 in 1H2011, due to the re-pricing strategy which resulted in a drop in the monthly subscription fees.



| Item | 2010 | 1H 2011 | Δ |
|-------------------|------------------|------------------|--------------|
| Fixed Lines | 363,000 | 383,000 | 5.51% |
| Wireless (Mobile) | 2,258,000 | 2,315,000 | 2.52% |
| Data Services | 108,000 | 138,000 | 27.78% |
| Total | 2,729,000 | 2,836,000 | 3.92% |

Income Statement

- PALTEL reported an increase in the overall revenues by 11.02% in 1H 2011 compared to 1H 2010; standing at JD182.21 million and adding by JD85.73 million in Q2 2011. This increase was stimulated by a growth in the main sectors' revenues; fixed line, wireless (mobile) and data opposed to a decline in the media services subsidiaries' revenues. The major contributor to revenues– wireless services– reported a figure of JD134.60 million; rising by 13.46% in 1H 2011 compared to 1H 2010 and accounting for 73.87% of total revenues. Fixed line revenues settled at JD41.62 million in 1H 2011 increasing by 3.42% compared to 1H 2010.
- Accordingly, cost of revenues increased by a slight percentage of 0.89% standing at JD40.11 million in 1H 2011, and constituting 22.01% of total revenues in 1H 2011 opposed to 24.22% in 1H 2010. In consequence, gross income aggregated at JD142.10 million recording an up rate by 14.26%, therefore registering a gross margin of 77.99% that grew by 2.92% due to the growth in the overall revenues, in addition to the noticeable control of cost of revenues.
- General & administrative expenses increased in correspondence in 1H 2011 by 12.63% to settle at JD77.62 million, to record an operating income of JD64.49 million which in turn grew also by 16.29% standing at JD64.49 million; registering an operating margin of 35.39% in 1H 2011 up by 4.75% compared to 1H 2010, supported by the increase in the operating revenues and the controllable direct costs despite the increase in the G&A expenses.
- PALTEL recorded investment losses of JD10.35 million in 1H 2011 opposed to losses of JD3.66 million in 1H 2010; this loss reflects mainly the company's stake of associates' results of operations. On the other hand, PALTEL incurred lower and almost shrunk the other costs items in 1H 2011 compared to an amount of JD8.93 million in 1H 2010.
- In aggregate, exceptional items - income or loss– didn't affect PALTEL's bottom line income significantly among the comparable periods figures. Pretax income settled at JD52.29 million.
- Net income amounted to JD47.59 million in 1H 2011 soaring by 16.55% compared to 1H 2010; net margin recorded a rate of 26.12% in 1H 2011 up by 4.98% compared to the settled percentage in 1H 2010.
- Earning per share stood at JD0.36 as of June 30, 2011.

| Item | 1H 2010 | 1H 2011 | Δ |
|-------------------|-------------|-------------|----------|
| Revenues | 164,122,000 | 182,212,000 | 11.02% |
| Cost of Revenues | 39,756,000 | 40,109,000 | 0.89% |
| Gross Income | 124,366,000 | 142,103,000 | 14.26% |
| Gross Margin | 75.78% | 77.99% | 2.92% |
| G&A Expenses | 68,913,000 | 77,616,000 | 12.63% |
| Operating Income | 55,453,000 | 64,487,000 | 16.29% |
| Operating Margin | 33.79% | 35.39% | 4.75% |
| Investment Income | -3,661,000 | -10,347,000 | -182.63% |
| Net income | 40,836,000 | 47,596,000 | 16.55% |
| Net Margin | 24.88% | 26.12% | 4.98% |

Balance Sheet

- Total assets of PALTEL dropped by 1.95% 1H 2011 compared to the end of 2010; standing at JD540.49 million and affected mainly by the drop in current assets.
- Current assets aggregated at JD170.94 million in 1H 2011; down by 19.85% from 2010. This decline was attributed mainly to the reduction in the cash and cash equivalents item by 59.24% to reach JD28.74 million in 1H 2011 compared to JD70.53 million at the end of 2010, in effect of cash dividends distributions for the fiscal year of 2010. On the other hand, accounts receivables increased by 8.28% to reach JD75.41 million in 1H 2011.
- In the opposite; noncurrent assets grew noticeably by 9.33% in 1H 2011, settling at JD369.55 million compared to JD338.00 million at the end of 2010.
- Investment in properties and equipments increased by 5.81% in 1H 2011 reaching JD201.22 million, and investment in financial assets available for trading grew by 62.51% settling at JD31.22 million. This have compensated significantly for the drop in PALTEL's cash. On the other hand, the balance of prepayment account amounted JD 32.24 million in 1H 2011- (the remaining "outstanding un due" balance of license fees to the PNA) - did not witness any significant change compared to the end of 2010.
- Investment in associates stood at JD49.62 million in 1H 2011 compared to JD42.02 million in 2010. It should be mentioned that PALTEL invested in "Jericho Gate Real Estate Investment Company" with an amount of JD15.6 million.
- Total liabilities declined by 3.59% to amount JD154.15 million in 1H 2011 compared to JD159.89 million in 2010. This decline came attributed to the reduction in the noncurrent liabilities by 14.28% when stood at JD52.23 million in 1H 2011 and reflected the drop in the long term loans by 20% and in the provision for employees' indemnity by 29.03%. Long term loans now amount to JD28.36 million.
- On the other hand, current liabilities increased by insignificant amount of JD2.96 million - 2.99%- to reach JD101.93 million, in effect of an increase in the accounts payables by 10.62% to hit JD38.30 million.

| Item | 2010 | 1H 2011 | Δ |
|------------------------|-------------|-------------|---------|
| Current assets | 213,260,000 | 170,938,000 | -19.85% |
| Noncurrent assets | 338,001,000 | 369,552,000 | 9.33% |
| Total assets | 551,261,000 | 540,490,000 | -1.95% |
| Current liabilities | 98,972,000 | 101,932,000 | 2.99% |
| Noncurrent liabilities | 60,915,000 | 52,219,000 | -14.28% |
| Total liabilities | 159,887,000 | 154,151,000 | -3.59% |
| Retained Earnings | 212,403,000 | 207,349,000 | -2.38% |
| Outstanding Shares | 131,625,000 | 131,625,000 | 0.00% |
| Shareholders' Equity | 391,374,000 | 386,339,000 | -1.29% |

- Total shareholders equity hit JD386.34 million in 1H 2011 ; down by 1.29% compared to the end of 2010. This decline was due to the drop in the retained earnings by 2.38% which ended to reach JD207.35 million due to the a drop by an amount of JD52.65 million as cash dividends for the fiscal year of 2010, this was opposed to recording the profits of 1H 2011, in which resulted to a negative change in the retained earnings by JD5.05 million only.

Cash Flow

- Cash flow from operating activities increased by 7.80% in 1H 2011 compared to 1H 2010, in which resulted in an improvement in the operating performance.
- Cash flow used in investing activities reached JD59.67 million in 1H 2011 rosining significantly mainly due to PALTEL's new investment in Jericho Gate Real Estate Investment Company .
- Cash flow used in financing activities almost did not witness any significant change.

| Item | 1H 2010 | 1H 2011 |
|--|-------------|-------------|
| Net cash flow from operating activities | 69,099,000 | 74,490,000 |
| Net cash flow used in investing activities | -30,772,000 | -59,672,000 |
| Net cash flow used in financing activities | -55,522,000 | -58,232,000 |

Financial Ratios

- PALTEL witnessed a major increase in profitability and operating margins in addition to the bottom line profit indicators, due to the soar in the main operating revenues in addition to the controllable increase in direct costs and the almost zero effect of the non operating items.
- PALTEL is currently holding a stronger equity position, along with lower leverage ratios due to the approximate stability in the balance sheet major components aside with the reduction in the long term loans.
- Working capital increased by 46.76% in 1H 2011 compared to 1H 2010 and by 32.01% compared to the end of 2010.
- Book value stood at JD2.94 at the end of 1H 2011 rising by JD0.31 compared to 1H 2010, and down by JD0.03 compare to the end of 2010 due to the decline in the shareholders equity.

| Ratios | 1H 2010 | 1H 2011 |
|--------------------------|------------|------------|
| EPS | 0.31 | 0.36 |
| BV | 2.63 | 2.94 |
| Gross Margin | 75.78% | 77.99% |
| Profit Margin | 33.79% | 35.39% |
| Net Margin | 24.88% | 26.12% |
| ROA | 7.79% | 8.81% |
| ROE | 11.80% | 12.32% |
| Current Ratio | 1.42 | 1.68 |
| Debt Ratio | 33.99% | 28.52% |
| Equity ratio | 66.01% | 71.48% |
| loans to equity | - | 11.34% |
| loans to assets | - | 8.17% |
| Total asset turnover | 31.30% | 33.71% |
| working capital | 47,019,000 | 69,006,000 |
| working capital turnover | 349.05% | 264.05% |

Market Indicators

- PALTEL's share price declined by 0.95% in 1H 2011 compared to the end of 2010, recording a market capitalization of JD688.39 million.
- The share is trading above its book value, and currently recording 178% compared to it
- Estimated PE ratio recorded a very attractive level at the end of 1H 2011; **7.23x compared to an actual PE of 8.05x in 2010.**

| Item | 2010 | 1H 2011 |
|-----------------------|-------------|-------------|
| Price | 5.28 | 5.23 |
| P/BV | 177.77% | 178.19% |
| Market Capitalization | 694,980,000 | 688,398,750 |
| Trading Volume | 23,510,626 | 9,015,288 |
| Turnover | 17.86% | 6.85% |

Future Outlook

Quoting PALTEL "The company will continue to grow its customer base in its core services, Mobile, Fixed Line and Data services while meeting the demands of current customers who will be able to benefit from technological developments while receiving high quality and added value services. Since some equipment is able to enter the Gaza Strip, the company will continue to provide services to more than 40% of our customer base. With more than 82% market share and with 50% penetration rate, PALTEL is still confident of capturing future growth in the telecom market in the Palestinian territories".

PALTEL's Performance in 1H 2011



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