



PALTEL GROUP
Together

Annual Report 2008

Caring without boundaries

Caring without boundaries

Caring without boundaries

Caring without boundaries

Caring without boundaries



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Board of Directors



Sabih Taher Al-Masri
Chairman of the Board of
Directors



Dr. Abdul Malik Al Jaber
Vice Chairman of the Board of
Directors/ASTRA



Ghayyath M. Alsukhtian
Board Member
Cairo Amman Bank



Dr. Farouq Zuaiter
Board Member
Palestine Development and Investment
Company (PADICO)



Talal Nasiruddin
Board Member
Birzeit Pharmaceuticals
Company



Layth Almasri
Board Member
Palestine Development and Investment
Company (PADICO)



Waleed Najjab
Board Member
Management Consultancy Service
Company



Samir Othman Huleileh
Board Member
Palestine Development and Investment Company
(PADICO)



Ma'moun Abu Shahla
Board Member
Al Masirah International
Company



Basel Fayez Abed EL Nabi
Board Member
Arab Bank



Sharhabeel Azzaeem
Board Member
Palestine Industrial Development Company
(PEIDCO)



Message From the Chairman

Dear Shareholders,

The year 2008 was a critical year in the life time of the Paltel Group. The company has overcome tremendous challenges and witnessed truly trying and hard times, yet it was able to still achieve both operational and financial results that went beyond expectations. Our company is one that is inspired by its strong value system and fundamentals. We are a proud but yet a humble company. We are never fearful of moving forward and achieving results, that is our destiny and that is what we set forth when we created the company. We did not establish Paltel at the outset so that we sit still and not expand or develop. We established our operation with set goals; primary of which is to provide job security to all our employees; to achieve profits and shareholder value to our shareholders; to help build our nation and to remain true to our values at all times. That was our promise and will remain our promise so long as we are working hard striving to achieve yet far better results for all our stakeholders.

From the first day of our operations we sought to truly establish a generation of Palestinian Telecom professionals at par with their peers in the region. We achieved this objective internally and we are proud of our professional teams. The company has tried in earnest and with modesty to keep up with the industry's development and best practice. Today we can claim that Paltel has earned the respect of its customers, partners and society in general. Our open transparent culture, our technical updates, and our management approach has carried us through the most difficult operational and political challenges any operator can face, and yet we kept loyal to our principles and retained the confidence of all our stakeholders.

Nationally, Paltel has worked in good faith with the government honoring its commitments, and contributing to the betterment of the telecom sector while continuing to provide jobs for Palestinian youth in an effort to keep its promise of nation building via investment in the national economy. The company has tried whenever needed to intervene in social development, as it realized its civic duties voluntarily and in harmony with the public sector.

Allow me this year on behalf of all of you to dedicate this year's annual report and all our achievements and triumphs for 2008 to the memory of our fallen employees in Gaza. No sacrifice or dedication is greater than the model of commitment offered by our fellow employees who gave their lives while on duty serving our customers and protecting your company's assets. I invite you to join me to remember and give consolation to all our staff who have lost loved ones or have lost their properties in the last war on Gaza. It is for these people, for this level of selflessness and dedication that we strive to ever grow, ever prosper as a company to ensure that we remain strong for them; for their job security and everyone else in our community who looks with pride to Paltel as their family, as their house and source of hope. We realize the enormity of this responsibility yet we remain committed to serve.

To our shareholders let me say the following; the next general assembly will witness the announcement of yet another good year in terms of financial results. The year 2008 results were far from our expectations, setting us for a stronger platform to grow further and advance steadily to implement all our strategic goals.

The results, are once more proof of our sound management practices, these results are the direct fruit of our employees dedication and definitely such results, would not have been achieved if all of us did not share the grand vision of the group and its chartered road ahead.

We shall continue advancing towards a perhaps more uncertain future due to political and economic instability still plaguing the region and the globe. We shall face uncertainty with certain strategies and sound plans to continue building on our already implemented operational convergence and consolidation, edging closer to achieving important strategic partnerships setting us on a stronger clearer path of growth, regional expansion and synergy. For all of this we once more require your confidence and support as we did in 2007. We are hopeful that together we can edge forward and achieve a more solid ground for our group.

Sabih Taher Al Masri



Message from the Chief Executive Officer

Last year in our Annual Report we informed our shareholders that we have successfully started implementing our strategic management plans and promised them evidence of its impact in the months ahead.

We are proud this year to present additional proof points for our strategic vision and management plans and the positive impact on business revenue.

In the realm of convergence of all group company services we are happy to report that the group has begun consolidating all its point of sales shops into One Stop Shops. These shops will offer all our retail services from all group companies to customers in one central location that is accessible and friendly. This will translate into closing some outlets and beefing up of certain distributors to ensure the One Stop Shop strategy is optimal.

Additionally, The Corporate Sales Units in all companies are now converged into one department serving all our corporate clients. The new Corporate Services Department is a new transition to better services, efficiency, cost cutting and more intimate customer care for the group's key corporate customers.

New structures, systems and operational manuals in line with the converging of operations are being implemented with some areas of operations becoming totally converged. Important milestones have been achieved in HR, IT, Sales, Maintenance and Customer Care, including social integration at the level of our community involvement. We have served our community with an open heart and extended our hand to our government for the collective well being of our beloved country. This past year was exceptional, our group was put to the test once more by external challenges. Despite all of those obstacles the company has survived with flying colors, all of this would not have been if we did not have a strong and committed family, this really was the year of the "employees". Our internal front stood unfettered by all these tremendous challenges both in Gaza and the West Bank. The internal front is remarkably stronger today and ready to forge ahead towards more expansion and growth. I would like in the name of the Paltel Group "Family" to thank our shareholders and our Board of Directors for their continued support to management and staff and their confidence in us, especially under these extreme challenging conditions. Again, let me stress one important factor, the company has earned the trust of its employees and we have in turn put our trust in our employees. This is the most important element in our Raison D'être or existence. We are hopeful that this is the only platform for a common future, one that is more promising.

I am inviting you to quickly read through the financial and management reports to get a grasp of what our team achieved during 2008.

Last year was both exceptional in both its operational challenges and its operational results. The success achieved by our "Family" is cause for a pause: it is important as shareholders, as board of directors, and as management to thank each and everyone of the team, because we owe the past, the present and the future to them as a result of this level of commitment and dedication to strategy. To them we pledge to continue growing, expanding and allying within the market place with a sure strategy for further integration.

To those who fell in Gaza from our team of employees, we salute them and in their spirit we pledge to continue what they have helped build, a strong company, prosperous, and proud in a free country, that will also be prosperous and proud as well. I am proud to have been part of this family, and happy with the remarkable achievements that we realized together. I am confident that the future will hold more challenges, but equally so; more promise and successes for this company.

Abdul Malik Al-Jaber

Executive Management Team of the Paltel Group

Dr. Abdul Malik Al Jaber	Chief Executive Officer
Kamal Abu Khadija	Vice President/ Finance and Administrative Affairs
Kamel Husseini	Vice President/ Corporate, Investors and International Affairs
Awni Zubdeh	Vice President/Technology and Technical Affairs
Ghassan Anabtawi	Vice President/Development Affairs
Bassam Al Walweel	Advisor for Public and Government affairs
Khalil Hamad	Secretary General of the Board of Directors
Abdel Majeed Melhem	Wholesale Chief
Ibrahim Kharman	Project Management Office Director
Ibrahim Dweik	Interconnect Director
Irene Saadeh	Marcom Director
Mustafa Deeb	Wholesale Technical Director
Hatem Natsheh	Regulatory Affairs Director
Dr. Basem Makhoul	Economic Advisor
Sameer Al Masri	HR & Administration Director
Rami Shamshoum	Corporate Unit Director
Radi Fassed	Corporate Unit Marketing Director
Ashraf Atiq	Corporate Unit Sales Director
Rula Jarrar	Corporate Unit Operational Director
Mazen Najjar	Chief Internal Auditor
Ahmad Hamarsheh	Awareness Campaign Director
Ra'fat Jallad	Investment Director
Amjad Ghosheh	Risk Management Director
Waleed Fteiha	Procurement & Insurance Director
Marwan Ismail	Sustainability Director
Abdalla Ibrahim	Building and Technical Services Director
Yousef Al Qarm	Technical Director



Palestine Telecommunication Company (Paltel)

Mohannad Heajawi General Manager



Palestine Cellular Company (Jawwal)

Ammar Aker General Manager



Hadara

Mahmoud Yasin General Manager



Hulul

Mustafa Hasan General Manager



Reach

Ghassan Anabtawi General Manager



Palestine Multi Service Company (Pal-Media)

Mahmoud Yasin General Manager



Al Etisalat Academy

Khaled Al Zeri General Manager



Philistia (The Paltel Group Corporate Foundation)

Samah Abuoun Hamad General Manager

Auditors

Ernst & Young

Legal Counsel

Haitham Al Zu'bi Law Offices

No Boundaries for our National Belonging...

“ Paltel Group contributes 12% to GDP ”

“ Paltel Group is considered the largest national employer among its peers in the private sector ”

“ The Paltel Group employees are more than 3000 people spread across the West Bank and Gaza ”

“ We strive to help build a nation despite the perils of occupation ”

our social responsibility... No Boundaries for our services... Caring without Boundaries... No Boundaries for our network...

Greeting



Paltel Group Management Report

The year 2008 was exceptional in both operational and financial achievements, yet however the year was also incredibly challenging, especially in the last quarter of 2008. The group like all private sector operations in Gaza was heavily affected by the war on Gaza and its tragic aftermath. In summary, 2008 was a year of exceptional achievements and exceptional challenges.

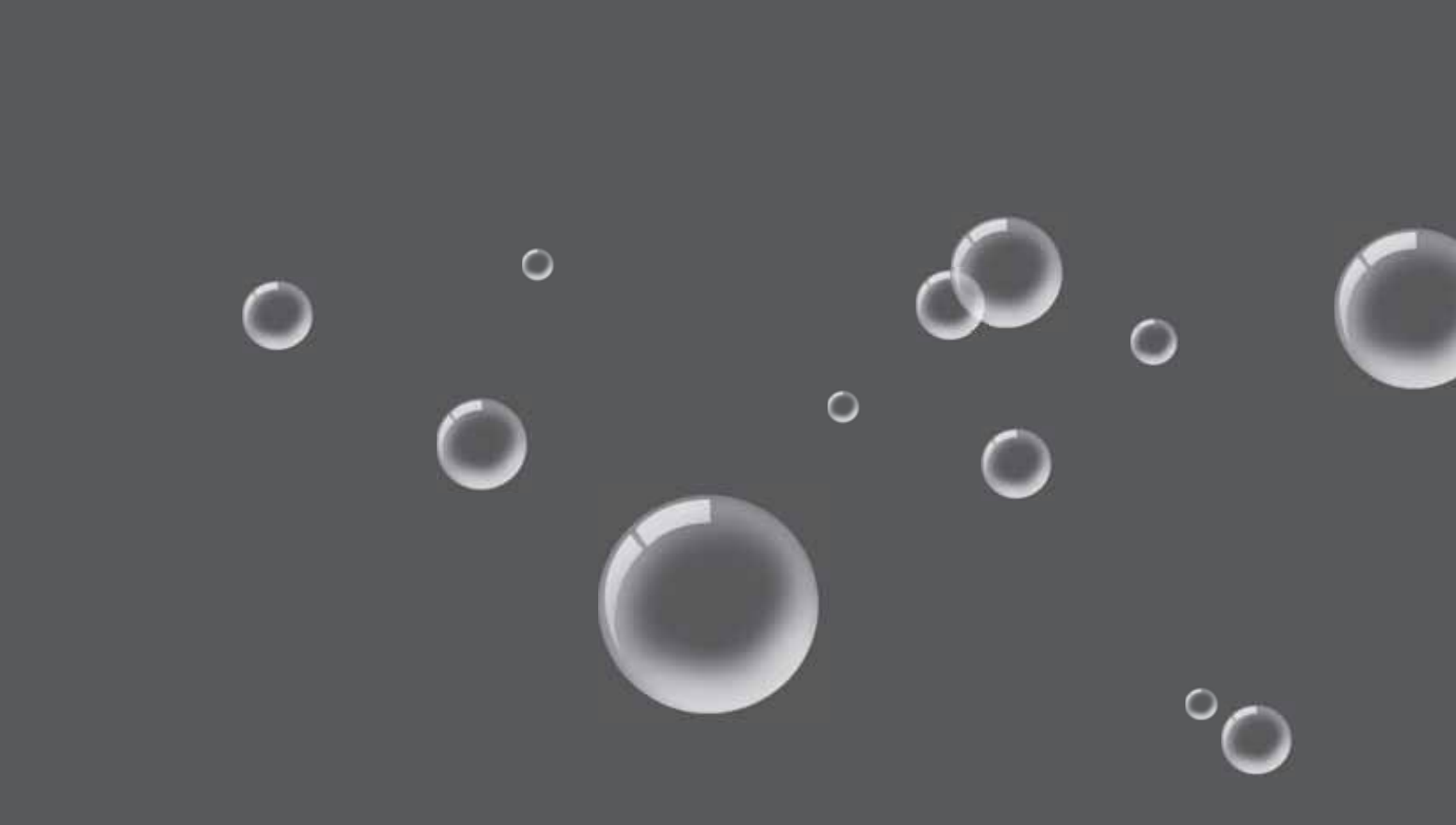
The last quarter of 2008 witnessed the impact of the global financial crisis on all economies. This crisis had tremendous footprint on global economies including countries in the region. Wealth diminished instantly and companies had to face creditors, while banks withheld credit. This has put global economies in a bind that is still causing tremors being felt across all sectors. Despite the fact that the trigger points for this crisis were "real estate" and "financial instruments", our region was not immune from the impact of this crisis, for the simple reason of the interconnected global nature of the economy. Certainly oil rich countries had to bear the brunt of the slowing economies in the west and Asia and the decrease in oil prices and devaluations of assets and investments made outside the region in affected economies and global markets.

However, countries not dependent on oil in our region and had little foreign investments were less affected. Fortunately, Palestine was somewhat immune and insulated from the effects of the financial crisis. With an economy still suffering from occupation and other controls, our economy is domestically focused and is already crisis prone. Additionally our economy is not truly global with little or no portfolio investments abroad; with no sizeable foreign investments in our local stock market. Our economy is still dependent on "the real economy" made up of the productive sectors, with no presence for financial, instruments, derivatives or any such sophisticated financial paper investments that are pervasive in the west.

However; the Palestinian economy despite its overall

immunity from the ills of the global crisis; it does have its own homegrown challenges. Such challenges are mainly manifested by the external pressures from political instability, wars, and restrictive policies of Israel on trade and the movement of goods and people. Today the evident disparity between Gaza and The West Bank economies is manifested in higher poverty and unemployment rates in Gaza compared to the West Bank, especially after the war.

The Paltel group has withstood the Global Financial Crisis because it belonged to a market place that is already crisis prone and it has developed as such its own set of adaptable strategies and conservative values to continue operation in a very unstable market to begin with. The group has instated practical steps to mitigate local challenges and risks in



its operating environment focusing on its core business and value to customers, managing its financial portfolio investments prudently without any outside investments in the markets affected by the crisis.

Additionally the group's financial results have provided it with the ability to finance expansion and business development without the need to obtain financing or credit at a time banks are becoming ultra conservative and cash is extremely scarce among the lending institutions.

Our financial results were extremely positive due to management excellence and operational synergies influencing revenue to grow and costs to be reduced.

The company's FY2008 witnessed evident growth in all its operational and

financial indicators as a result of the company's set of strategies designed to achieve operational integration of the various aspects of its business functions.

In FY2008, Net revenue has grown by 28.7% to reach JOD291.1m compared with JOD226.2m in 2007 which is greatly attributable to the growth in all operating segments of business.

Operating income "EBIT" of the company grew by 24.8% in FY2008 to reach JOD98.8m compared with JOD79.2m in FY2007.

Net income witnessed a growth rate of 36% y-o-y to reach JOD89.2m compared with JOD65.5m in 2007. Owners' equity grew by 20% to reach JOD332.8m compared with JOD277.3m in 2007 as a result of impressive operating

performance, which reflected itself positively on the growing asset base of the company, which grew by 9.5% y-o-y to reach JOD461.9m compared with JOD421.6m in 2007, at the same time total liabilities decreased by 10% y-o-y to reach JOD129.2m compared with JOD144.3m in 2007.

These results would not have been possible, if not for the continued support and confidence of the Board of Directors in the executive management and its subsequent strategic plans.

Hello

Caring without Boundaries

No Boundaries for our National Belonging...
No Boundaries for our network...

No boundaries for our social responsibility...
No boundaries for our services...



We are customer centric, while cogniscent of all our other commitments:

- “ Achieving shareholders value and providing job security to staff ”
- “ Providing value offers to customers at competitive prices ”
- “ Striving to achieve outstanding financial and operational results ”
- “ Providing a safe and stimulating environment to our staff ”
- “ Continuously improving our core network ”
- “ Forging ahead with convergence in services and operations ”
- “ Continuously improving our internal systems and procedures ”

Crossing all Boundaries in service provision:

“Committed to serve under siege and ability to recover from war in Gaza: “ we kept Gaza connected during the war” ”

“Kept telecom Networks at operational excellence, despite ban on equipment entry” ”

“Began repairing all damages in our network in Gaza day two after the war ended” ”

Paltel Group Management Report

Strategy Milestones

The group is happy to present the first concrete manifestation of its strategic convergence plans in both services and operations.

The group unveiled in 2008 a new department solely dedicated to serve “corporate” customers. The unit will provide all group companies bundles of services in one location, with one account executive dedicated to each corporate client. Such synergy and convergence will provide the group’s corporate customers with the following added value attributes:

- Time savings and efficiency
- Additional added value services
- Bundled services completely integrated in features and prices
- Ability to resolve problems and get answers to queries in record time

Instead of dealing with 3 account executives from the different companies (Jawwal, Paltel, Hadara), the corporate client has one dedicated and empowered account executive to deal with.

Additional milestones achieved in 2008 on the continuing path of convergence are the opening of the first pilot for the group’s “One Stop Shops” (OSS) in Ramallah. The first One Stop Shop will integrate all retail services for the group’s fixed line, mobile, and data services in one location under one roof with additional features enabled by convergence and synergies. The customers have reported great satisfaction in dealing with the OSS in Ramallah. The group is forging ahead to open new OSSs in the rest of the West Bank towns in central, accessible locations. This effort will also reduce operational costs, since a lot of the group companies’ points of sales will be closed and all shall be consolidated in the One Stop Shop. The strategy will entail a twin approach of also strengthening the main group service distributors in addition to rolling out additional OSSs.



What's up

No Boundaries for our social responsibility... Caring without Boundaries...

No Boundaries for our Services

No Boundaries for our network...
...Empowering...
No Boundaries for our National B

Paltel Group Management Report

Internal Synergies... Systems Convergence

The group has simultaneously unleashed a massive internal restructuring process in order to enable the group to serve properly convergence in services and all operations. Internal Systems, Procedures, and Support Services are equally being converged. Main milestones achieved internally:

- Convergence of all HR policies of the group companies into one integrated system with new structures, procedures and unified systems.
- Integrating all purchasing departments and systems of all group companies into one improved system
- Integration of all IT systems
- Integration of building support functions into one system and department
- Convergence of insurance providers into one universal provider for the group
- Integration of storage facilities and departments into one department serving the group.
- Integration in all systems supporting key functions/ services such as billing and customer care
- Integration of risk management and Anti Fraud systems



Added Value Services... Technological Updates

Parallel to the integration strategy in support of convergence the group has continued to invest in upgrading its core network and related technology systems. A host of agreements with international system providers globally has allowed the company to remain at par with state of the art technologies and strengthened its dealings with the Telecom sector's operatives abroad. Such dealings will influence the group's ability to render up to standard services for our customers. Additional investments in Next Generation Network were conducted by Paltel to stay at par with the industry standards.

Jawwal has upgraded its systems to offer new value added services while exposing its team to a high level of training courses and workshops, and continuously measure its customers' satisfaction.

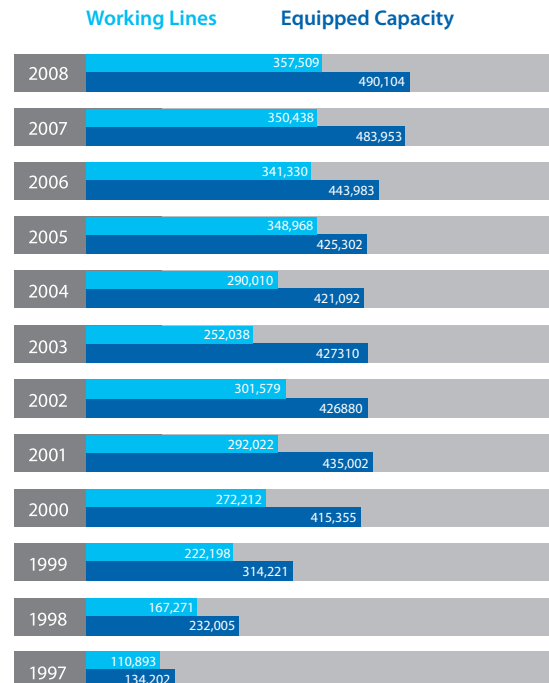
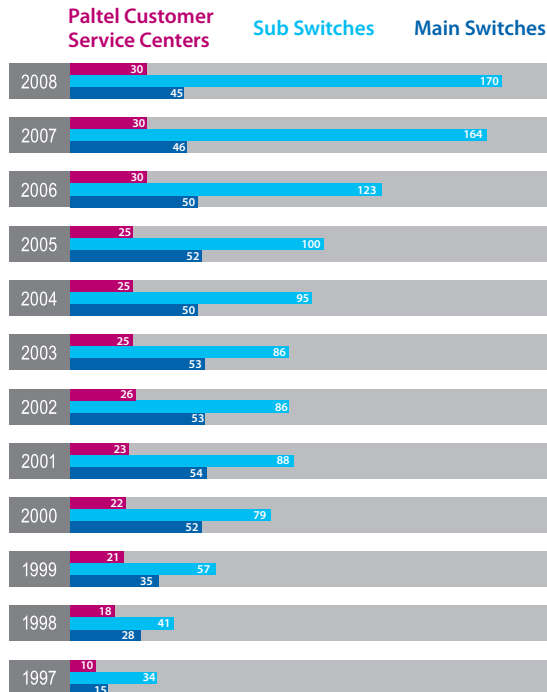
Hadara has managed to increase internet penetration and ADSL subscriptions despite challenges in capacity and speed due to operational challenges in Gaza and area Cs in the West Bank.

Hulul has been innovative, continuously trying to provide solutions to help the group integrate its systems, operations and services efficiently and effectively. Hulul network technology based on IPVPN technology provided with a consolidated infrastructure to serve both the group and other customers with more security features, disaster recovery features, and enhanced billing and customer care systems.

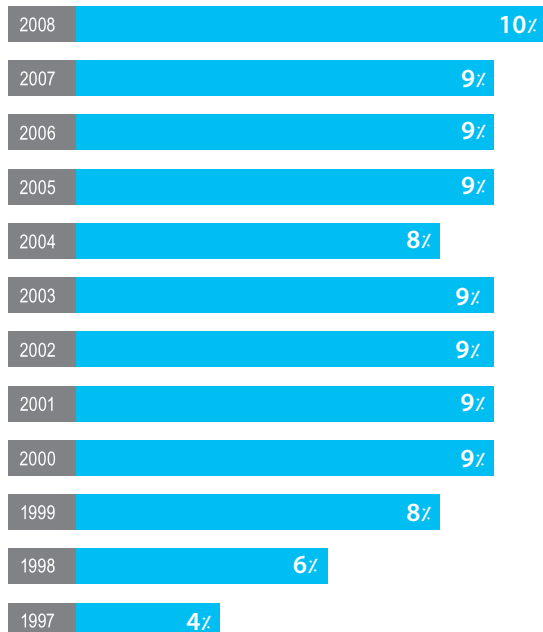
Palmedia has witnessed an aggressive strategy to remain the content provider for the group in multimedia, TV production archiving; services. Palmedia will witness changes in 2009 consolidating its core services and focusing on external media services to a growing media market in Palestine. While attention to staff capacity building is managed efficiently by the Paltel Academy, giving staff both a learning and a recreational environment.

Paltel Group Management Report

Paltel Key Performance Indicators



Penetration Rate



ADSL lines

- 72,518 represented all ADSL lines at year end (2008)

2008 Number of Lines
72,518

2007 Number of Lines
55,684

2006 Number of Lines
27,172

2005 Number of Lines
7,483



No Boundaries for our social responsibility... Caring with

Together

Expanding Everywhere in Palestine... Without Boundaries

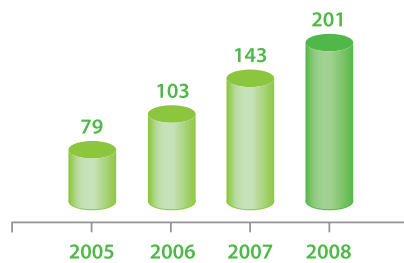
Jawwal Subscribers	1,400,000
Paltel Subscribers	357,000
ADSL Subscribers	72,518



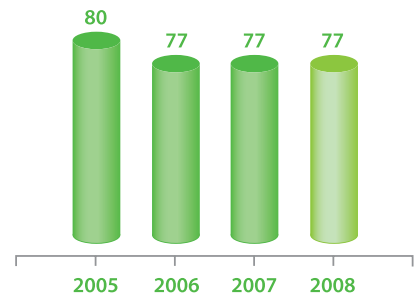
Without Boundaries... **Expanding without Boundaries** ... No Boundaries for our National Belonging...

Jawwal's Key Performance Indicators

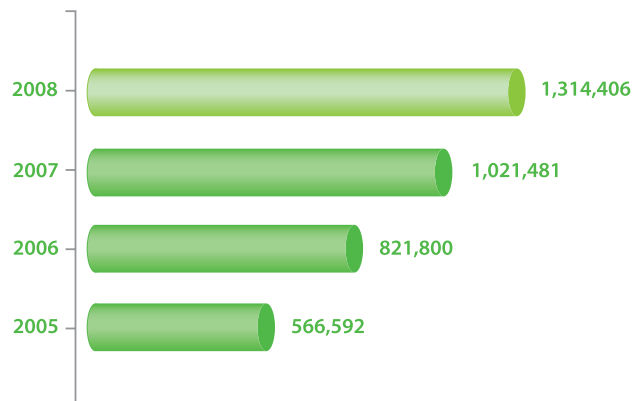
Operating Revenues in Millions in JDs



Jawwal ARPU in NIS



Jawwal Subscribers



A young girl with long brown hair, wearing an orange top, has a yellow and grey cockatiel perched on her shoulder. She is smiling and looking upwards. The background is a soft-focus bokeh of warm colors with several bubbles floating around. The word "Hey" is written in a large, white, sans-serif font inside a circular bubble on the left side of the image.

Hey

No Boundaries for our Social Responsibility

No Boundaries for our National Belonging... Caring without Boundaries...

Our social responsibility has matured

\$8,500,000 was the total for social investments made by the group in the last 4 years

Inclusiveness: Our community investments were in Key sectors principally: education, health, youth, culture, sports, and economic development

Year 2008 witnessed the launch of our Corporate Foundation dedicated to long term community development.

Paltel Group Management Report

The year of the employees:

2008 was a year riddled with challenges and external turmoil. This was truly a year where our internal front was put to the test and where it was impeccably united and triumphant.

The war in Gaza has caused the company to lose five of its employees, and many of its staffers became war stricken over night. The group had united more than ever under those challenging times caring and supporting its employees while continuing to provide services to customers under fire. The group resolve was tested once more, when several of its switches and core infrastructure were destroyed putting more strain on our services in Gaza. The group kept Gaza connected during the war despite all odds and managed to start repairing all damaged infrastructure few days after the war; maintaining its core motto and value of "caring without boundaries".

Integration of our Social and Corporate Responsibilities:

2008 also witnessed convergence of the group's social responsibilities. Internally, the group has instated a core sustainability team to rebuild the group's sustainability strategy to ensure best management practices while conducting its business and influencing all stakeholders. The sustainability report of 2008 will be done in compliance with the Global Reporting Initiative Standards. A separate report on the group's social investments and sponsorships shall be accompanying the annual report to shed more light on the group's over all social investments and good will.

2008 witnessed the institutionalization of the group's social and community development. A new corporate foundation has been created with independent governance to serve the group's human development objectives in 2009 in tandem with its other commercial operations.

Paltel Group Management Report

2009...Forging Ahead:

The group is steadfast in its vision, values, and drive to achieve its mission, factoring all stakeholder interests. It will remain focused on shareholder value, customer satisfaction, employee security and overall social and human development vigilance in Palestine. Our main thrust in 2009 will be entrusted in the following objectives:

- Continue all operational and service convergence and integration of systems. Providing a dual objective of cost cutting and business efficiency in our service provision capacities.
- Rolling out additional One Stop Shops and eliminating redundant retail outlets, and offering added value services
- Furthering and solidifying our strategic alliances
- Entering the one network of Zain providing Jawwal customers with the ability to benefit from Zain's extended one network features regionally.
- Complete all systems overhaul towards an integrated approach focusing on new structures to enhance employee satisfaction and performance





Reach ... Consolidating Customer Care Services

1st quarter 2009 will witness the full operational launch of Reach, the first "Contact Center" in Palestine. Reach will accommodate all the group's call centers for all its operations (fixed, mobile, and data services) in one integrated, state of the art center. The center will serve the group customers more efficiently but will also attract other customers desiring to benefit from a new host of services in the following areas:

- Customer care services and optimal answering of queries
- Telemarketing
- Tele sales
- Quick phone surveys, and opinion polls
- Data banks
- Information guides and services

Additional Disclosures

Shareholders

Palestine Telecommunications Company (“Paltel”) is listed in Palestine Securities Exchange (PSE) and Abu Dhabi Securities Exchange (ADX). The number of shareholders as of December 31, 2008 was 7,800 shareholders compared with 9,463 shareholders as of December 31, 2007.

The following table shows the trading activity of the stock in both Exchanges during FY 2008.

Exchange *	PSE	ADX
Trading Volume	50,671,360	149,585
Trading Value	344,750,271	5,066,356
Closing Price	4.94	30.70
Highest Price	8.24	34.10
Lowest Price	4.21	26.50

*Amounts under PSE are in JDs, whereas those under ADX are in AEDs.

As of December 31, 2008, shareholders owning more than 5% of the Company’s stock capital were as follows:

Shareholder	Volume	%
PADICO	39,037,411	29.66%

Board of Directors' Compensations

The compensations of the Board of Directors' members during the FY2008 were as follows:

Name	Position	Compensations (JD)
Sabih Taher Al-Masri	Chairman	7,000
Dr. Abdul Malik Al Jaber	Vice-Chairman	7,000
Ghayyath M. Alsukhtian	Member	5,000
Talal Nasiruddin	Member	7,000
Waleed Najjab	Member	6,000
Ma'moun Abu Shahla	Member	5,000
Sharhabeel Azzaeem	Member	6,000
Dr. Farouq Zuaiter	Member	7,000
Layth Almasri	Member	5,000
Samir Othman Huleileh	Member	4,000
Basel Fayez Abed EL Nabi	Member	3,000
Mazen Abu Hamdan	Member	2,000
Yaseen Kamel Haj Ali	Member	2,000
Total		66,000

Retained Earnings

The balance of the Retained Earnings in the audited Balance Sheet is higher than the balance disclosed in the preliminary results of the Company by JD4,910,995. This amount is added back from the Statutory Reserve to comply with the Companies' law that states that the balance of the Statutory Reserve shall not exceed 25% of the Company's Paid in Capital.



A blue 3D rectangular block stands on a white grid floor. The block is positioned on the left side of the page, with its top surface slightly angled. The grid lines on the floor recede into the distance, creating a sense of depth. The background is a solid blue color.

**PALESTINE
TELECOMMUNICATIONS
COMPANY P.L.C.**

**CONSOLIDATED
FINANCIAL STATEMENTS
DECEMBER 31, 2008**

Independent Auditors' Report to the Shareholders of Palestine Telecommunications Company P.L.C.

We have audited the accompanying consolidated financial statements of Palestine Telecommunications Company P.L.C. (PALTEL), which comprise the consolidated balance sheet as of December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of PALTEL as of December 31, 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ramallah - Palestine
February 18, 2009

CONSOLIDATED BALANCE SHEET
December 31, 2008

	Notes	2008 JD	2007 JD
Assets			
Property, plant and equipment	4	155,485,496	149,642,363
Intangible assets	5	30,720,802	32,126,113
Projects in progress	6	9,953,014	17,905,668
Materials	7	14,326,675	12,343,793
Investment in associates	8	52,198,996	50,306,296
Available-for-sale investments	9	<u>8,627,683</u>	<u>10,133,157</u>
		<u>271,312,666</u>	<u>272,457,390</u>
Current assets			
Inventories	10	6,347,298	7,133,754
Accounts receivable	11	65,130,249	72,283,178
Prepayments and other current assets	12	29,621,216	23,512,804
Financial assets held for trading	13	12,179,653	14,640,313
Cash and cash equivalents	14	<u>77,358,538</u>	<u>31,566,110</u>
		<u>190,636,954</u>	<u>149,136,159</u>
Total Assets		<u>461,949,620</u>	<u>421,593,549</u>
Equity and liabilities			
Equity attributable to equity holders of PALTEL			
Paid-in share capital	15	131,625,000	131,625,000
Statutory reserve	16	32,906,250	28,899,260
Voluntary reserve	16	6,756,219	6,756,219
Special reserve	16	7,949,555	7,949,555
Foreign currency translation		(49,550)	(26,009)
Cumulative changes in fair values	9	(850,487)	(61,516)
Proposed dividends	17	-	26,325,000
Retained earnings		<u>154,450,888</u>	<u>75,859,280</u>
Total equity		<u>332,787,875</u>	<u>277,326,789</u>
Non-current liabilities			
Non-current interest-bearing loans and borrowings	18	6,765,223	19,784,954
Provision for employees' indemnity	19	<u>19,526,375</u>	<u>13,496,922</u>
		<u>26,291,598</u>	<u>33,281,876</u>
Current liabilities			
Accounts payable	20	41,273,077	42,410,313
Current interest-bearing loans and borrowings	21	14,010,161	28,483,181
Other current liabilities	22	<u>47,586,909</u>	<u>40,091,390</u>
		<u>102,870,147</u>	<u>110,984,884</u>
Total liabilities		<u>129,161,745</u>	<u>144,266,760</u>
Total Equity and Liabilities		<u>461,949,620</u>	<u>421,593,549</u>

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
For the year ended December 31, 2008

	Notes	2008 JD	200 JD
Revenues	24	291,105,648	226,202,357
Telecommunication services costs	25	(19,375,301)	(16,605,057)
License fees	26	(21,903,806)	(16,805,332)
Other costs	27	<u>(14,604,838)</u>	<u>(14,668,354)</u>
		235,221,703	178,123,614
Administrative expenses	28	(136,354,654)	(98,916,436)
Loss from investments	29	(1,589,956)	(11,391,808)
Finance costs		(2,299,573)	(5,215,392)
Other (expenses) revenues, net	30	<u>(5,218,278)</u>	<u>3,108,229</u>
Profit before income tax		89,759,242	65,708,207
Income tax expense	23	<u>(579,394)</u>	<u>(182,429)</u>
Profit for the year		<u>89,179,848</u>	<u>65,525,778</u>
Basic and diluted earnings per share	31	<u>0.678</u>	<u>0.498</u>

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2008

	Paid-in share capital		Reserves		Foreign currency translation		Cumulative changes in fair values		Proposed dividends		Retained earnings		Total Equity	
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD
Balance at January 1, 2008	131,625,000	28,899,260	6,756,219	7,949,555	(26,009)	(61,516)	26,325,000	75,859,280	277,326,789					
Net losses on available-for-sale investments	-	-	-	-	-	(788,971)	-	-	(788,971)					(788,971)
Foreign currency translation	-	-	-	-	(23,541)	-	-	-	(23,541)					(23,541)
Total income and expense recognized directly in equity	-	-	-	-	(23,541)	(788,971)	-	-	(812,512)					(812,512)
Profit for the year	-	-	-	-	-	-	-	-	89,179,848					89,179,848
Total income and expense for the year	-	-	-	-	(23,541)	(788,971)	-	-	88,367,336					88,367,336
Transferred to statutory reserve	-	4,006,990	-	-	-	-	-	-	(4,006,990)					-
Cash dividends (Note 17)	-	-	-	-	-	-	(26,325,000)	(6,581,250)	(32,906,250)					(32,906,250)
Balance at December 31, 2008	131,625,000	32,906,250	6,756,219	7,949,555	(49,550)	(850,487)	-	154,450,888	332,787,875					
Balance at January 1, 2007	131,625,000	22,346,682	6,756,219	7,949,555	(10,828)	-	26,325,000	43,211,080	238,202,708					
Net losses on available-for-sale investments	-	-	-	-	-	(61,516)	-	-	(61,516)					(61,516)
Foreign currency translation	-	-	-	-	(15,181)	-	-	-	(15,181)					(15,181)
Total income and expense recognized directly in equity	-	-	-	-	(15,181)	(61,516)	-	-	(76,697)					(76,697)
Profit for the year	-	-	-	-	-	-	-	-	65,525,778					65,525,778
Total income and expense for the year	-	-	-	-	(15,181)	(61,516)	-	-	65,525,778					65,525,778
Transferred to statutory reserve	-	6,552,578	-	-	-	-	-	-	(6,552,578)					-
Cash dividends	-	-	-	-	-	-	(26,325,000)	-	(26,325,000)					(26,325,000)
Proposed cash dividends (Note 17)	-	-	-	-	-	-	(26,325,000)	(26,325,000)	-					-
Balance at December 31, 2007	131,625,000	28,899,260	6,756,219	7,949,555	(26,009)	(61,516)	26,325,000	75,859,280	277,326,789					

The attached notes 1 to 38 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2008

	2008	2007
Notes	JD	JD
Operating activities		
Profit before income tax	89,759,242	65,708,207
Adjustments for:		
Depreciation and amortization	29,796,589	27,072,738
Provision for doubtful debts	11,442,788	2,982,102
Loss from investments	1,589,956	11,391,808
Assets impairment loss	1,893,919	-
Losses due to Israeli raid on Gaza	6,000,000	-
Loss from sale of property and equipment	620,226	59,323
Provision for employees' indemnity	10,072,026	3,328,306
Finance costs	2,299,573	5,215,392
Other non-cash items	(23,541)	-
	<u>153,450,778</u>	<u>115,757,876</u>
Working capital adjustments:		
Accounts receivable	(4,289,859)	(25,063,238)
Inventory	786,456	(1,452,934)
Prepayments and other current assets	(8,081,725)	88,965
Accounts payable	(1,137,236)	16,611,786
Other current liabilities	575,381	7,935,844
Income taxes paid	-	(5,935,401)
Employees' indemnity paid	(4,042,573)	(632,789)
	<u>(4,042,573)</u>	<u>(632,789)</u>
Net cash flows from operating activities	<u>137,261,222</u>	<u>107,310,109</u>
Investing activities		
Financial assets held for trading	(1,541,380)	7,265,787
Available-for-sale investments	1,325,800	(2,103,036)
Dividends received	122,787	343,729
Investment in an associate	(212,700)	-
Acquisition of intangible assets	-	(319,050)
Increase in projects in progress, property, plant, and equipment and materials	(29,384,865)	(42,770,239)
	<u>(29,384,865)</u>	<u>(42,770,239)</u>
Net cash flows used in investing activities	<u>(29,690,358)</u>	<u>(37,582,809)</u>
Financing activities		
Cash dividends paid	(31,893,668)	(25,444,661)
Proceeds from interest-bearing loans and borrowings	-	6,943,480
Settlements of interest-bearing loans and borrowings	(27,134,478)	(20,423,275)
Finance costs paid	(2,392,017)	(5,475,465)
Decrease in restricted deposits	1,483,618	885,860
	<u>1,483,618</u>	<u>885,860</u>
Net cash flows used in financing activities	<u>(59,936,545)</u>	<u>(43,514,061)</u>
Increase in cash and cash equivalents	47,634,319	26,213,239
Cash and cash equivalents, beginning of year	28,988,510	2,775,271
Cash and cash equivalents, end of year	<u>14</u> <u>76,622,829</u>	<u>28,988,510</u>

The attached notes 1 to 38 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2008

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 operations on January 1, 1997. PALTEL operates under the Telecommunication Law No. (3) of 1996 decreed by the Palestinian National Authority (PNA). PALTEL is engaged in providing, managing, and rendering wireline and wireless services.

The consolidated financial statements of Palestine Telecommunications Company P.L.C. for the year ended December 31, 2008 were authorised for issuance in accordance with a resolution of the Board of Directors on February 18, 2009.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of PALTEL and its subsidiaries (the Group) as of December 31, 2008. PALTEL's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

	Ownership %		Share Capital	
			2008	
	2008	2007	Subscribed JD	Paid JD
PALCEL	100.00	100.00	25,000,000	25,000,000
HADARA	100.00	100.00	7,100,000	6,833,750
PALMEDIA	100.00	100.00	5,000,000	5,000,000
HULUL	100.00	100.00	4,000,000	2,750,000
REACH	100.00	100.00	1,000,000	500,000
AYLA	100.00	100.00	1,000,000	500,000

Subsidiaries are companies over which PALTEL exercises control over the financial and operational policies. The Group operates in the Palestinian National Authority territories, except for Ayla which operates in Jordan.

3. Significant accounting policies

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets held for trading and available-for-sale investments that have been measured at fair value. The consolidated financial statements have been presented in Jordanian Dinars.

Statement of compliance

The consolidated financial statements of Palestine Telecommunications Company Plc. and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards.

Basis of consolidation

The consolidated financial statements comprise the financial statements of PALTEL and its subsidiaries as of December 31, 2008. The financial statements of the subsidiaries are prepared for the same reporting year as PALTEL, using consistent accounting policies.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS and IFRIC Interpretations during the year. Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

IFRIC 12 - Service Concession Agreements

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The following IFRS and IFRIC interpretations have been issued but are not yet mandatory, and have not been adopted by the Group:

IFRS 2 - Share-based Payment (Revised)

IFRS 8 - Operating Segments

IAS 23 - Borrowing Costs (Revised)

IFRIC 13 - Customer Loyalty Programmes

Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The key areas involving a higher degree of judgment or complexity are described below:

Interconnection revenues and costs

The Group's management uses certain estimates to determine the amount of interconnection revenues, costs, receivable, and payable.

Providing for doubtful debts

The Group provides services to a broad based clientele, mainly on credit terms. Estimates, based on the Group's historical experience, are used in determining the level of debts the Group believes will not be collected.

Impairment of goodwill

The determination whether goodwill is impaired requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is

allocated. Such estimation requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives of tangible and intangible assets

The Group's management reassesses the useful lives of tangible and intangible assets, and make adjustments if applicable, at each financial year end.

Provision for income tax

The Group's management uses certain estimates in determining the provision for income tax.

The Group's management believes that the estimates and assumptions used are reasonable.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues are measured at the fair value of the consideration received, excluding discounts and sales commissions. The following specific recognition criteria must also be met before revenue is recognized:

Rendering of services

- Revenues from wireline, wireless, and data services are recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction according to the completed contract method.
- Revenues from media and IT services are recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction according to the progress reports.
- Revenues from prepaid cellular phone and payphone cards are recorded as deferred revenues and are recognized based on the units used.

Sale of goods

Revenues from sale of cellular phone sets and other electrical equipment are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest income

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Dividend revenue is recognised when the right to receive the dividend is established.

Expenses recognition

Expenses are recognized when incurred based on the accrual basis of accounting.

Finance costs

Finance costs are recognized as the interest accrues using the effective interest method.

Income tax

The Group provides for income taxes in accordance with the Palestinian Income Tax Law and IAS 12 which requires recognizing the temporary differences, at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred taxes. Such temporary differences might result in recognizing deferred tax assets. However, the Group's management elected not to recognize such deferred taxes due to uncertainty of benefiting from their future outcomes.

Income tax expense represents the accrued income tax which is calculated based on the Group's taxable income. Taxable income may differ from accounting income as the later includes non-taxable income or non-deductible expenses. Such income/expenses might be taxable/deductible in the following years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	<u>Useful lives (Years)</u>
Buildings and leasehold improvements	10-20
Wireline network	7-16
Wireless network	10
Computer hardware and software	4-7
Office furniture and equipment	4-7
Motor vehicles	4-7
Heavy duty equipment	7
Small tools and equipment	4-10

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised, and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related item of property, plant and equipment. All other expenditures are recognized in the consolidated income statement as the expense is incurred.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as of year-end.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of the intangible assets are assessed to be either finite or indefinite.

Intangible assets with indefinite useful lives are tested for impairment on annual basis. Such intangibles are not amortized.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset

with a finite useful life is reviewed at least at each financial year end. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement.

License and lines costs

License and lines costs are amortized using the straight-line method over a period of 20 years. Amortization expense is recognized in the consolidated income statement.

Software costs

The fair value of softwares obtained through a business combination is amortized using the straight-line method over their expected period of marketability of five years. Amortization expense is recognized in the consolidated income statement.

Projects in progress

Projects in progress comprise costs incurred to construct and expand the wireline and wireless networks and other projects as of the financial statements date. These costs include costs of direct labour, direct materials, equipment, and contractors costs. After completion, projects in progress are transferred to property, plant and equipment.

The carrying values of projects in progress are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the projects are written down to their recoverable amount.

Materials and inventories

Materials are stated at cost while inventories are stated at the lower of cost or net realizable value using the weighted average method. Costs are those amounts incurred in bringing each product to its present location and condition.

The carrying values of materials are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the materials are written down to their recoverable amount.

Investment in associates

The Group's investment in its associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the share of the results of operations of the associate. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in financial assets

The Group's financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss or available-for-sale investments. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets upon initial recognition.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other financial assets categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognised directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in the consolidated income statement. Available-for-sale investments are stated at cost when their fair value cannot be reliably determined due to the unpredictable nature of future cash flows.

Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of restricted bank deposits and outstanding bank overdrafts.

Provision for employees' indemnity

Provision for employees' indemnity (end of service benefit) is calculated in accordance with the Labor Law prevailing in Palestine and the Group's human resource policies based on one-month salary for each year of employment.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

Provisions

Provisions are recognized when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Foreign currencies

Transactions denominated in currencies other than Jordanian Dinar (JD), occurring during the year, are translated to JD using the exchange rate at the date of the transaction. Monetary assets and liabilities, which are denominated in foreign currencies are translated into JD using the rate of exchange at the balance sheet date. Gains or losses arising from exchange differences are reflected in the consolidated income statement.

Foreign currency exchange rates against the JD at the consolidated balance sheet date were as follows -

	Equivalent in JD	
	2008	2007
Israeli Shekel (ILS)	0.188	0.184
United States Dollar (USD)	0.709	0.709
European Monetary Unit (EURO)	1.00	1.04

The assets and liabilities of subsidiaries with functional currencies other than Jordanian Dinars are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and, their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recorded as a separate component of the consolidated statement of changes in equity.

4. Property, plant and equipment

	Land		Buildings and leasehold improvements		Wireline network		Wireless network		Computer hardware and software		Office furniture and equipment		Motor vehicles		Heavy duty equipment		Small tools and equipment		Total		
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	
Cost																					
At January 1, 2008	7,031,977	14,972,651	147,942,567	86,041,127	22,868,734	12,681,445	3,329,782	1,335,980	3,524,683	299,728,946											
Additions	-	8,276,192	6,893,964	11,150,593	6,393,277	1,644,174	-	60,907	898,256	35,317,363											
Disposals	-	(26,659)	-	(1,242,634)	(282,601)	(144,478)	(133,216)	(2,207)	(523)	(1,832,318)											
Reclassifications	-	224,326	2,314	(4,036,493)	6,710,237	510,616	-	3,110	(3,414,110)	-											
At December 31, 2008	7,031,977	23,446,510	154,838,845	91,912,593	35,689,647	14,691,757	3,196,566	1,397,790	1,008,306	333,213,991											
Accumulated depreciation																					
At January 1, 2008	-	7,651,999	82,735,012	35,560,191	12,887,706	6,617,874	1,486,821	1,155,728	1,991,252	150,086,583											
Depreciation for the year	-	1,570,593	11,651,952	8,476,541	4,033,157	1,553,871	588,924	44,821	471,419	28,391,278											
Relating to disposals	-	(4,443)	-	(413,937)	(232,690)	(34,978)	(59,265)	(2,206)	(1,847)	(749,366)											
Reclassifications	-	222,045	2,313	(2,410,171)	3,523,455	490,576	-	734	(1,828,952)	-											
At December 31, 2008	-	9,440,194	94,389,277	41,212,624	20,211,628	8,627,343	2,016,480	1,199,077	631,872	177,728,495											
Net carrying amount																					
At December 31, 2008	7,031,977	14,006,316	60,449,568	50,699,969	15,478,019	6,064,414	1,180,086	198,713	376,434	155,485,496											

Wireless network include network materials amounting to JD 15,080,231 which are mortgaged against certain credit facilities (Note 18).

Property, plant, and equipment include JD 34,111,945 of fully depreciated assets that are still operational as of December 31, 2008.

Vehicles include leased assets of a cost of JD 2,212,696 and net book value of JD 1,025,019 as of December 31, 2008.

December 31, 2007

	Land		Buildings and leasehold improvements		Wireline network		Wireless network		Computer hardware and software		Office furniture and equipment		Motor vehicles		Heavy duty equipment		Small tools and equipment		Total		
	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	JD	
Cost																					
At January 1, 2007	4,698,163	13,518,120	139,427,875	69,126,135	18,912,831	10,530,653	3,302,172	1,253,552	2,736,433	263,505,934											
Additions	2,937,654	1,469,235	8,476,440	17,129,270	4,191,988	2,324,837	111,970	91,486	835,297	37,568,177											
Disposals	(603,840)	(23,761)	-	(186,220)	(236,085)	(135,793)	(84,360)	-	(75,105)	(1,345,164)											
Reclassifications	-	9,058	38,252	(28,058)	-	(38,252)	-	(9,058)	28,058	-											
At December 31, 2007	<u>7,031,977</u>	<u>14,972,652</u>	<u>147,942,567</u>	<u>86,041,127</u>	<u>22,868,734</u>	<u>12,681,445</u>	<u>3,329,782</u>	<u>1,335,980</u>	<u>3,524,683</u>	<u>299,728,947</u>											
Accumulated depreciation																					
At January 1, 2007	-	6,383,868	70,994,703	27,950,371	10,308,836	5,456,672	906,981	1,110,119	1,736,383	124,847,933											
Depreciation for the year	-	1,274,138	11,680,475	7,721,644	2,706,106	1,307,411	607,780	54,388	315,485	25,667,427											
Relating to disposals	-	(14,785)	-	(101,803)	(127,236)	(86,375)	(27,940)	-	(70,637)	(428,776)											
Reclassifications	-	8,779	59,834	(10,021)	-	(59,834)	-	(8,779)	10,021	-											
At December 31, 2007	-	<u>7,652,000</u>	<u>82,735,012</u>	<u>35,560,191</u>	<u>12,887,706</u>	<u>6,617,874</u>	<u>1,486,821</u>	<u>1,155,728</u>	<u>1,991,252</u>	<u>150,086,584</u>											
Net carrying amount																					
At December 31, 2007	<u>7,031,977</u>	<u>7,320,652</u>	<u>65,207,555</u>	<u>50,480,936</u>	<u>9,981,028</u>	<u>6,063,571</u>	<u>1,842,961</u>	<u>180,252</u>	<u>1,533,431</u>	<u>149,642,363</u>											

Wireless network include network materials amounting to JD 23,155,015 which are mortgaged against certain credit facilities.

Property, plant, and equipment include JD 18,280,903 of fully depreciated assets that are still operational as of December 31, 2007.

Vehicles include leased assets of a cost of JD 2,253,857 and net book value of JD 1,491,569 as of December 31, 2007.

5. Intangible assets

	<u>Goodwill</u> JD	<u>License and lines costs</u> JD	<u>Software costs</u> JD	<u>Other</u> JD	<u>Total</u> JD
Cost					
At January 1, 2007	20,839,032	23,587,701	1,515,076	319,050	46,260,859
Additions	-	-	-	-	-
At December 31, 2007	20,839,032	23,587,701	1,515,076	319,050	46,260,859
Additions	-	-	-	-	-
At December 31, 2008	<u>20,839,032</u>	<u>23,587,701</u>	<u>1,515,076</u>	<u>319,050</u>	<u>46,260,859</u>
Amortization					
At January 1, 2007	-	12,577,927	151,508	-	12,729,435
Amortization for the year	-	1,102,296	303,015	-	1,405,311
At December 31, 2007	-	13,680,223	454,523	-	14,134,746
Amortization for the year	-	1,102,296	303,015	-	1,405,311
At December 31, 2008	-	<u>14,782,519</u>	<u>757,538</u>	-	<u>15,540,057</u>
Net book value					
At December 31, 2008	<u>20,839,032</u>	<u>8,805,182</u>	<u>757,538</u>	<u>319,050</u>	<u>30,720,802</u>
At December 31, 2007	<u>20,839,032</u>	<u>9,907,478</u>	<u>1,060,553</u>	<u>319,050</u>	<u>32,126,113</u>

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to four cash-generating units, which are also the reportable business segments of the Group, for impairment testing as follows:

	<u>2008</u> JD	<u>2007</u> JD
Wireless segment	17,259,372	17,259,372
Data segment	2,237,328	2,237,328
Media segment	247,773	247,773
IT segment	<u>1,094,559</u>	<u>1,094,559</u>
	<u>20,839,032</u>	<u>20,839,032</u>

1- Wireless segment

The recoverable amount of the wireless segment has been determined based on the value in use calculation using the discounted cash flow method based on financial budgets approved by senior management covering a three-year period. The pre-tax discount rate applied to cash flow projections is 17%. Cash flows beyond the 3-year period are extrapolated using a 5% growth rate.

2- Data segment

The recoverable amount of the data segment has been determined based on the value in use calculation using the discounted cash flow method based on financial budgets approved by senior management covering a three-year period. The pre-tax discount rate applied to cash flow projections is 18%, and cash flows beyond the 3-year period are extrapolated using a 4% growth rate.

3- Media segment

The recoverable amount of the media segment has been determined based on the value in use calculation using the discounted cash flow method based on financial budgets approved by senior management covering a three-year period. The pre-tax discount rates applied to cash flow projections is 18%. Cash flows beyond the 3-year period are extrapolated using a 3.5% growth rate.

4- IT segment

The recoverable amount of the IT segment has been determined based on the value in use calculation using the discounted cash flow method based on financial budgets approved by senior management covering a 3-year period. The pre-tax discount rates applied to cash flow projections are 18%. Cash flows beyond the 3-year period are extrapolated using a 3% growth rate.

Key assumptions used in value in use calculations:

The calculations of value in use for all business segments are most sensitive to the discount rate used and growth rate used to extrapolate cash flows beyond the budget period:

Discount rate: Discount rates reflect management's estimate of the risks specific to each business segment. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each business segment, regard has been given to each segment's weighted-average cost of capital using the capital asset pricing model to determine cost of equity and an estimated borrowing rate to determine cost of debt.

Growth rate estimates: Rates are based on the value of the business segment's operations after the explicit budget period. In determining appropriate growth rates, regard has been given to the competitive forces that are expected to prevail after the explicit budget period.

With regard to the assessment to the value in use of all business segments, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the business segments to materially exceed its recoverable amount.

6. Projects in progress

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Wireline network	1,677,347	4,187,566
Wireless network	250,653	2,182,758
Customer relations management project	3,448,075	1,440,754
Billing project	3,164,971	2,695,291
Data transmission projects	508,711	2,669,045
Buildings under construction	-	4,571,745
Sundry	<u>903,257</u>	<u>158,509</u>
	<u><u>9,953,014</u></u>	<u><u>17,905,668</u></u>

The Group capitalizes direct labour cost incurred on wireline network and buildings projects. During 2008 and 2007, salaries of JD 191,579 and JD 240,283 respectively, were capitalized. The Group estimates total cost to complete these projects to be JD 17,927,002.

Upon completion, each project is transferred to property, plant and equipment.

7. Materials

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Wireless network materials	9,097,158	6,755,364
Wireline network materials	3,980,935	4,343,837
Installation materials	1,939,705	1,884,442
Kits and tools	147,707	165,455
Electricity and air conditioning materials	119,705	159,006
Payphone equipment	43,688	199,591
Disposables and other materials	<u>765,435</u>	<u>603,756</u>
	16,094,333	14,111,451
Provision for obsolete and slow moving materials	<u>(1,767,658)</u>	<u>(1,767,658)</u>
	<u><u>14,326,675</u></u>	<u><u>12,343,793</u></u>

Materials of JD 1,767,658 were fully provided for as of December 31, 2008 and 2007.

8. Investment in associates

	Country of incorporation	% of ownership		Carrying amount of the investment	
		2008	2007	2008	2007
VTel Holding Company *	United Arab Emirates	25.0	25.0	50,236,491	48,236,491
Palestine Electrics and Electronics Company **	Palestine	32.3	32.3	1,749,805	2,069,805
HolyLand for Marketing and Agriculture Investment ***	Palestine	30.0	-	212,700	-
				<u>52,198,996</u>	<u>50,306,296</u>

* VTel Holding Company (VTel) is a holding company established during 2006 in the United Arab Emirates.

** Palestine Electrics and Electronics Company Plc. (PEEC) is engaged in manufacturing electrical equipments in Palestine.

*** HolyLand is engaged in producing and marketing agricultural products in Palestine.

9. Available-for-sale investments

	2008	2007
	JD	JD
Quoted	5,254,908	6,378,007
Unquoted*	<u>3,372,775</u>	<u>3,755,150</u>
	<u>8,627,683</u>	<u>10,133,157</u>

* These investments are not quoted in an active market and are stated at cost less accumulated impairment as their fair values cannot be reliably determined due to the unpredictable nature of future cash flows. The Group management believes that fair value of such investments are not materially different from their carrying amounts.

Movements on cumulative changes in fair values arising from available-for-sale investments are as follows:

	2008	2007
	JD	JD
Balance, beginning of year	(61,516)	-
Net unrealized losses	(710,927)	(61,516)
Realized gains transferred to income statement	<u>(78,044)</u>	-
Balance, end of year	<u>(850,487)</u>	<u>(61,516)</u>

10. Inventories

	2008	2007
	JD	JD
Cellular phone sets	6,054,288	5,893,494
Sundry	293,010	1,240,260
	<u>6,347,298</u>	<u>7,133,754</u>

11. Accounts receivable

	2008	2007
	JD	JD
Wireline subscribers	27,232,050	27,436,858
Wireless subscribers	22,121,860	16,870,416
Palestine National Authority	17,923,231	21,808,412
Dealers' receivable	5,617,137	5,453,024
Telecommunication companies	4,962,424	3,120,223
Data services subscribers	2,084,956	1,687,554
Sundry	2,952,696	2,537,311
Total trade receivable	82,894,354	78,913,798
Provision for doubtful debts*	<u>(38,706,575)</u>	<u>(27,338,366)</u>
Net trade receivable	44,187,779	51,575,432
Unbilled revenues	17,291,046	15,337,113
Due from related parties	2,169,483	3,923,882
Sundry	1,481,941	1,446,751
	<u>65,130,249</u>	<u>72,283,178</u>

* Accounts receivable are stated net of provision for doubtful debts. The provision is computed based on certain percentages of billed revenues and the aging of accounts receivable.

As of December 31, 2008, trade receivables at nominal value of JD 38,706,575 were provided for, of which JD 37,195,754 were collectively provided for and JD 1,510,821 were individually provided for. Movements on the provision for doubtful debts during the year were as follows:

	2008	2007
	JD	JD
Balance, beginning of year	27,338,366	22,041,786
Additions	11,442,788	2,982,102
Translation difference from ILS to JD	<u>(74,579)</u>	2,314,478
Balance, end of year	<u>38,706,575</u>	<u>27,338,366</u>

As of December 31, 2008, the aging analysis of the unimpaired trade receivable is as follows:

	<u>Total</u> JD	Neither past due nor impaired JD	Past due but not impaired				
			<30 days	31-60 days	61-90 days	91-120 days	>120 days
			JD	JD	JD	JD	JD
2008	44,187,779	4,698,054	15,494,797	2,860,582	1,862,817	1,528,284	17,743,245
2007	51,575,432	4,857,465	15,368,798	6,068,179	1,647,293	2,206,882	21,426,815

The Group expects, based on its past experience, to recover all unimpaired receivables.

12. Prepayments and other current assets

	<u>2008</u> JD	<u>2007</u> JD
Advance payments	14,050,667	3,938,119
Tax advances (Note 23)	5,170,012	5,402,600
Prepaid expenses	4,018,847	2,890,835
Customs and purchase tax refund claim	1,367,803	2,620,774
Other receivable	149,146	1,447,307
Sundry	<u>4,864,741</u>	<u>7,213,169</u>
	<u>29,621,216</u>	<u>23,512,804</u>

13. Financial assets held for trading

	<u>2008</u> JD	<u>2007</u> JD
Shares quoted	12,179,653	13,559,414
Bonds	<u>-</u>	<u>1,080,899</u>
	<u>12,179,653</u>	<u>14,640,313</u>

14. Cash and cash equivalents

Cash and cash equivalents include the following balance sheet amounts:

	<u>2008</u> JD	<u>2007</u> JD
Cash on hand	403,253	200,763
Cash at banks and short term deposits	<u>76,955,285</u>	<u>31,365,347</u>
	<u>77,358,538</u>	<u>31,566,110</u>

Short-term deposits amounting to JD 67,116,133 as of December 31, 2008 have an average interest rate of 4.2% and 2.0% for deposits in JD and USD, respectively.

Cash and cash equivalents as of December 31, 2007 include restricted cash of JD 1,483,618 as a security against certain credit facilities (Note 18).

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2008:

	2008	2007
	JD	JD
Cash on hand	403,253	200,763
Cash at banks and short term deposits	<u>76,955,285</u>	<u>31,365,347</u>
	77,358,538	31,566,110
Restricted bank deposits	-	(1,483,618)
Bank overdraft	<u>(735,709)</u>	<u>(1,093,982)</u>
	<u>76,622,829</u>	<u>28,988,510</u>

15. Paid-in share capital

As of December 31, 2008 and 2007, PALTEL's authorized and issued share capital amounted to JD 131,625,000. Total number of subscribed ordinary shares amounted to 131,625,000 shares for the years ended December 31, 2008 and 2007.

16. Reserves

- Statutory reserve represents accumulation of profits transferred at 10% of annual profit in accordance with the Corporate Law. This reserve is not available for distribution to shareholders.
- The amount accumulated in the voluntary reserve represents the transfers from profit before tax at maximum of 20%. This reserve is available for distribution to the shareholders.
- Special reserve represents appropriation of profits based on the Board of Directors resolution. This reserve is available for distribution to the shareholders.

17. Dividends and proposed stock dividends

During 2007, PALTEL Board of Directors proposed to declare a cash dividend of JD 0.20 per share totalling JD 26,325,000. However, the General Assembly held its annual meeting on April 12, 2008 and approved the declaration of a cash dividend of JD 0.25 per share totalling JD 32,906,250.

18. Non-current interest-bearing loans and borrowings

	2008	2007
	JD	JD
Long term loans from local banks*	19,063,304	44,104,921
Long term loans from foreign banks*	744,095	2,232,289
Obligations under finance lease**	<u>232,276</u>	<u>836,943</u>
	20,039,675	47,174,153
Current portion of long-term loans (Note 21)	(13,042,176)	(26,803,390)
Current portion of obligations under finance lease (Note 21)	<u>(232,276)</u>	<u>(585,809)</u>
	<u>6,765,223</u>	<u>19,784,954</u>

- * The Group signed loan agreements with several local and foreign banks for the purpose of financing its projects. Long term loans from local banks are subject to an annual interest of approximately LIBOR plus 1.5% while long term loans from foreign banks are subject to an annual interest rate of 5.2%.

In accordance with certain loan agreements, the Group maintained cash deposits at banks of JD 1,483,618 as of December 31, 2007 as a security against loans. In addition, a portion of the wireless network equipment amounting to JD 15,080,231 were also mortgaged as of December 31, 2008 against certain long term loans.

The maturities of interest-bearing loans and borrowings are as follows:

		Long-term	Obligations under	Total
		loans	finance lease	
		JD	JD	JD
Maturing during	2009	13,042,176	232,276	13,274,452
	2010	5,036,167	-	5,036,167
	2011	<u>1,729,056</u>	-	<u>1,729,056</u>
		<u>19,807,399</u>	<u>232,276</u>	<u>20,039,675</u>

** The future minimum lease payments and the present value of minimum lease payments are as follows:

	Future minimum	Present value
	lease payments	of minimum
	JD	lease payments
	JD	JD
Within one year	251,048	232,276
After one year but not more than five years	-	-
Total minimum lease payments	251,048	232,276
Less: Finance charges	(18,772)	-
Present value of minimum lease payments	<u>232,276</u>	<u>232,276</u>

19. Provision for employees' indemnity

Following is a summary of movements on the provision for end of service benefit during the year:

	2008	2007
	JD	JD
Balance, beginning of year	13,496,922	10,801,405
Additions	10,072,026	3,328,306
Payments during the year	<u>(4,042,573)</u>	<u>(632,789)</u>
Balance, end of year	<u>19,526,375</u>	<u>13,496,922</u>

20. Accounts payable

	2008	2007
	JD	JD
License fee payable	14,413,013	21,455,912
Trade suppliers	12,974,278	11,573,737
Telecommunication companies	11,545,670	6,340,341
Subscribers' deposits	1,941,221	1,981,501
Due to an associate	269,941	351,093
Sundry	<u>128,954</u>	<u>707,729</u>
	<u>41,273,077</u>	<u>42,410,313</u>

21. Current interest-bearing loans and borrowings

	2008	2007
	JD	JD
Bank overdraft	735,709	1,093,982
Current portion of long-term loans (Note 18)	13,042,176	26,803,390
Current portion of obligations under finance lease (Note 18)	232,276	585,809
	<u>14,010,161</u>	<u>28,483,181</u>

As of December 31, 2008, the Group had an unutilized balance of JD 26,915,291 of credit facilities. Average annual interest rates on bank overdraft facilities are set at LIBOR plus 1%.

22. Other current liabilities

	2008	2007
	JD	JD
VAT payable	10,934,935	14,554,353
Accrued expenses	16,877,313	8,043,361
Unearned revenues	12,082,780	10,415,936
Dividends payable	3,466,454	2,453,872
Accrued employees' bonuses	1,944,757	2,723,331
Due to employees' saving fund	810,578	555,937
Provision for employees vacations	733,846	779,914
Accrued finance cost	194,979	287,423
Sundry	541,267	277,263
	<u>47,586,909</u>	<u>40,091,390</u>

23. Provision for income tax

- In accordance with the General Investment Promotion Agency's letter dated March 13, 2003, PALTEL taxable income is subject to an income tax rate of 10%. However, based on the Palestinian Council of Ministers resolution dated August 15, 2007, PALTEL taxable income became subject to an income tax rate of 7.5% for a period of 7 years ending December 31, 2014.
- PALCEL was granted the right to benefit from the Palestinian Law for Encouragement of Investment by obtaining an income tax exemption for a period of five years ended December 31, 2005. During 2004, PALCEL obtained an extension for such exemption until December 31, 2008.
- Based on the Palestinian Council of Ministers resolution dated August 15, 2007, PALCEL became entitled to an additional income tax exemption for two years ending December 31, 2010.

Following is the movement on the income tax advance (Note 12):

	2008	2008
	JD	JD
Balance, beginning of year	(5,402,600)	350,372
Payments	-	(5,935,401)
Translation difference from ILS to JD	(346,806)	-
Reversal of income tax of previous years*	-	(933,855)
Income tax expense for the year	<u>579,394</u>	<u>1,116,284</u>
Advance / provision balance, end of year	<u>(5,170,012)</u>	<u>(5,402,600)</u>

* During 2007, PALTEL obtained a final settlement with the income tax department for the years from inception to December 31, 2006. The settlement resulted in reversal of related provisions totaled to JD 933,855.

The relationship between the consolidated tax expense and the consolidated accounting profit can be explained as follows:

	2008	2007
	JD	JD
Accounting profit before income tax	89,759,242	65,708,207
Exempted income	(91,132,721)	(62,990,782)
Non-deductible expenses	9,221,522	15,613,655
Non-taxable income	<u>(122,787)</u>	<u>(560,257)</u>
Taxable income	7,725,256	17,770,823
Tax expense at statutory income tax rate of 7.5%	579,394	1,332,812
Discount on early payment	-	<u>(216,528)</u>
Income tax expense	<u>579,394</u>	<u>1,116,284</u>
Effective income tax rate	<u>0.6%</u>	<u>1.7%</u>

24. Revenues

	2008	2007
	JD	JD
Wireline and wireless voice calls	186,876,927	146,144,804
Subscription fees	47,889,868	37,030,585
Interconnection revenue	37,164,642	29,773,386
Sale of mobile handsets	8,155,988	3,185,907
Data services	4,443,567	3,895,195
Media services	2,490,481	1,189,774
New connections fees	1,358,437	1,501,962
Sale of electrical equipment	922,306	1,756,948
IT Services	916,681	894,516
Sundry	<u>886,751</u>	<u>829,280</u>
	<u>291,105,648</u>	<u>226,202,357</u>

During 2008 and 2007, the Group estimated the amounts of unbilled interconnection revenues at JD 11,461,169 and JD 9,541,423, respectively.

25. Telecommunication services costs

Telecommunication costs mainly comprise of interconnection costs and international roaming due to other telecommunication companies.

26. License fee

According to the agreement signed between PALTEL and the PNA, PALTEL and PALCEL pay the PNA a license fee of 7% on all wireline and wireless operating revenues.

27. Other costs

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Cost of mobile handsets sold	5,593,757	6,562,550
Cost of media services	4,304,074	2,809,970
Cost of SIM cards and prepaid scratch cards	1,779,717	1,954,827
Cost of data services	1,143,207	1,328,035
Cost of electrical equipment	913,957	1,523,387
Cost of IT services	417,992	187,527
Cost of new lines installations	401,734	271,309
Sundry	<u>50,400</u>	<u>30,749</u>
	<u>14,604,838</u>	<u>14,668,354</u>

28. Administrative expenses

	2008	2007
	JD	JD
Payroll and related employees' expenses	56,695,517	41,366,712
Depreciation	28,391,278	25,667,427
Amortization of license and lines cost	1,102,296	1,102,296
Amortization of software development cost	303,015	303,015
Provision for doubtful debts	11,442,788	2,982,102
Social responsibility fund	7,128,405	1,076,046
Maintenance	5,773,671	4,991,841
Utilities	4,402,553	2,950,150
Professional and consultancy fees	3,967,900	2,789,138
Advertising	3,215,975	3,534,519
Rent	3,214,746	3,235,934
Travel, accommodation, transportation and fuel	2,157,688	1,773,374
Security and cleaning	2,105,215	2,016,537
Cars operating lease	1,620,603	1,538,722
Postage	811,105	715,495
Employees' and assets insurance	648,055	644,308
Conferences and hospitality	520,977	337,205
Stationary and printings	454,807	413,655
Port demurrage fee	295,739	287,948
Telephone, fax and mobile	190,852	61,323
Sundry	1,911,469	1,128,689
	<u>136,354,654</u>	<u>98,916,436</u>

29. Loss from investments

	2008	2007
	JD	JD
Change in fair value of financial assets	(4,274,692)	713,619
Income (loss) from sale of financial assets	881,949	(6,449,156)
Share of associate results of operations	1,680,000	(6,000,000)
Dividends income	122,787	343,729
	<u>(1,589,956)</u>	<u>(11,391,808)</u>

30. Other (expenses) revenues, net

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Interest revenues	737,585	223,677
Foreign exchange gain	2,965,339	1,659,870
Loss from disposal of property and equipment	(620,226)	(59,323)
Asset impairment loss	(1,893,919)	-
Losses due to Israeli raid on Gaza*	(6,000,000)	-
Sundry	<u>(407,057)</u>	<u>1,284,005</u>
	<u>(5,218,278)</u>	<u>3,108,229</u>

* These losses were recognized as a result of the Israeli raid on Gaza and are based on the Group management's best estimate of the losses to property, plant and equipment and projects in progress.

31. Earnings per share

Basic and diluted earnings per share for the years ended December 31, 2008 and 2007 is calculated as follows:

	<u>2008</u>	<u>2007</u>
Profit for the year (JD)	<u>89,179,848</u>	<u>65,525,778</u>
Weighted average number of subscribed share capital	<u>131,625,000</u>	<u>131,625,000</u>
Basic and diluted earnings per share (JD)	<u>0.678</u>	<u>0.498</u>

32. 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:

	<u>2008</u>	<u>2007</u>
	<u>JD</u>	<u>JD</u>
Purchase orders and letters of credit	10,536,432	16,291,448
Construction contracts	<u>-</u>	<u>1,535,075</u>
	<u>10,536,432</u>	<u>17,826,523</u>

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

33. 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 management.

	Nature of relationship	2008 JD	2007 JD
Bank overdraft	Major shareholders	<u>735,709</u>	<u>1,093,982</u>
Interest-bearing loans and borrowings	Major shareholders	<u>18,258,259</u>	<u>41,486,450</u>
Receivable from related parties	Major shareholders	<u>2,169,483</u>	<u>3,923,882</u>
Due to an associate	Associate	<u>269,941</u>	<u>351,093</u>
Finance cost	Major shareholders	<u>1,518,013</u>	<u>3,811,696</u>
Interest revenues	Major shareholders	<u>461,758</u>	<u>84,656</u>
Key management personnel compensation:			
Short term benefits		<u>1,471,788</u>	<u>1,353,436</u>
Termination benefits		<u>96,890</u>	<u>87,384</u>

Terms of interest-bearing loans and borrowing due to related parties are not materially different from those mentioned in (Note 18)

For the years ended December 31, 2008 and 2007, the Group has not recorded any impairment of amounts owed by related parties.

34. Segment reporting

The Group's business segments are the wireline, wireless, data, media, and IT 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 and marketing services in Palestine.

The IT segment is a provider of software development and information technology services in Palestine.

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

The following table presents revenue and profit information and certain asset and liability information regarding the Group's business segments for the years ended December 31, 2008 and 2007:

Year ended December 31, 2008	Wireline		Wireless		Data		Media		IT		Investing		Total	
	JD		JD		JD		JD		JD		JD		JD	
Revenues														
Segment revenues	92,018,538		200,773,399		8,904,469		6,225,233		9,774,057		-		317,695,696	
Inter-segment revenues (eliminated)	(5,578,310)		(3,958,708)		(4,460,902)		(3,734,752)		(8,857,376)		-		(26,590,048)	
Segment revenues from external customers	86,440,228		196,814,691		4,443,567		2,490,481		916,681		-		291,105,648	
Results														
Segment results	73,116,217		156,921,376		7,863,351		1,921,159		2,927,461		(1,589,956)		241,159,608	
Segment results (eliminated)	(1,706,488)		4,456,602		(4,114,451)		(3,734,752)		(2,428,772)		-		(7,527,861)	
Segment results from external customers	71,409,729		161,377,978		3,748,900		(1,813,593)		498,689		(1,589,956)		233,631,747	
Other expenses													(141,572,932)	
Profit before income tax and finance costs													92,058,815	
Finance costs													(2,299,573)	
Profit before income tax													89,759,242	
Income tax expense													(579,394)	
Profit for the year													89,179,848	
Assets and liabilities														
Segment assets	245,448,257		187,930,234		5,413,190		883,393		2,321,573		73,006,332		515,002,979	
Inter-segment assets (eliminated)	(53,096,302)		(4,231,777)		(983,018)		2,712,785		2,544,953		-		(53,053,359)	
Total assets	192,351,955		183,698,457		4,430,172		3,596,178		4,866,526		73,006,332		461,949,620	
Segment liabilities	69,850,936		65,310,776		1,298,152		3,795,001		4,190,897		-		144,445,762	
Inter-segment liabilities (eliminated)	(4,061,117)		(8,403,861)		(500,000)		(2,059,101)		(259,938)		-		(15,284,017)	
Total liabilities	65,789,819		56,906,915		798,152		1,735,900		3,930,959		-		129,161,745	
Other segment information														
Depreciation	15,291,220		12,374,531		223,909		218,157		283,461		-		28,391,278	
Amortization	944,736		157,560		-		-		303,015		-		1,405,311	
Provision for doubtful debts	4,787,995		6,494,886		39,233		82,303		38,371		-		11,442,788	
Asset impairment loss	1,893,919		-		-		-		-		-		1,893,919	
Capital expenditures	8,971,710		24,981,768		92,340		194,662		1,076,883		-		35,317,363	

Segment reporting (continued)

Year ended December 31, 2007	Wireline	Wireless	Data	Media	IT	Investing	Total
Revenues	JD	JD	JD	JD	JD	JD	JD
Segment revenues	85,412,216	142,814,551	8,029,706	3,754,481	8,914,028	-	248,924,982
Inter-segment revenues (eliminated)	(4,209,280)	(3,794,615)	(4,134,511)	(2,564,707)	(8,019,512)	-	(22,722,625)
Segment revenues from external customers	81,202,936	139,019,936	3,895,195	1,189,774	894,516	-	226,202,357
Results							
Segment results	67,718,560	106,914,534	5,663,256	190,120	5,023,256	(11,391,808)	174,117,918
Segment results (eliminated)	(496,839)	2,338,471	(3,101,161)	(1,810,316)	(4,316,267)	-	(7,386,112)
Segment results from external customers	67,221,721	109,253,005	2,562,095	(1,620,196)	706,989	(11,391,808)	166,731,806
Other revenues							3,108,229
Other expenses							(98,916,436)
Profit before income tax and finance costs							70,923,599
Finance costs							(5,215,392)
Profit before income tax							65,708,207
Income tax expense							(182,429)
Profit for the year							65,525,778
Assets and liabilities							
Segment assets	219,290,955	161,827,752	6,988,201	3,061,573	6,821,694	75,079,766	473,069,941
Inter-segment assets (eliminated)	(35,902,757)	(10,961,311)	(1,282,737)	(908,874)	(2,420,713)	-	(51,476,392)
Total assets	183,388,198	150,866,441	5,705,464	2,152,699	4,400,981	75,079,766	421,593,549
Segment liabilities	75,646,162	68,698,869	2,525,228	4,634,218	5,263,538	-	156,768,015
Inter-segment liabilities (eliminated)	(2,484,912)	(4,083,157)	(1,711,061)	(3,611,386)	(610,739)	-	(12,501,255)
Total liabilities	73,161,250	64,615,712	814,167	1,022,832	4,652,799	-	144,266,760
Other segment information							
Depreciation	15,011,628	10,157,295	217,483	176,257	104,764	-	25,667,427
Amortization	944,736	157,560	-	-	303,015	-	1,405,311
Provision for doubtful debts	1,760,986	1,029,010	10,000	182,106	-	-	2,982,102
Capital expenditures	11,948,575	24,251,762	577,635	580,785	209,420	-	37,568,177

35. Financial risk management objectives and policies

The Group's principal financial liabilities comprise interest-bearing loans and borrowings and accounts payable. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as accounts receivable and cash and cash equivalents which arise directly from the Group's operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk, equity price risk, and foreign currency risk. The Group's Board of Directors reviews and approves policies for managing these risks which are summarized below.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's interest-bearing loans and borrowings and short-term deposits with floating interest rates. The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates, with all other variables held constant.

	Increase/ decrease in basis points	Effect on profit before tax
<u>2008</u>		
USD	+50	(213,383)
USD	-20	85,353
<u>2007</u>		
USD	+20	(124,119)
USD	-50	310,297

Credit risk

The Group has a broad based clientele. The credit risk associated with the accounts receivable is widely distributed among a large number of individual customers, except for the risk associated with PNA ministries and institutions receivables which represent 20% of all trade receivable. The maximum exposure is the carrying amount as disclosed in Note 11.

In addition, services are disconnected from clients who do not pay their bills within a specified period. Also, the Group has a system of following up collection of receivable through the management effort and the legal channels.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funds and flexibility through the use of bank overdrafts and other bank loans. The Group's terms of billing require amounts to be paid by customer within 45 days of the date of billing. The table below summarizes the maturity profile of the Group's consolidated financial liabilities as of December 31, 2008, based on contractual undiscounted payments:

	<u>On demand</u> <u>JD</u>	<u>Less than 3</u> <u>months</u> <u>JD</u>	<u>3 to 12</u> <u>months</u> <u>JD</u>	<u>1 to 5</u> <u>years</u> <u>JD</u>	<u>Total</u> <u>JD</u>
<u>As of December 31, 2008</u>					
Interest-bearing loans and borrowings	735,709	6,215,222	7,298,154	7,263,107	21,512,192
Accounts payable	18,546,085	21,274,460	1,323,578	-	41,144,123
Other liabilities	<u>19,322,719</u>	<u>7,011,215</u>	<u>8,436,349</u>	<u>-</u>	<u>34,770,283</u>
	<u>38,604,513</u>	<u>34,500,897</u>	<u>17,058,081</u>	<u>7,263,107</u>	<u>97,426,598</u>
<u>As of December 31, 2007</u>					
Interest-bearing loans and borrowings	1,093,982	6,481,592	22,341,935	22,103,716	52,021,225
Accounts payable	14,050,037	26,166,421	1,486,126	-	41,702,584
Other liabilities	<u>20,215,092</u>	<u>6,129,231</u>	<u>2,551,217</u>	<u>-</u>	<u>28,895,540</u>
	<u>35,359,111</u>	<u>38,777,244</u>	<u>26,379,278</u>	<u>22,103,716</u>	<u>122,619,349</u>

Equity price risk

The following table demonstrates the sensitivity of the income statement and cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown:

	<u>Change in</u> <u>equity price</u> <u>%</u>	<u>Effect on profit</u> <u>before tax</u> <u>JD</u>	<u>Effect on</u> <u>equity</u> <u>JD</u>
Shares listed in Palestine Securities Exchange	+10	367,235	277,591
Shares listed in the Amman Stock Exchange	+10	843,121	-
Shares listed in other markets	+10	7,609	525,491
Other unquoted	+5	-	168,639

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency rate against JD, with all other variables held constant, of the Group's profit before tax. However, the Jordanian Dinar is linked to the U.S. Dollar, therefore, no effect, resulting from the fluctuations in USD rate, is expected on the consolidated financial statements:

	<u>Increase/decrease</u> <u>in ILS rate</u> <u>to JD</u>	<u>Effect</u> <u>on profit</u> <u>before tax</u>
<u>2008</u>		
JD	+5%	808,334
JD	-5%	(808,334)
<u>2007</u>		
JD	+5%	1,914,706
JD	-5%	(1,914,706)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2008 and December 31, 2007. Capital comprises share capital, retained earnings, and other reserves, and is measured at JD 332,787,875 as at December 31, 2008 (2007: JD 277,326,789).

36. Fair values of financial instruments

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and cash equivalents and accounts receivable. Financial liabilities consist of bank overdrafts, interest-bearing loans and borrowings, accounts payable and other current liabilities.

The fair values of financial instruments are not materially different from their carrying values.

37. Subsequent events

Subsequent to the date of the consolidated financial statements, PALTEL Board of Directors approved the General Framework of a strategic merger with Mobile Telecommunications Company K.S.C and decided to propose to the General Assembly in its extraordinary meeting to be held in 2009 the raise of the PALTEL's share capital. To the date of issuance of the these consolidated financial statements, the increase in share capital is not determined yet.

38. Concentration of risk in geographic area

The Group is carrying out the majority of its activities in Palestine. The political and economical destabilization in the area increases the risk of carrying out business and may adversely affect the performance.

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