

شركة الاتصالات الفلسطينية م.ع.م

PALESTINE TELECOMMUNICATIONS CO. P.L.C

ANNUAL REPORT for the year 1997

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PALESTINE TELECOMMUNICATIONS CO. P.L.C

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The Board of Directors

CHAIRMAN
Eng. Hatem Hafez Al-Halawani Al-Tamimi
Representative of: Palestine Development and Investment Ltd - (PADICO).
Assumed duties as of 7/5/1996

VICE CHAIRMAN
Mr. Mohamad Burhan Abdi Rachid
Representative of: Palestinian Commercial Services Co. MCS

VICE CHAIRMAN
Mr. Shukry Bishara
Representative of the Arab Bank

Members

Eng. Hamdi Zarro
Representative of the Arab Bank

Mr. Ghiath Munir Sukhtian
Representative of Palestine Real Estate Investment Co. AgariA

Mr. Abdel Karim Abu Taha
Representative of Samid

Mr. khaled Osaily
Representative of : Palestine Development and Investment Ltd. PADICO

Mr. Mazen Abu Hamdan
Representative of Cairo-Amman Bank

Mr. Zahi Wadi Andoni Khouri
Representative of : Palestine Industrial Investment Co. PIIC

DIRECTOR GENERAL
Mr. Walid Irshaid
Assumed duties as of 1 July, 1997

AUDITORS
Allied Accountants - Dajani & Co.
A member firm of Arthrur Andersen & Co. SC.

شركة الاتصالات الفلسطينية م.ع.م
PALESTINE TELECOMMUNICATIONS CO. P.L.C

Public Share Holding Company.

Established on May 4th 1995 in accordance with an agreement signed between the Palestinian National Authority (PNA) and a group of private investment companies and institutions

Company's capital is Forty Five Million Jordanian Dinars (JD 45 millions).

Licensing Agreement was signed on November, 15, 1996.

The Telecommunications Sector was handed over to PALTEL on 1/1/1997.

General objective

To build , own, operate, manage and invest in Telecommunications network and provide all telcom services in the Palestinian Authority Areas.

Chairman's Speech

Dear Shareholders:

The Board of Directors of Palestine Telecommunications Company (PALTEL) have the pleasure to present to the General Assembly its annual report for the year 1997, which sheds light on the company's activities, achievements, and future aspirations. This report includes auditors' report, Balance Sheet and Profit and Loss Financial Statements related to the company's operation during the fiscal year ending on 31, December 1997.

We hope that this report will give you a clear and comprehensive idea of the company's achievements and status during its first year of operations. We believe that such achievements would have never taken place without your continuous support to which we have committed ourselves aiming at reaching the noble and desired goals we all committed ourselves to achieve for the sake of our beloved homeland.

As you already know, PALTEL, have assumed responsibility over the telecommunication sector in Gaza and the West Bank as of Jan. 1, 1997. The Company assumed responsibility of participating in the building of our Palestinian homeland through the development of this significant sector and by availing all types of communication networks technology and services to the largest number of the Palestinian people.

The company considers its licensing by the PNA to construct and operate the telecommunication network as an honorable assignment which the company will strive to perform in the best way possible.

Arising from the company's prime goal to install and operate telecommunication networks and to offer efficient , cost effective, high quality telecommunications services in exchange for reasonable prices and return on the invested capital and in compliance with its requirement of the license agreement, and to support economic and social development in Palestine, the company general strategy has been set to execute a huge investment program the cost of which could reach 2 billion dollars to be invested on stages over the coming 25 years. Aiming at serving customers and the waiting list for the expected demand on high quality telecommunication services and constructing a modern network according to the latest technologies for all citizens as an infrastructure for the national economy.

In accordance with the company's general mission our objectives are defined as follows:

To provide high quality telecommunication services that fulfill the license obligations such as Fixed Network lines , Mobile Network services (GSM), Public Payphones, Paging System , Data Transmission, Internet, Leased Lines and others.

Provide customer services such as Directory Services, Billing, Collections Installations, Faults Management, Operation and Maintenance Services.

Achieve good returns on the invested capital by continuous increase of the company's market share, applying a suitable Tariff Structure, Increase number of subscribers, selecting suitable financial, administrative, technical, and marketing alternatives for the offered services.

To invest in up lifting of the socio-economic standards in Palestine by the creation of job opportunities and attracting qualified personal, locally and from abroad, supporting industries that depends on telecommunication and data transmission, and to enhance interaction within the various sectors of the population.

Therefore the company's plans with regards to construction and development has been set in the following two stages:

Short Term Stage (3-5 years): During which dealing with existing situation and our commitments towards the License by developing the service to arrive to the set goals.

Long Term Stage: That aims to make Palestine a developed country in the field of Telecommunications and to achieve independence in this field.

1997

Achievements

In embodiment of the Board's aims and objectives on which the company has been established, during 1997 the Board has adopted a policy of broadening the base of service receivers and facilitating the required procedures to acquire the telecommunications services.

The Board of Directors started fulfilling its mission through intensive and continuous meetings, during which members of the Board contributed all their efforts and skills. The 1997 achievements are summarized as follows :

First: Human Resources

On the organizational and administration level, buildings of PALTEL Main Headquarters, West Bank Headquarters and Gaza Strip Headquarters were rented and equipped with all the means and necessary facilities for the employees to secure the achievement of the best level of job performance.

Also the company was enhanced with financial, administrative and technical staff members with specialized scientific and practical qualifications in addition to that the company acquired and transferred 620 employees of M.O.P.T.T. to its technical staff plus 440 new employees during 1997.

The company is also very keen on creating Palestinian Staff capable of managing and operating the telecommunication network in Palestine, through organizing specialized training courses for them locally and abroad.

Second: Switches Projects

The company concluded contracts to execute a "Crash Program" to avail 91410 direct exchange lines (Dels). The number was recently increased to 126652 lines.

This project includes:

Increasing the number of Exchanges- type (TMX 100) from 3 to 6.
Increasing the number of Exchanges - type (TMX 10) from 11 to 21.
Increasing the number of RSU's and RLU's from 3 to 49.

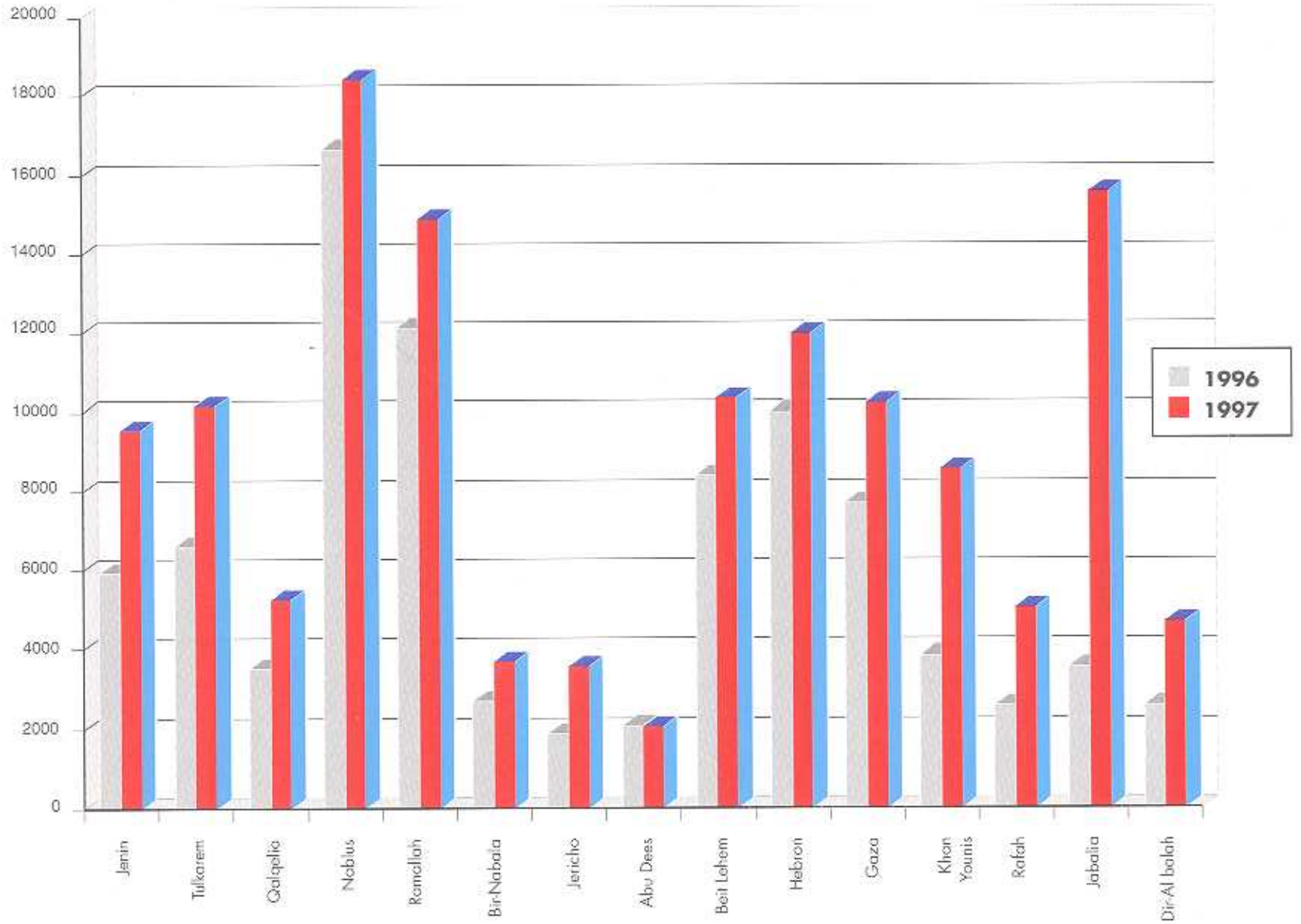
Thus, upon the completion of this project, the number of cities and villages serviced by the telecommunication network will increase from 18 to 74. The new locations were chosen based on population count and the statistical studies to forecast the demand for the telephone services.
The following schedule shows the magnitude of achievement made during the 1997:

	West Bank	Gaza Strip	Total	Rate
Supplied	58272	36296	94572	75%
Installed	46672	34248	80920	64%

By the end of the year 1997, the capacity of switches was expanded to a total of 44244 lines as shown in the following table, which illustrates that the total capacity of operational (Direct Exchange) (Dels) lines in Palestine has expanded to 134202 during 1997 i.e. an increase of 49% percent.

Area	Switches Capacity Till 31/12/1996	Capacity Expansion in 1997	Switches Capacity as of 31/12/1997	Increase Rate
Jinin	5918	3640	9558	61%
Tulkarem	6584	3584	10168	54%
Qalqiliah	3500	1750	5250	50%
Nablus + Tubas + Salfit	16640	1792	18432	11%
Jericho	1870	1710	3580	91%
Ramallah	12124	2760	14884	23%
Beir Nabalah	2700	1000	3700	37%
Abu Dis	2048	-	2048	-
Beit Laham	8374	2000	10374	24%
Hebron	10000	2000	12000	20%
West Bank	69758	20236	89994	29%
Jabaliah	3560	12028	15588	338%
Gaza	7680	2560	10240	33%
Deir El Balah	2560	2164	4724	84%
Khan Younis	3840	4744	8584	123%
Rafah	2560	2512	5072	98%
The Strip	20200	24008	44208	119%
Total	**89958**	**44244**	**134202**	**49%**

Expansion in the Switches Capacity During 1997



Third: New Installations

The following table shows that PALTEL was able to increase the number of operating telephone lines during the year 1997, from 83621 to 110893. Thus the number of telephone lines that were installed exceeded 27 thousand telephone lines, in addition to 10000 more lines being the capacity of Gaza's old electro-mechanical exchange which was replaced with a new digital exchange (TMX 100). This is quite an achievement in spite of all the obstacles that the company faced that have to do with availing and connecting new lines to customers, the non-availability of numbering ranges in addition to force majeure that hindered the installation of transmission links required for the connection of RSU's and RLU's with the main exchanges.

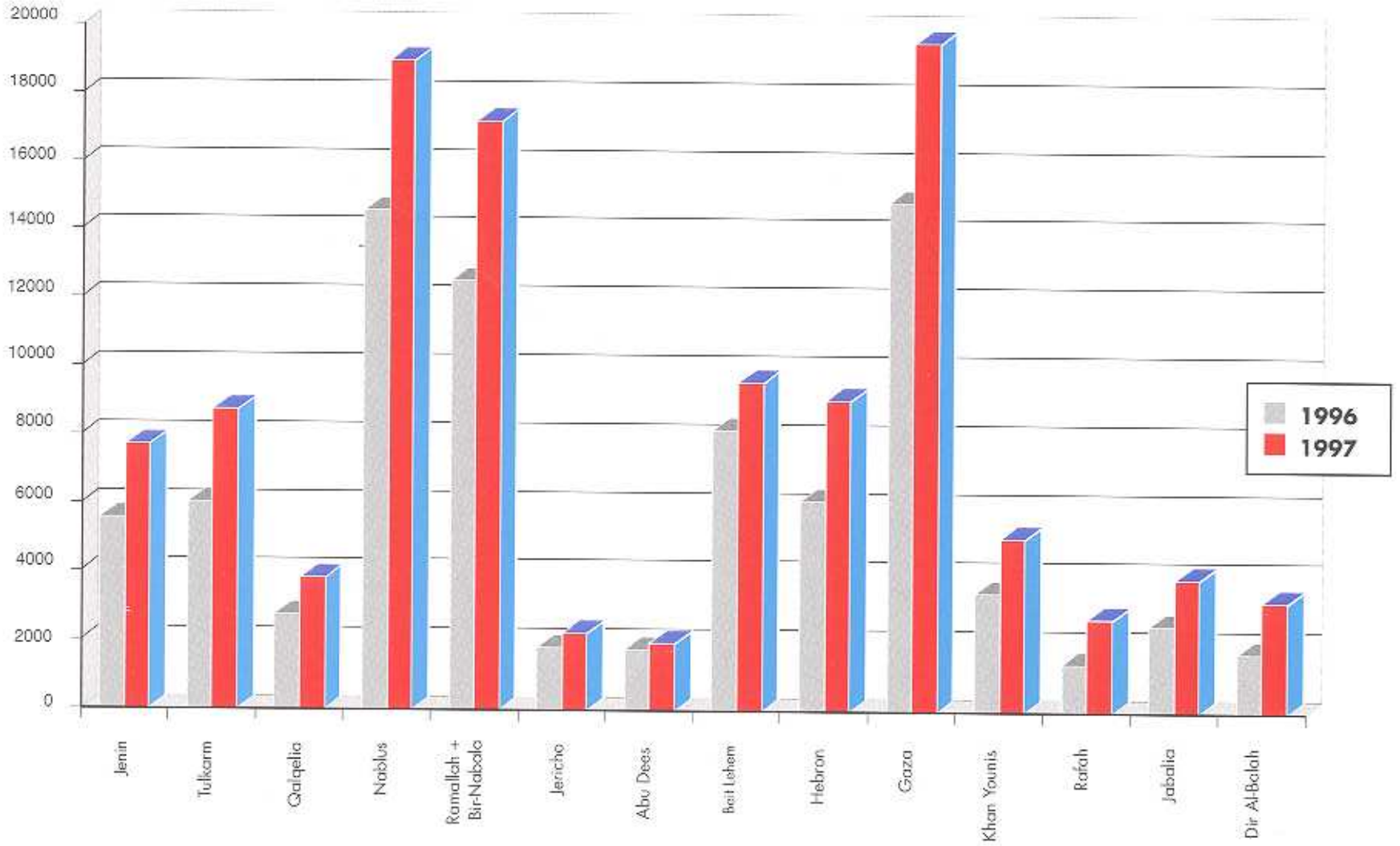
Also it is worthy to mention that Paltel's efforts during 1997 have focused on the erection of the telecommunication network infra-structure in Palestine, whereby we were able to expand the outside plant capacity (OSP) by 80 thousand lines during 1997, which consequently means that the installation rates during the year ,1998 will accelerate rapidly.

The following table shows that the new installations are distributed as follows :

West Bank:	18095
Gaza Strip:	9177
Total:	**27272**

It is noted that Ramallah and Gaza got (31%) of the total new installations.

The Following Chart Shows Comparison of the number of subscribers
for the years 1996 - 1997 in all the Main Cities of Palestine.
The increase is about 32% of operating lines.



Fourth: Transmission Links

This project aims at constructing a national transmission network by using the SDH technology on the fiber optic cables, which transmit traffic through rings to connect all exchanges operating in the same area. This tender was awarded and a contract was signed in August 1997 to cover all the Palestinian governorates through lying fiber optic cables for a distance of approximately 400 Kilometers.

The contract also includes :

1. Upgrading of four local exchanges to "Tandem Exchanges" that are operating in Gaza, Hebron, Ramallah and Nablus.
2. Erecting a monitoring and operation center for the Palestinian network.
3. Erecting a telephone traffic control center.

The required quantity of Cables were imported and 60km of ,which was installed in Gaza Strip and about 50 km in the West Bank. SDH systems were also imported and installed in 14 sites and 5 RLU's (TAMARS) were commissioned and splicing operations have already commenced in several locations. The excavation plans for the cables routes were submitted to the Israeli Civil Administration for obtaining the necessary permits to commence excavation works, and these permits are usually the main obstacle to us in such circumstances.

Fifth: Pair Gain Systems

Such systems have proved to be the most practical and rapid solution in several countries of the world, due to its characteristics of offering speedy service. It is usually used in cities centers where excavations are difficult in dense streets. The success of use of such techniques depends mainly on the efficiency of ground cables, and since all of the existing cables of the Palestinian network are very old, extreme caution has been followed in the use of such systems to guarantee availing the necessary efficiency levels of telephone service.

The company's option from the outset for this solution was to fulfill the highest number of applications that have been outstanding for several years.

Three types of Pair Gains were imported:

PCM11	which avails 10 lines.
PCM4	which avails 3 lines.
PCM2	which avails 1 line.

These systems avail the service with the same efficiency that is offered by regular lines through operating the HDSL technology.

Sixth: Customer Services & Billing system

PALTEL is giving extreme attention to customer services and the billing system, and thus has done the following:

1. Issued a Customer Services System which determines installations' priorities and the basis of relations with customers.
2. Set a specific management system for faults that occur with customers lines whereby a mechanism is set to record faults and the necessary measures to rectify faults as soon as possible. In addition to the issuance of regular documented reports that reflect the quality of rectification performance .
3. Set an ambitious plan to increase the number of Customer Services Centers throughout the Palestinian districts whereby four new centers have been opened in Gaza, Jabalia, Rafah and Khanyounis, and currently working to open four other Centers in Ramallah , Nablus, Salfit and Abu Dees.
4. Concluded an agreement with one of the specialized companies to hold training courses to uplift the professional performance of Service Centers Staff whereby a training course was held for staff of these centers in the West Bank for 30 employees and another course for 16 employees in Gaza whereby each course was a week of 30 training hours.
5. Work is underway for establishing a Billing Center for PALTEL which is expected to issue the 1st "Palestinian" Bill during 1998.

Seventh: Public Payphones Project

The tender of this project was awarded to a Greek firm specialized in the production of payphones that operate by the use of "Smart Cards" and a contract has been signed to purchase 1050 payphones as a first consignment to be installed in all public places and densely populated areas to service the Public.
In this regard, the following steps were undertaken:

1. Samples of the required Smart Cards were prepared , and eventually a quarter million of such cards were printed.
2. Another tender was offered to print (one million) Cards.
3. Work is underway to prepare and install cement bases for the payphones throughout the West Bank and Gaza.

Installation of Public Payphones will commence during April 1998 all over the Palestinian cities as follows :-

No.	Area	Quantity
1	Jinin	50
2	Nablus	100
3	Tulkarem	50
4	Qalqiliah	15
5	Ramallah	90
6	Jericho	50
7	Abu Dis & Jerusalem	50
8	Beit Laham	130
9	Hebron	120
10	Gaza	120
11	Jabaliah	50
12	Deir El Balah	30
13	Khan Younis	50
14	Rafah	50
Total		**1000**

It is worth while to note that Paltel has a plan to install 5000 public payphones within the coming 3 years as an effort to avail this vital service to the biggest number of citizens.

Eighth: The Palestinian Cellular Services Network Project

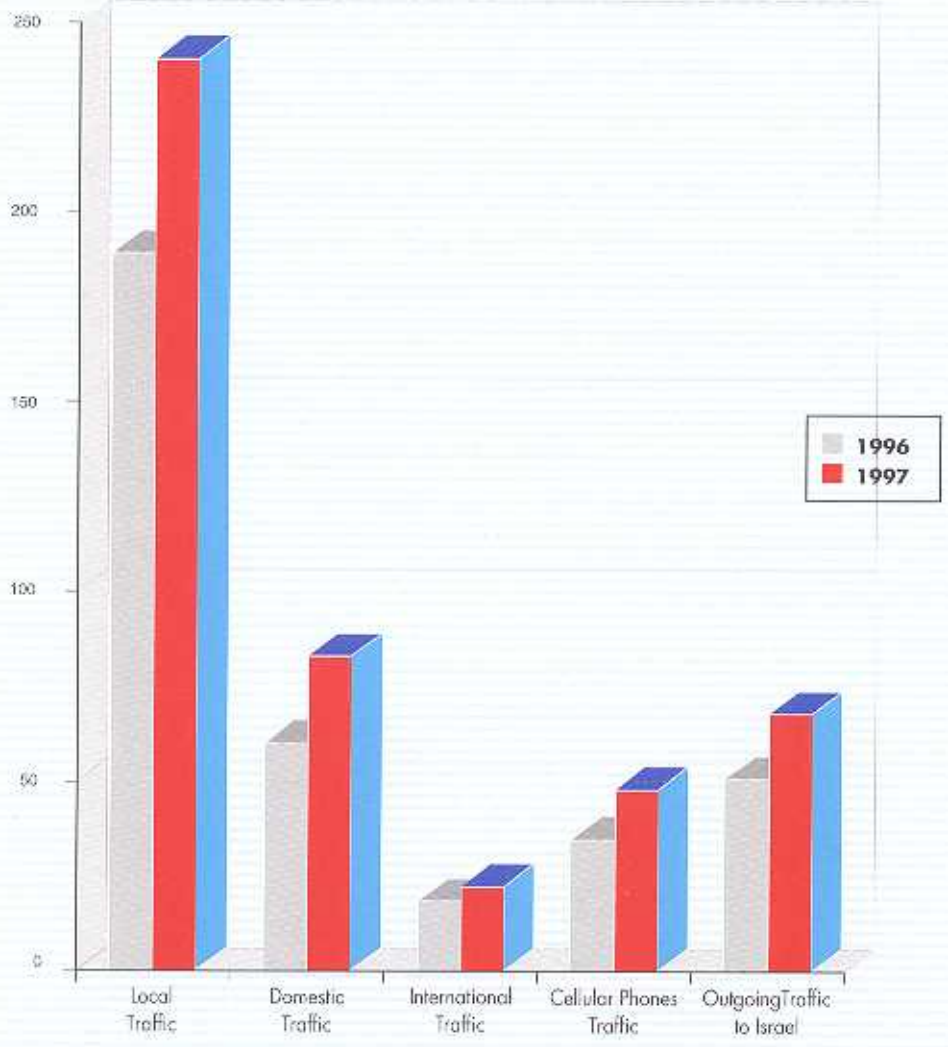
Goals

To install a Cellular Network that covers all Palestine, using international GSM System which is currently operational in many countries of the world including Arab countries:-

Plans of Operations

PALTEL called for an international tender to install and operate the Cellular Network using the modern international GSM system.
It is expected to sign a contract with the winning company in the near future and execution of the project will then commence noting that PALTEL have already conducted a field survey to determine the sites of the base stations.
It is expected that this project will be put into operation by the end of this year. Two mobile switching centers(MSC's) will be constructed , one of them in the city of Ramallah & the other in Gaza city, with an initial capacity of 70 thousands subscribers with the ability to expand to 120 thousand subscriber.
PALTEL has worked in coordination with the Ministry of Post and Telecommunications to secure the necessary Frequency Bandwidth needed to commission this important project.

Growth of Telephone Traffic



The Telephone traffic has increased noticeably during 1997 in comparison with Traffic for the year 1996 as follows:

1. Local traffic increased by 27% during 1997.
2. Domestic Traffic increased by 38% during 1997.
3. Outgoing calls to Cellular Telephones increased by 37% during 1997.
4. Outgoing calls to Israel increased by 33% during 1997.
5. International traffic increased by 20% during 1997.

1998 Plans

Upon completion of the projects which were awarded during last year 1997 and at the beginning of this year 1998, the Palestinian Telecommunications Sector will experience a qualitative and quantitative leap on all levels as follows:-

First: New Exchanges

It is expected to complete this project during the coming August 1998, thus Telecommunication Services shall spread to cover all Palestinian Governorates on a wide scale.

The main indicators for that are as follows :

- The number of Main switches will be increased from (15) to (30).
- The number of RSU's and RLUs will be increased to 64.
- Telecommunications services will reach over 150 populated areas.
- Switches' capacity will be increased from 134202 numbers in 1997, to over 238266 numbers, i.e. an increase of about 78% in comparison with 1997.

PALTEL adopted an ambitious plan to expand the capacity of the OSP and adopted the necessary programs to install a total of 80600 new lines during 1998. Thus the operating telephone lines throughout Palestine will be (191) thousand by the end of the year 1998, i.e. an increase of about 72% in comparison with the number of telephone lines during 1997. Consequently, the utilization ratio of switches' capacity becomes about 80%.

Jerusalem Expansion Project

One of the most prominent expansion of service projects (Exchanges and Networks) is Jerusalem Project which aims at covering the demand of the population in the suburbs and villages surrounding Jerusalem, due to circumstances which this city faces in an effort to preserve its Palestinian identity.

North Jerusalem

Beir Nabala's exchange has been expanded by 1000 new lines, thus its present capacity has increased to 5352 lines. This exchange currently service Al-Ram Suburb, Al-Aqbat Suburb, New Beir Nabala and Al-Jeep Areas.

North Eastern Jerusalem

A new exchange with a capacity of 15000 lines, will be installed in Al-Ram, to serve Al-Ram city and the close by Villages of Hazma, Mikhmas, Anata, Burqa and Juba'.

East Jerusalem

A new exchange has been put to service in Abu-Dees with an intial capacity of about 4400 lines to service Abu Dees, Al-'Eizarieh, Az-Za'eem, As-Sawahrah and Ash-Sheikh Sa'd.

South Jerusalem

The capacity of Bethlehem's exchange will be increased to 11586 lines, to service the villages of Bateer, Husan and most of Jerusalem southern villages.

West Jerusalem

A new exchange with a capacity of 3840 numbers will be installed in Biddo to serve all Biddo area, Beit Surik, Qutnah, Beit Sira and Beit Exa.

Thus, the preliminary capacity of the switches RSU's and RLUs that will be operating within the governorate of Jerusalem is about 35 thousand numbers.

Second: Completion of construction of Transmission Links

1. The Fiber Optic cables Project in Gaza Strip
Aims at interconnecting Gaza Strip cities (Gaza, Rafah, Jabalia, Khan Younes and Deir El-Balah) by using the SDH technology through Fiber Optic cables. Completion of this important project is expected within the month of May 1998.

2. The Fiber Optic Cables Project in the West Bank.
This project aims at connecting the exchanges operating in the Northern, Mid and Southern areas of the West Bank with their main switches, using SDH technology through Fiber Optic Cables.
Completion of this important project is expected during the month of July.

3. The Microwave-interconnection project between the West Bank & Gaza
This project is considered the corner stone in the construction of an independent national telecommunications network in Palestine. It aims at interconnecting the transmission links of the West Bank with the transmission links in Gaza Strip, to replace the present situation whereby traffic is routed through Bezeq network.

A contract has been signed with an international company to supply, install and operate the above-mentioned link. Completion of this project is expected within the current year upon securing sufficient frequency bandwidths to commission this important project.

Third: The Palestinian National and International network

This project aims at constructing the backbone national network in Palestine by:

1. Constructing Three national switching centers in Ramallah, Gaza and Nablus.
2. Constructing an international switching center in Ramallah, which constitutes the International Palestine Gateway.
3. Constructing microwave or fiber optic transmission systems to interconnect the national switching centers. Consequently, upon completion of this project coupled with the aforementioned transmission links project, will result in total separation and independency from the Israeli Network, and this project is expected to be awarded and work to commence towards the end of the current year.

Forth: "WLL" Wireless Local Loop

PALTEL is always keen to introduce to its customers the latest technologies in the field of Telecommunications. This type of telecommunication system provides the best economic and technical solution to avail wireless telephone lines to customers without the need to laying cables and is constituted of central units that are installed in the exchange and the local loop units, which are connected to the central units through radio waves. Used frequency bandwidths and distances between the central units & customers units and the capacities of such units vary according to the company manufacturing such equipment.

In this regard, PALTEL undertook the following:

1. PALTEL approached the Ministry of Post and Telecommunications to specify the required frequency bandwidths for operating these systems and since such frequencies bandwidths are not stipulated in Oslo Agreement, thus there is no choice but to negotiate with the Israeli side through the Joint Technical Committee (JTC), to assign frequencies for PALTEL to enable us to use the equipment on a wide scale all over Palestine.
2. PALTEL commissioned three pilot projects in a step to generalize the use of such systems when the necessary frequencies become available and thus a tender invitation will be issued for the supply of 20 thousand lines using this modern technology .

Fifth: Data Transmission & Digital Leased lines

After completing the evaluation of several offers submitted by international companies, a letter of intent was signed with one of the companies and a purchase order has been issued around the end of last year, and the supply of such equipment commenced during March 1998.

This project aims at leasing to all economic institutions such as (banks, universities, governmental departments) circuits to link their branches that are spread throughout Palestine with each other using digital circuits with various transmission speeds.

This project consists of a Management Control Center, to be installed in Ramallah and the installation of Nodes in all of the cities in Palestine as follows :

- North/West-Bank: Nablus, Qalqilia, Jinin & Tulkarm
- Mid/West-Bank: Ramallah, Beir Nabala, Jericho, Al-Ram & Abu Dees
- South/West-Bank: Bethlehem & Hebron
- Gaza Strip: Gaza, Rafah, Jabalia, Khan Younis & Deir El'Balah.

These Nodes are interconnected by digital transmission systems in order to interconnect the different branches of the various economic , financial and banking institutions, in accordance with the nature of their basic functions, whereby the leased lines service will constitute a basic infrastructure that will enable these institutions to achieve their duties.

Sixth: Customer Services & Billing Centers

- Work is underway to finalize the construction of a Billing Center in the city of Ramallah which will enable the company to have full control of the Billing system and the Bills to be issued in Arabic Language.
- Upon completion of a field survey of all Service Centers in the various cities of Palestine it has been decided to develop some of them and construct new service centers depending on the development of telecom network, as a service to the people wherever they are within Palestine.
- As a result of continuous cooperation with the Palestinian Ministry of Post and Telecommunications all telephone bills now can be paid at all post offices branches to make things easier for the people.
- Work is currently underway to finish the construction of the Call Center in the city of Ramallah and after the necessary equipment is installed, this center will operate around the clock to offer the following services :

- Faults Reporting (166), for follow up and repaired instantly .
- Directory Services (144), to enable people to inquire about any telephone number they need.

We should note that this center will service all the Palestinians in the West Bank, also steps have been taken to construct another center in Gaza Strip within the coming months.

Recommendations of the Board of Directors

The Board of Directors recommends the following :

- Reading of the minutes of meeting of the incorporation previous meeting and approving it.
- Reviewing of the Board of Directors report about the Companies operations for the year 1996/1997 and the future plan for 1998, discussing and approving it.
- Reading of the Auditors' Report about the Company for the years 1996/1997.
- Discussing of the Balance Sheet and Financial Statements of the Company for the year 1996/1997.
- Liability discharge of the Board of Directors for the fiscal years 1996/1997 and authorizing the Board to calculate their remuneration.
- Selection of the external auditors.
- Discussing of any issues suggested to be listed on the agenda by the General Assembly in accordance with the Law.

Finally we thank God Al Mighty for his providence and grace and for enabling us to a achieve what we did and pray to him for continued support and successes.

The Board of Directors have the pleasure to thank and appreciate highly all the founders and shareholders of the company who have participated and continue to participate in the building of the company and all parties that deal with the company. With special thanks to his excellency the Minister of Post and Telecommunications and his Deputy and all the employees of the Ministry and also to all officials in the various PNA ministries and divisions and all their employees for their cooperation and support, and to the company consultants and all employees whom without their loyalty , devotion, and dedications in building their company and their success in acquiring the confidence of the people under circumstances that require the efforts and cooperation of all concerned and the continued strive aiming at the achievement of the company's welfare and service of the Public and we ask God Al-mighty to grant all of us success and assistance to perform our duties and guide us.

Wa Assalam Alikum Wa Rahmat Allah Wa Barakatouh

Thank you

Engineer
Hatem Al -Halawani Al-Tamimi
Chairman

1997/96

Financial Statements
& Auditors' Report

As of 31 December 1997, 96

Independent Auditor's Report

To the Shareholders of
Palestine Telecommunications Company P.L.C.
Nablus - Palestine

We have audited the accompanying balance sheets of Palestine Telecommunications Company P.L.C. (the "Company") as of December 31, 1997 and 1996 and the related statements of profit and loss, and cash flows for the year ended December 31, 1997, and the statement of cash flows for the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We obtained the information and explanations which we considered necessary for our audit.

We conducted our audit in accordance with International Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company maintains proper books of account and the accompanying financial statements are in agreement therewith.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palestine Telecommunications Company P.L.C. as of December 31, 1997 and 1996 and the results of its operations and cash flows for the year ended December 31, 1997 and its cash flows for the period ended December 31, 1996 in conformity with International Accounting Standards issued by the International Accounting Standards Committee.

As in note 24 to the financial statements, no provision for income tax has been made against the Company's profit for the year ended December 31, 1997. This is based on the Licence Agreement between the Palestinian National Authority and the Company and the letter from the Minister of Trade and Economy acknowledging the Company's entitlement for exemption from tax under the Encouragement of Investment in the Territories under The Palestinian National Authority, Law No. 6.

Allied Accountants Dajani & Co.

Ramallah - Palestine
March 19, 1998

Balance Sheets

AS OF DECEMBER 31, 1997 and 1996
(Currency: Jordanian Dinar)

	Notes	1997	1996
ASSETS			
Current Assets			
Cash	4	9,851,339	25,321,157
Accounts receivable, net	5	14,715,522	-
Materials in stores, net	6	3,712,702	-
Other current assets	7	2,738,058	180,406
Total Current Assets		**31,017,621**	**25,501,563**
Investment in affiliated company	8	87,500	-
Projects under construction	9	9,037,626	-
Property, plant and equipment, net	10	10,915,180	124,820
Licence, concession and lines cost, net	11	15,481,530	-
Establishment and pre operating expenses, net	12	279,336	250,907
Total Assets		**66,818,793**	**25,877,290**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Due to banks	13	1,697,437	-
Notes payable	14	7,963,977	-
Accounts payable	15	10,894,346	6,336
Other current liabilities	16	2,961,347	59,559
Total Current Liabilities		**23,517,107**	**65,895**
Provision for End of Service Benefit	17	**327,903**	**11,715**
Total Liabilities		**23,845,010**	**77,610**
Shareholders' Equity			
Paid-in share capital	18	32,851,809	25,799,680
Statutory reserve	19	1,012,197	-
Voluntary reserve	19	1,012,197	-
Special reserve	19	2,024,394	-
Retained earnings		6,073,186	-
Total Shareholders' Equity		**42,973,783**	**25,799,680**
Total Liabilities and Shareholders' Equity		**66,818,793**	**25,877,290**

The accompanying notes form an integral part of these financial statements.

Statement of Profit and Loss for the Year Ended December 31, 1997

(Currency: Jordanian Dinar)

	Notes	
Telecommunication services revenues		27,361,221
Operating expenses	20	(11,805,413)
Income from operations		**15,555,808**
Provision for doubtful accounts	5	(3,738,484)
Licence and concession fees	21	(2,806,625)
Bank interest, net	22	1,229,913
Other expenses, net	23	(118,638)
Net profit available for appropriation		**10,121,974**
Appropriations:		
Statutory reserve	19	1,012,197
Voluntary reserve	19	1,012,197
Special reserve	19	2,024,394
Retained earnings		6,073,186
		10,121,974
Earnings per share		**0.225**

The accompanying notes form an integral part of these financial statements.

Statements of Cash Flows for the Year Ended December 31, 1997 and the Period Ended December 31,1996

(Currency: Jordanian Dinar)

	1997	1996
Cash Flows from Operating Activities:		
Net profit for the year	10,121,974	-
Adjustments to reconcile net profit to net cash flows from operating activities		
Non Cash Items:		
Depreciation and amortization	1,943,723	-
Provision for doubtful accounts	3,738,484	-
Provision for obsolete and slow moving materials	148,682	-
Provision for end of service benefit	316,188	-
Change in Working Capital:		
Increase in accounts receivable	(18,454,006)	-
Increase in materials in stores	(3,861,384)	-
Increase in other current assets	(2,557,652)	(74,861)
Increase in notes payable	7,963,977	-
Increase in accounts payable	10,888,010	-
Increase in other current liabilities	2,901,788	3,189
Net cash flows from (used in) operating activities	**13,149,784**	**(71,672)**
Cash Flows from Investing Activities:		
Investment in affiliated company	(87,500)	-
Purchases of property, plant and equipment	(10,944,079)	(136,113)
Projects under construction	(9,037,626)	-
Licence, concession and lines cost	(17,201,700)	-
Establishment and pre operating expenses	(98,263)	(1,320,518)
Revenues earned during the establishment period	-	883,166
Net cash flows used in investing activities	**(37,369,168)**	**573,465**
Cash Flows from Financing Activities:		
Paid in capital	7,052,129	14,549,680
Increase in due to banks	1,697,437	-
Net cash flows from financing activities	**8,749,566**	**14,549,680**
Net (decrease) increase in cash	**(15,469,818)**	**13,904,543**
Cash, beginning of year /period	**25,321,157**	**11,416,614**
Cash, end of year /period	**9,851,339**	**25,321,157**

The accompanying notes form an integral part of these financial statements.

Notes to Financial Statements as of December 31,1997

(Currency: Jordanian Dinar)

1. Company, Activities and Share Capital

Palestine Telecommunications Company P.L.C. ("the Company"), located in Nablus, was incorporated and registered at the Registrar of Companies in Jericho as of August 2, 1995 under registration No. 563201029. The Company's founding general assembly was held on December 27, 1995, during which the establishment of the Company was announced. The Company's authorized share capital consists of 45,000,000 shares of JD 1 each. As of the financial statements date 75% of the par value of the shares have been called up for payment.

The Company's main activities are offering, managing, and selling wire and wireless telecommunication services, as well as constructing and operating telecommunication stations and telephone networks in Palestine and in other countries. This is in accordance with the "Licence Agreement" to construct, manage, and operate the telephone and mobile telecommunications, signed between the Company and the Palestinian National Authority (PNA). The Company operates under the Telecommunication Law No. 3 of 1996 decreed by the PNA.

The financial statements for the period ended December 31, 1996 do not include a statement of profit and loss as expenses incurred from the establishment date to December 31, 1996 were recorded as establishment and pre operating expenses, net of the revenues earned during that period.

2. Licence Agreement to Construct, Manage, and Operate the Telephone and Mobile Telecommunications

As of November 15, 1996, the PNA agreed to grant the Company the licence to use, invest, and operate all telecommunication network assets and equipment within the PNA territories. Hence the licence agreement to construct, manage, and operate the telephone and mobile telecommunications the "Agreement" was signed between the PNA and the Company. According to the Agreement terms and conditions, the Company has full right to construct, install, and operate the telephone and mobile network including the exchanges, earth and air cables and other related equipment, as well as the right to use this network for sending and receiving telecommunications. The licence is valid for a period of twenty years, renewable.

As for the wire telephones, the Agreement grants the Company the full right for a period of ten years with effect from November 15,1996, to provide the telecommunication services between all locations inside Palestine, as well as between Palestine and elsewhere. In addition, as per the Agreement the Company has to pay a one time U.S. $ 25 million, in addition to an annual fee of 7% of its annual operating revenues in exchange for transferring to the Company the ownership of the telecommunication lines and to be recognized as the sole Licencee in Palestine.

3. Summary of Significant Accounting Policies

The financial statements have been prepared under the historical cost convention. The significant accounting policies are as follows.

Use of Estimates

The preparation of the financial statements in conformity with the International Accounting Standards require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as revenues and expenses during the year. Actual results could differ from those estimates.

Revenues and Expenses Recognition

Revenues and expenses are recognized on the accrual basis of accounting. Revenues from telecommunication services are recognized during the period in which such services are rendered after adjusting for amounts due to or from other Telecommunication companies, which amounted to JD 15,359,089 for the year 1997.

Materials in Stores

Materials in stores are stated at the lower of cost or market using the first in first out or the average cost method. Materials in stores are primarily used in projects for expanding or constructing telecommunication network.

Investments in Affiliates

Investments in affiliated companies are accounted for using the equity method. Share of profits or losses in the investee companies is recognised in the statement of profit and loss.

Projects Under Construction

Projects under construction comprise all costs incurred to expand and construct the national telecommunication network including costs of direct materials and labour, installation of exchanges and equipment and contractors costs.

Licence, Concession and Lines Costs

Licence, concession and lines costs are amortized over ten years using the straight line method.

Fixed Assets

Fixed assets are stated at cost, and depreciated over the estimated useful lives applying the straight line method at the following annual rates:

Fixed Assets Group	Depreciation Rate
Buildings	10%
Telecommunication exchanges	10%
External telecommunication networks	10%
Motor vehicles	20%
Heavy duty machinery	15%
Office machines and equipment	20%
Office furniture	15%
Computer hardware and software	25%
Leasehold improvements	10%
Tools and small equipment	15-25%

Establishment and Pre Operating Expenses

Establishment and pre operating expenses are amortized over five years using the straight line method.

Foreign Currencies

The Company maintains its records in Jordanian Dinar (JD). All the transactions in foreign currencies are translated into JD using the prevailing exchange rate at the time of each transaction. Monetary assets and liabilities, which are denominated in foreign currencies are translated into JD using the prevailing exchange rates at the balance sheet date. Gains or losses arising from exchange differences are reflected in the statement of profit and loss.

Foreign currency exchange rates against Jordanian Dinar (JD) as at the balance sheet date were as follows :

	JD		
	1997	1996	Change rate
One New Israeli Shekel (NIS)	0.20	0.215	(6.98%)
One United States Dollar(U.S. $)	0.71	0.709	0.14%

4. Cash

	1997	1996
Cash on hand	12,973	578
Cash at banks in JD	1,549,372	10,175,340
Cash at banks in NIS	380,099	-
Short-term deposits at banks in JD	7,908,895	8,417,345
Short-term deposits at banks in U.S. $	**-**	**6,727,894**
	9,851,339	**25,321,157**

All short term deposits mature within one month from the value date.

5. Accounts Receivable, net

Accounts receivable are stated net of provision for doubtful accounts :

	1997
Subscribers receivables	12,454,326
Accrued revenues *	3,509,521
New installations receivables	345,949
Ministry of Post and Telecommunications	2,144,210
	18,454,006
Provision for doubtful accounts	(3,738,484)
	14,715,522

* Accrued revenues represent revenues for the period from October 19, 1997 to December 31, 1997, based on invoices issued to subscribers during January 1998 for the period from October 19, 1997 to January 18, 1998.

6. Materials in Stores, net

Materials in stores mainly comprise materials purchased by the Company for use in expansion and construction of the telecommunication network. Following are details of materials in stores classified according to usage :

	1997
External network materials	3,047,490
Installation materials	655,618
Electricity and air conditioning materials	80,268
Kits and tools	33,225
Other	44,783
	3,861,384
Provision for obsolete and slow moving materials	(148,682)
	3,712,702

7. Other Current Assets

	1997	1996
GSM Project *	157,277	-
VAT receivables	971,809	38,881
Documentary letters of credit	402,356	-
Advance payments	149,098	-
Cash margins	336,077	-
Prepaid expenses	441,558	3,256
Insurance claims	222,514	-
Other	57,369	138,269
	2,738,058	**180,406**

* This represents the Company's disbursements on research, studies and essential equipment to construct the GSM project.

8. Investment in Affiliated Company

The Company owns 175,000 shares (JD 1 each) in Palestine Information Technology, a private shareholding limited liability company (Pal-Tech). These shares represent 25% of Pal-Tech share capital. Only 50% of the nominal value of these shares have been paid up.

The investment in Pal-Tech is stated at cost, since the company has not started its operation yet.

9. Projects Under Construction

Projects under construction comprise the following :-

	1997
Telecommunication exchanges	3,684,143
Materials for external network connection	2,440,814
Contractors work	2,546,795
Wages	251,938
Other	113,936
	9,037,626

10. Fixed Assets

This items consists of the following:

	Balance, beginning of year	Additions/ Change	Disposals	Balance, end of year
Cost				
Buildings	-	10,467	-	10,467
Telecommunication exchanges	-	5,012,134	(10,919)	5,001,215
External telecommunication network	-	3,967,640	-	3,967,640
Motor vehicles	44,406	897,362	-	941,768
Heavy duty machines	-	220,835	-	220,835
Office machines and equipment	18,092	224,070	-	242,162
Office furniture	37,099	309,198	(11,562)	334,735
Computer hardware and software	37,277	192,722	-	229,999
Leasehold improvements	-	68,919	-	68,919
Tools and small equipment	-	62,833	-	62,833
	136,874	**10,966,180**	**(22,481)**	**11,080,573**
Accumulated depreciation:				
Buildings	-	250	-	250
Telecommunication exchanges	-	17,929	-	17,929
External telecommunication networks	-	36,537	-	36,537
Motor vehicles	2,980	22,444	-	25,424
Heavy duty machinery	-	1,117	-	1,117
Machines and office equipment	1,195	25,327	-	26,522
Office furniture	2,289	24,018	(380)	25,927
Computer hardware and software	5,590	24,105	-	29,695
Leasehold improvements	-	580	-	580
Tools and small equipment	-	1,412	-	1,412
	12,054	**153,719**	**(380)**	**165,393**
Net book value	**124,820**			**10,915,180**

The Company has entered into future contracts to buy fixed assets for JD 10,281,199, as further explained in Note 25.

11. Licence, Concession and Lines Cost, net

This item represents the cost of telecommunication lines transferred to the Company according to the Agreement with PNA and related supplements. In addition, the Company has exclusively been granted the telecommunication licence in the PNA areas for which the Company paid U.S. $ 25 million (equivalent to JD17,772,258), as explained in Note 2.

The make up of this payment is as follows :-

	1997
Licence, concession and lines cost (U.S. $ 25 million)	17,772,258
Installation and maintenance materials received	(570,558)
	17,201,700
Amortization for the year	(1,720,170)
	15,481,530

12. Establishment and Pre operating Expenses

Establishment and pre operating expenses represent all costs incurred during the establishment phase as well as all expenses incurred before the Company started operations as of January 1, 1997, less revenues earned during that period.

The movement on establishment and pre operating expenses during the year was as follows.

	1997	1996
Balance, beginning of year	250,907	-
Additions	* 98,263	1,218,150
Revenues earned during the establishment period	-	(967,243)
Amortization	(69,834)	-
	279,336	**250,907**

* This amount represents PADICO fees for services rendered during 1996.

13. Due to Banks

This represents overdrawn accounts in the following currencies :

	1997	1996
United States Dollar	46,853	-
Jordanian Dinar	11,029	-
New Israeli Shekel	1,639,555	-
	1,697,437	**-**

14. Notes Payable

Notes payable represent deferred payments due to suppliers for materials and exchanges supplied during the year against banks letters of credit. The maturity dates of these notes payable are within one year from the date of issuance.

15. Accounts Payable

Accounts payable comprise :

	1997	1996
Due to Bezeq (domestic and international)	5,966,856	-
Suppliers	4,065,189	6,336
Contractors	690,218	-
Deferred checks	172,083	-
	10,894,346	**6,336**

16. Other Current Liabilities

Other current liabilities comprise :

	1997	1996
Due to Bezeq company	381,162	-
Accrued contracting costs	696,217	-
Provision for employees vacations	138,548	-
Due to PNA	812,601	-
Employees savings fund *	341,381	-
Accruals for PADICO	225,106	-
Accrued expenses	366,332	59,559
	2,961,347	**59,559**

* The Company has established a savings fund for its employees, the Palestine Telecommunication Company P.L.C. Employees Savings Fund. A'savings fund policies and procedures were designed in accordance with the Company's bylaws.
The saving fund contributions is divided between the employee and employer at 6% and 12% respectively.

17. End of Service Benefit

Provision for employees end of service benefits is calculated in accordance with labour laws prevailing in Palestine, and the Company's regulations.

The movement on provision for end of service benefits during the year was as follows.

	1997	1996
Balance, beginning of year	11,715	-
Additions	336,899	11,715
Amounts paid during the year	(20,711)	-
Balance, end of year	**327,903**	**11,715**

18. Paid-in Share Capital

Details of the paid-in capital account as of December 31are :

	1997	1996
Called-up capital 75%	33,750,000	33,750,000
Unpaid capital	(898,191)	(7,950,320)
Paid-in capital	**32,851,809**	**25,799,680**

Following is a summary of the paid-in capital movement during the year :

	1997	1996
Balance, beginning of year	25,799,680	11,250,000
Shareholders payments during the year	7,052,129	14,549,680
Balance, end of year	**32,851,809**	**25,799,680**

Subsequent to the financial statements date, the Company call for the final installment of the authorized share capital of JD 11,250,000. As of March 19, 1998, date of the auditors report, JD 7,500,000 of the final installment was received.

19. Reserves

Statutory Reserve:- In accordance with the Company's articles of association and the Companies Law, a deduction of 10% of annual profit before tax should be made and transferred into a statutory reserve account until the reserve balance equals one half of the Company's share capital. Further, this deduction may be continued by a Board of

Directors resolution until the statutory reserve balance equals the Company's share capital.

Voluntary Reserve:- In accordance with the Company's articles of association and Companies Law, the Company's General Assembly, based on the Board of Directors recommendation, can appropriate up to 20% of the annual net profit before tax as voluntary reserve. The voluntary reserve balance should not exceed one half of the Company's share capital. The appropriation for the voluntary reserve for the year was 10%.

Special Reserve:- Based on the Board of Directors' recommendation, 20% of the Company's net profit after tax has been appropriated to a special reserve to fulfil the Company's future needs.

20. Operating expenses

Follows are details of operating expenses for the year ended December 31, 1997 classified into direct and indirect costs :-

	Direct Operating Costs	Indirect Operating Costs	Total Operating Costs
Salaries and wages	2,829,927	989,173	3,819,100
End of service benefit	244,446	92,453	336,899
Employees savings fund	166,367	62,808	229,175
Employees vacations	102,059	39,405	141,464
Depreciation	55,583	98,136	153,719
Bezeq services costs	891,259	-	891,259
Professional and consultancy fees	-	541,958	541,958
Maintenance of network, exchanges and other	679,995	161,279	841,274
Motor vehicles cost, contractors	726,584	165,254	891,838
Telephone invoices distribution expenses	100,165	-	100,165
Administrative services - PADICO	-	128,873	128,873
Employees and assets insurance	92,622	129,959	222,581
Travel, accommodation, transportation, and fuel	57,984	373,973	431,957
Advertising	48,373	255,371	303,744
Offices and sub-locations rent	41,615	139,673	181,288
Telephone, fax, and mobile	133,322	49,871	183,193
Water, electricity, and utilities	271,886	71,833	343,719
Stationery and printings	14,393	90,265	104,658
Licence and subscriptions fees	-	24,089	24,089
Amortization of licence, concessions and lines cost	1,720,170	-	1,720,170
Amortization of establishment costs and pre operating expenses	-	69,834	69,834
Other miscellaneous expenses	72,228	72,228	144,456
	8,248,978	**3,556,435**	**11,805,413**

21. Licence and Concession Fees

This item represents the licence and concession fees payable annually to PNA at 7% of the Company's operating revenues as per the Agreement.

22. Bank Interest, net

Bank interest is presented net of commission and interest expense as follows :-

	1997
Interest income	1,388,816
Interest expense and commissions	(158,903)
	1,229,913

23. Other Expenses, Net

Other expenses are presented net of miscellaneous revenues as follows:-

	1997
Foreign currency translation differences	285,750
Miscellaneous expenses	19,234
Miscellaneous revenues	(186,346)
	(118,638)

24. Taxes and Customs

According to the licence agreement between the Company and the PNA to construct, manage and operate the telephone and mobile telecommunications, the Company was granted an exemption from customs on tools and telecommunications equipment required for the telecommunication infrastructure. Moreover, the Company has the right to benefit from exemptions stated in the Palestinian Law for the Encouragement of Investment.

According to the Ministry of Trade and Economy letter No. OR 200/3, dated June 22, 1997, acknowledging the Company's right to benefit from the Palestinian Law for Encouragement of Investment No. (6), which is preliminary and conditional upon the completion of the legal requirements and the Company's meeting the required conditions and procedures within one year from the letter's date.

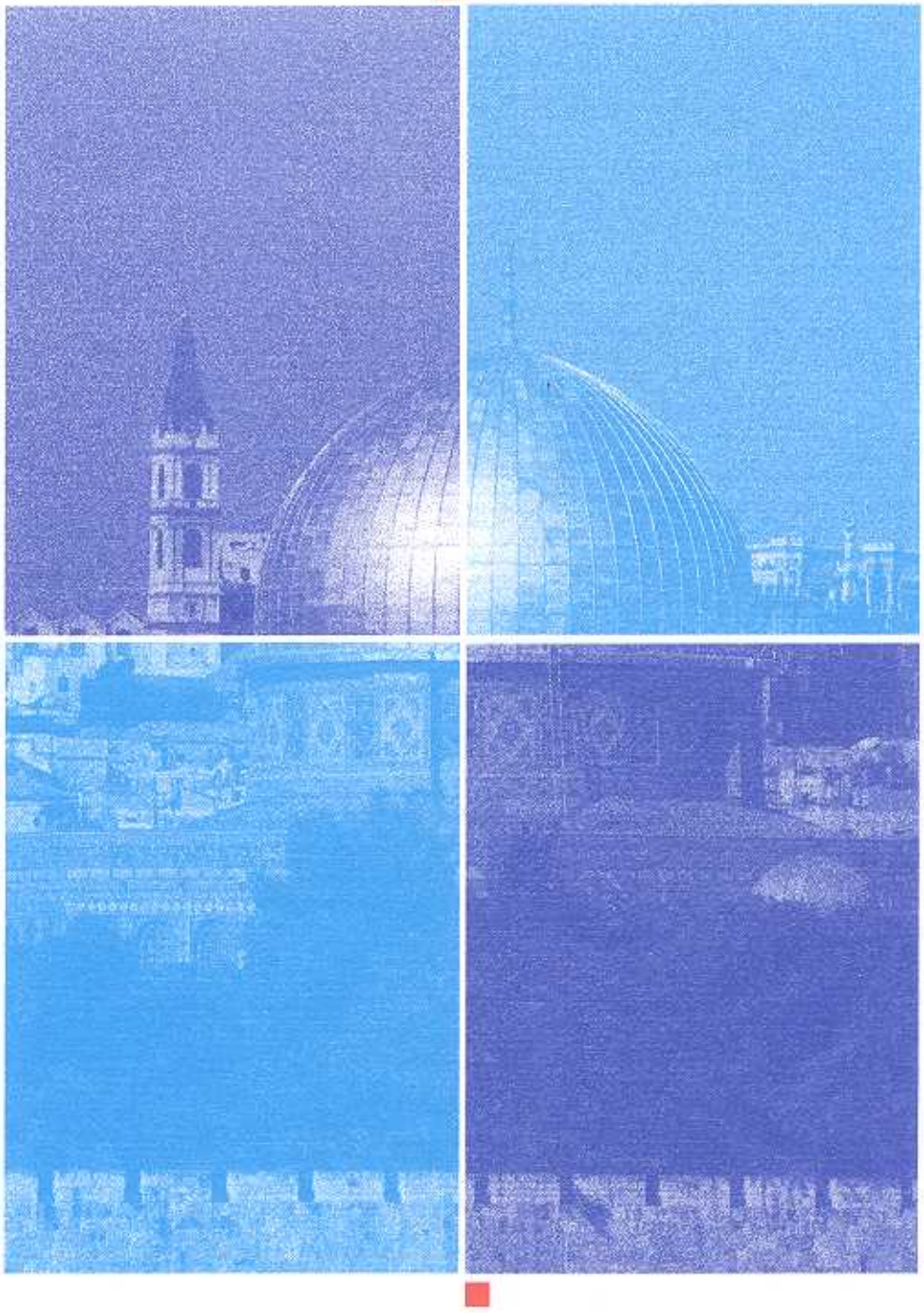
25. Contractual Commitments

As of the financial statements date, the Company has an outstanding contractual commitments resulting form purchases, services, and construction contracts. The outstanding commitments as of December 31, 1997 are:

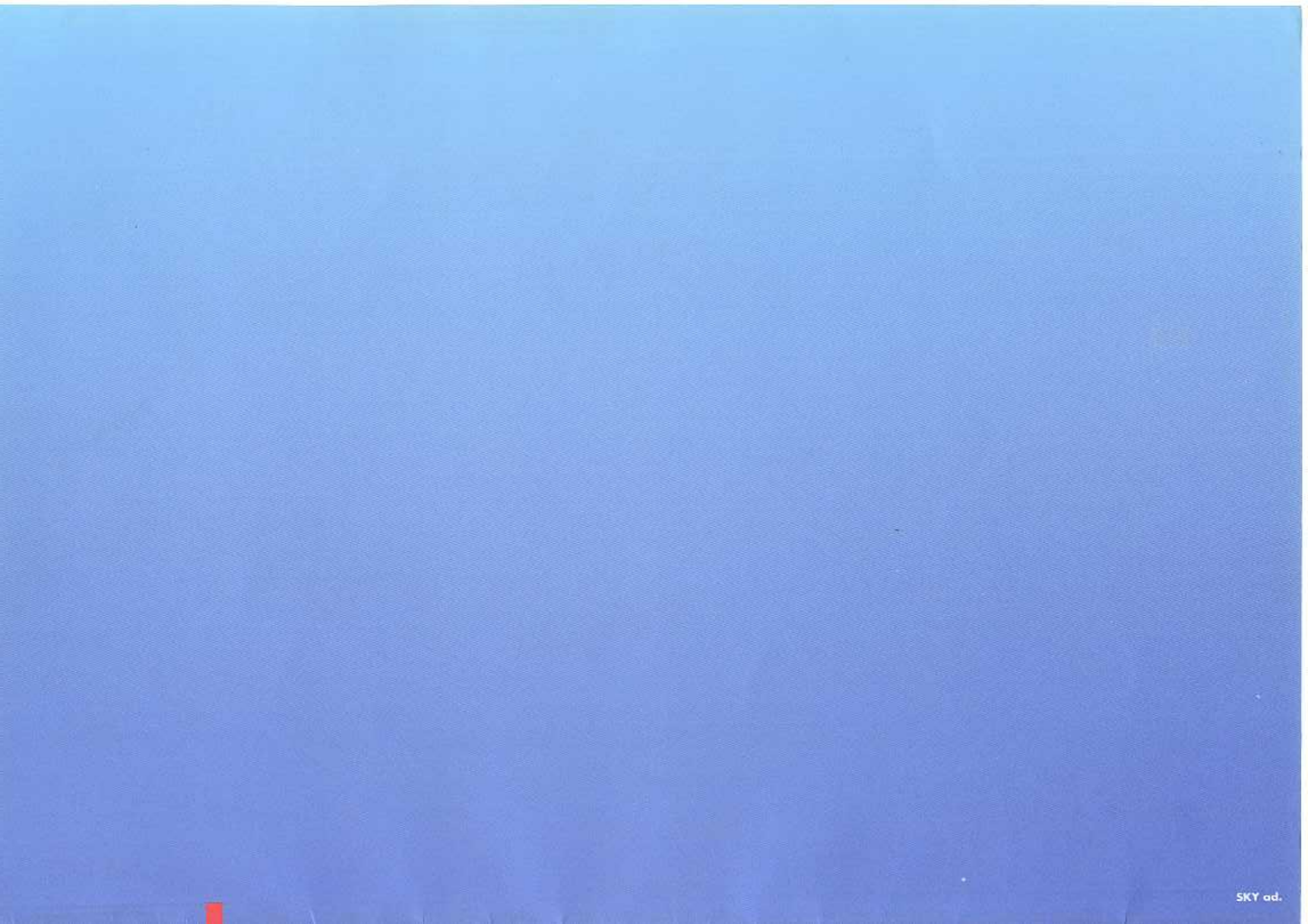
	1997
Fixed assets and materials purchase contracts	14,569,350
Construction contracts	2,115,758
Consulting services contracts	516,258
	17,201,366

26. Financial Statements as of December 31, 1996

Certain balances as of December 31, 1996 have been reclassified to conform with December 31, 1997 Financial Statements presentation.



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