

Annual Report
2001

5 YEARS
AND STILL TALKING
الاتصالات الفلسطينية
PALTEL
tell the world.

www.Paltel.net

Acknowledgment

As we recognize the loyalty and dedication of all PALTEL employees, we extend special gratitude to our technical and field workers who are the foundation of our success. Tirelessly, they have demonstrated commitment and dedication during long months of grave political turmoil. We recognize that they have had to endure hardship and adverse conditions, including life threatening ones, to deliver services to the customer and repair the severe damage to the network infrastructure. They, along with the entire PALTEL family, met the challenge and ensured that the people of Palestine are able to communicate with their loved ones at all times.

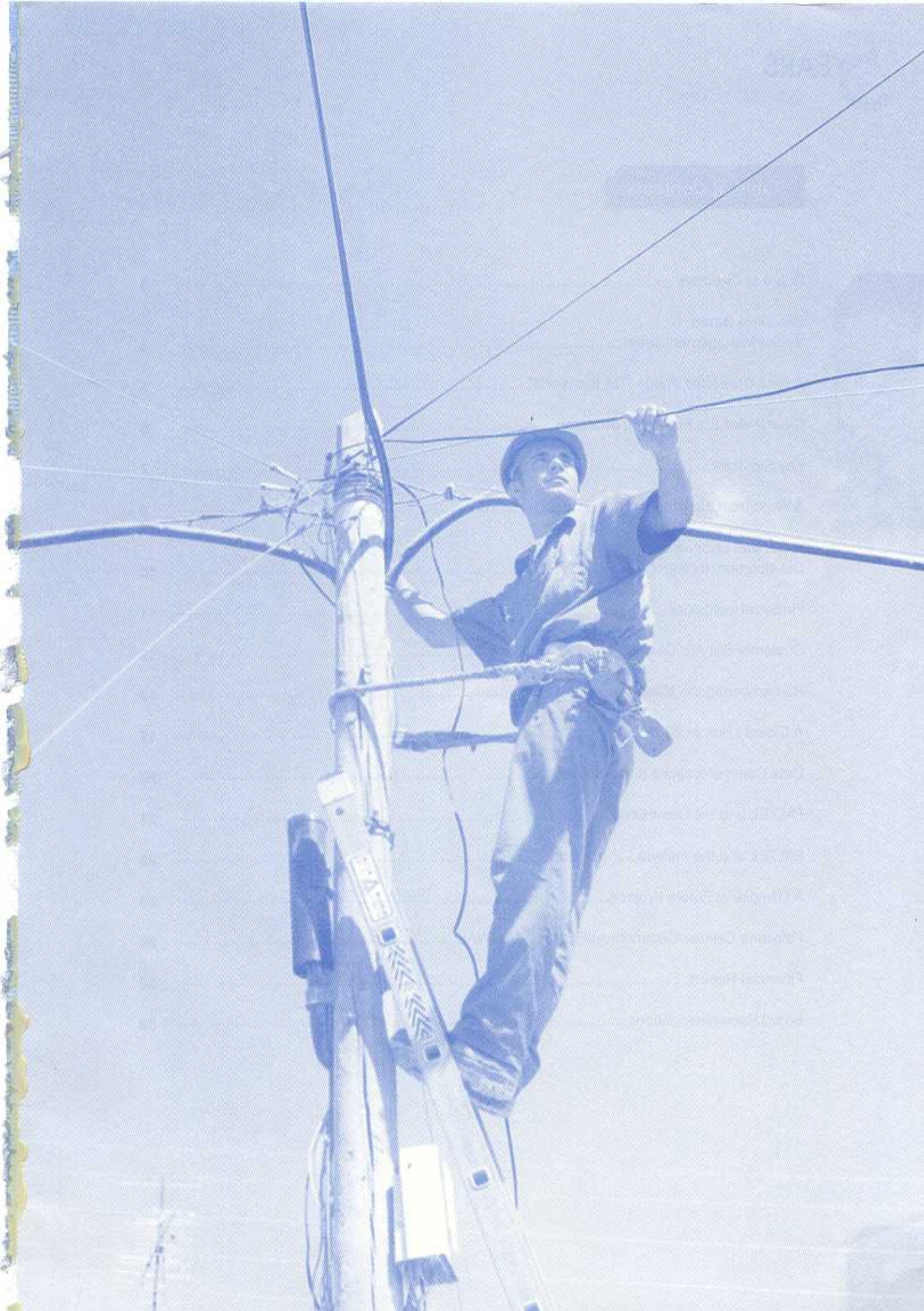


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Board of Directors



Sabih T. Masri
Chairman



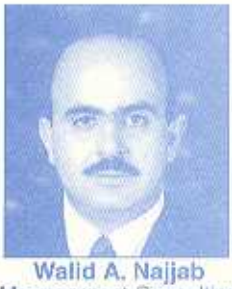
Mohammed B. Rachid
Vice Chairman
Palestine Commercial Services Co.



Zahi W. Khouri
Vice Chairman
Palestine Industrial Investment Co



Shukri A. Bishara
Vice Chairman
Arab Bank



Walid A. Najjab
Management Consulting Services



Mazen N. Abu Hamdan
Cairo Amman Bank



Ghiath M. Sukhtian
Palestine Real Estate Investment Co.



Hani A. Qadi
Palestine Investment Bank



Farouq A. Zuaiter
Palestine Development & Investment Ltd. (PADICO)



Salah Abdel Shafi
Palestine Development & Investment Ltd. (PADICO)



Leith M. Masri
USUR Investment Company



Executive Board

Zahi W. Khouri
Chairman

Walid A. Najjab
Vice Chairman

Mazen N. Abu Hamdan
Member

Senior Management Team

Mousab A. Khorma
Chief Executive Officer

Abdel Rahman A. Omar
Chief Technical Officer and Deputy CEO

Ahmad S. R. Aweidah
Chief Commercial Officer

Ibrahim L. Ghawi
Chief Financial Officer

Wassef M. Masri
Chief Information Officer

Auditors
Arthur Andersen

Legal Advisor
Haythem Zuibi

JAWWAL

Hakam M. Kanafani
Chief Executive Officer

A New Corporate Image "Tell the World"

Through PALTEL's state of the art services and deployment of latest technologies, Palestinian children are now able to "Tell the world" their dreams and aspirations of living in a peaceful and independent Palestine.





"MY NAME IS SAMIA,
I WANT TO TELL THE WORLD
THAT ALTHOUGH I'M FIRST IN
MY GEOGRAPHY CLASS,
I STILL CAN'T FIND PALESTINE ON THE MAP".



"MY NAME IS BILAL,
WHILE YOU'RE PLAYING STAR
WARS ON YOUR PLAYSTATION,
I'M PLAYING HIDE AND SEEK WITH THE SNIPER".



"MY NAME IS OMAR,
I WANT TO TELL THE WORLD THAT
AFTER THEY DESTROYED OUR HOME,
I KEEP ON DRAWING IT SO I WON'T
FORGET WHAT IT LOOKED LIKE".

Clear Vision & A Promising Strategy



Core Objectives
- Exceptional Customer Satisfaction
- Inspired and Dedicated Employees
- Shareholder Value

Our Vision
To maintain and continue to lead Palestine into the global world of communications by providing state of the art technology and superior services.

The Next Five Years, A Promising Strategy

When we wrote our mission and strategy statement, we focused on what is important. Our decision-making and our business dealings are based on keeping a balance between three core objectives: exceptional customer satisfaction, inspired and dedicated employees, and shareholder value.

Our growth strategy is two-fold: acquire new customers and take care of our existing customers through our "Focus on the Customer". In line with this strategy, PALTEL is currently in negotiations with vendors for the purchase of a new state-of-the-art customer care and billing system. PALTEL is setting the foundation for establishing "One Stop Shops" throughout Palestine to provide customers with all their communication needs at once and in one place. These steps necessitate considerable investments, yet they underscore the depth of our commitment to customer satisfaction and retention.

An inspired and dedicated employee is PALTEL's greatest asset. We, therefore, highly encourage teamwork and open communication with individual responsibility and authority to act. PALTEL ensures that its employees are provided the necessary training and education to allow them to develop and achieve their full potential.

As a public shareholding company, it is our responsibility to create and maintain shareholder value by achieving sound financial returns. Since its inception, PALTEL has focused on revenue generation by entering into new business activities and aggressively leveraging existing ones.



Key Services

Fixed Telephony Services

- Value Added Services

- *41 Redial A Busy Line
- *42 Calls Back the Last Incoming Call
- Call Forwarding
- Call Waiting
- Caller ID
- Conference Call
- Wake Up Call
- Abbreviated Dialing
- Hotline
- Voice Mail
- 144 Information Center

- Ahlan Prepaid Calling Cards

- 1800 Toll Free Service

- Public Payphones

- Direct Debit

Data Communications Services

- Integrated Services Digital Network (ISDN)
- Digital Leased Lines TDM
- Frame Relay
- Internet Connectivity - Offered to Palestinian Internet Service Providers

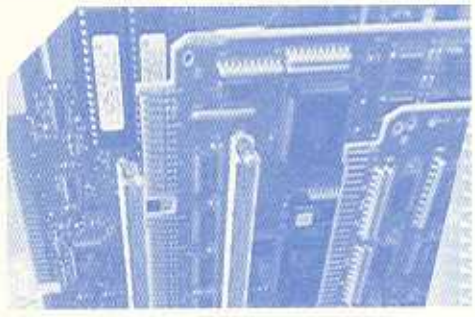
Mobile Telephony Services

Offered by our subsidiary Palestine Cellular Communications Ltd.- **JAWWAL**- "The First Palestinian Network"









A Word From the Chairman



Sabih T. Masri
Chairman

Dear Shareholders,

"Five Years and Still Talking"—this was the theme for the year 2001. Inspite of all the difficulties, we can proudly reflect upon the achievement of the Palestinian telecom sector over the last five years. PALTEL's timing to launch operations enabled it to offer Palestine the latest technology and placed it second to none in the Middle East. This position facilitated the rapid development of voice communications, data networking and the Internet.

However, as we all remember, our operations throughout 2001 were clouded by the prevailing political circumstances. Yet, our strong sense of determination has motivated the PALTEL family to forge ahead and continue with its commitment to serve the economy and the people of Palestine.

To draw for you a picture of the adverse circumstances, we recall the border closures, inter-city closures, and seizure of the territories and full restriction on movement making it almost impossible for the staff to make a simple journey to their place of work. Severe damages were caused to cables, switches and other equipment as a result of gunfire and Israeli shelling of Palestinian towns and villages. However, with the active support and dedication of our employees, PALTEL overcame many of the major barriers imposed by the ongoing political upheaval. This has enabled the company to continue providing our customers with services and maintain high levels of satisfaction.

We wish to assure our shareholders, colleagues, and friends both here and abroad that the commitment made to our homeland Palestine remains as strong as the first day the company was established despite all

present difficulties.
In this short period of the past five years, PALTEL has increased by four-fold the main telephone lines from 80,000 to almost 300,000 lines. The Palestinian National Authority represented by the Ministry of Post and Telecommunications, supported and enabled PALTEL to reach its milestones.

"Telecom for All" has been realized with service reaching 96% of the Palestinian population including the majority of towns, villages, and remote rural areas. Independence of the national telecom backbone from the Israeli counterpart is a reality. The (970) Palestine country code is now used by 116 operators worldwide. The Cellular Network JAWWAL, public payphones, ISO 9002 accreditation, and the continued development of a comprehensive data communications network are just a few of PALTEL's achievements.

This is only the beginning of a long path that lies ahead for PALTEL. In the coming years, PALTEL will expand beyond telephony services to lead Palestinian youth through the electronic highway of networking and exchanging of information, diminishing the scope of national boundaries and equipping them with the tools needed to function in the global e-world. To continue its mission, PALTEL maintains its commitment to invest more in Palestinian manpower by supporting more of its existing training programs and launching new ones to encompass all areas of its operations and activities.

As for community involvement, PALTEL is always at the forefront of sponsoring a wide range of social, cultural, and educational events as well as participating in exhibitions inside and outside Palestine.

Finally, special thanks are due to his Excellency the Minister of Post and Telecommunications and his Deputy for their cooperation and support. Gratitude is extended to the management and staff at PALTEL for their loyalty and dedicated work. We wish to also express our appreciation to our shareholders for their continued support and confidence.



Sabih T. Masri
Chairman of the Board

A General Overview



Palestine Telecommunications Company, plc (PALTEL) is a public shareholding company listed on the Palestine Securities Exchange. PALTEL was established in 1995 by a group of institutional and individual investors. It has an exclusive license granted by the Palestinian National Authority (PNA) to develop, operate, and service the telecommunications sector in Palestine. PALTEL launched operations on January 1, 1997. Its paid up capital is JD 45 million (Forty Five Million Jordanian Dinars) which was further increased to JD67.5 million upon the approval of the General Assembly in 1999.

This Annual Report provides a comprehensive overview of PALTEL's activities, achievements, and operations during the year 2001. The Auditor's Report, Balance Sheet, Income and Cash Flow statements for fiscal year ending December 31, 2001 are also included.

Development Indicators

	12/96	12/97	12/98	12/99	12/00	12/01
Exchanges	14	15	28	35	52	54
RSUs	4	34	41	57	79	88
Equipped Capacity	89,959	134,202	232,005	314,221	415,355	435,002
Served Localities	48	74	210	345	453	480
Subscribers	83,381	110,893	167,271	222,198	272,212	292,022
Waiting List	206,000	182,866	156,248	38,750	14,488	2,351
Penetration Rate (phone per 100 inhabitants)	3%	4%	6%	8%	9%	9%
Service Centers	9	10	18	21	22	23

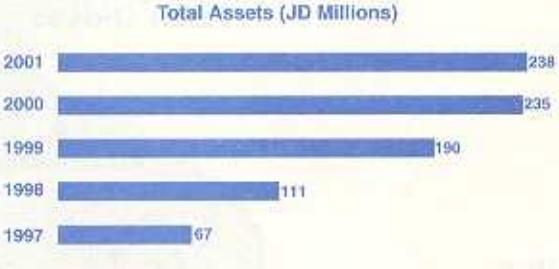
Financial Indicators













Customer Service Centers



"Five Years and Still Talking"

Since the commencement of its operations PALTEL established a number of customer service centers throughout the West Bank and Gaza for the convenience of our customers. In 1997, there were only 9 customer service centers. Today, we have 23 centers, with ongoing renovation activity that aims at serving our customers in the best way possible.



Remembering the Milestones of the Past









Achievement During the First 5 Years

1995 - 1996 Pre-Commencement

- PALTEL was incorporated with an authorized share capital of 45 million shares at a par value of JD 1.
- A licensing agreement was signed on November 15, 1996 with the PNA to construct, manage, and operate fixed and mobile telephony networks.

1997 - Where it All Began

- The company commenced operations on January 1st, 1997.
- Over 1500 employment opportunities were created.
- Construction and expansion of the telecom network infrastructure.
- A "Crash Program" was executed to immediately avail 91,410 direct exchange lines.
- Access network was expanded by 80,000 lines, paving the way for rapid expansion for the year 1998.
- A contract for the construction of a national transmission network was signed to cover all Palestinian districts through laying fiber optic cables covering a distance of approximately 400 kilometers.
- Commencement of Public Payphone project.

1998 - Telecom For All

- Telephony service and infrastructure were extended to the majority of rural areas.
- Implementation of a microwave link to interconnect the transmission backbones between the West Bank and Gaza.
- An agreement was signed with the PNA giving PALTEL the right to design, supply, install, and manage the mobile telephony project (JAWWAL) in Palestine, with a capacity to serve 120,000 customers in two phases.
- Switching network became fully digital.
- First PALTEL phone bill was issued in Arabic.
- In preparation for the establishment of the Palestinian Data Transmission Project, digital leased lines were deployed for inter-branch and private network communications.
- Operation of 144 Information Center.

1999 - Connecting Worlds

- Code (970) was reassigned as the country code for Palestine.
- The first Palestinian Cellular Network (JAWWAL) commenced operations.
- Commenced the technical preparation for the separation and independence of the national





networks from the Israeli counterpart.
- PALTEL became the first Middle East telecom company to gain ISO 9002 accreditation.
- The authorized share capital was increased by 50% to be 67.5 million shares at a par value of JD 1.

2000 - Way Beyond Telephony

- The Intelligent Network was introduced offering the latest Interactive Voice Response (IVR) services, Ahlan international pre paid cards, and the 1-800 Toll Free phone service.
- ISDN services were offered opening the doors for video conferencing services.
- The launching of the Multi Services Data Network, offering various services in the area of data transmission: Frame Relay and ATM & ADSL at a later stage.
- The Internet backbone connectivity project was completed offering Internet services to ISPs.
- www.alburaq.net, the first Arabic Internet Portal in Palestine, was launched offering the latest news, e-mail, chatting, and much more.
- Direct Debit service was introduced through banks.
- First Palestine telephone directory was published and E-telephone Directory was introduced



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A Closer Look at 2001 - "Tell the World"









During the year 2001 , PALTEL adopted the slogan "Tell the World" and continued to realize more achievements, in spite of the very difficult conditions imposed by the occupation.

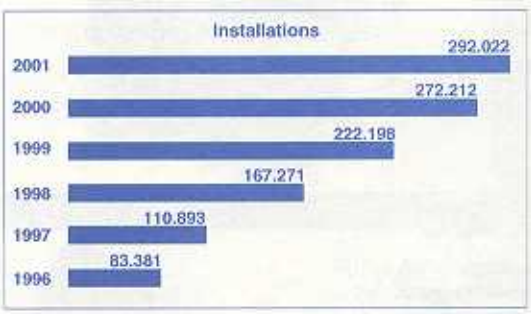
New Organization Structure

Upon the completion of the telecom infrastructure, PALTEL shifted from a technical oriented company to a customer driven company aiming at providing the most advanced services and ensuring the highest levels of customer satisfaction. This said, an ongoing process of organizational restructuring began in 2001 to meet the demands of the company's operations, strategies, and new drive.

The new organization structure also aims at enhancing performance and assisting PALTEL to stay abreast of the ongoing development of the world of telecommunications.

Installations

The number of new lines installed during 2001 was 19,810 amounting to a total of 292,022 subscribers.



Exchange, RSU's, and Equipped Capacity

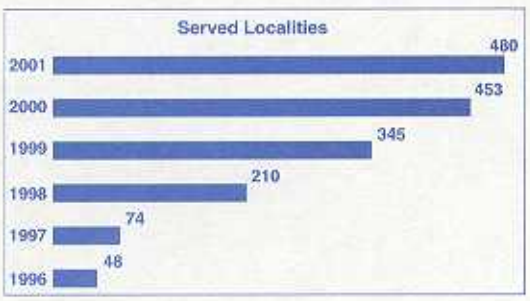
Two main switches and 9 RSU's were added in 2001 . With 54 main switches and 88 RSU's installed during the last five years, total equipped capacity in 2001 was 435,002 lines.

Access Network

A total of 34 projects were executed in 2001 for the purpose of expanding Outside Plant (OSP) capacity by 107,620 lines.

Served Localities

Connecting all rural areas to telephony services has been a top priority for PALTEL. During 2001, 27 localities were connected to telephony services. Currently, 480 villages have received the necessary network preparations and telephony services are now available to 96% of the Palestinian population.



Installation Period

The average installation period decreased in 2001 to 1.5 days in comparison with 2.2 days in 2000.

Success Call Rate

The success call rate in 2001 was an encouraging 82.1%.

Fault Repairing Period

The average fault repairing period in 2001 was reduced to 1.2 days after adopting a new 24 hour central system to monitor faults repair.

Palestinian Country Code (970)

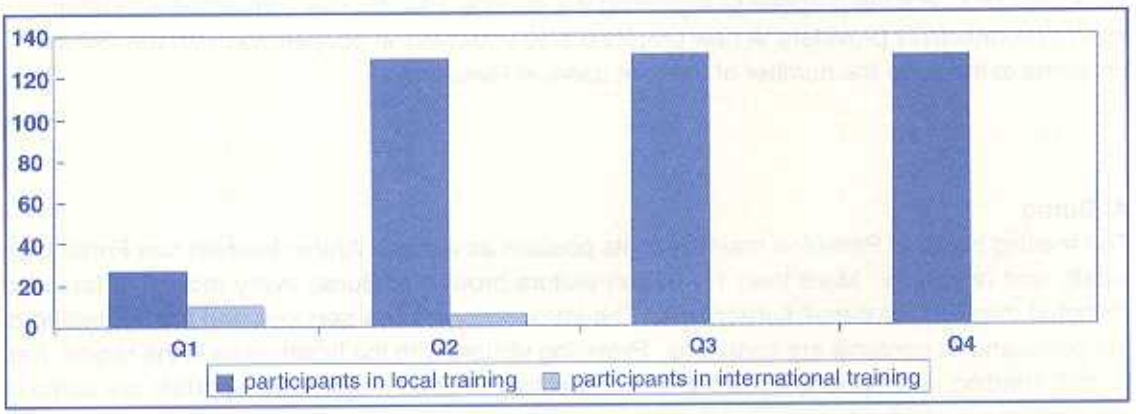
Currently 116 operators are utilizing the 970 Palestinian international dialing code , 17 are Arab and 99 international.

Training

Specialized training programs in the technical, financial, and administrative fields totaling 46 programs were undertaken during 2001 by 434 employees. The graph below portrays the number of employees who participated in local and international training courses throughout the year:





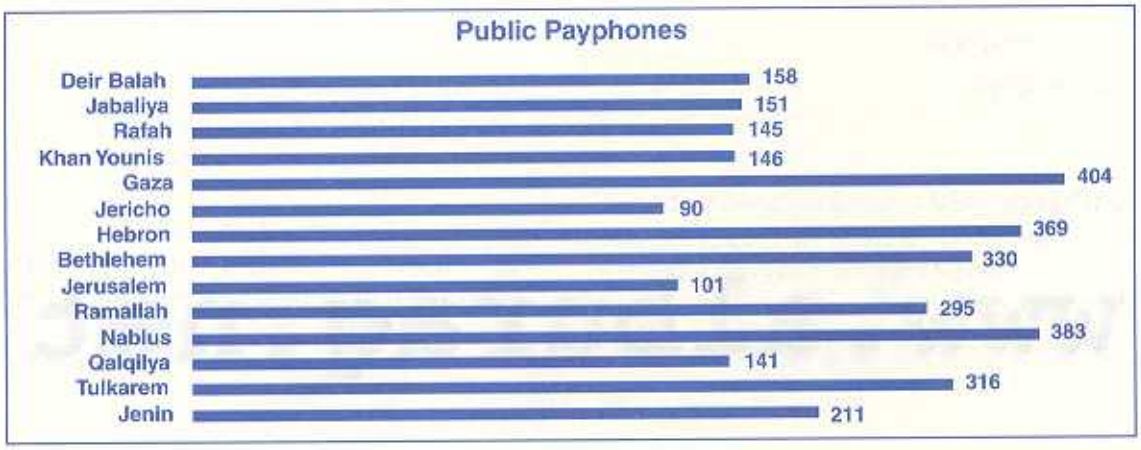


Direct Debit

The total number of customers subscribing to the Direct Debit service through banks is 1956, from which 943 joined the service during 2001.

Public Payphones

By the end 2001, the public payphone network was expanded to 3240 public payphones covering 70 localities.



Data Communications & the Internet



Multi-Services Data Network

Expansion of the Multi Services Data Network continued throughout the year including the deployment of Digital Leased Lines composed of Frame Relay and TDM technologies. In addition, new nodes were installed and distributed geographically throughout Palestine.
A total of 480 TDM lines have been installed of which 152 were installed in the year 2001 alone. A total of 268 Frame Relay lines are in operation, of which 225 were installed during the year 2001.

Internet Connectivity

During 2001, Internet backbone connectivity was provided to 143 various corporate customers including ISP's. For the purpose of improving the service, PALTEL has contracted with other Internet connectivity providers. A new project is also underway in cooperation with the ISP's in Palestine to increase the number of Internet users in Palestine.

Al Buraq

The leading portal in Palestine maintained its position as a major Arabic Internet has Portal both locally and regionally. More than 1.4 million visitors browse Al Buraq every month. It has also attracted over 15,000 e-mail subscribers. The introduction of new services and the upgrading of the portal and its contents are continuos. Providing visitors with the latest news in the region, free e-mail, chatting, e-telephone directory, and a directory to other major Arabic portals are some of the site's major services.

www.alburaq.net

PALTEL and the Community

Recognizing our status as a major company in Palestine, PALTEL is aware of the social and economic responsibility it has towards the Palestinian community.

"No Cuts No Deductions"

From a macro perspective, PALTEL is the leading employer in the local economy. Despite the political turmoil which continued throughout the year, forcing many companies to downsize their operations and staff, PALTEL continued its commitment to employing over 1700 people throughout the West Bank and Gaza. Employees were assured of job security and salaries were not cut . On average, PALTEL annually injects JD30 million in the form of salaries, payments to local contractors, donations, and the purchase of goods and services into the economy. Apart from offering employment opportunities, we foster an environment for skill development and performance enhancement through various training programs that cover all areas of management. In the past five years, PALTEL has spent over JD1.2 million on 333 training programs and 4511 trainees.

"Being There at the Right Time"

Attending your son's, daughter's, sister's, brother's or friend's graduation is an event not to be missed. Unfortunately due to the ongoing road closures between Palestinian towns, family and friends were unable to attend the Birzeit University graduation ceremony held in July 2001. As part of the company's social responsibility to respond to these needs, PALTEL arranged for live video conferencing coverage of the ceremony between Birzeit students and their friends and families in Gaza. Based on live testimonies, the event as covered, was truly remarkable and heartening.

PALTEL also enabled students from Al Najah National University to defend their Masters Thesis via video conferencing.

"Across Borders"

PALTEL is the first Palestinian local sponsor of the Across Borders Project managed by Birzeit University's Center for Continuing Education. This project has enabled refugees in Palestinian and Jordanian camps to contact their relatives via the Internet. PALTEL has committed to provide the necessary leased line support and physical installation to various refugee camps.







Paltel & The Intifada

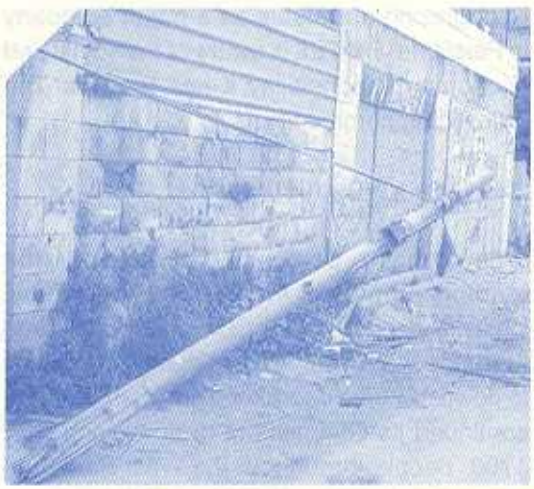


The Intifada & the effect of closurses on the company operations:-

The Intifada is a term representing the peoples' resistance against the prolonged Israeli occupation of Palestinian land. Since September 28, 2000, this region has faced grave instability. Repeated closures and takeovers of the PNA areas have lead to a sizable destruction of the Palestinian infrastructure. Not surprisingly, this has affected the development of the private sector and the overall economy.

Indeed, it has been a very difficult period for all Palestinians. Many businesses have reached paralysis as direct and indirect consequence of the continued and repressive measures imposed by the Israeli Government's policy towards the Palestinians. As all official and authoritative reports indicate, the standard of living of all Palestinians has declined to unprecedented levels with high unemployment and increased poverty.

As overall economic indicators declined, PALTEL has been equally affected.







A Glimpse at Future Projects

PALTEL's management has adopted during 2001 a plan to implement a number of projects and new services as follows:



New Projects

- A new Customer Care & Billing System
- Completion of the Multi Services Data Network with the introduction of DSL technology
- Renovation of all existing customer service centers
- Introduction of One Stop Shops
- Completion of organizational restructuring process
- Introduction of a Network Management Center
- Anti Fraud system
- Oracle Financial System
- Launching of a new look for the first Palestinian Arabic Internet portal www.alburaq.net. The site will enable investors to monitor live trading activity at the Palestinian Securities Exchange.

New Services

- Easy access Internet service for individuals and institutions.This project will be implemented in cooperation with the ISPs with the overall goal of increasing Internet usage in Palestine.
- Operator Assisted Calls 123 - includes national, **JAWWAL**, and international calls
- Palestine Call (Audiotext Services)
- Global 269 (International Toll Free access)
- Prepaid fixed telephony

I AM FIVE YEARS OLD AND I WANT TO TELL PALTEL THE FUTURE LIES AHEAD.



Five years have passed and PALTEL remains in touch with you as we grow together.

5 YEARS
AND STILL TALKING
الاتصالات الفلسطينية
PALTEL
tell the world.

www.paltel.net

Palestine Cellular Telecommunications Company, LTD.

جوال
JAWWAL

The First Palestinian Network







The First Palestinian Network

Jawwal- The First Palestinian Network



Our Mission
Exceeding customers' expectations in everything we do today, tomorrow and the day after.

Our Core Values
Our people take responsibility for their decisions - they are accountable.
Our people aspire to the highest levels of excellence - they are achievers.
Our people keep their promises to clients - they are credible.
Our people donate resources and time to the community - they are committed.
Our people work daily on enhancing shareholders' value, - they are loyal.

Stemming From these Core Values, JAWWAL Will
Hire, develop and retain great people.
Provide a meaningful and fun work environment.
Earn customer loyalty.
Embrace a corporate-culture based on information technology.
Maintain a nimble and entrepreneurial spirit.

A Commitment to Palestine

Investing in Palestine
JAWWAL, Palestine's first cellular phone company, was established in the summer of 1999 as a project of the Palestinian Telecommunications Company, PalTel. In December of that year, JAWWAL developed into a private corporation, which has since invested $122 million in the establishment of a cellular network that covers all of the West Bank and Gaza Strip.

Building Palestine's Infrastructure
JAWWAL is the first company to provide comprehensive cellular coverage of the Palestinian lands. A three-phase coverage plan will see a total of 300 towers erected in the West Bank and the Gaza Strip, providing JAWWAL with the capability to serve more than 320,000 customers. JAWWAL has now entered phase three and is preparing to increase the number of transmission stations in order to service a greater number of users and subscribers.

Enriching Palestinians
JAWWAL has attracted hundreds of employees and experts in the fields of engineering and cellular communication. The majority of our staff has received training courses on the latest international cellular communication systems and customer service both in Palestine and abroad. Today, JAWWAL depends exclusively on the skilled work of local Palestinian men and women.

Giving Back to Palestine
JAWWAL believes in giving back to the community, which is why we adopted the theme "Youth and Education" for the year 2001 - 2002. Among the many events sponsored by JAWWAL is a telethon to raise money for students. The company donated tuition expenses to 500 students, as well as school supplies. During the month of Ramadan, the company was full of activity as it prepared 'breakfast' for students living away from home, as well as patients afflicted with thalassemia, and often took water and dates to those at Israeli checkpoints who were unable to reach home in time to break their fast. We ended the Islamic holy month with an Eid El-Fitr luncheon providing video conferencing technology for students studying in Ramallah whose families live in the Gaza Strip and haven't been united since the start of the Intifada in late September of 2001. We are quick to sponsor any educational and cultural foundation or organization, among them the Qassaba Theatre in Ramallah and the Polytechnic University in Hebron. JAWWAL is also building a monument in memory of Palestinian children who lost their lives in the political turmoil forced on our region.

A Commitment to our Customers



'It's a Small World After All'
JAWWAL offers customers the ability to communicate with friends and family in more than 45 countries worldwide that operate the GSM system, which is used by 400 million subscribers in more than 200 countries.

High Quality for Quality Customers
JAWWAL provides clients with a seamless, high-quality connection. We guarantee local and international servicing, speedy communication and a secure system...all at competitive prices.

Technology is the Future, the Future is Today
JAWWAL understands the importance of providing Palestinians with innovative technology to meet their evolving needs. By signing a contract of cooperation with the Swedish company Ericsson, one of the largest network providers in the world, JAWWAL benefits from Ericsson's international widespread operation, its vast experience and the sophisticated technology embraced by the company. Well-established companies such as Alcatel, Ericsson, Motorola, Semiens and Nokia supply JAWWAL with the most modern handsets, while GEM, Oberthur Card Systems and Scientific Connections supply SIM and Scratch cards, contributing to JAWWAL's ability to provide customers with advanced services at competitive prices.

Customers Choose
JAWWAL offers customers the option of post paid or pre-paid cellular phone systems. People who are constantly on the move and rely heavily on cellular phones will find the post paid subscriber system more suitable to their needs, while those who want to limit cellular phone use, as well as expenses, will find the pre-paid card system appealing. Both systems offer a wide range of services, such as the ability to place local and international calls, text messages, voice mail, conference calling, caller ID, call forwarding and closed user groups, among others.

Customers Come First
JAWWAL received the "Best Improved Customer Care Center" and "Best Customer Care Manager" in North Africa, the Middle East and Southern Europe. The excellency awards were presented by Motorola for the year 2001.

Our Family
JAWWAL's growth is the outcome of competent managers and employees in each of the seven departments that shape the company. Skilled professionals in the Engineering, Human Resources, Customer Service, Strategic Development, Finance, Marketing, and Sales departments ensure that every building block of JAWWAL is rock solid, receiving the time, attention and expertise each requires.

A Vision For the Future
JAWWAL faces many challenges arising from the volatile socio-political environment. Israeli authorities are persistently attempting to hinder the growth of the company by confiscating equipment and creating obstacles to erecting new towers. This, along with the illegal operation of Israeli cellular companies in the Palestinian territories, may present temporary setbacks, but they will not deter JAWWAL from providing customers with the best possible service and technology available.

JAWWAL aspires to make mobile phones accessible to all Palestinians by increasing JAWWAL's shares in the Palestinian market, gradually reducing prices, improving service, expanding our network and signing international mobile treaties to ensure comprehensive international roaming services.

Financial Report 2001







PALESTINE TELECOMMUNICATIONS COMPANY P.L.C.
CONSOLIDATED FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2001 AND 2000
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Palestine Telecommunications Company P.L.C. (PALTEL) as of December 31, 2001 and 2000 and the related consolidated statements of profit and loss, consolidated changes in shareholders' equity and consolidated cash flows for the years then ended. These financial statements are the responsibility of PALTEL's management. Our responsibility is to express an opinion on these financial statements based on our audit, and the information and explanations that we obtained, which we considered necessary for our audit.

We conducted our audit in accordance with International Standards on Auditing. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Palestine Telecommunications Company P.L.C. as of December 31, 2001 and 2000 and the consolidated results of its operations, consolidated changes in shareholders' equity and consolidated cash flows for the years then ended in conformity with International Accounting Standards.

Arthur Andersen

Hilal Salah

Ramallah - Palestine
May 9, 2002

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2001 AND 2000
(Currency: Jordanian Dinar)

Assets	Notes	2001	2000
Current Assets			
Cash on hand and at banks	4	13,109,689	12,121,068
Accounts receivable, net	5	30,546,080	32,623,146
Inventory	6	2,082,969	1,045,612
Other current assets	7	6,350,233	7,522,003
Total Current Assets		52,088,971	53,311,829
Materials, net	8	7,077,551	9,937,606
Projects in progress	9	25,988,588	22,115,836
Property, plant and equipment, net	10	136,353,723	132,186,274
Licence and lines costs, net	11	16,570,167	17,710,050
Total Assets		238,079,000	235,261,595
Liabilities, Minority Interest and Shareholders' Equity			
Current Liabilities			
Due to banks	12	12,965,481	22,729,258
Notes payable	13	8,660,338	9,283,793
Accounts payable	14	47,296,180	44,798,065
Other current liabilities	15	7,764,305	10,624,768
Total Current Liabilities		76,686,304	87,435,884
Notes payable	13	15,316,372	16,422,831
Long term loans	16	39,803,682	32,452,309
Provision for employees' indemnity	17	3,306,666	2,654,554
Total Liabilities		135,113,024	138,965,578
Minority Interest	18	2,148,496	543,090
Shareholders' Equity			
Paid-in share capital	19	66,559,064	66,539,841
Statutory reserve	20	3,730,730	3,519,199
Voluntary reserve	20	3,730,730	3,519,199
Special reserve	20	6,449,555	4,049,555
Retained earnings		220,347,401	18,125,133
Total Shareholders' Equity		100,817,480	95,752,927
Total Liabilities, Minority Interest and Shareholders' Equity		238,079,000	235,261,595

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

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Currency: Jordanian Dinar)

	Notes	2001	2000
Operating revenues	21	73,283,452	69,247,505
Operating expenses	22	(47,972,111)	(44,341,693)
Income from operations		25,311,341	24,905,812
Licence fee	23	(5,925,488)	(5,800,743)
Provision for doubtful accounts	5	(7,939,042)	(7,385,996)
Bank interest, net	24	(4,095,677)	(6,828,435)
Foreign exchange (loss) gain		(981,198)	787,733
Other revenues (expenses), net	25	280,800	(182,230)
Net profit before minority interest		6,650,736	5,496,141
Minority interest in PALCEL (profit) loss	18	(1,605,406)	3,094,636
Net profit for the year		5,045,330	8,590,777
Weighted average of paid-in share capital		66,549,453	58,260,234
Earning per share		0.08	0.15

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Currency: Jordanian Dinar)

	Paid-in Share Capital	Reserves			Retained Earnings	Total Shareholders Equity
		Statutory	Voluntary	Special		
Balance at January 1, 2001	49,891,349	2,506,618	2,506,618	2,024,394	13,584,679	70,513,658
Share capital paid	16,648,492					16,648,492
Net profit for the year		1,012,581	1,012,581	2,025,161	4,540,454	8,590,777
Balance at December 31, 2000	66,539,841	3,519,199	3,519,199	4,049,555	18,125,133	95,752,927
Share capital paid	19,223					19,223
Net profit for the year		211,531	211,531	2,400,000	2,222,268	5,045,330
Balance at December 31, 2001	66,559,064	3,730,730	3,730,730	6,449,555	20,347,401	100,817,480

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000
(Currency: Jordanian Dinar)

	2001	2000
Cash flows from operating activities:		
Net profit for the year	6,650,736	5,496,141
Adjustments to reconcile net profit to net cash flows from operating activities		
Non cash items:		
Depreciation and amortization	16,646,695	14,211,940
Provision for doubtful accounts	7,939,042	5,576,237
Provision for obsolete and slow moving materials	1,400,345	289,081
Provision for obsolete fixed assets	249,977	-
Provision for employees' indemnity	652,112	1,018,120
Non-cash interest (income) expense	(493,964)	801,726
Change in working capital:		
Increase in accounts receivable	(5,861,976)	(19,598,992)
Increase in inventory	(1,037,357)	(941,260)
Decrease in other current assets	1,665,735	3,520,267
Increase in accounts payable	2,498,115	8,741,806
(Decrease) Increase in other current liabilities	(3,109,940)	4,757,844
Net cash flows from operating activities	27,199,020	23,783,633
Cash flows from investing activities:		
Increase in projects in progress, property, plant and equipment and materials	(23,817,218)	(31,987,838)
Net cash used in investing activities	(23,817,218)	(31,987,838)
Cash flows from financing activities:		
Paid in share capital	19,223	12,845,192
Dividends paid	-	(24,903)
Long term loans	7,351,373	5,131,853
Decrease in due to banks	(9,763,777)	(4,653,016)
Net cash flows (used in) from financing activities	(2,393,181)	13,299,126
Net increase in cash	988,621	5,184,198
Cash, beginning of year	12,121,068	6,936,870
Cash, end of year	13,109,689	12,121,068

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Currency: Jordanian Dinar)

1. Company and Activities

The Palestine Telecommunications Company P.L.C. (PALTEL), based in Nablus, was incorporated and registered at the Registrar of Companies in Palestine on August 2, 1995 under registration No. 563201029. PALTEL commenced operations on January 1, 1997. PALTEL operates under the Telecommunication Law No. (3) 1996 decreed by the Palestinian National Authority (PNA).

PALTEL's main activities are providing, managing, and selling wire and wireless telecommunication services, in addition to constructing and operating fixed and mobile telecommunication stations and telephone networks. PALTEL is carrying out its activities in accordance with the "Licence agreement to construct, manage, and operate the telephone and mobile telecommunications", signed with thePALTEL and the PNA.

During 2000 PALTEL established a separatecompany for the cellular phone services, the Palestine Cellular Communications Company Ltd. (PALCEL) was registered during August 2000 with an authorized share capital of 10 million shares with JD one par value each, later increased to 25 million shares owned by PALTEL and the Palestine Commercial Services Company (PCSC) own 65% and 35% of PALCEL share capital respictively.

The number of individuals employed by the Group as at December 31, 2001 and 2000 was 2,075 and 2,025, respectively.

PALTEL financial statements as at December 31, 2001, were approved by the board of directors on June 8, 2002.

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

On November 15, 1996, the PNA granted PALTEL the licence to use, invest, and operate all assets and equipment relating to the telecommunications network within the PNA territories (the Licence). Hence, a licence agreement to construct, manage, and operate the telephone and cellular telecommunications (the Agreement) was signed between the PNA and PALTEL. According to the Agreement's terms and conditions, PALTEL has the full right to construct, install, and operate the telephone and cellular 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 starting November 15, 1996, renewable.

The Agreement grants PALTEL the exclusive right to provide telecommunication services between all locations inside and outside Palestine for a 10 years period for the fixed telephone service and for a period of 5 years or sooner when the number of subscribers reaches 120,000 for the cellular phone services. PALTEL paid a one time U.S. $ 30 million for acquiring the telecommunication lines from the PNA and for the right to be the exclusive licencee in PNA territories. In addition, according to the Agreement PALTEL and PALCEL should pay the PNA as an annual licence fee of 7% of the annual operating revenues.

As a result of PALCEL separation from PALTEL, the PNA become entitled to an additional licence and concession cost of U.S. $ 4,000,000 (JD 2,836,000) .

3. Significant Accounting Policies

- Basis of Presentation

The financial statements are prepared in conformity with the International Accounting Standards.

- Consolidated Financial Statements

The consolidated financial statements include the assets, liabilities and results of operations of PALTEL and PALCEL.

The accompanying financial statements were consolidated on a line by line basis after eliminating all intercompany transactions and balances.

- Revenues Recognition

Revenues net of Value Added Tax (VAT) are recognized based on the accrual basis of accounting.

- Revenues from telecommunication services are recognized during the period in which such services are rendered.
- Revenues from prepaid cellular phone and payphone cards are recorded as deferred revenue and are recognized based on the units used.
- Revenues from cellular phone and related devices sales are recognized upon issue of invoice and transfer of ownership to customers.

- Expenses Recognition

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

- Materials and Inventory

Materials and inventory are stated at cost using the weighted average method. Materials are primarily used in projects for constructing, expanding and repairing telecommunications network.

- Projects in Progress

Projects in progress comprise of costs incurred to construct and expand the telecommunications network and other projects as of the financial statements date. The costs include direct labour, direct materials, switches, overheads and contractors costs. Upon completion, projects in progress are transferred to property, plant and equipment.

- Property, Plant and Equipment

Property, plant and equipment are stated at cost which comprises of purchase or construction cost and all direct expenses incurred to prepare the assets for its intended use. Property, plant and equipment are depreciated over their estimated useful lives using the straight line method.

Annual depreciation rates are as follow:

	Depreciation rate %
Buildings	5-10
Telecommunication exchanges	10
External telecommunication network	6.5
Cellular phone network	10-20
Payphones	15
Motor vehicles	15-20
Heavy duty equipment	15
Office equipment	20-15
Office furniture	15
Computer hardware and software	25-15
Leasehold improvements	10
Small tools and equipment	10-25

- Licence and Lines Costs

Licence and lines costs are amortized over 20 years using the straight line method.

- Earning Per Share

Earning per share is computed based on the weighted average of paid-in share capital during the year.

- Foreign Currencies

PALTEL and PALCEL reporting currency is the Jordanian Dinar. Transactions denominated in other currencies, occurring during the year, are translated to Jordanian Dinar using the prevailing exchange rates at the date of each transaction. Monetary assets and liabilities, which are denominated in foreign currencies are translated into Jordanian Dinar using the prevailing exchange rates at the balance sheet date. Gain or loss arising from exchange differences are reflected in the statement of profit and loss.

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

	JD	
	2001	2000
One New Israeli Shekel (NIS)	0.161	0.175
One United States Dollar (USD)	0.71	0.71

4. Cash on Hand and at Banks

	2001	2000
Cash on hand	90,359	62,963
Cash at banks in JD	523,183	482,151
Cash and deposit at banks in NIS	5,655,178	3,767,944
Cash and deposits at banks in USD	6,840,856	7,723,945
Cash at bank in other currencies	113	84,065
	13,109,689	12,121,068

Cash at banks includes short-term deposits dive in one month.

Short-term deposits at banks as at December 31, 2001 include restricted cash of JD 6,594,177 as a guarantee against certain credit facilities (Note 16).

5. Accounts Receivable, net

Accounts receivable comprise of the following -

	2001	2000
Fixed lines subscribers receivables	15,040,297	15,667,354
Mobile phone subscribers	10,056,705	8,635,273
Palestine National Authority receivable	9,026,476	6,838,602
Accrued revenues *	11,276,785	10,470,485
Telecommunication companies receivables	623,304	1,712,606
New installations receivables	123,062	661,175
Leased lines receivables	573,192	219,315
	46,719,821	44,204,810
Provision for doubtful accounts**	(16,173,741)	(11,581,664)
Accounts receivable, net	30,546,080	32,623,146

* Accrued revenues represent invoices issued in January, 2000 and 2001 covering services provided in the last months of 1999 and 2000 respectively.

** Accounts receivable are stated net of provision for doubtful accounts. The provision is computed based on certain percentage of total telephone and cellular lines revenue after excluding revenue recognized from PNA's ministries and institutions as management believes that the respective receivables will be collected in full.

Following is a summary of the movements on the provision for doubtful accounts during the year:

	2001	2000
Balance, beginning of year	11,581,664	6,005,427
Additions	7,936,042	7,385,996
Translation difference from NIS to JD	(1,154,055)	172,077
Written-off during the year *	(2,192,910)	(1,981,836)
Balance, end of year	16,173,741	11,581,664

* Accounts receivable related to services provided in 1998 and 1997 that have not been paid by December 31, 2001 and 2000 were written-off except for accounts receivable from the PNA ministries and institutions.Paltel management is still following up on the collection of these accounts receivable.

6. Inventory

	2001	2000
Cellular phone sets	1,636,891	565,559
SIM cards and prepaid cards	260,189	404,632
Inventory in transit	185,889	75,421
	2,082,969	1,045,612

7. Other Current Assets

	2001	2000
VAT receivables *	318,888	2,440,770
Customs and purchase tax * *	2,493,352	1,477,668
Prepaid interests	73,001	440,149
Advance payments	1,874,766	1,730,800
Due from PCSC * **	495,693	-
Cash margins	338,017	544,352
Prepaid expenses	470,395	435,298
Insurance claims	46,180	191,473
Investment in affiliated company under establishment	87,500	87,500
Sundry	152,441	173,993
	6,350,233	7,522,003

* According to the VAT law in Palestine, a VAT of 17% is levied on the companies revenues and on local and foreign purchases and services. The companies have the right either to refund VAT paid on purchases and services or to net it off against VAT collected on revenues.

** This item represents the amount of customs and purchase tax PALTEL entitled to refundable in accordance with the Palestinian Law for Encouragement of Investment and the licence agreement. (Note 30).

*** The balance represents interest due from PCSC on the unpaid amount of its investment in PALCEL share capital.

8. Materials, net

Materials mainly comprise of materials to be used in constructing and expanding the telecommunications network. Following is a summary of materials in stores, classified according to usage:

	2001	2000
External network materials	6,443,455	7,237,329
Installation materials	1,500,754	1,743,379
Payphone equipment	537,633	857,996
Electricity and air conditioning materials	299,857	172,493
Kits and tools	256,988	355,764
Disposables and other materials	156,501	205,136
	9,195,188	10,572,097
Provision for obsolete and slow moving materials	(2,117,637)	(634,491)
	7,077,551	9,937,606

9. Projects in Progress

Projects in progress represent the cost of the following incomplete projects as at the financial statements date.

	2001	2000
Telecommunication exchanges	14,982,022	10,350,083
Cellular phone network project	3,806,119	3,810,707
Letters of credit advances and expenses	3,504,300	5,151,305
Fipper Optic project	1,213,557	1,327,624
Payphones project	257,670	105,222
Buildings in progress	1,135,099	290,392
Data transmission project	176,993	594,716
Billing and financial system projects	103,408	-
Anti-fraud system	-	330,635
Traffic management system	647,816	-
Sundry	161,604	155,152
	25,988,588	22,115,836

10. Property, Plant and Equipment

	Balance, beginning of year	Additions/ Charge	Disposals	Balance, end of year
Cost:				
Land	2,199,427	239,409	-	2,438,836
Buildings	7,954,226	127,256	-	8,081,482
Telecommunication exchanges	48,998,617	587,038	103,108	49,482,547
External telecommunication network	56,194,830	3,553,059	-	59,747,889
Cellular phone network	20,981,722	12,936,452	-	33,918,174
Payphones	3,400,199	141,170	-	3,541,369
Motor vehicles	1,437,573	16,318	-	1,453,891
Heavy duty equipment	855,886	103,168	-	959,054
Office equipment	1,668,544	537,746	110,943	2,095,347
Office furniture	2,782,582	339,383	-	3,121,965
Computer hardware and software	5,468,782	688,855	20,499	6,137,138
Leasehold improvements	1,005,523	20,494	29,129	996,888
Small tools and equipment	1,189,667	586,259	-	1,775,926
	154,137,578	19,876,607	263,679	173,750,506
Accumulated depreciation:				
Buildings	730,778	705,130	-	1,435,908
Telecommunication exchanges	7,795,771	4,914,241	12,910	12,697,102
External telecommunication network	5,368,975	3,697,801	-	9,066,776
Cellular phone network	2,654,354	2,588,192	-	5,242,546
Motor vehicles	815,033	528,089	-	1,343,122
Payphones	687,953	249,966	-	937,919
Heavy duty equipment	196,560	134,680	-	331,240
Office equipment	567,216	367,294	34,540	899,970
Office furniture	591,635	436,362	-	1,027,997
Computer hardware and software	2,019,304	1,483,396	8,362	3,494,338
Leasehold improvements	173,825	97,721	5,521	266,025
Small tools and equipment	349,900	303,940	-	653,840
	21,951,304	15,506,812	61,333	37,396,783
Net book value	132,186,274			136,353,723

The direct damage to PALTEL and PALCEL property, plant and equipment resulting from the Israeli Army occupation of the PNA territories during March, April and May 2002 was preliminiary estimated at JD 1.5 million. As of the financial statements date, management still survey the other incurred loss.

11. Licence and Lines Cost, net

This item represents the cost incurred to transfer the telecommunication lines ownership within the PNA territories to PALTEL and for the right to be the exclusive licencee in the PNA territories for which PALTEL paid U.S. $ 30 million (JD 21.3 million), according to the Agreement with the

PNA. In addition, as a result of PALCEL separation from PALTEL an additional licence of U.S. $ 4,000,000 (JD 2,836,000) became due to the PNA on the establishment of PALCEL as a separate entity.

The movement on the licence and lines cost during the year were:

	2001	2000
Balance, beginning of year, net	17,710,050	16,153,214
Cost of licence and concession and lines paid during the year PALCEL licence	-	2,836,000
Amortization for the year	(1,139,883)	(1,279,164)
Balance, end of year, net	16,570,167	17,710,050

The cost of the licence and concession and lines cost if amortized using the straight line method over 20 years starting 1997.

12. Due to Banks

	2001	2000
Current maturity of long term loans	12,224,499	11,641,230
Bank overdraft in USD	740,008	10,986,923
Bank overdraft in other currencies	974	101,105
	12,965,481	22,729,258

13. Notes Payable

Notes payable represent deferred payments due to suppliers for materials and exchanges supplied against banks letters of credit.

	2001	2000
Long term notes payable	23,976,710	25,706,624
Current maturity of long term notes payable	(8,660,338)	(9,283,793)
	15,316,372	16,422,831

The total maturity period of the long term notes payable are as follows.

Mature in 2002	8,660,338
2003	8,959,113
2004	3,850,471
2005	2,506,788
	23,976,710

14. Accounts Payable

	2001	2000
Telecommunication companies	14,786,368	10,657,365
Suppliers	14,855,669	20,848,471
Due to PNA	13,027,368	8,976,008
Contractors	121,979	845,976
Consultants	-	45,578
Unearned revenues *	3,790,173	1,426,597
Subscribers monetary guarantees	554,910	692,785
Due to employees	159,713	1,305,285
	47,296,180	44,798,065

* Unearned revenues represent prepaid cellular phone, international and payphone calling cards, which will be recognized based on the units used.

15. Other Current Liabilities

Other current liabilities comprise of the following -

	2001	2000
Employees' savings fund *	3,302,684	2,606,004
Provision for employees' vacations **	581,332	634,937
Accrued expenses	2,054,262	3,174,200
Sundry provisions	950,552	2,978,265
Accrued interest	817,901	1,130,626
Sundry	57,574	100,736
	7,764,305	10,624,768

* PALTEL has established a saving fund for its employees, "the Palestine Telecommunications Company P.L.C. Employees' Savings Fund". A saving fund policies and procedures were designed in accordance with PALTEL's bylaws. A committee is charged with managing the fund and maintaining separate books.

The contribution to the saving fund by PALTEL and its employees is stated at 6% and 12% of the basic monthly salary, respectively. Contribution of PALCEL and its employees varies based on the employment period from 4%-12% for PALCEL contribution and from 2%-8% for the employee contribution.

During 2001 and 2000, PALTEL recorded an interest of JD 211,775 and JD 255,318 respectively on the balance due to the employees' savings fund. The interest rate ranged from 6.5% to 9%.

** Provision for employees' vacations is computed based on the accrued vacation for each employee at year end.

16. Long Term Loan

PALTEL signed loans agreements with several local and foreign banks for the purpose of financing its projects. The loans are subject to annual interest of approximately LIBOR plus 1% to 2%.

In accordance with certain loan agreement, PALTEL maintains deposit accounts of JD 6,594,177 as a security as at December 31, 2001.

	2001	2000
Loans from local banks	29,952,458	35,114,372
Loans from foreign banks	12,075,723	8,979,167
	52,028,181	44,093,539
Current maturity of long term loans	(12,224,499)	(11,641,230)
	39,803,682	32,452,309

Loans maturity are as follows.

		2001
Mature in	2002	12,224,499
	2003	8,660,653
	2004	8,622,771
	2005	8,011,915
	2006	8,011,915
Mature after	2006	6,496,428
		52,028,181

Total interest due on long-term loans during 2002 amounted to JD 5,268,970.

17. Provision for Employees' Indemnity

Provision for employees' (end of service benefit) is calculated in accordance with the labour laws prevailing in Palestine, and PALTEL's regulations based on one month indemnity for each year of employment. PALTEL does not maintain a separate bank account for the provision.

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

	2001	2000
Balance, beginning of year	2,654,554	1,636,434
Additions during year	1,107,069	1,178,984
Payments during year	(454,957)	(160,864)
Balance, end of year	3,306,666	2,654,554

18. Minority Interest

This item represents PALCEL shareholders' net equity excluding PALTEL.

	2001	2000
Balance, beginning of the year	543,090	-
Minority payment of PALCEL share capital	-	3,637,726
Minority interest in PALCEL net income (loss)	1,605,406	(3,094,636)
Balance, end of the year	2,148,496	543,090

19. Paid-in Share Capital

PALTEL authorized share capital is 67.5 million shares of 1 JD par value each.

Movement on paid-in share capital follows -

	2001	2000
Authorized and issued share capital	67,500,000	67,500,000
Unpaid share capital	(940,936)	(960,159)
Paid-in share capital	66,559,064	66,539,841

20. Reserves

- Statutory Reserve — In accordance with the articles of association and the companies law, 10% of the annual profit before tax should be appropriated into a statutory reserve account until the reserve balance equals one quarter of the share capital. The statutory reserve should not be distributed to shareholders.

Reserves are computed based on PALTEL net income before consolidation and excluding its share in PALCEL net income or loss. The statutory reserve of 10% applied on net revenues after absorbing the accumulated loss.

The statutory reserve for 2001 and 2000 is computed as follows -

	2001	2000
Consolidated net income	5,045,330	8,590,777
Equity in PALCEL (income) loss	(2,981,470)	3,009,282
Eliminations	51,449	-
Minority interest in PALCEL 1999 losses	-	(1,474,254)
Net income before consolidation	2,115,309	10,125,805
Mandatory reserve 10%	211,531	1,012,581
Mandatory reserve beginning of year	3519,199	2,506,618
Mandatory reserve end of year	3,730,730	3,519,199

- Voluntary Reserve — In accordance with the articles of association and companies law, the 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 share capital. The appropriation to the voluntary reserve for 2001 and previous years was 10% each.

- Special Reserve - PALTEL maintains a special reserve for future needs based on the board of directors' recommendations. As at December 31, 2001 and 2000, JD 2,400,000 and 2,025,161, respectively was appropriated as special reserve.

During the first five months of 2002, PALTEL incurred losses which resulted from the Israeli Army occupation of the PNA territories. The direct damage to PALTEL and PALCEL property, plant and equipment was preliminary estimated at JD 1.5 million.

In addition, as a result of the damages to the local and international telecommunications network in certain areas and the destruction of most economic sectors during the occupation period, PALTEL operating revenues decreased by approximately JD 3 million during the first five months of 2002. Further, as a result of the decrease in the New Israeli Shekel exchange rate against the Jordanian Dinar by 20%, PALTEL and PALCEL incurred a foreign exchange losses of JD 3.7 million.

21. Operating Revenues

	2001	2000
Local, domestic, and international calls	67,198,954	64,821,402
Subscription fees	15,529,339	17,314,208
Interconnection	10,509,486	9,786,672
Leased lines	1,708,475	1,108,367
New installation fees	3,260,182	5,304,171
Sales of mobile sets	1,329,590	190,829
Sundry	918,625	10,311
	100,454,651	98,535,960
Telecommunication services costs *	(27,171,199)	(29,288,455)
	73,283,452	69,247,505

* Comprise mainly of interconnection cost and international roaming due to other telecommunication companies.

22. Operating Expenses

	2001	2000
Payroll and related expenses *	12,731,971	11,940,426
End of service benefits	1,107,069	1,178,984
Employees savings fund	1,154,909	1,121,178
Employees vacations	48,174	118,919
Employees training	90,295	168,822
Depreciation	15,506,812	12,932,776
Amortization of licence, concessions and lines cost	1,139,883	1,279,164
Cost of mobile sets	4,252,021	2,774,873
Maintenance and installation of new lines	1,365,768	2,029,833
Professional and consultancy fees	1,121,404	1,405,216
Telephone, fax, and mobile	917,127	1,149,740
Cars rental	1,187,305	1,141,097
Advertising	957,302	1,069,815
Utilities	1,396,824	1,158,483
Rent	792,265	879,841
Travel, accommodation, transportation and fuel	664,802	932,005
Stationery and printings	282,566	843,813
Provision for slow moving materials	1,400,345	457,044
Provision for obsolete fixed assets	249,477	-
Postage	320,999	443,008
Employees and assets insurance	362,265	308,250
Board of directors expenses	45,709	272,132
Miscellaneous	876,819	736,274
	47,972,111	44,341,693

* PALTEL capitalizes direct labour cost incurred on external telecommunication network and buildings projects. During 2001 and 2000, salaries of JD 1,194,075 and JD 1,890,614 respectively, were capitalized.

23. Licence Fee

This item represents the licence fee payable annually to PNA at 7% of annual operating revenues.

24. Bank Interest, net

Interest expense is reported net of interest income.

	2001	2000
Interest expense and commissions	4,478,734	7,260,223
Interest income	(383,057)	(431,788)
	4,095,677	6,828,435

The fall in LIBOR in international markets resulted in a lower interest expense in 2001.

25. Other (Expenses) Revenues, Net

Other (expenses) revenues are presented net of other revenue (expenses) as follows -

	2001	2000
Other revenues	498,715	52,734
Other expenses	(217,915)	(234,964)
	280,800	(182,230)

26. Taxes and Customs

– According to the Ministry of Trade and Economy letter No. MOF 300/11, dated July 25, 1998, PALTEL was granted the right to benefit from the Palestinian Law for Encouragement of Investment for five years ending on December 31, 2001.

– According to the licence agreement between PALTEL and PNA to construct, manage and operate the telephone and mobile telecommunications, PALTEL was granted an exemption from customs on tools and telecommunications equipment required for the telecommunication infrastructure for a five year period ended December 31, 2001. Further, PALTEL should be benefit from the exemptions stated in the Palestinian Law for the Encouragement of Investment.

27. Contractual Commitments

As of the financial statements date, PALTEL and PALCEL has an 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 by as of the financial statements date.

Following is a summary of the outstanding commitments.

	2001	2000
Purchase orders and letters of credit	12,967,315	12,755,926
Construction contracts	3,326,359	2,249,689
	16,293,674	15,005,615

In additions, PALCEL has a bank guarantee of JD 2,620,136 issued for the benefit of a certain telecommunication company.

28. Segment Reporting

The following are separate selected financial information for the fixed line and the cellular phones.

	Fixed Line	Cellular Phone	Eliminations	Consolidated
Total current assets	40,876,269	13,072,694	1,859,992	52,088,971
Property, plant and equipment, net	103,186,238	33,167,485	-	136,353,723
Total current liabilities	60,061,023	18,454,817	1,829,536	76,686,304
Total long term liabilities	43,076,587	20,626,032	5,275,899	58,426,720
Operating revenues	52,604,294	20,787,837	108,680	73,283,452
Operating expenses	34,914,906	13,088,297	31,092	47,572,111
Depreciation expenses	12,425,150	3,081,662	-	15,506,812
Interest expenses	4,219,238	(97,425)	26,136	4,095,677
Net profit	2,115,309	4,586,878	1,656,857	5,045,330

29. Concentration of Risk in Geographic Area

PALCEL is carrying out all of its activities in Palestine. The political and economical destabilisation in the area increase the risk of carrying out business and could adversely affect PALTEL's performance.

30. Interest Rate Risk

The follows are PALTEL's financial assets and liabilities that are subject to the risk of changes in interest rates.

	2001	2000
Deposits at banks in U.S. $	5,843,594	5,839,716
Deposit at banks in NIS	2,419,459	1,155,487
Long term loan in U.S. $	52,028,182	44,093,539
Notes payable in U.S. $	23,976,711	25,706,624
Overdraft in U.S. $	806,218	1,143,674

31. Foreign Currency Risk

PALTEL maintains its accounts receivable records in New Israeli Shekels (NIS), while most of its liabilities are paid in other currencies. The instability of the currency exchange rates of the NIS and the Jordanian Dinar increases risk to incur losses.

32. 2000 Financial Statements

Certain balances as of December 31, 2000 have been reclassified to conform with December 31, 2001 financial statement presentation. The reclassifications included the following -

* An amount of JD 89,277 is reclassified in the balance sheet and the statement of cash flows from paid-in share capital to other current liabilities which represents duplicate payments from shareholders.
* The earning per share is computed based on the weighted average of paid in share capital instead of the subscribed share capital.

Board Recommendations

1.Discuss and approve the Board of Director's report for the year 2001.
2.Review the Auditor's Report for the year 2001.
3.Discuss the Balance Sheet and Financial Statements of the Company for the year 2001.
4.Discharge the liability of the Board of Directors for the fiscal year 2001 and authorize the Board to calculate their remuneration.
5.Select the external auditors for the fiscal year ahead.
6.Board of Directors' recommendations regarding revenue distribution.