صندوق الاستثمار الفلسطيني
PALESTINE INVESTMENT FUND

ANNUAL REPORT

”

Palestine Investment Fund invests in our nation-building program, with passion and success.

I applaud PIF’s contribution to the growth of a strong and sustainable national economy - from its ambitious energy strategy to its investment in entrepreneurial innovation.

PIF manifests its dedication to our people by promoting economic resilience in Jerusalem, the Jordan Valley, Palestinian refugee camps in Lebanon, and future entrepreneurs.

I commend PIF for modeling the essentials of good governance. Since 2006, its commitment to accountability and transparency has truly made PIF an asset to our nation.

I thank the leadership and employees of PIF for their dedication and integrity in managing the flagship financial institution of our nation.

“

Mahmoud Abbas

President of Palestine

ABOUT PALESTINE INVESTMENT FUND

Palestine Investment Fund (PIF) was established in 2003 as an independent investment company in order to strengthen the local economy through strategic investments.

PIF is the leading institutional investor in Palestine and is fully owned by the Palestinian people. PIF is professionally managed, based on the principles of transparency, accountability, and good governance.

PIF promotes sustainable economic growth and private sector development in Palestine by originating and investing in economically feasible, socially responsible, and developmentally sound strategic projects in vital and viable economic sectors in Palestine.

In the past few years, PIF has built a robust investment portfolio that is concentrated in Palestine but spans multiple strategic economic sectors and asset classes.

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CHAIRMAN OF THE BOARD'S MESSAGE

On behalf of the Board of Directors, it is my pleasure to present you with Palestine Investment Fund's 2014 annual report.

Over the past year, Palestine Investment Fund (PIF) continued to help grow and conserve the assets it invests for the Palestinian people. In 2014, PIF transformed key investment sectors by restructuring for growth, sustainability, and profit, renewed national plans to exploit vast energy reserves, invested in the economic potential of Palestinian entrepreneurs, and expanded its service to the Palestinian people.

2014 was a year of national loss. The widespread destruction and massive loss of life caused by the Israeli assault on Gaza are a grim reminder of the restrictions and volatility that impact the Palestinian people and the national economic growth. The ongoing political situation - and declining donor support for Palestine - cast a deep shadow on the economic situation.

Dr. Mohammad Mustafa
Chairman

Investing in the Future of Palestine

The social and economic reverberations of 2014 demonstrate the importance of PIF's long-term development agenda. PIF aligns its diverse portfolio, with its stable returns, to the Government of Palestine's ambitious nation-building plans. Its investments are focused on long-term value creation through catalyzing and fueling national economic growth, led by Palestinian businesses and for Palestinian citizens.

"The Government of Palestine has received around $906 million in dividends, taxes, and license fees through PIF's investments since 2003."

Against the backdrop of serious economic challenges, PIF's assets reached $795 million while its equity was $697.8 million.[1] In 2014, PIF achieved $44 million in profit before taxes, which exceeds the estimated budget by $10.3 million. With $36.7 million in net income for 2014, PIF had achieved $907.8 million in cummulative net income over the past decade (since 2003).

Developing National Resources

PIF invests in Palestine with a clear development agenda: to help build a strong and independent economy. Similar to previous years, this agenda drove PIF's investment actions in 2014.

PIF brought closer the reality of local fuel production that will end Palestinian dependence on energy imports, by expanding its stake in the Gaza Marine gas field, expediting the development of the Rantis Oil Field, and initiating two new power plants in the West Bank: in Jenin through the Palestine Power Generation Company (PPGC) and in Hebron through the South Power Plant. PIF also focused its resources on fostering growth in renewable energy start-ups, which have the potential to generate 50% of Palestine's electricity needs by 2030.

[1] All values in this report are in US dollars.

Land is another intrinsically precious Palestinian asset, with territorial development a national mandate. In 2014, Amaar Real Estate Group made a critical shift in its land development approach, towards horizontal development of large land tracts. This leverages Amaar's significant land and financial resources to increase market access to buildable land.

Amaar's move towards horizontal development has taken its capacity to unlock the economic potential of land to a higher level, enabling it to lead the national real estate sector towards greater development potential. It also reduces Amaar's focus on vertical development of real estate projects and allows the private sector to expand its role in this sector.

“Amaar's new horizontal approach will stimulate the construction and engineering sector and continue to enable affordable housing for Palestinian citizens.”

PIF believes in the potential of the Palestinian people and their ability to fuel the national economy, which is why the Sharakat Investment Fund, with its focus on micro, small, and medium-sized enterprises (MSME), is such a dynamic and promising component of PIF's portfolio. Sharakat has closed nine deals in the past two years, including two deals closed in 2014 in micro-finance and – for the first time – health services. Sharakat will continue to add value to its portfolio companies in order to realize shareholder profit and stimulate the MSME sector, which makes up 85% of private sector employment and more than 55% of national GDP.

PIF also worked to support Palestinian MSMEs without access to traditional financing. In 2014, its new Islamic financing facility (Palestine Ijara Company) was launched and began providing SMEs with financing compliant with *sharia'* (Islamic law). PIF also focused on small business owners who are financially marginalized by larger geo-political contexts, both in Jerusalem (through the Jerusalem SME Lending Facility and the European Union-funded Jerusalem Grant Facility) and in Lebanon (through the Lebanon Refugee Camps Microfinance Facility).

Evolving for Growth

PIF transformed key investments this past year to maximize economic and national growth.

Sanad Construction Industries (formerly the Palestinian Commercial Services Company) is now positioned to consolidate the supply chain of cement and create a substantial inventory in the West Bank, which would stabilize the growing national construction sector.

“Sanad took the first step towards reducing national dependence on imported building materials in 2014.”

In 2014, it established a cement re-packaging facility and regional storage capacity and initiated strategic planning for the first Palestinian cement factory. In 2015, Sanad will continue to drive the development of the national building industry by launching a $30 million investment program for new and established concrete producers and exploring co-investing with Sharakat and private companies.

Sharakat's expansion into soft infrastructure (health and education) and renewable energy creates a greater diversity for its MSME portfolio and increases its profit-potential investments, such as its recent investment in a new specialized hospital in the underserved Jenin governorate.

Against a backdrop of general banking sector growth, Islamic banking has seen a particularly significant growth over the past five years, driven by the increasing number of customers preferring *sharia'*-compliant financing. With only two of 16 Palestinian banks offering Islamic banking services, PIF views its investments in the two Islamic banks and Palestine Ijara Company as an underserved and underdeveloped sector with high growth potential.

“PIF has expanded its investment in the Islamic banking and financing sector in response to growing citizen demand and an identified market need.”

Synergies within PIF

PIF is also leveraging its diverse portfolio towards synergies that increase efficiency and boost new and existing investments. Where possible, PIF is centralizing universal functions, such as human resources, internal audit and compliance, legal affairs, and cash management, within its portfolio, so that affiliates such as Amaar and Sanad can focus on their specialized tasks. The proposed co-investment by Sanad and Sharakat also demonstrates how the common framework offered by PIF can increase return on investment.

Serving the Palestinian People

PIF also invests in the Palestinian people through its corporate social responsibility (CSR) initiatives. In 2014, PIF expanded its philanthropic impact by establishing the Palestine for Development Foundation (PSDF), a separate entity that manages all CSR initiatives and programs formerly under PIF.

By creating the PSDF, PIF is maintaining its focus on investment activities while ensuring a strategic and sustainable approach for social investment. In its new role, PSDF now funds micro-finance support to Palestinian refugees in Lebanon and channels European Union grants to SMEs in Jerusalem.

In 2014, Gaza remained an important focus for PSDF. In addition to its support for the American School in Gaza, PSDF provided funds for immediate relief in the weeks after the war on Gaza.

Governing Responsibly and Transparently

PIF maintained its lauded commitment to corporate governance. Measures and standards to promote transparency and corporate governance include: continued cooperation with the State Audit and Administrative Control Bureau; the presence of an internal audit unit supporting an international audit firm (Deloitte) reporting to the audit committee and of an external auditor (Ernst & Young) reporting to the PIF Board of Directors and General Assembly; and the adoption of manuals governing every PIF function. Such measures have enabled PIF to better manage its assets, decisions, and investment operations, and have significantly contributed to its success in achieving strategic projects throughout Palestine.

Working Together for Success

Finally, I would like to express my sincere gratitude, as well as the gratitude of my colleagues on PIF's Board of Directors, and PIF's staff members, to His Excellency President Mahmoud Abbas, for his continued support and his guidance. I would like to express our gratitude to the Government, to the members of PIF's General Assembly, to the Board of Directors, and to PIF staff members for the hard and impressive work that they have been doing. I would also like to thank all our partners in all programs and projects implemented by PIF, without whom we would have been unable to reach our common goals, or to continue our path toward building a Palestinian state, with an independent economy as its cornerstone.

Sincerely,

Dr. Mohammad Mustafa
Chairman

2014 HIGHLIGHTS

PIF's net income before tax was
$44 million.
Net income after tax reached $36.7 million.

PIF's equity amounted to
$697.8 million
in 2014,
compared to $676.7 million in 2013.

PIF's assets reached
$795 million,
compared to $771 million by the end of 2013.

Since 2003, PIF has transferred over
$728 million to the government in dividends.

PIF's capital was
$625 million,
by the end of 2014.

2014 HIGHLIGHTS
PORTFOLIO

Infrastructure

PIF increased its stake in the Gaza Marine field to 17.5% and its stake in the Palestine Power Generation Company (PPGC) to 39.6%. The PPGC established a pool of seven pre-qualified international contractors and initiated talks with debt financing institutions. Wataniya Mobile improved its profitability by 21%, as net losses reached -$16.5 million in 2014 compared to -$21 million in 2013. Its gross revenues in 2014 were $85.3 million.

Micro, Small and Medium Enterprises

Sharakat Investment Fund has invested in nine SMEs since inception in 2013, for a total value of $12.3 million, including Palestine Ijara Company, Palfarm, Strand, Faten, Anoud, Transcend, and Souktel. In 2014, Sharakat closed two new investment agreements, with Asala Company for Lending and Development and Ibn Sina Specialized Hospital.

Real Estate and Hospitality

Amaar Real Estate Group shifted its strategic focus from vertical project-based construction to horizontal mass land development in order to provide greater national access to unexploited land and give Palestinians the chance to build their own homes. Amaar sold the majority of the properties in Al Reehan in Ramallah, launched Madinat Al Qamr land development project in Jericho, and finalized two towers in Ersal Center. In 2014, the real estate portfolio was valued at $166.7 million.

Large Caps

PIF added value to its large caps holdings through strategic growth plans: Sanad continues its strong financial showing and initiated a shift towards local construction material supply and production; APIC went public on the Palestine Exchange and improved its performance, and Palestine Islamic Bank expanded its products and services. Valued at $133.2 million, the large caps portfolio continued to deliver strong results, despite market conditions.

Capital Markets Investments

Khazanah, which is managing assets of $234.4 million, achieved a net income of $18.7 million in 2014. Khazanah continued to focus its investments in the Palestinian market, with holdings in the Palestine Exchange increasing covering several strategic sectors.

Palestine for Development Foundation

PIF established Palestine for Development Foundation (PSDF) to ensure a strategic and sustainable approach for social investment. Over $3 million in grants and micro-loans have been given to Palestinian small business owners and entrepreneurs in Lebanon and Jerusalem. Through PSDF, PIF also disbursed over $1 million in corporate social responsibility initiatives, including educational and humanitarian support to Gaza.

2014 HIGHLIGHTS
ECONOMIC CONTEXT

The Palestinian economy is a promising economy that possesses sound fundamentals for high growth potentials: a young and fast-growing population, investor and business friendly regulatory environment, active private sector, and fast evolving financial sector.

However, the continuing political volatility and restrictions on the movement of Palestinian commodities hinder the growth of the private sector and continued to do so in 2014.

Following the devastating Israeli war on Gaza which resulted in significant loss of life and property, Gaza's economy deteriorated substantially. Similarly, the economy in the West Bank suffered from disruptions to economic activity due to the war.

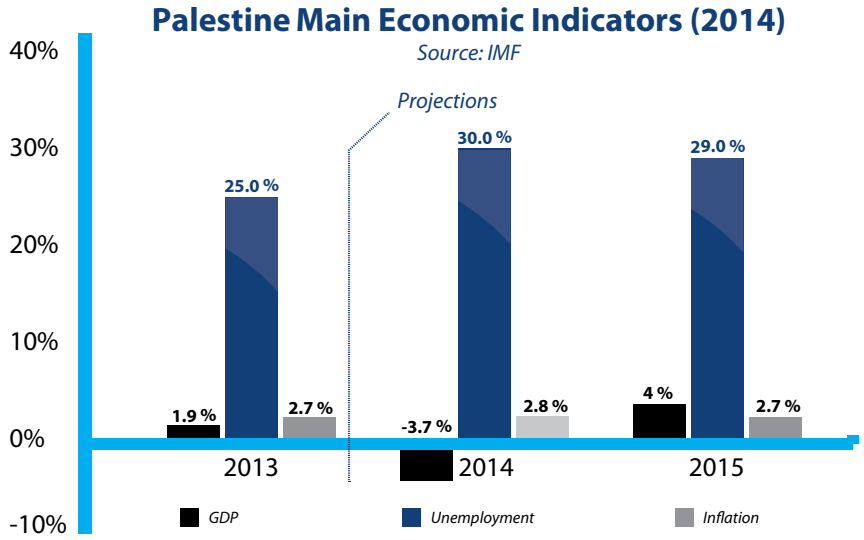
In general, the economic activity in Palestine was weak in 2014, even before the war on Gaza. In spite of the positive growth seen in the period between 2007 and 2013, the IMF reported that the GDP in Gaza dropped by 15% by the end of 2014 and the West Bank was only able to achieve a 0.5% growth in GDP.

On December 31, 2014, Israel froze tax revenue transfers to the Government of Palestine in response to its signature to the International Criminal Court (ICC), a move that affected the public sector salary payment and reduced private sector activity.

Unemployment rates in the West Bank and Gaza reached 30% by the end of 2014 (16% in the West Bank and 45% in Gaza). By the end of 2014, inflation rates in Gaza and the West Bank reached 1.20% and 2.85%, respectively. Inflation rates were mainly driven by higher prices in Gaza and the depreciation of the shekel currency. These rates are anticipated to remain within the same range during 2015.

The earnings of listed Palestinian corporates grew by 27% in Q4, 2014 compared with Q3, 2014 with yearly earnings reaching $227 million by the end of Q4, 2014, as initially declared by the listed companies. Current market valuation levels, dividend distributions, and volatility levels remain competitive when compared to the MENA and global equity markets.

"A dynamic private sector can only achieve needed growth and contribute to reduced unemployment in a context of stability and free trade, which is not yet achieved in the Palestinian market."



INVESTING FOR NATIONAL DEVELOPMENT

Since inception, PIF has been a reliable income stream for the government. PIF has created **1.2 million working days** in the construction sector and over **10,500 jobs** through its Loan Guarantee Facility alone. PIF provided the Government of Palestine with **$906 million** in revenue (from taxes, revenues, and license fees).

PIF's vision is centered on contributing to the establishment of a sovereign, free, and prosperous Palestinian state with a strong economy that is independent of donor handouts and supported by a strong, dynamic and innovative private sector.

PIF's main objective is to promote sustainable economic growth and private sector development in Palestine by originating and investing in economically feasible, socially responsible and developmentally sound strategic projects in vital and viable economic sectors in Palestine, in partnership with the Palestinian private sector, as well as regional and international investors.

PIF's investment activities span across a wide range of economic sectors and segments, asset classes, and geographic areas, and may take many forms, including direct and indirect majority or minority investments in private and public enterprises, fund subscriptions, loans and other finance products such as guarantees and securitizations, in addition to real estate and other types of investments.

These investments may be managed directly by PIF, by one of PIF's subsidiaries, or by one of PIF's partners or co-investors. The overwhelming majority of PIF investments are based in Palestine in line with its developmental mandate. Excess liquidity may be invested in international and regional fixed income and traded equity markets.

PIF'S ROLE IN THE NATIONAL ECONOMY

PIF plays a leading role in motivating and supporting the Palestinian private sector to enable it to assume a greater role in economic development and to provide new employment opportunities to absorb Palestine's fast-growing labor force. PIF does that by entering into projects and ventures that the private sector, on its own, would be hesitant to carry out because of the perceived risk involved. PIF also supports the private sector by investing in projects that develop the country's infrastructure and hence improves the overall business and operational environment for all investors in Palestine.

PIF strives to attract direct regional and international investments, due to their fundamental role in bringing in much needed capital, knowledge, and expertise. PIF managed to create greater investor confidence in Palestine and built an important network from which the Palestinian business community can benefit tremendously. Its involvement in the energy, telecommunication, and cement sectors has created healthy competition in these sectors, which in turn was reflected on quality of services provided. Similarly, its investments in the Palestine Exchange (PEX) through Khazanah Assets Management Company, a fully owned subsidiary, have increased the confidence of local and foreign investors in the PEX.

OUR LEADERS AND OUR VALUES

PIF believes strongly that good corporate governance is critical to its long-term success.

PIF's corporate success and sustainability depend not only upon the performance of its investments but also upon the integrity and credibility of its business operations. This is why PIF is committed not only to complying with all Palestinian laws and regulations but also with leading corporate governance practices on the regional and international levels. PIF is governed by its Articles of Association and by Palestinian laws and regulations.

The four pillars of PIF's governance structure are an independent General Assembly and Board of Directors; internal and external auditors; standard policies and procedures developed in accordance with best practices; and competent and qualified professional staff.

OUR LEADERS AND OUR VALUES
BOARD OF DIRECTORS

PIF has an 11-member Board of Directors composed of majority independent non-executive members who have varied backgrounds, expertise, and skills and are drawn largely from the Palestinian business community, academia, civil society, and regulatory agencies. The term is three years, and members of the board may not serve more than three consecutive terms.

Dr. Mohammad Mustafa
Chairman of the Board

Dr. Mustafa is the chairman of the Board of Directors of Palestine Investment Fund. He is also the Deputy Prime Minister of Palestine. He holds a Doctorate and a Master in Management and Economics from the George Washington University and a Bachelor in Engineering from the University of Baghdad. Dr. Mustafa previously held senior positions at the World Bank and a number of regional and leading local companies and investment funds.

Mr. Maher Al Masri

Mr. Al Masri was the Minister of National Economy until 2005 and former chairman of the board of directors of Palestine Capital Market Authority. He is currently the chairman of the Palestine Islamic Bank and a member of the board of trustees of Palestine Economic Policy Research Institute (MAS). Mr. Al Masri was also the head of the Palestinian Investment Promotion Agency (PIPA), the Palestine Standards Institution (PSI), and the Industrial Cities Authority. He holds a Master in Economics. Mr. Al Masri is a member of the Governance Committee of the Board of Directors.

Dr. Jihad Al Wazir

Dr. Al Wazir has been the governor and chairman of the board for Palestine Monetary Authority since 2008. He is the deputy chairman of the board of trustees for the Arab American University in Jenin. He holds a Doctorate in Business Administration. Dr. Al Wazir is the founder of the Palestinian internet domain (.ps). Dr. Al Wazir is a member of the Audit and Governance Committees of the Board of Directors.

Mr. Azzam Al Shawwa

Former Minister of Energy, Mr. Al Shawwa is currently the general manager of Palestine Commercial Bank. He was the chairman of the Palestinian Banks Association in 2012. Mr. Al Shawwa is an active board member in many local and international organizations and institutions. Mr. Al Shawwa holds a Bachelor in Mathematics from Memphis University. Mr. Al Shawwa is a member of the Investment Committee of the Board of Directors.

Mr. Mohammad Abu Ramadan

Mr. Abu Ramadan is the former Minister of Planning and Administrative Development. He is the chairman of Abu Ramadan Investment Group, the chairman and CEO of the Gaza Bus Company, the chairman of Wataniya Mobile, and the chairman of Palestine Insurance Company and PalTrade. He is a board member of Sanad and Amaar and was also a member of the board of directors for the Palestine Monetary Authority. Mr. Abu Ramadan holds a Bachelor in Business Administration from Syracuse University. He is a member of the Audit Committee of the Board of Directors.

Eng. Nabil Al Sarraf

Mr. Al Sarraf is the chairman of the board of the Palestine Real Estate Investment Company (PRICO) and the deputy chairman of the Palestine Development and Investment Company (PADICO). Furthermore, he is a board member in some of the leading Arab and Palestinian companies, including Gaza Power Generation Company (GPGC). Mr. Al Sarraf holds a Master in Civil Engineering from Aachen University. He is the chairman of the Human Resources Committee of the Board of Directors.

PIF's Board of Directors provides strategic leadership, guidance, and oversight and is the ultimate decision-making authority. The Board has specialized audit, investment, corporate governance, and human resources committees to facilitate informed discussions, enhance oversight, and ensure effective decision making.

Mrs. Lana Abu Hijleh

Mrs. Abu Hijleh is a local and international developmental expert who holds a Bachelor in Civil and Environmental Engineering. Mrs. Abu Hijleh is currently the general director of Global Communities' in Palestine. She is an active volunteer in a number of Palestinian and international NGOs and private sector institutions. Mrs. Abu Hijleh is a member of the Human Resources Committee of the Board of Directors.

Mr. Samer Khoury

Mr. Khoury is the executive vice president for engineering, and construction at the Consolidated Contractors Company (CCC), one of the most successful engineering and construction companies in the Middle East. He is an economic activist and a board member in more than 28 entities around the world. Mr. Khoury holds a Bachelor in Civil Engineering from California State University and a Master from University of Southern California. He is a member of the Human Resources Committee of the Board of Directors.

Mr. Tareq Al Aggad

Mr. Al Aggad is the chief executive officer and the chairman of the board for the Arab Palestinian Investment Company (APIC), and an executive board member at Al Aggad Investment Company (AICO). In addition he is a board member at many manufacturing, distributing and servicing companies in Palestine, Jordan, and Saudi Arabia. He holds a Bachelor in Economics from Harvard University. Mr. Al Aggad is the chairman of the Audit Committee and a member of the Human Resources Committee of the Board of Directors. Mr. Al Aggad is the chairman of the Audit Committee and a member of the Human Resources and Investment Committees of the Board of Directors.

Mr. Mazen Sinokrot

Mr. Sinokrot is the former Minister of National Economy. He is the founder of Sinokrot International Group. He is the founder of PalTrade and the first chairman of the board and the founder of the first Jerusalem-based holding company, Al-Quds Holding. He holds a Bachelor in Production Management and Industrial Engineering from Nottingham University. He led the national efforts to establish many private sector institutions, such as Palestinian Food Industries Union, which he ran for many years. Mr. Sinokrot is a member of the Audit and Investment Committees of the Board of Directors.

Dr. Mohammad Nasr

Dr. Nasr is the dean of the Business and Economics Faculty at Birzeit University and the chairman of the board of the Palestinian Governance Institute and the Capital Market Authority. Previously, he was the general manager of the Palestine Economy Research Institute (MAS), the director of the Master in Business Administration (MBA) program at Birzeit University, and the director of the Economics Department at Al Yarmouk University. Mr. Nasr holds a Doctorate in Economics from Ohio University and an MBA from Wayne State University. He is a member of the Investment and Governance Committees of the Board of Directors.

The Board of Directors has the following four committees, each comprises of four board members:

1. Audit Committee: The committee's responsibilities include: reviewing PIF's audited financial statements, reviewing internal audit findings and follow up measures taken by management, and reviewing issues with significant impact on PIF's financial statements. Members of this committee have financial and accounting experience.

2. Investment Committee: The committee's responsibilities include: reviewing and approving the investment policies, reviewing and recommending investment decisions and reviewing and monitoring performance of the investment portfolio. Members of this committee have experience in investment and financial management.

3. Governance Committee: The committee is headed by the chairman of the board. Its responsibilities include: ensuring compliance with internal corporate governance regulations; reviewing and recommending corporate governance policies to the board; monitoring, addressing, and arbitrating conflicts of interest at the board and senior management level; and advising the chairmain on PIF representation on the boards of other companies.

4. Human Resources Committee: The committee's responsibilities include: reviewing and approving human resource policies, reviewing compensation and bonuses for senior executives and reviewing and recommending the chief executive officer's salary and compensation.

EXECUTIVE COMMITTEE

The executive committee of the PIF is chaired by Dr. Mohammad Mustafa and includes the chief financial officer, chief investment officers, chief operating officer, and chief counsel of PIF, as well as the chief executive officers of Sanad, Amaar, Wataniya, and Sharakat Investment Fund. The committee plays a vital role in supporting the CEO in evaluating investment and management issues and decisions that require the approval of the CEO or the Board of Directors.

ACCOUNTABILITY

Auditors, internal and external, are cornerstones to PIF's governance structure. Since its inception, PIF's operations and activities are audited by the internal audits and its financial statements are audited by PIF's external auditors. In addition to the internal and external audit, PIF is subject to audit by the State Audit and Administration Bureau.

Policies and procedure manuals for all PIF functions, including finance and administration, investments, procurement, and human resources, were developed, reviewed and approved by the Board during 2014.

TRANSPARENCY

PIF has a comprehensive transparency and disclosure policy that is in line with international leading practices to ensure timely and full disclosure of its finances, operations, and investment activities. PIF publishes its audited financial information in the annual report and on its website, in line with its principles of transparency and accountability.

PIF's website includes details of its projects and programs, and electronic copies of all press releases and printed materials distributed by PIF.

RISK MANAGEMENT

PIF's operations are subject to a number of risks including: political risk, compliance risk, operational risk, economic risk, interest rate risk, currency risk, liquidity risk, and reputation risk.

To manage those risks, PIF is adopting a well-diversified investment program where investments are allocated across various asset classes. In addition to sectorial diversification, PIF maintains geographical diversification, where investments outside Palestine are carefully allocated to the regional and international markets. PIF also adopts a policy that limits its currency exposure and uses hedging tools, such as futures and options contracts, to minimize currency risk.

Finally, PIF's corporate governance framework and the standard policies and procedures manuals for its various departments and subsidiaries play a key role in its operational risk management.

In 2014, PIF worked with PricewaterhouseCoopers (PwC) in strengthening its risk management framework as part of its commitment to continually monitoring and refining its risk management functions.

OUR LEADERS AND OUR VALUES
GENERAL ASSEMBLY

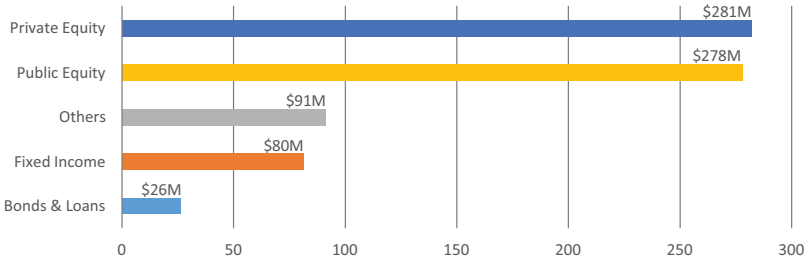
1. Dr. Mohammad Mustafa
2. Governor of the Palestine Monetary Authority
3. Chairman of the Board of Directors, Palestine Stock Exchange
4. Chairman of the Federation of the Palestinian Chambers of Commerce
5. Chairman of the Board, Capital Markets Authority
6. President of the Private Sector Coordination Council
7. Presidential Court Director
8. Representative of Palestinian Business Women Forum Board of Directors
9. Mr. Samer Khoury
10. Mr. Nabil Al Sarraf
11. Mr. Mazen Sinokrot
12. Mr. Mohammad Abu Ramadan
13. Mr. Tareq Al Aggad
14. Mr. Azzam Al Shawwa
15. Mrs. Lana Abu Hijleh
16. Dr. Mohammad Nasr
17. Dr. Khalil Hindi
18. Dr. Mohammad Shtayyeh
19. Dr. Khaled Al Qawasmeh
20. Mr. Kamal Hassouneh
21. Mr. Waleed Salman
22. Mr. Jawdat Al Khudari
23. Dr. Hani Nijem
24. Mr. Sam Bahour
25. Mr. Abdulkader Al Husseini
26. Mrs. Dina Al Masri
27. Mr. Hashim Shawa
28. Mr. Ahed Bseiso
29. Mr. Nassar Nassar
30. Mr. Iyad Joudeh

The General Assembly represents PIF's ultimate shareholder, the people of Palestine. It constitutes PIF's ultimate supervisory authority and is responsible for providing strategic guidance in relation to PIF's mission and objectives. The General Assembly is composed of 30 independent reputable members, representing the business community, regulatory agencies and civil society, appointed by the President of the Government of Palestine for a three-year term.

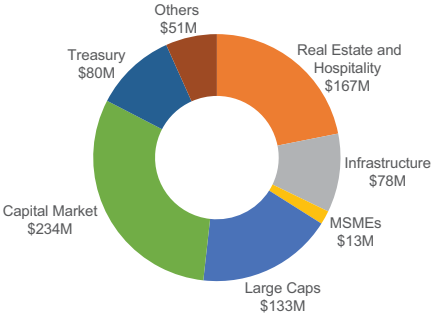
The General Assembly provides strategic guidance to the board of directors, reviews annual reports, and approves the distribution of dividends to the Palestinian Treasury. The General Assembly also appoints the external auditor on the basis of the recommendations of the Board of D irectors.

INVESTMENT PORTFOLIO

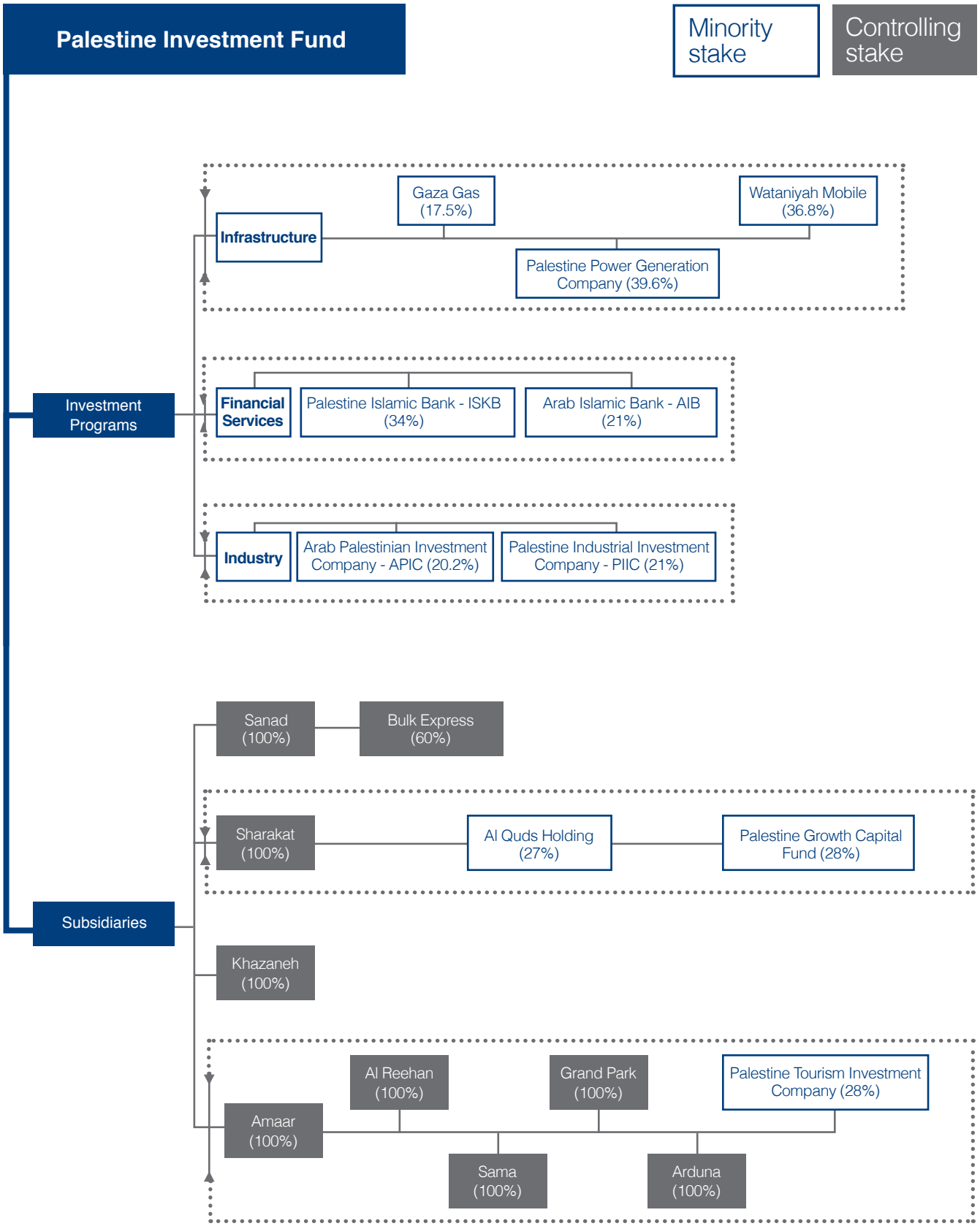
Allocation by Investment Class



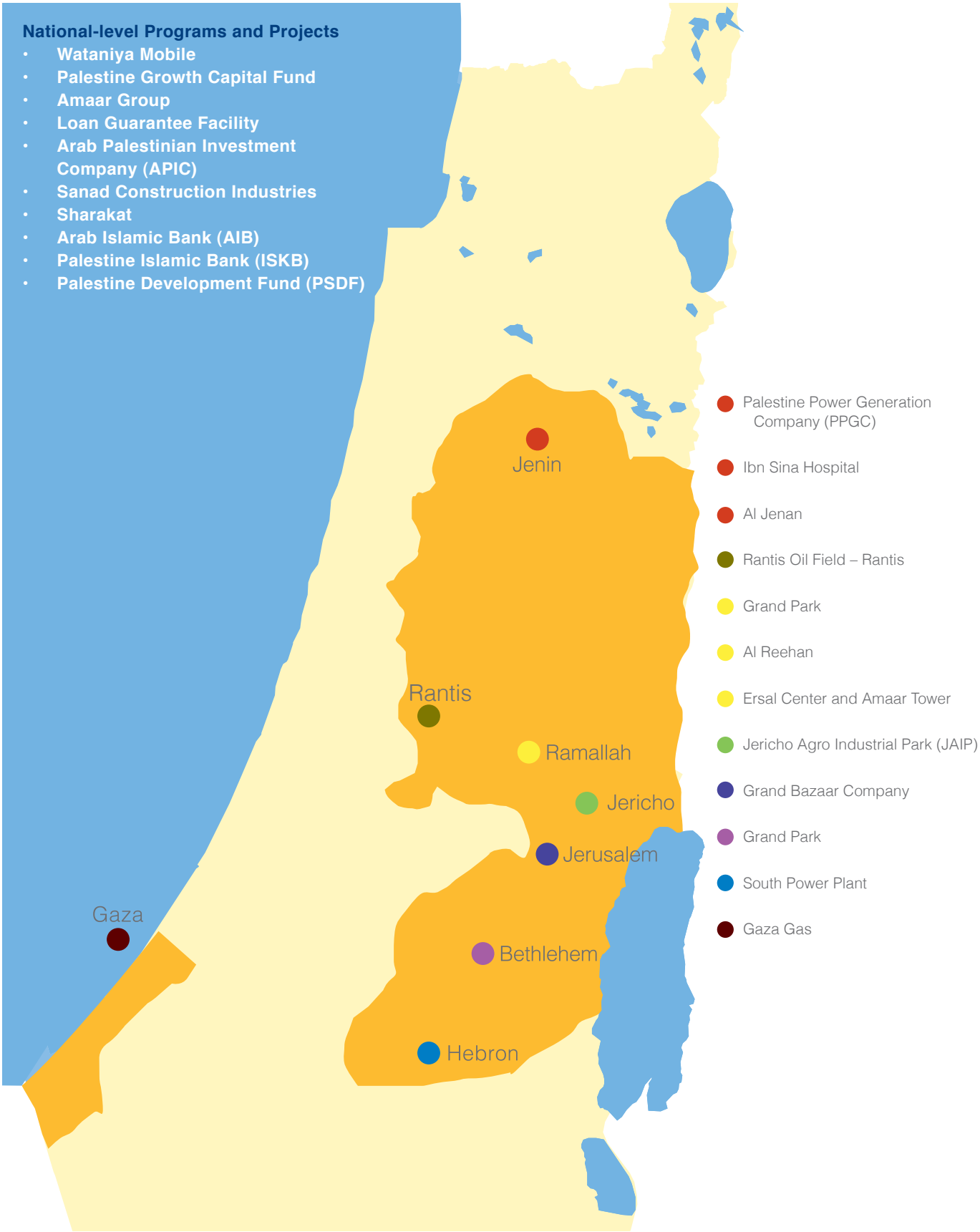
Allocation by Investment Sector



INVESTMENT PORTFOLIO
INVESTMENT STRUCTURE



INVESTMENT PORTFOLIO
GEOGRAPHIC DISTRIBUTION



INVESTMENT PORTFOLIO
INFRASTRUCTURE

Total value:
$178.2 million*

*PIF's investment in telecommunications is through $71 million in private equity assets in Wataniya, which is managed under the Infrastructure portfolio, and $100 million in public equity assets in PalTel, which is managed under the Capital Markets portfolio.

INFRASTRUCTURE

In the infrastructure sector, PIF invests to transform.

The infrastructure sector in Palestine remains underdeveloped, despite its important role in economic development and the huge potential of energy and telecommunications projects.

As the Palestinian population and economy grow, PIF believes it is essential to invest in developing the infrastructure sector to address current and anticipated demands of individuals and businesses. Investments in this sector drive immediate and sustainable national economic growth. In addition to addressing existing gaps, these projects are known to be highly leveraged in the long-term and are expected to have a highly predictable revenue performance.

As the sovereign development fund, PIF plays a unique role in providing significant capital for the infrastructure space by partnering with other local and foreign investors who are willing to initiate and manage projects in this sector but need additional support in terms of financing and risk sharing.

INFRASTRUCTURE
ENERGY

Developing local sources of electricity, gas, and oil is a strategic need for the Palestinian economy and the Palestinian people.

The energy sector acts as a key enabler across all industries. Access to a stable and reasonably priced energy supply stimulates economic growth.

The Palestinian market's complete reliance on electricity imports has posed a massive financial burden on the Government of Palestine, increasing its expenses by an estimated $700 million annually. Moreover, since 95% of Palestinian electricity is imported from Israel, the unsettled political environment poses a constant risk to the national economy and private sector.

In the energy sector, need significantly outstrips supply and costs are too high. The current basic electricity need in Palestine is estimated at around 1,230 MW (800 MW in West Bank and 430 in Gaza), with an installed capacity of around 140 MW. Palestinian families spend over 6% of expenditure on electricity, compared to around 3% in Israel. The industrial sector consumes a significantly smaller proportion of total energy (around 6%), compared to much higher rates in Israel (10%), Jordan (21%) and Egypt (27%).

“PIF's energy strategy is to localize the production of electricity, gas, and oil to alleviate the cost and risk of energy imports.”

Availability of low-cost, secure supplies of power will meet the energy needs of the Palestinian market and enable export of excess quantities to high demand markets. Construction of energy infrastructure and eventual energy production will also fuel local economic development, particularly in under-developed and under-resourced areas, like Gaza and the northern West Bank, and enabling key energy-intensive projects (such as cement and steel factories).

Critical components of this strategy are the development of the Gaza Gas project and Rantis Oil Field and the development of two combined cycle gas turbine power plants in the West Bank (Palestinian Power Generation Company and the Southern Power Plant).

Israeli restrictions are a constraint on developing these projects. PIF works with the Government of Palestine, international organizations, and investors to mitigate any possible political risk.

Gaza Gas

Shareholders: BG Group: 55% / CCC: 27.5% / PIF: 17.5%

Located off the coast of Gaza, the Gaza Marine Gas Field contains approximately 28 billion cubic meters of proven natural gas reserves. In addition to providing $2.4 billion in revenues to the government, the gas field will save the Palestinian economy $560 million annually by eliminating the need to import electricity from Israel. The substantial gas reserves can be used to fuel the Gaza power plant (when converted to gas, as planned) and the power plants being built in the West Bank.

“Gaza Marine Gas Field will yield $2.4 billion in revenues for the State of Palestine, once developed.”

A consortium comprised of BG Group, the Consolidated Contractors Company (CCC), and PIF have the exclusive hydrocarbon exploration and marketing rights offshore the Gaza Strip. In 2014, PIF increased its equity stake from 10% to 17.5%. This will be reflected in PIF assets when development starts. This is contingent on the successful launch and operation of the project, which is dependent on the political situation.

BG Group resumed negotiations in 2014 with potential buyers, after the Government of Palestine agreed to extend the developers' concession over the area for an additional 15 years to carry out the entire project's framework. The developers agreed to relinquish any non-development areas in Gaza marine, giving the government an opportunity to license other developers to explore the areas. The Palestinian market will be given precedence when it comes to the sale of Gaza gas.

Palestine Power Generation Company (PPGC)

Shareholders: PIF: 39.6% / PADICO: 20% / PalTel: 10% / Arab Bank: 10% / PEC: 5% / APIC: 4% / others: 11.4%

PPGC aims to build, own, and operate a 450 MW combined cycle gas turbine power plant in the northern part of the West Bank. The project's total development cost will be $351 million and is being secured through equity investment and project financing.

In 2014, PIF increased its stake in PPGC from 10% to 39.6%. This will be reflected in PIF assets when development starts.

PPGC acquired the 150 km^2 project land, pre-qualified seven potential engineering procurement and construction (EPC) contractors, arranged the financial close for the project, concluded the power purchase agreement reflecting the shareholders objectives, EPC technical terms, and financing conditions, initiated debt financing discussions with potential development financing institutions (DFI), and is in the process of securing reliable natural gas supply to the power plant.

Rantis Oil Field

Shareholders: Developer: ≤ 75% / PIF: ≥ 25%

Based on initial indications of an oil field with commercial potential in the Rantis area, the Government of Palestine issued a tender for potential developers to explore and possibly extract oil from a potential oil field in the Rantis area of the western West Bank, contingent on PIF holding at least 25% equity stake.

This will be reflected in PIF assets when development starts. The project's development costs are estimated at $712 million to be borne by the developers with an estimated rate of return of 53%. The government's share in the project profits would be approximately 70%, including PIF's share (or $1 billion). Bidding is still in process.

“Rantis Oil Field will yield $1 billion in revenues for the State of Palestine, once developed.”

South Power Plant

The South Power Plant will be the second West Bank power plant, located in the southern West Bank. The plant will be developed on a build, own, and operate basis with a generation capacity of 200 MW, run on combined cycle gas turbine technology, with natural gas as the primary fuel.

After receiving cabinet approval in 2014, the Palestinian Energy Authority is planning a competitive tender in order to attract independent power producers (IPP) to develop the South Power Plant. It is envisaged that PIF and the selected IPP will establish a new project company that will be incorporated and registered in Palestine.

Leading Palestinian Energy into a Sustainable Future

Reliable energy supply is critical for all sectors of the Palestinian economy. PIF recognizes reducing dependence on energy imports and increasing utilization of renewable energy will deliver significant economic growth and security. By 2030, up to 50% of domestic production for Palestine could be from renewable sources.

PIF is initiating an ambitious power generation program from conventional and renewable energy sources that will secure Palestinian energy independence and will contribute to reduce dependence on imported electricity sources. This program will target to increase the installed power generation capacity to 1,500 MW by 2030 and is expected to increase the local and foreign direct investment in the energy sector by $2.3 billion.

Building a resilient and sustainable energy supply could directly add $2.2 billion to the national gross domestic product (GDP) and create over 17,000 new jobs (from less than 1,000 in 2012).

*Figures are taken from the Portland Trust.

INFRASTRUCTURE
TELECOMMUNICATIONS

Due to under-penetration and rising domestic and business demands, the Palestinian telecommunications market represents a high growth opportunity and substantial economic impact.

The telecommunications market in Palestine has an attractive structure, characterized by two market players: Jawwal and Wataniya Mobile. However, mobile penetration in the West Bank remains very low (79% in 2014), compared to Israel (120%) and Jordan (150%).

Combined with growing and largely young population, this under-penetrated market creates a high growth opportunity for telecommunications investments, particularly by responding to the growing size (and therefore demand) of the retail and business markets. Current telecommunication revenues are around $440 million, while direct employment is matched by up to three times in indirect employment.

Despite the strong fundamentals, the sector is likely to experience some difficulties in the short to medium term periods because of the challenging political and economic environment. Additionally, the sector's growth potential is undetermined by the arbitrary Israeli restrictions on frequency utilization by Palestinian operators, especially relating to 3G and 4G, which keeps data penetration low.

Wataniya Mobile

Shareholders: PIF: 36.55% / Public ownership: 15% / Wataniya International: 48.45%

Wataniya Mobile is the second mobile telecommunications company to have been licensed to operate in Palestine. Wataniya's vision is to become the telecom provider of choice in Palestine by leading in customer experience and innovation while fulfilling stakeholders' expectations. Wataniya improved its profitability by 21%, as net losses reached -$16.5 million in 2014 compared to -$21 million in 2013. Its gross revenue in 2014 was $85.3 million, of which it paid $6 million to the Government of Palestine in revenue sharing.

Wataniya's license comprises installing and operating a GSM mobile telecommunications network and a third generation 3G network, providing voice and data telecommunications services in the West Bank and Gaza, in addition to providing international telecommunications services.

In 2014, Wataniya's senior leadership changed. Former PIF Chief Investment Officer Dr. Durgham Maraee became CEO, PIF board member Mohammed Abu Ramadan became chairman, and several members of the board of directors were changed.

Wataniya has an aggressive plan for 2015-2017, aiming to acquire, retain, and increase its subscriber base to reach 50% more subscribers in 2015 in both the West Bank and Gaza.

Wataniya's Gaza launch had been impeded by Israeli border restrictions. In 2014, the company was able to bring in the bulk of equipment and materials needed to build the network into Gaza. In 2015, Wataniya is planning to bring in the remaining materials and launch its services into the Gaza market.

Israeli restrictive policies and measures related to frequency, other Gaza launch aspects, international gateway, infrastructure in Area C, and custom clearance remain a challenge. Furthermore, the regulator of the Palestinian telecommunications market must play an active role in preventing anti-competitive behavior in the marketplace, in order to guarantee fair pricing and compensation.

❝ Wataniya Mobile is the dynamic new entrant challenging the incumbent operator. ❞

INVESTMENT PORTFOLIO
MICRO, SMALL, AND MEDIUM ENTERPRISES

IBN SINA SPECIALIZED HOSPITAL

ASALA FOR LENDING AND DEVELOPMENT

PAL - FARM COMPANY

PALESTINE IJARA COMPANY

SOUKTEL, INC.

TRANSCEND SUPPORT LTD.

ANOUD GAMES

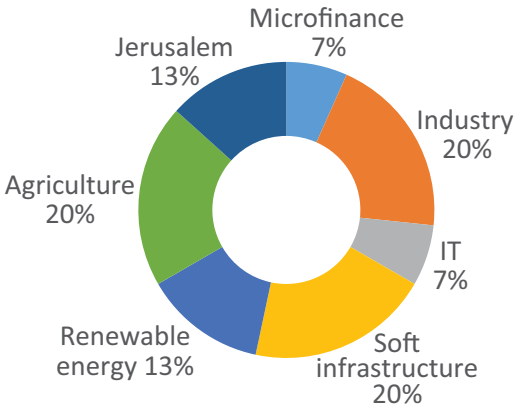
PALESTINE FOR CREDIT & DEVELOPMENT – FATEN

STRAND HOTEL

Total value:

$13 million

Target: $150 million
Committed: $50 million



PIF invests in the potential of the Palestinian people by promoting growth and development in the small and medium-sized businesses.

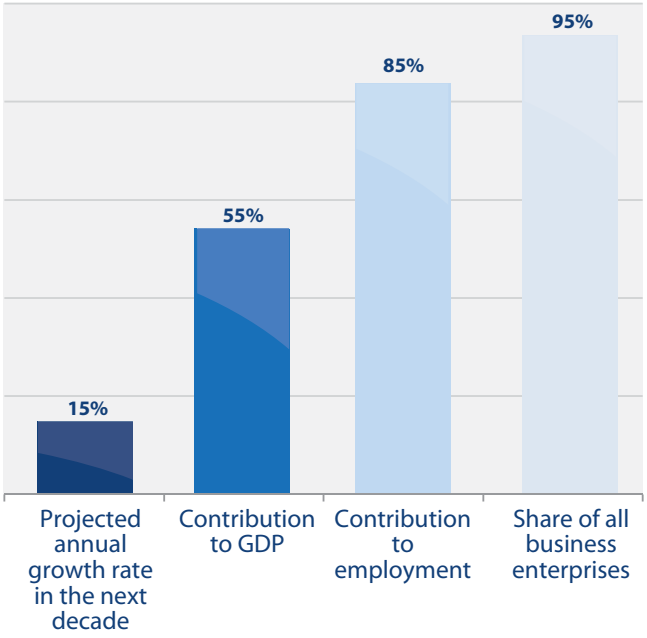
Micro, small, and medium enterprises (MSME) are the backbone of the Palestinian economy. Despite the small size of individual companies, Palestinians MSMEs significantly contribute to growth and job creation, providing over 55% of GDP and 85% of private sector employment.

The companies are typically family-owned and characterized by low average capitalization, operational flexibility, as well as low start-up and operating costs.

Over the years, Palestinian MSMEs have managed to build significant resilience in the face of political uncertainty and volatile market conditions.

However, like any other sector in Palestine, the MSME sector faces a number of challenges that are hindering its growth.

The main challenges include limited access to investment capital, debt financing, managerial expertise, technology and know-how, corporate governance support, and business and government networks.

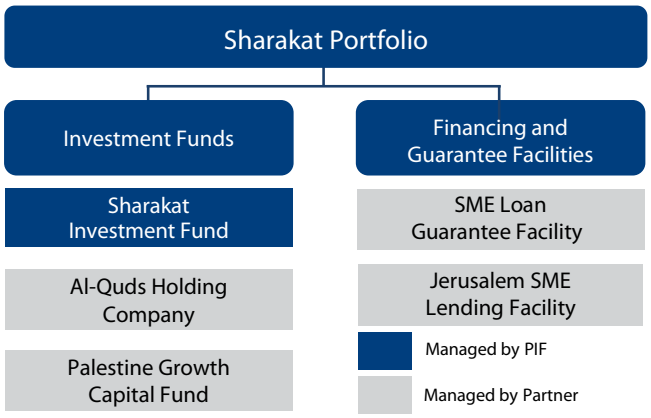


SHARAKAT

Established in 2013, Sharakat's mandate is to facilitate the channeling of equity and debt capital in a sustainable and commercially sound manner into MSMEs in Palestine, with the goal of promoting the MSME development and growth.

To achieve this goal, Sharakat engages in a diverse set of investment activities that range from direct and indirect equity investments to direct and indirect loan provisions and loan guarantee schemes.

Sharakat consists of investment funds that are directly managed, in addition to investment funds, and financing and guarantee facilities that are managed by partners.



MICRO, SMALL AND MEDIUM ENTERPRISES
SHARAKAT INVESTMENT FUND

SHARAKAT INVESTMENT FUND

Sharakat Investment Fund is a private equity fund managed directly by PIF that invests in MSMEs in various economic sectors. The fund is planned to reach $150 million. PIF has committed $50 million and the rest will be raised from local and international investors.

The fund started off by targeting industry, IT, microfinance and agriculture sectors. In 2014, Sharakat expanded its mandate to cover additional economic sectors including tourism, soft infrastructure (health care and educational services), and small-scale renewable energy projects.

The Fund's geographic mandate includes all of Palestine, with special focus given to the nationally and strategically significant Jerusalem and Aghwar regions.

Sharakat Investment Fund invests in established and start-up MSME's with high potential for growth and expansion, with investments ranging between $0.2 million and $3 million (for a stake between 15% and 40%). Investments will be exited within five to seven years, after ensuring that companies can survive on their own.

Exits will take place through IPOs, management buyouts, or sales to strategic investors.

Sharakat adds value to portfolio companies by providing capital investments, assisting in strategic planning, applying corporate governance models, engaging portfolio companies in new networking opportunities, providing companies with technical and organizational support, and cooperating with the companies to accelerate growth and share risks.

In 2014, the Arab Fund positioned itself to commit $5 million to support SMEs in Jerusalem.

SHARAKAT FUND PORTFOLIO

To date, Sharakat Investment Fund has reviewed 119 potential deals and closed nine deals.

Microfinance	Jerusalem	Agriculture	Industry	IT	Healthcare	Renewable Energy	Education	Tourism	Financial Services
5 deals reviewed	24 deals reviewed	9 deals reviewed	50 deals reviewed	16 deals reviewed	6 deals reviewed	3 deals reviewed	1 deal reviewed	4 deals reviewed	1 deal reviewed
			1 deal in advanced evaluation	1 deal in due diligence	1 deal in advanced evaluation		1 deal in due diligence	1 deal in due diligence	
2 deals closed	2 deals closed	1 deal closed		2 deals closed	1 deal closed				1 deal closed

2014 INVESTMENTS

In 2014, Sharakat signed two investment agreements with Asala Company for Lending and Development and Ibn Sina Specialized Hospital Company.

Asala Company for Lending and Development

Ever since its establishment in 1997, Asala has provided small and micro-loans to Palestinian women in marginalized areas working in different economic sectors in Palestine.

The main goal of the offered loans is to support Palestinian women in starting and growing their own businesses, and ultimately achieving financial independence.

Asala has provided $35.5 million in loans to Palestinian women across a multitude of different economic sectors within Palestine. Asala's current outstanding loan portfolio stands at $4.3 million.

Asala will use the $1.1 million investment by PIF to offer $500–15,000 loans to Palestinian women in marginalized areas to start new projects or grow existing ones. The investment will also assist Asala in achieving its five-year plan of growing its outstanding loan portfolio to $11 million.

“This investment will allow Asala to offer micro-loans to women who are unable to secure proper financing to start new businesses.”

Reem Aboushi
Asala CEO

Ibn Sina Specialized Hospital Company

Ibn Sina Specialized Hospital Company is a private shareholding company incorporated in Jenin, established to oversee the construction and operation of the first specialized hospital in the Jenin Governorate. Ibn Sina Hospital will offer high-quality medical services to residents of Jenin and nearby cities.

The hospital will commence operations with 60 beds, and is expected to have a total capacity of 120 beds once all departments are fully operational. More than 600 Palestinians including specialized physicians will be employed by the hospital. The hospital is currently still under construction: operations are expected to commence in early 2016.

Sharakat invested $1 million in Ibn Sina Specialized Hospital in Jenin. The investment will secure the fund a 5% stake in the new $20 million hospital. Through its first investment in the healthcare sector, Sharakat is improving healthcare services in Jenin by dealing with the shortage in hospital beds and increasing access to specialized services.

“Ibn Sina Hospital offers specialized medical services at the highest international standards and at reasonable costs. This partnership with Sharakat is a turning point for this project.”

Dr. Mustafa Hamarsheh
Board Chairman
Ibn Sina Hospital

Sharakat Closed Deals

Company	Sector	Type of Business	Type of Fund	Equity (%)	Commitment	Disbursement as of Q4, 2014
Strand	Tourism	Hotel	Growth Capital	40.0%	$0.9 MN	$0.9 MN
Anoud	Manufacturing	Educational Games	Growth Capital	13.5%	$0.2 MN	$0.2 MN
Faten	Microfinance	MFI	Loan	N/A	$3.0 MN	$3.0 MN
Transcend Support	IT	Call Center	Start-Up	42.9%	$0.3 MN	$0.3 MN
Souktel Co.	IT	Mobile Services	Start-Up	10.6%	$0.2 MN	$0.2 MN
Jebrini Farm	Agriculture	Dairy Farm	Growth Capital	29.4%	$1.6 MN	$1.5 MN
Palestine Ijara Company	Financing	Islamic Leasing	Start-Up	33.3%	$4.0 MN	$1.0 MN
Asala	Microfinance	MFI	Growth Capital	26.8%	$1.1 MN	$1.1 MN
Ibn Sina Hospital	Healthcare	Specialized Hospital	Start-Up	5.0%	$1.0 MN	$0.5 MN
Total					**$12.3 MN**	**$8.7 MN**

EXISTING PORTFOLIO

PAL-FARM

Agriculture
The farm will secure a constant fresh milk supply for dairy production.

SOUKTEL

IT
Souktel matches between job seekers and potential employers in emerging markets through SMS.

TRANSCEND

IT
Transcend offers business services to local, regional, and international companies.

ANOUD GAMES

Industry
Anoud is one of the largest makers, importers and distributors of educational toys in Palestine

STRAND HOTEL

Tourism
Strand Vienna Hotel is a two-building hotel which is located in East Jerusalem.

PALESTINE FOR CREDIT & DEVELOPMENT – FATEN

Microfinance
With an outstanding loan portfolio of $54 million, FATEN is the largest MFI in Palestine.

AL-QUDS HOLDING COMPANY

Microfinance
Al-Quds Holding is a Jerusalem-based independently managed investment company dedicated to investing in SMEs based in Jerusalem.

PALESTINE IJARA COMPANY

Financial Services
Ijara Company offers Islamic leasing products (ijara) to SMEs, ranging from $0.1 million to $1 million.

MICRO, SMALL AND MEDIUM ENTERPRISES INVESTMENT VEHICLES MANAGED BY SHARAKAT PARTNERS

PALESTINE GROWTH CAPITAL FUND (PGCF)

Sharakat has committed $10 million to the Palestine Growth Capital Fund (PGCF), which is run by Abraaj Capital and is considered its first investment in Palestine.

PGCF is an SME investment fund established in part to address capital problems facing SMEs in Palestine, in addition to promoting growth and development in this segment.

The total size of the fund is $50 million. Committed capital by all partners to date is $36 million. Sharakat's partners in PGCF are: Abraaj Capital, Bank of Palestine, Cisco, and the European Investment Bank.

PGCF has reviewed 80 deals to date. Five deals are currently in advanced stages of evaluation and two have been closed: Anoud with a total investment of $0.5 million and Thimar with a total investment of $3 million.

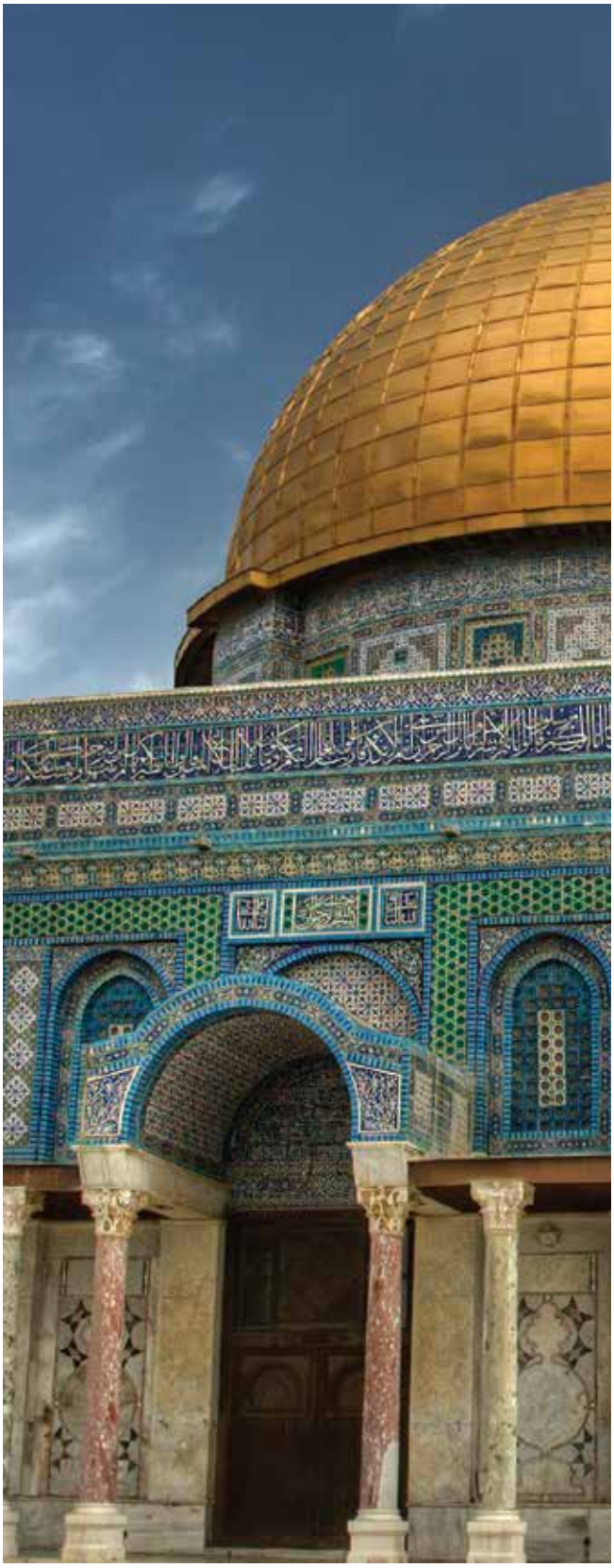
AL QUDS HOLDING COMPANY

Sharakat has also committed $2 million to Al Quds Holding Company, which is a Jerusalem-based independently-managed investment company dedicated to investing in SMEs based in Jerusalem.

The total size of Al Quds Holding Company is projected to be $20 million. Sharakat's partners in Al Quds Holding Company include leading companies and prominent Palestinian business owners.

Al Quds Holding Company is currently developing three projects in tourism and affordable housing in Jerusalem, including the Grand Bazaar crafts market (described in further detail in Real Estate and Hospitality), Al Ghadeer, and Ras Al Amoud Housing.

In 2014, Al Quds Holding Company invested $1.3 million in Strand Hotel, which opened for guests in November 2014.



MICRO, SMALL AND MEDIUM ENTERPRISES SHARAKAT FINANCING FACILITIES MANAGED BY SHARAKAT PARTNERS

Sharakat Financing Facilities support a wide section of MSMEs, cover a wide geographic area, and include direct lending facilities and loan guarantee facilities. Sharakat's financing facilities, which are managed by partners, include:

LOAN GUARANTEE FACILITY (LGF)

LGF is a loan guarantee facility dedicated to SMEs in Palestine and is managed by the Middle East Investment Initiative (MEII). LGF facilitates financing for SMEs by providing banks with loan guarantees, which encourages banks to provide business loans on more flexible terms. LGF has a target size of $230 million in loan guarantees.

PIF's commitment to the facility is $50 million. By the end of 2014, LGF had approved over $125 million in loans to over 792 borrowers in different Palestinian regions and across different economic sectors.

"10,500 jobs were created for Palestinians through the LGF."

PALESTINE IJARA COMPANY

The Palestine Ijara Company is the first Palestinian company that is specialized in sharia'-compliant leasing products. The company was established in 2013 by Sharakat, the Islamic Corporation for the Development of the Private Sector (ICD), and Palestine Islamic Bank (ISBK), with a total capital of $12 million.

In 2014, Ijara acquired its license from the PCMA. Since commencing operations in August 2014, the company has signed 13 leasing contracts (worth $0.3 million), out of 50 reviewed deals.

JERUSALEM SME LENDING FACILITY

One of the biggest challenges facing SMEs in Jerusalem is access to affordable capital, especially soft loans. The Jerusalem SME Loan Facility aims to help facilitate access to affordable loans to SMEs in Jerusalem, which are traditionally known to be un-bankable.

The facility is a $2 million facility managed by the Palestinian Development Fund (PDF) that provides affordable loans to existing SMEs in Jerusalem. PIF has disbursed $0.7 million so far.

In 2014, the Jerusalem SME Loan Facility disbursed $0.9 million to 19 companies operating in sectors that include industry, services, tourism, and commercial activities. Granted loans range between $25,000 and $100,000 in size.

Pharmacare (client of the Palestine Ijara Company)

MICRO, SMALL AND MEDIUM ENTERPRISES SHARAKAT PARTNERS

Sharakat partners with prestigious local, regional, and institutional investors to fund some of its investments and financing facilities, as well as to manage others.

Abraaj Capital
Manages Palestine Growth Capital Fund (PGCF) and is a co-investor in Anoud Games

Islamic Corporation for the Development of the Private Sector (ICD)
Co-Investor in Ijara Company

Al-Quds Holding
Co-investor in Strand Hotel

Palestine Islamic Bank
Co-Investor in Ijara Company

Arab Fund for Economic and Social Development
Partner in Jerusalem SME Lending Facility

Palestine Development Fund
Manages Jerusalem SME Lending Facility

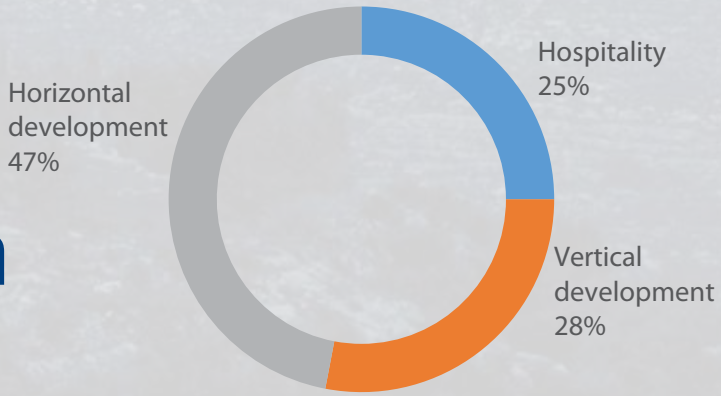
Middle East Investment Initiative (MEII)
Manages the Loan Guarantee Facility (LGF)

Sadara Ventures
Co-Investor in Souktel Company

Overseas Private Investment Corporation (OPIC)
Partner in Loan Guarantee Facility (LGF)

INVESTMENT PORTFOLIO
REAL ESTATE AND HOSPITALITY

Total value:
$167 million



PIF investments in the real estate and hospitality sectors unlock the sector's potential and allow for mass real estate and hospitality developments.

Construction currently represents around 22% of Palestinian GDP ($2.3 billion) and around 16% of total employment, making the sector an important contributor to the economy. The construction sector's potential growth is significant, particularly if key constraints are removed. High costs, together with long-standing land registration issues, remain two of the greatest constraints for the sector's development.

❝ Land is a precious commodity in Palestine. PIF develops its land holdings to satisfy high demand and strengthen national territorial integrity.❞

Greatest growth potential remains in residential real estate. Even though over a third of all construction is in residential real estate, there is a chronic housing shortage: the Government of Palestine estimates there will be a deficit of over 200,000 residential units by 2020. This primarily impacts the middle and lower income Palestinians, who are unable to afford to find or buy purpose-built houses.

Real estate development is also impeded by the complexities of Palestinian land registration. This makes it difficult and expensive for most investors to acquire large tracts of land, which, in turn, limits growth possibilities in the construction sector and imposes particular constraints on the affordable housing segment.

PIF's real estate development strategy is to boost the supply of residential and commercial buildings, especially affordable housing, in Palestine in light of the severe current shortage and the persisting pent up demand.

Through its subsidiary Amaar Real Estate Group, PIF has led the way in residential construction by expanding access to multi-cost housing through its projects outside the costlier urban areas of Ramallah (Al Reehan) and Jenin (Al Jenan). Its large-scale commercial project Ersal Center, located on the periphery of El Bireh-Ramallah, has provided high-end commercial facilities that will act as a vibrant business and financial hub, attracting businesses out of the congested urban center.

However, PIF recognizes that the real estate sector cannot attain its potential within the current construction structure, in which high construction costs are passed onto the consumer. Therefore, in 2014, PIF shifted its strategic focus from vertical project-based construction to horizontal mass land development in order to provide greater national access to unexploited land and to give Palestinians the chance to build their own homes.

Through Amaar, PIF will continue to lead in the sector by acquiring and registering large land tracts, creating master plans, establishing critical infrastructure, and enabling subcontractors to build according to the established plans.

Under a new "Build your Own Home" initiative, Amaar will also initiate the sale of land parcels to potential buyers to develop their homes in accordance with the approved master plan in many locations such as Hebron, Jericho, Birzeit, and Surda.

Amaar will be able to amass and monetize greater land holdings through planned mass development. This will reduce Amaar's focus on vertical development of real estate and allow the private sector to expand its role in this sector.

❝ 1.2 million working days were created by Amaar in construction since 2009.❞

Through Amaar, PIF continues to invest in hospitality ventures, including the flagship Grand Park hotels in Ramallah and Bethlehem and two landmark tourist sites in Jerusalem (the Grand Bazaar crafts market and the Golden Gate Hotel).

The Palestinian hospitality sector is promising yet fragile, with immediate repercussions of any political volatility on tourist numbers. Therefore, Palestine has lower hospitality rates than in the region, with hotel occupancy rates less than half and cash spend/stay rates 30% lower than in Jordan and Israel. In 2014, the hospitality sector suffered badly during and after the Israeli bombardment of Gaza. However, Amaar's hotels managed to maintain 55% occupancy rate, which is more than double the average occupancy rate (25%) in Palestine.

REAL ESTATE AND HOSPITALITY
AMAAR REAL ESTATE GROUP

AMAAR REAL ESTATE GROUP
Shareholder: PIF 100%

With an authorized capital of $140 million, Amaar Real Estate Group is the real estate investment arm of PIF. Amaar is the master real estate developer of large-scale real estate projects with focus on development in the residential and commercial sectors along with tourism and hospitality. Additionally, Amaar holds a significant land bank for potential future real estate developments and sale of land development rights.

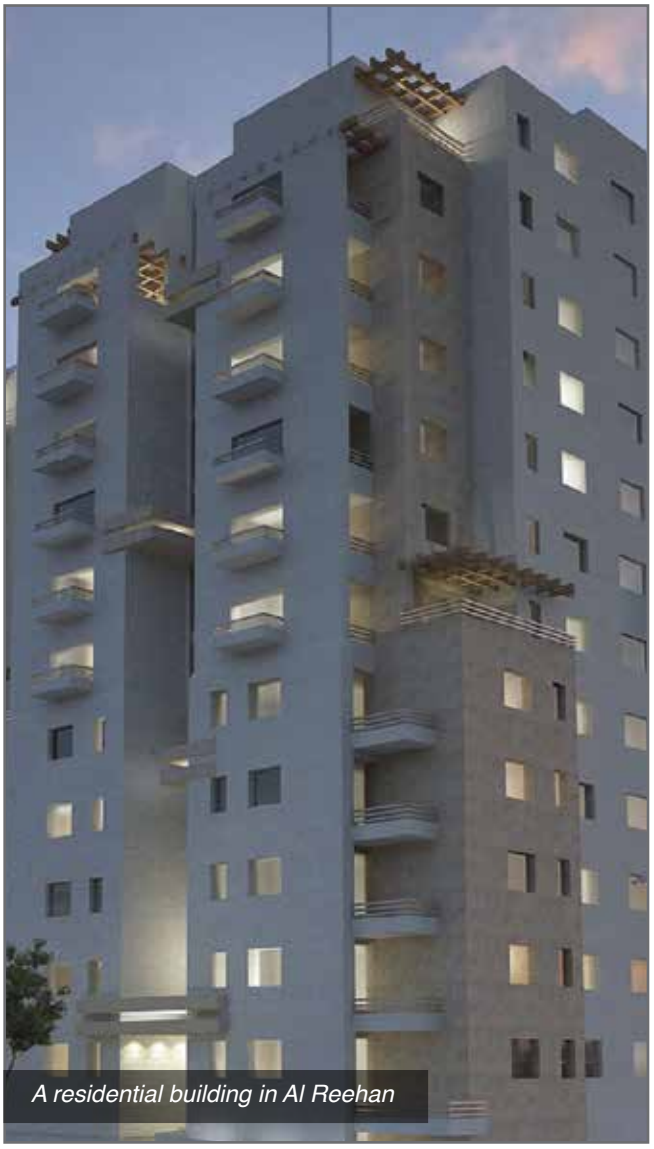
VERTICAL DEVELOPMENT:
RESIDENTIAL REAL ESTATE

Al Reehan (Ramallah)

The first planned neighborhood in Palestine is located near Ramallah with a total area of 250 dunum. The neighborhood consists of more than 1,600 planned residential units (including units developed by Amaar and units developed by others), one commercial center and other public facilities, including a specialized hospital, a mosque, a kindergarten, and a school.

In 2014, all apartments and villas were completed and handed over to end users, apart from the Jawwal residential area and Al Reehan Executive Towers. A third of the Jawwal units were handed over to Jawwal, with the remaining 169 units to be completed by mid-2015. Construction on the two 12-story residential Al Reehan Executive Towers was delayed by external factors: the hand over date is expected to be in the first half of 2015.

Al Reehan Commercial Center is complete and handed over to leaseholders. Al Reehan mosque and library are ready for residents' use, and Al Reehan Hospital is completed, pending interior design and equipping. An exclusive public transportation line and taxi service from Ramallah was also activated to Al Reehan.



A residential building in Al Reehan

Al Jenan (Jenin)

Al Jenan is the first planned neighborhood in the Jenin area, with a few hundred residential units, one commercial center and other public facilities covering 77 dunum. All 54 semi-detached villas and 28 apartments were completed, despite the work cessation of subcontractor Ritaj.

VERTICAL DEVELOPMENT:
COMMERCIAL REAL ESTATE PROJECTS

Ersal Center and Amaar Tower

Ersal Center will serve as a 58-dunum financial district to more than 800,000 Palestinians living in Ramallah and Al Bireh, and the central region of the West Bank, including Jerusalem.

At the heart of Ersal Center is the 17-floor state-of-the-art Amaar Tower, which will house PIF, Amaar, and Sanad's headquarters, as well as other tenants.

Both Ersal Center and Amaar Tower are complete and handed over, pending finishing works and final landscaping of the center.

Jericho Agro Industrial Park (JAIP)

JAIP is being developed as a multi-use industrial park in Jericho, with commercial lease hangers and open lots.

In 2014, infrastructure was completed and almost 92% of hangers were installed/fixed. Additionally, eleven contracts for hangers and open lots were signed in JAIP.

HORIZONTAL DEVELOPMENT

Amaar owns a large land bank of approximately 935 dunum across the West Bank. In 2015, Amaar will develop a number of its available land plots so they can be sold off for horizontal development, through sale of land development rights to individuals and private developers.

Amaar's decision to focus on horizontal development came as a result of the ever-increasing demand for land plots by individuals and developers, combined with the high construction costs of vertical development.

To fulfill this strategy, Amaar will be diligently seeking opportunities to purchase land plots in the West Bank to add to its growing land bank, which will later on be used to expand its development projects as part of the residential real estate portfolio.

HORIZONTAL DEVELOPMENT STRATEGY
Amaar will:

1. Acquire plots of land
2. Execute minimum infrastructure works
3. Obtain approvals on master plans
4. Parcel land plots based on the approved master plans
5. Sell small parcels to individuals and developers in the form of development rights

Madinat Al Qamar (Jericho)

Amaar launched Madinat Al Qamar, a 500-dunum horizontal development project in Jericho, in 2014. Infrastructure works are underway and Amaar has already begun selling development rights to subdevelopers for residential and mixed use.

Infrastructure works in Madinat Al Qamar (Jericho)

Fakhr El Din Restaurant, Grand Park (Ramallah)

TOURISM AND HOSPITALITY

Grand Park (Ramallah)

The Grand Park Hotel has a total approved budget of around $11.5 million. In 2014, the hotel launched the new Fakhr El Din Restaurant. The Grand Park maintained a 56% occupancy rate (more than double the market average of 25%). To mitigate the impact of challenges faced in 2014 as a result of the Gaza war, the Grand Park continues to provide quality services by implementing recovery plans as needed.

Grand Park (Bethlehem)

Grand Park Hotel invested $4 million in Grand Park (Bethlehem) and now has an ownership stake of 40.7% in the hotel. Amaar injected $1.6 million in the development of Grand Park (Bethlehem). In 2014, the hotel maintained a 55% occupancy rate (higher than the market average of 25%). Amaar seeks to lower costs and improve efficiency of the hotel's management by closely and constantly monitoring operations and financial performance.

> *“Grand Park Hotels maintained 2x the occupancy rate than the market average.”*

Grand Bazaar Company

In a joint venture with Al Quds Holding, Amaar is developing and renovating the Grand Bazaar building in a prime tourist area in the Old City of Jerusalem by leasing it to Jerusalem Tourism Cluster (JTC), which will work on turning it into a crafts market. JTC will supervise the renovation of the building and will lease the Grand Bazaar for 10 years. In 2014, Amaar's share in Grand Bazaar increased to 63.7%. Al Quds Holding requested a $1 million grant from the Islamic Development Bank (IDB) to finance the renovation of the building,

INVESTMENT PORTFOLIO
LARGE CAPS

PIF adds value to large cap Palestinian companies by improving operations and efficiency for greater market competitiveness.

Within the large caps sector, PIF invests in companies with high capitalization that are typically in the mature stage and have stable earnings. PIF's goal is to extract value from improving operations and efficiency in these companies and, as a result, secure stable ongoing returns. The significant stakes that PIF acquires in these companies give it some control over operations and strategic planning decisions.

Currently, PIF has five main large cap holdings: Sanad Construction Industries, the Arab Palestinian Investment Company (APIC), the Palestinian Islamic Bank (ISBK), the Arab Islamic Bank (AIB), and the Palestine Industrial Investment Company (PIIC).

SANAD

PIF stake: 100%

Sanad Construction Industries Company (formerly Palestine Commercial Services Company) was established in 1994 to meet the cement needs of the Palestinian market. Sanad is also a majority shareholder (owns 60%) in Bulk Express, the largest cement transport company in the West Bank.

As a critical construction material, cement is a strategic commodity that is vital to the national economy. Accordingly, cement trading is one of the major business lines in Palestine, and the security and stability of its supply and pricing are of strategic importance to the Palestinian economy. However, the economic and political conditions limit growth prospects in cement trading, as demonstrated by the inability to access the Gaza market, despite its immense need for building materials.

> *“Sanad offers cement at lower prices than nearby countries, by managing its supply chain.”*

The need to import the vast majority of raw materials for the construction sector results in higher than necessary costs and potential construction delays due to supply constraints.

At present, the majority of cement is imported from Israel: Sanad purchases 80% of local cement requirements from Israel's Nesher Cement.

In 2014, Sanad shifted towards a new development strategy to secure a reliable domestic source and inventory of concrete and other building materials and capture a greater part of the value chain.

At the heart of Sanad's long-term strategy is the establishment of a cement factory in Palestine in the coming four years. In 2014, Sanad hired Holtec, an Indian consulting services company to conduct a feasibility study and prepare a business plan for Sanad's new manufacturing plant project. The $300 million plant will have a capacity of 5,000 tons per day, which would be doubled after three years.

A second pillar in Sanad's development strategy is the establishment of two main filling and packing facilities in the West Bank to process imported cement. Sanad is also studying the possibility of domestic production of aggregates and the introduction of artificial stones.

A third pillar is the stimulation of the larger concrete producing sector. In 2015, Sanad will launch a $30 million investment program to provide equity to private sector start-ups and established companies operating in the sector. Sanad will also explore co-investing with Sharakat Investment Fund in construction material companies.

Despite the sector's potential, the current economic and political conditions limit its growth prospects. This is why Sanad's management expects no growth in the market next year.

A breakthrough in the political and economic situations in 2014, however, would stimulate the demand for cement. Additionally, the full opening of commercial borders to Gaza would significantly expand market opportunities.

In 2014, Sanad renewed its agreement with Nesher and was able to secure much better terms. Sanad's competitive advantage allows it to ensure reasonable prices to customers.

ARAB PALESTINIAN INVESTMENT COMPANY (APIC)

PIF stake: 20.2%
Authorized capital: $70 million
Paid-in capital: $60 million

A leading private shareholding corporation operating in manufacturing, retail, and wholesale trade, APIC holds a diversified portfolio of investments, including automobile distribution, FMCG, advertisement, and commercial shopping centers.

In 2014, APIC was listed on the PEX and had a share price of $1.1 as of December 2014. APIC earned around $11.2 million in net profit in 2014.

“APIC’s nine subsidiaries provide high quality products and services that were previously unavailable in the local market or imported at a high cost.”


National Aluminum & Profile Company (NAPCO)

Subsidiary	About
Palestine Automobile Company	The exclusive distributor for the Hyundai Motor Company and Chrysler Group in Palestine.
Sky Advertising Company	A pioneer advertising and public relation service provider.
Arab Palestinian Shopping Centers Company	The first Palestinian company that specializes in establishing and managing shopping centers.
Unipal General Trading Company	Diversified fast moving consumer goods distributor in Palestine.
National Aluminum & Profile Company	The first and sole manufacturing company of aluminum profiles in Palestine.
Siniora Food Industries	A leading meat-processing company with an extensive presence in Jordan, Palestine, and nine other Arab countries.
Central and West Africa for Commercial Agencies Company	The exclusive distributor of Procter & Gamble products across West Africa; Cameroon, Democratic Republic of Congo, and many others.
Medical Supplies and Services	Provider of health-care products, and medical and laboratory equipment.
Arab Palestinian Storage & Cooling Company	Specializes in establishing, processing, and managing cold storage for agricultural products, livestock products, fisheries, and food.

PALESTINE ISLAMIC BANK (ISBK)

PIF stake: 34%

Currently, Islamic banking accounts for less than 9% of the total banking market in Palestine, yet demand for Islamic banking is estimated at 20%.

Palestine Islamic Bank (ISBK) is licensed as an Islamic Bank and operates in accordance with sharia' rules. The Bank has an authorized capital of $100 million and a paid-in-capital of $50 million. ISBK currently operates through 21 branches, with over 450 staff.

In 2012, PIF completed the acquisition of a strategic stake of 34% in ISBK, making it the largest shareholder and allowing it to gain control over the Bank. PIF believes that it can build capacity within the bank, implement structural changes, attract strategic partners, and grow the Bank to become a leading institution in Palestine. PIF also believes that ISBK can serve as a platform for some of its existing and future programs.

Historically, ISBK offered a limited number of sharia'-compliant banking products and services. Since establishment, the bank focused on installment (cost-plus) sale (murabaha), leasing (ijarah) and Islamic forwards (istisna'). However, in 2014, the bank has recently expanded its products and offering to include profit-and-loss sharing (mudaraba), partnership and joint stock ownership (musharaka), and bartering (musawama). Further services, such as credit cards, remittances, and home financing will be introduced in 2015.

“Islamic banks are characterized by an approach that avoids the payment and receipt of interest. This may include the bank acquiring machinery and/or goods on behalf of companies and reselling it to the borrower with a mark-up.”

During the last five years, ISBK's total assets and customer deposits increased by over 60% and credit facilities increased by 202%. At the end of 2014, ISBK had 5% of the total banking sector in Palestine, with total assets of $595 million. ISBK was ranked fourth in terms of credit facilities, and fifth in terms of profitability (ROE), and seventh in terms of deposits among the 16 operating banks.

The bank is expected to grow at an average of 15% annually for the coming three years, with main drivers including network expansion (through new 30 new branches) and greater range of products and services.

In October, 2014, a new board of directors was elected to oversee the bank's management. The newly elected board is composed of long-experienced professionals. Following the elections, new board committees were formed to enhance governance and risk management.

ARAB ISLAMIC BANK (AIB)

PIF stake: 21%

With a market share of 48%, AIB is smaller than ISBK. At the end of 2014, the bank had around $562 million in assets and $247 million in outstanding credit facilities. Currently, AIB operates through 12 branches, with over 300 employees.

In 2014, AIB experienced significant growth, with increases in total assets (up 20% from 2013), customer deposits (up 22%), and credit facilities (up 29%). Net income was $4.1 million, up by 18% from 2013.

Through board representation, PIF provides strategic and institutional support to grow the bank and expand its product offering and client outreach.

PIF's investment in AIB and PIIC is managed through Khazanah. This is because, although PIF holds around 21% of shares in both companies, its involvement in their management remains very limited.

PALESTINE INDUSTRIAL INVESTMENT COMPANY (PIIC)

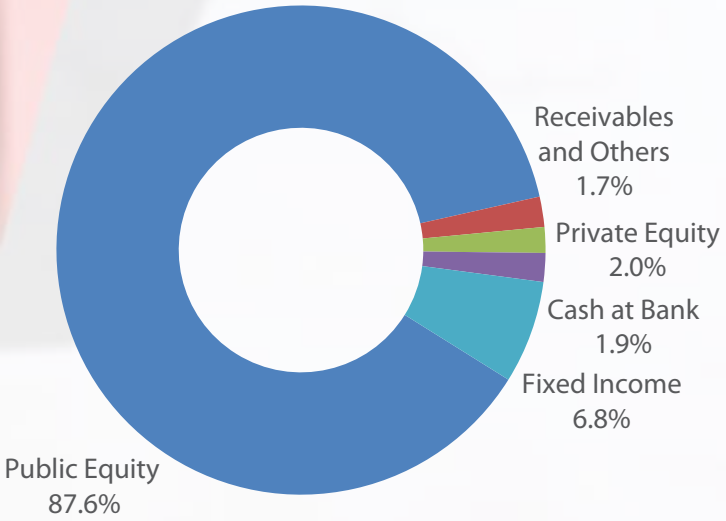
PIF stake: 21%

Palestine Industrial Investment Company (PIIC) is a holding company that was established in 1995 as one of the largest industrial and agricultural companies in the country. In 2002, PIIC was listed at the PEX.

PIIC is the founder of Palestine Poultry Company (Aziza) and Palestine Plastic Industries Company (Ladaen) and both are listed on PEX. PIIC also owns a stake in Vegetable Oil Industries Co. (VOIC), Golden Wheat Mills Company (GWMC), and National Carton Industries Co. (NCI). Its total assets in 2014 was JD 49 million.

INVESTMENT PORTFOLIO
CAPITAL MARKETS

Total value:
$234 million



CAPITAL MARKETS

KHAZANAH ASSET MANAGEMENT COMPANY

Khazanah Asset Management Company aims to provide a sustainable stream of income, grow the value of PIF's assets over the long-term, and manage PIF's overall risk and excess liquidity.

As the capital markets investment arm of PIF, Khazanah manages investment portfolios across three main geographies that include domestic, regional, and global markets.

Khazanah provides the PIF with a professional platform to invest its excess liquidity over the medium to the long-term in domestic equities, regional equities, global equities and regional fixed income, thus allowing the PIF to diversify its investment portfolio and moderate its investment risk profile.

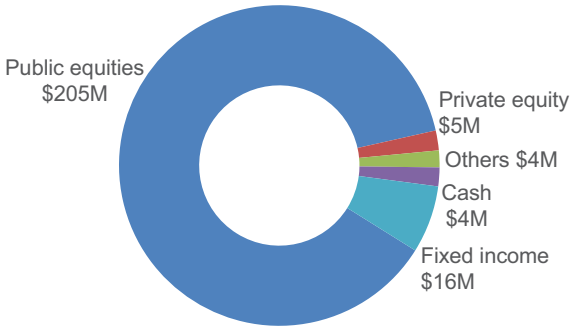
As of 31 December 2014, the total investments managed by Khazanah were $234 million, which included $205 million in public equities, $5 million in private equity, and $16 million in fixed income.

Its asset class allocation takes into consideration the PIF overall target asset allocation to strategic investments, private equities, real estate and cash. Thus, Khazanah's capital markets exposure complements the PIF's overall asset allocation to long-term illiquid assets, particularly public equities exposure.

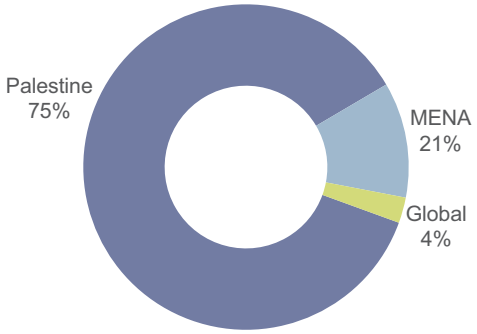
In terms of geographic allocation, Palestine forms the core of Khazanah investment portfolio with total allocation of 75%, given its strategic importance and the PIF's board commitment to invest in the Palestinian capital market to support and uplift the national economy.

Regional and global equities allocation is maintained to ensure portfolio diversification among different geographies while optimizing the portfolio risk-return profile.

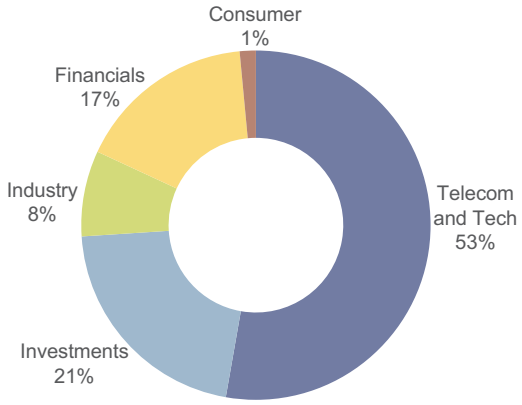
Allocation by Asset Class



Allocation By Geography



Allocation of Public Equity by Sector



CAPITAL MARKETS

RASMALA PALESTINE EQUITY FUND

Rasmala Palestine Equity Fund provides a gateway to a diversified exposure in the PEX.

Rasmala Palestine Equity Fund (RPEF) was launched at the beginning of 2011 by Rasmala Investment Bank, a leading MENA asset management company based in Dubai, with the sponsorship of PIF.

The RPEF's main objective is to provide its investors with a sustainable stream of dividend, while achieving long-term capital over the long-term appreciation. It achieves this by investing in a diversified portfolio and value stocks listed in the PEX and, at times, in securities anticipated to undergo initial public offering, as well as securities at their initial stage of public offering.

RPEF seeks to generate Alpha above Al-Quds Index benchmark. It uses a combination of qualitative and quantitative tools in setting its asset allocation, sizing individual security exposures, and moderating the fund risk profile.

The RPEF is constructed as an efficient investment vehicles to attract local, regional and international Institutional investors seeking to get a diversified exposure to Palestine domestic capital market and its key economic sectors.

The fund has succeeded in attracting a group of leading institutional investors including the Arab Bank, Palestine Telecommunications Company (PALTEL), Palestine Development and Investment Company (PADICO) and Bank of Palestine (BOP).

As of 31 December 2015, the fund total assets were around $56.8 million invested in 14 leading stocks in the PEX and across main economic sectors.

Sector	Service	Financials	Investment	Industry	Cash
Fund	52%	23%	20%	1%	3%
Benchmark	51%	29%	16%	3%	0%

INVESTMENT PORTFOLIO
PALESTINE FOR DEVELOPMENT FOUNDATION

Studio Alpha (grantee under Jersualem Grant Facility)

By seeding and scaling up businesses, PIF's social investment and corporate social responsibility program is building a strong, independent economy from within.

In 2014, PIF established Palestine for Development Foundation (PSDF) as a separate entity, responsible for social investments leveraging funds from PIF and other donors. The not-for-profit foundation develops and supports projects that have tangible impact on the Palestinian society, particularly in fostering entrepreneurial resilience and growth.

PSDF now manages all corporate social responsibility (CSR) initiatives and programs formerly implemented by PIF, including the Lebanon Refugee Camps Microfinance Facility, which were previously classified under Sharakat, the Jerusalem Grant facility, and the American School in Gaza.

By shifting its CSR activities under PSDF, PIF can maintain its focus on investment activities while ensuring a strategic and sustainable approach for social investment. PSDF will facilitate fund-raising and cooperation with local and international organizations for CSR programs. So far, PIF has secured an Arab Fund grant ($0.5 million) to support the Lebanon Refugee Camps Microfinance Facility and a European Commission grant ($2.3 million) to support the Jerusalem SME Grant Facility.

PSDF is a separate legal entity, with its own board of trustees and registered as a non-profit company.

PALESTINE FOR DEVELOPMENT FOUNDATION
PSDF FINANCING FACILITIES

Through the Lebanon Refugee Camps Microfinance Facility and the Jerusalem Grant facility, PIF provides access to subsidized financing for micro-entrepreneurs without access to traditional financing.

LEBANON REFUGEE CAMPS MICROFINANCE FACILITY

In Lebanon, Palestinian refugees are not eligible for bank loans and often lack the collateral for credit. Through the Lebanon Refugee Camps Microfinance Facility, PIF supports Palestinian refugees in starting or building their small enterprises. Launched in 2011, the low-rate micro-loan program fosters sustainable income-generation opportunities, creates employment within families and surrounding communities, and strengthens household resilience by reducing poverty.

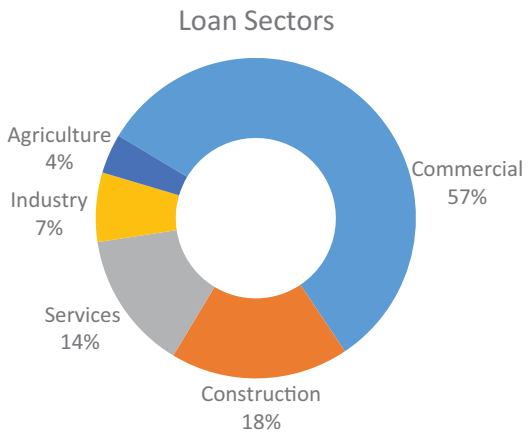
Loans are disbursed through four microfinance institutions: Association for Development in Rural Capacities (30%), Lebanese Association for Development (Al-Majmou'a) (25%), General Union for Palestinian Women (25%), and Najdeh Association (20%). PSDF ensures that loan rates are kept significantly lower than market rates. Loans range from $500-$5,000, with an average loan size of $1,621, and must be repaid within 18 months.

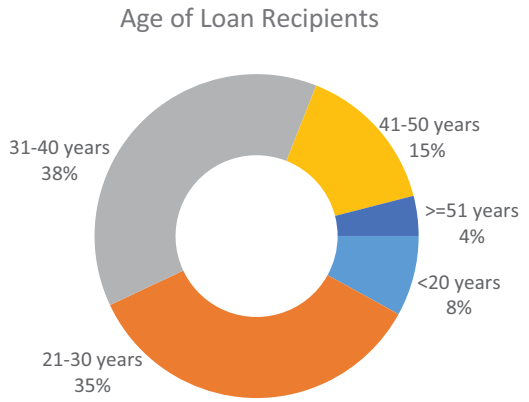
The Lebanon Refugee Camps Microfinance Facility significantly expanded its outreach in 2014. Some 1,050 different projects (valued at $1.7 million) were financed across five different sectors, up from 350 loans financed in 2013. The facility has now fully disbursed its commitment amount in the program. Once the loans are fully repaid, PSDF plans to revolve the loans again in order to expand the size of the portfolio and finance more projects.

The PSDF also built the capacity of its four partner institutions in managing micro financing, through a UNDP grant awarded in 2013.

In 2014, commercial and construction enterprises (57% and 18% of loans) received the greatest support, with the remaining 25% of loans going to those working services, industry, and agriculture.

The profile of a typical loan recipient was a 30-year old man who ran a small commercial business. In 2014, the facility is raising $1 million from donors to expand its outreach to women, who currently receive only 26% of all loans and youth (who receive 8%). The facility also aims to target other sectors including utilities, trade, and IT.





JERUSALEM GRANT FACILITY

One of the biggest challenges facing SMEs in Jerusalem is access to affordable capital, especially soft loans. The Jerusalem Grant Facility was launched at the beginning of 2014 and is a complementary program to Sharakat's investment activity in Jerusalem.

Completely funded by the European Commission, the facility provides grants to Jerusalem based SMEs that are not yet investment-ready to help them become commercially feasible and capable of attracting institutional investors.

The $2 million facility disburses grants between $25,000 and $100,000 for business development costs of SMEs, purchasing equipment and supplies, conducting consulting engagements, training and hiring new staff members, as well as marketing and product development.

In 2014, the facility reviewed 41 grant requests and approved four grants for SMEs working in the tourism, manufacturing and services sectors. Four grants were approved in 2014, with a total value of $0.4 million. The grants will enable the SMEs to employ new staff (with 27 long-term positions created), scale up or improve production lines, and expand into new markets.

"The grant is a turning point in our ceramic business. The inkjet printing will allow us to increase our market share 20-fold. It cements the future success of our business."

Neshan Balian Jr
General Manager
Armenian Ceramics-Balian

PSDF COACHING AND MENTORING PROGRAM

PSDF seeks to secure the profits of tomorrow by growing the entrepreneurs today. As a young and highly educated society, Palestine has the human capital for economic innovation and adaptability, if university students and new graduates are able to access financing and business expertise.

In 2013, PIF launched My Project Starts with an Idea to enable university students to transform their business ideas into well-structured business plans for high-growth potential enterprises. In 2014, PSDF continued the initiative at seven universities in the West Bank, in partnership with the Birzeit University's Center of Excellence and Community Education Center.

Out of 40 applications, the Program generated 20 economically viable business ideas. Viable business ideas were supported through the provision of mentoring and coaching services. The winning ideas received financial rewards and were presented to venture capital and equity funds at the end of the program.

FINANCIAL STATEMENTS

December 31, 2014

Palestine Investment Fund Company P.L.C

Consolidated Financial Statements

December 31, 2014

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Independent Auditors' Report to the Shareholder

Palestine Investment Fund Company P.L.C

We have audited the accompanying consolidated financial statements of Palestine Investment Fund Company P.L.C (PIF), which comprise the consolidated statement of financial position as of December 31, 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PIF as of December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young - Middle East
License # 206/2012

Ernst + Young

April 6, 2015
Ramallah, Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2014
(U.S $ 000's)

	Notes	U.S. $ 000's 2014	2013
Assets			
Non-current assets			
Property, plant and equipment	4	76,852	73,797
Goodwill	5	26,521	26,521
Investment properties	6	72,556	66,224
Projects in progress	7	52,529	47,793
Investments in associates	8	103,508	98,523
Investment in a joint venture	9	4,087	4,735
Held- to-maturity financial assets	10	15,862	12,682
Available-for-sale investments	11	217,555	202,414
Other financial assets	12	55,408	54,595
		624,878	587,284
Current assets			
Properties ready for sale	13	7,367	10,726
Accounts receivable	14	35,151	26,595
Other current assets	15	22,795	23,418
Cash and deposits at banks	16	104,907	122,880
		170,220	183,619
Total assets		795,098	770,903
Equity and liabilities			
Equity			
Paid-in share capital	17	625,000	625,000
Shareholder's current account	18	(102,554)	(119,271)
Statutory reserve	19	90,553	86,929
Voluntary reserve	19	26,131	22,507
Foreign currency translation reserve		(509)	1,032
Available-for-sale reserve	11	28,654	32,440
Retained earnings		29,514	26,525
Total equity attributable to shareholder		696,789	675,162
Non-controlling interests		976	1,400
Total equity		697,765	676,562
Non-current liabilities			
Long-term loans	21	38,977	43,079
Deferred tax liabilities	22	4,283	8,677
		43,260	51,756
Current liabilities			
Current portion of long-term loans	21	9,050	3,957
Accounts payable	23	23,215	21,124
Provisions and other current liabilities	24	19,509	16,621
Provision for income tax	25	2,299	883
		54,073	42,585
Total liabilities		97,333	94,341
Total equity and liabilities		795,098	770,903

CONSOLIDATED INCOME STATEMENT

For the Year Ended December 31, 2014

(U.S $ 000's)

	Notes	U.S. $ 000's 2014	2013
Operating revenues	26	207,550	187,041
Cost of sales	26	(158,228)	(140,950)
Operating expenses	26	(15,407)	(14,462)
		33,915	31,629
Gain from investment in financial assets	27	16,145	14,939
Interest income	28	3,003	1,912
Change in fair value of investment properties	6	7,653	6,063
Share of associates' results of operations	8	(588)	(3,772)
Share of joint venture's results of operations	9	(948)	(929)
Investment expenses	29	(2,299)	(2,671)
Other revenues	30	10,205	8,035
		67,086	55,206
General and administrative expenses	31	(15,781)	(12,293)
Finance costs		(1,459)	(466)
Donations		(1,258)	(799)
Depreciation of property, plant and equipment		(1,300)	(1,283)
Currency exchange (loss) gain		(1,730)	1,740
Other expenses	32	(1,535)	(1,320)
Profit before income tax		44,023	40,785
Income tax expense	25	(7,332)	(7,206)
Profit for the year		36,691	33,579
Attributable to:			
The shareholder		36,237	33,063
Non-controlling interests		454	516
		36,691	33,579

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31, 2014

(U.S $ 000's)

	Notes	U.S. $ 000's 2014	2013
Profit for the year		36,691	33,579
Other comprehensive income:			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net (loss) gain on available-for-sale investments	11	(9,127)	25,217
Deferred taxes related to other comprehensive income items	11	5,341	(5,341)
		(3,786)	19,876
Foreign currency translation		(1,541)	684
Total other comprehensive income		(5,327)	20,560
Total comprehensive income for the year		31,364	54,139
Attributable to:			
The shareholder		30,910	53,623
Non-controlling interests		454	516
		31,364	54,139

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2014

(U.S. $ 000's)

2014	Attributable to the shareholder									
	Paid-in share capital	Shareholder's current account	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Available-for-sale reserve	Retained earnings	Total	Non-controlling interests	Total equity
At January 1, 2014	625,000	(119,271)	86,929	22,507	1,032	32,440	26,525	675,162	1,400	676,562
Profit for the year	-	-	-	-	-	-	36,237	36,237	454	36,691
Other comprehensive income	-	-	-	-	(1,541)	(3,786)	-	(5,327)	-	(5,327)
Total comprehensive income for the year	-	-	-	-	(1,541)	(3,786)	36,237	30,910	454	31,364
Shareholder's current account (note 18)	-	(1,283)	-	-	-	-	-	(1,283)	-	(1,283)
Distributed dividends (note 20)	-	26,000	-	-	-	-	(26,000)	-	(1,000)	(1,000)
Interim dividends (note 20)	-	(8,000)	-	-	-	-	-	(8,000)	-	(8,000)
Transfers	-	-	3,624	3,624	-	-	(7,248)	-	-	-
Change in non- controlling interests	-	-	-	-	-	-	-	-	122	122
At December 31, 2014	625,000	(102,554)	90,553	26,131	(509)	28,654	29,514	696,789	976	697,765

2013	Attributable to the shareholder									
	Paid-in share capital	Shareholder's current account	Statutory reserve	Voluntary reserve	Foreign currency translation reserve	Available-for-sale reserve	Retained Earnings	Total	Non-controlling interests	Total equity
At January 1, 2013	625,000	(72,657)	83,623	19,201	234	12,564	40,188	708,153	1,204	709,357
Profit for the year	-	-	-	-	-	-	33,063	33,063	516	33,579
Other comprehensive income	-	-	-	-	684	19,876	-	20,560	-	20,560
Total comprehensive income for the year	-	-	-	-	684	19,876	33,063	53,623	516	54,139
Shareholder's current account (note 18)	-	(66,614)	-	-	-	-	-	(66,614)	-	(66,614)
Distributed dividends (note 20)	-	40,000	-	-	-	-	(40,000)	-	(320)	(320)
Interim dividends (note 20)	-	(20,000)	-	-	-	-	-	(20,000)	-	(20,000)
Transfers	-	-	3,306	3,306	114	-	(6,726)	-	-	-
At December 31, 2013	625,000	(119,271)	86,929	22,507	1,032	32,440	26,525	675,162	1,400	676,562

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2014
(U.S. $ 000's)

		U.S. $ 000's	
Operating activities	Notes	2014	2013
Profit before tax		44,023	40,785
Adjustments:			
Net interest		(1,544)	(1,446)
Share of associates' results of operations		588	3,772
Share of joint venture's result of operations		948	929
Change in fair value of investment properties		(7,653)	(6,063)
Gain from investment in financial assets		(16,145)	(14,939)
Gain from sale of investment properties		(841)	(555)
Gain from sale and acquisition of associates		-	(3,641)
Provision of doubtful receivables and advances		143	1,320
Gain from sale of property, plant and equipment		(7,018)	(62)
Other non-cash items		3,899	3,579
		16,400	23,679
Working capital adjustments:			
Accounts receivable		(8,200)	(2,304)
Other current assets		707	3,494
Accounts payable		2,164	(6,934)
Provisions and other current liabilities		1,888	(3,229)
Income tax paid		(5,508)	(7,460)
Change in restricted cash		(137)	(485)
Net cash flows from operating activities		7,314	6,761
Investing activities			
Available-for-sale investments		(22,602)	40,844
Purchase of held-to-maturity financial assets		(3,180)	(980)
Purchase of property, plant and equipment		(2,508)	(1,968)
Sale of property, plant and equipment		7,234	171
Investment properties		2,201	2,733
Joint venture		(250)	-
Purchase of investment in associates		(6,826)	(7,578)
Projects in progress		3,006	2,987
Loans granted		(863)	(2,710)
Dividends and interest received		17,942	14,182
Change in term deposits maturing after three months		636	(14,916)
Net cash flows (used in) from investing activities		(5,210)	32,765
Financing activities			
Cash dividends paid		(8,000)	(20,000)
Shareholder's current account		(11,520)	(8,452)
Proceeds from term loans		4,538	26,502
Settlement of term loans		(3,306)	(872)
Change in non-controlling interests		122	-
Dividends to non-controlling interests		-	(320)
Finance costs paid		(1,459)	(466)
Net cash flows used in financing activities		(19,625)	(3,608)
(Decrease) increase in cash and cash equivalents		(17,521)	35,918
Cash and cash equivalents, beginning of the year		99,087	62,285
Foreign currency translations differences		47	884
Cash and cash equivalents, end of year		81,613	99,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014

1 . CORPORATE INFORMATION

The Palestine Investment Fund (PIF), a Public Shareholding Company, was incorporated in Gaza under registration number 562600718 on March 17, 2003.

The shareholder of PIF is the Palestinian people represented by a General Assembly that is composed of thirty members from the Palestinian public.

PIF aims to engage in various types of investments that promote economic growth and infrastructure development in Palestine. PIF seeks to achieve sustainable long-term economic prosperity for Palestine through domestic private sector investments as well as attracting foreign-investments.

PIF's consolidated financial statements as at December 31, 2014 were authorized for issuance by the Board of Directors on April 6, 2015.

2 . CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are composed of the financial statements of PIF and its subsidiaries as at December 31, 2014. PIF's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

		Ownership %	
	Activity	2014	2013
Sanad Constructions Industries *	Trade	100	100
Bulk Express Company	Transportation	60	60
Amaar Real Estate Group	Real estate investment	100	100
Red Sea International Investment Company	Financial investment	100	100
Khazaneh Financial Investments Company	Financial investment	100	100
Sharakat for Small and Mid-size investments	Financial investment	100	100
Others	Investment in real estate and securities	100	100

Most of PIF subsidiaries operate in the Palestinian National Authority territories.

* During the year, Palestine Commercial Services Company changed its name to Sanad Constructions Industries.

3. Basis of preparation

The consolidated financial statements of PIF have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale investments and investment properties that are measured at fair value as of the financial statements date.
The consolidated financial statements have been presented in U.S Dollars which is the functional currency of PIF. All values except when otherwise indicated, are rounded to the nearest thousand dollars (U.S. $ 000's).

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of PIF and its subsidiaries as at December 31, 2014. Control is achieved when PIF has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When PIF has less than a majority of the voting or similar rights of an investee, PIF considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- PIF's voting rights and potential voting rights

PIF re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.
Consolidation of a subsidiary begins when PIF obtains control over the subsidiary and ceases when PIF loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date PIF gains control until the date PIF ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of PIF and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

All intra-group balances, unrealized profits or losses and cash dividends relating to transactions between subsidiaries are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If PIF loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except that PIF has adopted the following new and amended IFRS as of January 1, 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 fair value measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash –generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

IFRIC 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

The adoption of the new standards and amendments did not affect the financial position or performance of PIF.

Standards issued and not yet effective
The following standards and amendments have been issued but are not yet mandatory, and have not been adopted by PIF. These standards and amendments are those that PIF reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. PIF intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments
IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. PIF is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IAS 27: Equity Method in Separate Financial Statements
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of PIF's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

The key areas involving a higher degree of judgment or complexity are described below:

Impairment of non-financial assets
Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use.

Provision for doubtful debts receivables, loans and advances
PIF's subsidiaries provide services to a broad base of clients, using certain credit terms, while PIF provides loans for some of its associates and investment projects. Where PIF and its subsidiaries have objective evidence that they will not be able to collect certain debts, an estimate of the provision is made based on PIF and subsidiaries' historical experience, to determine the level of debts that will not be collected.

Useful lives of tangible and intangible assets
PIF's management reassesses the useful lives of tangible and intangible assets, and adjusts it, if applicable, at each financial year end.

Provision for income tax
PIF and its subsidiaries use certain estimates in determining the provision for income tax. PIF management believes that the estimates and assumptions used are reasonable.

Fair value of financial instruments
Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using appropriate valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of goodwill
The determination whether goodwill is impaired requires an estimation of the 'value in use' of the cash-generating units to which the goodwill is allocated. Such estimation requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for litigation
PIF's management provides, based on its legal consultants opinions, provisions against any litigations.

Investment properties
The management relies on certified appraisers to determine the fair value of the investment properties.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

Real estate sale revenue
Real estate sale revenue is recognised when the major risks and the real estate ownership are transferred to the buyer, which is usually when the real estate is delivered. Interest income on properties instalments are recognised in the period in which it occurs for all the instalment period.

Sale of goods
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Hotel services revenue
Revenues from rooms' services and other facilities' services are recognized when the outcome of the transaction can be estimated reliably, by referring to the percentage of completion of the transaction at the financial statements date.

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

Investment income
Gains or losses on sale of investments in securities are recognised at the date of sale. Dividend revenue is recognised when the right to receive the dividend is established.

Expenses Recognition

Expenses are recognised based on the accrual basis of accounting.

Finance Costs

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other finance costs are charged to the consolidated income statement in the period they occur. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income Tax

PIF provides for income tax in accordance with the Palestinian Income Tax Law (or in accordance with the applicable tax regulations where the entity operates and generates taxable income) and IAS 12, which requires recognising the temporarily differences at the reporting date as deferred taxes.

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

Current Versus Non-Current Classification

PIF presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

PIF classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair Value Measurement

PIF measures financial instruments and non-financial assets, such as investments properties, at fair value at each reporting date. PIF also discloses the fair value of the held to maturity financial assets in the notes to the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by PIF.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

PIF uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 — Quoted (unadjusted) market prices in active markets
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

External appraisers are involved for valuation of significant assets. PIF decides, after discussions with the external appraisers, which valuation techniques and inputs to use for each case.

For the purpose of fair value disclosures, PIF has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, Plant And Equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the consolidated income statement as incurred. Land is not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

	Useful lives (years)
Buildings	33 – 50
Transportation means, equipment and spare parts	4 – 10
Computers and systems	3 – 5
Furniture and decoration	14 – 15

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, PIF measures the non-controlling interest in the acquiree at fair value. Acquisition costs incurred are expensed.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Goodwill is initially measured at cost being the excess of the consideration transferred over PIF's fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

INVESTMENTS IN ASSOCIATES

PIF's investment in its associates is accounted for using the equity method. An associate is an entity in which PIF has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies.

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in PIF's share of net assets of the associates. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement and the statement of comprehensive income reflect the share of the result of operations of the associates. Profits and losses resulting from transactions between PIF and the associates are eliminated to the extent of the interest in the associates.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of PIF.

PIF determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case PIF calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

When step acquiring an associate, PIF's share is measured at fair value as at the date of acquiring significant influence over the associate. Any resulting differences are recognized in the consolidated income statement.

INVESTMENT IN A JOINT VENTURE

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

PIF has a joint control in joint ventures which constitute jointly controlled entities. Investment in joint ventures is accounted for using the equity method of accounting. According to the equity method, investments in joint ventures appear in the consolidated statement of financial position at cost plus the subsequent changes in PIF's share in the joint ventures net assets.

PIF's share in the operations of the joint ventures is recorded in the consolidated income statement. Unrealized gains and losses resulting from transactions between PIF and the joint ventures are excluded to the extent of PIF's share in the joint ventures.

The financial statements for the joint ventures are prepared for the same reporting year as PIF, using consistent accounting policies for transactions of similar nature. At the date of the consolidated financial statements, PIF determines whether there is objective evidence indicating impairment in the value of the joint ventures. If such evidence exists, PIF measures the impairment by deducting the fair value of the investment from the expected recoverable amount; this impairment is recognised in the consolidated income statement.

PROJECTS IN PROGRESS

Projects in progress constitute the costs incurred on incomplete projects, which include cost of the land, design, construction, direct wages and portion of the indirect costs. Upon completion, all projects' costs are capitalized and transferred to property, plant and equipment or to properties ready for sale.

The carrying values of projects in progress are reviewed for impairment when events or charges in circumstances indicate that the carrying value may not be recoverable. If any indication exists, projects in progress value are written down to its recoverable amount.

INVESTMENT PROPERTIES

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated income statement in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, PIF accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

INVESTMENTS IN FINANCIAL ASSETS

PIF's financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets or available-for sale investments. PIF determines the classification of its financial assets upon initial recognition. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that PIF commits to purchase or sell the asset.

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in this category. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Gains or losses, including changes in fair values, on investments held for trading are recognized in the consolidated income statement.

Available-for-sale investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are not designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the consolidated income statement, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated income statement and removed from the available-for-sale reserve.

PIF evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, PIF is unable to trade these financial assets due to inactive markets, PIF may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

Available-for-sale investments are stated at cost when their fair value cannot be reliably determined due to the unpredictable nature of future cash flows.

Held-to-maturity financial assets
Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which PIF has the intention and ability to hold-to-maturity. Held-to-maturity financial investments are initially recognized at cost plus acquisition costs. Subsequently, such investments are re-measured at amortized cost, less any impairment losses, using the effective interest rate method.

Amortized cost is calculated taking into account any discount or premium on acquisition.

Amortization is recognized in the consolidated income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

Derecognition
A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired, or when PIF has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either PIF has transferred substantially all the risks and rewards of the asset, or PIF has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When PIF has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, PIF continues to recognise the transferred asset to the extent of PIF's continuing involvement. In that case, PIF also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that PIF has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that PIF could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS

An assessment is made at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, any impairment loss is recognized in the consolidated income statement.

- For assets carried at amortized cost: impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate;
- Equity investments classified as available-for-sale: objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Impairment is the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized directly in other comprehensive income;
- Debt instruments classified as available-for-sale: impairment is the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

PROPERTIES READY FOR SALE

Properties ready for sale are measured at cost less any impairment loss, costs of properties ready for sale include cost of construction, studies, design, finance costs, land and indirect costs.

ACCOUNTS RECEIVABLE

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

CONTRIBUTIONS RECEIVABLE

Contributions receivable are stated at the original amount of the unconditional pledge less amounts received and any uncollectible pledges. An estimate for the uncollectible amount is made when the collection of full unconditional pledge is no longer probable.

CASH AND DEPOSITS AT BANKS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand and bank balances and shortterm deposits with an original maturity of three months or less, net of restricted bank deposits.

ACCOUNTS PAYABLE AND ACCRUAL

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

LOANS AND BORROWINGS

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the consolidated income statement.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

PROVISIONS

Provisions are recognised when PIF and its subsidiaries have an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be reliably measured.

LEASES

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

PIF as a lessee

Finance leases, which transfer to PIF substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated income statement. Leased assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that PIF obtains ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

PIF as a lessor

Leases where PIF does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

FOREIGN CURRENCY TRANSLATION

PIF consolidated financial statements are presented in U.S. $, which is also the parent's functional currency. PIF's subsidiaries determine their own functional currency. Items included in the financial statements of each entity are measured using subsidiaries' functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by PIF's subsidiaries at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement with the exception for available-for-sale investments were any foreign exchange differences are recognised in other comprehensive income.

PIF subsidiaries

The assets and liabilities of PIF's subsidiaries with functional currency other than U.S. $ are translated into U.S. $ at the rate of exchange prevailing at the reporting date and their income statements at the weighted average exchange rates for the year. The exchange differences arising on the translations are recognised in other comprehensive income. On disposal of these subsidiaries, the component of other comprehensive income relating to that particular subsidiary is recognised in the consolidated income statement.

4. PROPERTY, PLANT AND EQUIPMENT

	U.S. $ 000's					
2014	Land	Buildings	Transportation means, equipment and spare parts	Computers and systems	Furniture and decoration	Total
Cost						
At January 1, 2014	13,206	32,204	62,669	5,400	4,533	118,012
Additions	17	1,062	1,578	636	24	3,317
Transferred from projects in progress (note 7)	-	7,232	-	175	54	7,461
Disposals	-	(260)	(21,314)	(682)	(288)	(22,544)
Foreign currency translation	(400)	(662)	-	-	-	(1,062)
At December 31, 2014	12,823	39,576	42,933	5,529	4,323	105,184
Accumulated depreciation and impairment						
At January 1, 2014	526	10,724	28,896	2,588	1,481	44,215
Depreciation charge for the year	-	616	4,410	574	427	6,027
Disposals	-	(6)	(21,208)	(431)	(214)	(21,859)
Foreign currency translation	-	(51)	-	-	-	(51)
At December 31, 2014	526	11,283	12,098	2,731	1,694	28,332
Net carrying amount						
At December 31, 2014	12,297	28,293	30,835	2,798	2,629	76,852

- Property, plant and equipment include U.S. $ 1,762,000 of fully depreciated assets owned by PIF and its subsidiaries that are still operational as at December 31, 2014.
- Part of the depreciation expense in the amount of U.S. $ 4,727,000 was reclassified as operating expenses for 2014.
- Property, plant and equipment include an amount of U.S. $ 47,982,000 of properties mortgaged to local and regional banks against loans
- (note 21).

2013	Land	Buildings	Transportation means, equipment and spare parts	Computers and systems	Furniture and decoration	Total
	U.S. $ 000's					
Cost						
At January 1, 2013	9,155	30,503	62,037	5,694	4,598	111,987
Additions	-	161	1,236	455	116	1,968
Transferred from projects in progress (note 7)	2,516	2,244	-	-	-	4,760
Transferred from investments properties (note 6)	1,535	-	-	-	-	1,535
Disposals	-	(1,068)	(604)	(749)	(181)	(2,602)
Foreign currency translation	-	364	-	-	-	364
At December 31, 2013	13,206	32,204	62,669	5,400	4,533	118,012
Accumulated depreciation and impairment						
At January 1, 2013	526	11,129	25,147	2,755	1,232	40,789
Depreciation charge for the year	-	640	4,228	581	425	5,874
Disposals	-	(1,068)	(479)	(748)	(176)	(2,471)
Foreign currency translation	-	23	-	-	-	23
At December 31, 2013	526	10,724	28,896	2,588	1,481	44,215
Net carrying amount						
At December 31, 2013	12,680	21,480	33,773	2,812	3,052	73,797

- Property, plant and equipment include U.S. $ 22,838,000 of fully depreciated assets owned by PIF and its subsidiaries that are still operational as at December 31, 2013.
- Part of the depreciation expense in the amount of U.S. $ 4,570,000 was reclassified as operating expenses for 2013.
- Part of the depreciation expense in the amount of U.S. $ 21,000 was reclassified as additions on projects in progress for 2013.
- Property, plant and equipment include an amount of U.S. $ 43,352,000 of properties mortgaged to local and regional banks loans
- (note 21).

5. GOODWILL

For impairment testing goodwill has been allocated to two cash generating units, which are also the reportable business segments of PIF. The goodwill carried in the statement of financial position is as follows:

	U.S. $ 000's	
	2014	2013
Trade and transportation	25,604	25,604
Tourism	917	917
	26,521	26,521

Trade and transportation

The recoverable amount of the trade and transportation segment has been determined based on the "value in use" calculation using the discounted cash flow method based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12.7%, and cash flows beyond the five-year period are extrapolated using a 1% growth rate.

Tourism

The recoverable amount of the tourism segment has been determined based on the "value in use" calculation using the discounted cash flow method based on financial budgets approved by senior management covering a six-year period. The pre-tax discount rate applied to cash flow beyond the five-year period projections is 12.1%.

Key assumptions used in the calculation of the value in use

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

Discount rate: Discount rate represents management's assessment of the risks specific to each business segment taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of PIF and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by PIF's investors. The cost of debt is based on the interest-bearing borrowings PIF is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

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

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

6. INVESTMENT PROPERTIES

Following is the movement on investment properties:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	66,224	63,874
Additions	13,274	550
Sale of investment properties	(2,751)	(2,728)
Transferred to property, plant and equipment	-	(1,535)
Transferred to projects in progress	(11,844)	-
Change in fair value of investment properties	7,653	6,063
Balance, end of year	72,556	66,224

7. PROJECTS IN PROGRESS

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	47,793	66,266
Additions	9,649	14,730
Land sold out from projects in progress	(9,130)	(597)
Transferred to properties ready for sale	(166)	(27,800)
Transferred to property, plant and equipment	(7,461)	(4,760)
Transferred from investment properties	11,844	-
Other	-	(46)
Balance, end of year	52,529	47,793

Following are details of the projects in progress:

	U.S. $ 000's	
	2014	2013
Al Reehan project	9,434	11,280
Ersal Center project	15,279	18,130
Amaar Tower project	20,408	17,363
Al-New'emeh land development project	6,307	-
Al Jenan project	1,031	708
Other projects	70	312
	52,529	47,793

Projects in progress include land lots with a carrying value of U.S. $ 24,920,000 mortgaged to local and regional banks against loans (note 21). Costs to complete the projects are estimated at U.S. $ 9 million and expected to be completed within 1 to 2 years.

8. INVESTMENTS IN ASSOCIATES

This item represents investments in associates operating in Palestine:

	Ownership		Carrying Amount	
	2014	2013	2014	2013
	%	%	U.S. $ 000's	
Wataniya Palestine Mobile Telecommunications Company (Listed)	34.03	34.03	25,467	31,091
Palestinian Islamic Bank (Listed)	34.18	34.18	21,111	19,723
Arab Palestinian Investment Company - APIC (Listed)	20.20	20.20	15,452	13,920
Arab Islamic Bank (Listed)	21.23	20.27	14,167	12,810
Palestine Industrial Investment Company (Listed)	20.63	20.63	8,729	9,149
Palestine Tourism Investment Company	28.25	28.25	5,810	6,108
Hospitality Holly Company	40.30	33.33	4,050	3,279
Palestine Power Generation Company	39.64	-	3,874	-
Others	27-43	30-40	4,848	2,443
			103,508	98,523

- The market value of PIF investments listed in Palestine Exchange as of December 31, 2014 amounted to U.S. $ 128,369,072.
- Investment in Wataniya Palestine Mobile Telecommunication Company includes 77,658,000 shares with a total market value of U.S. $ 66,009,300 mortgaged against a syndicated loan granted from banks to Wataniya Palestine Mobile Telecommunications Company.
- During the year, PIF acquired additional shares in Palestine Power Generation Company (PPGC), and increased its ownership in PPGC's capital to 39.64%. PIF's management believes that it has significant influence over PPGC. Therefore, PIF reclassified the investment to investment in an associate.
- During 2013, a subsidiary acquired additional shares in Arab Islamic Bank (the Bank) and Palestine Industrial Investment Company (PIIC), which increased its ownership in the Bank's and PIIC's capital as of December 31, 2013 to 20.27% and 20.63%, respectively. PIF's management believes that it has significant influence over the Bank and PIIC. According to IFRS, PIF re-evaluated its previously owned equity in the Bank and PIIC at fair value as of the date of classifying the investment to investment in an associate and recognized a total amount of U.S. $ 3,641,000 as a gain in the consolidated income statement for the year 2013.

The following schedule summarizes the financial information related to PIF's investments in associates:

December 31, 2014	Wataniya Mobile Company	Palestinian Islamic Bank	Arab Palestinian Investment Company	Arab Islamic Bank	Palestine Tourism Investment Company	Palestine Industrial Investment Company	Hospitality Holly Company	Palestine Power Generation Company	Others	Total
	U.S. $ 000's									
Statements of Financial Positions:										
Non-current Assets	210,278	216,974	96,892	165,343	48,768	32,371	9,731	5,903	10,234	796,494
Current Assets	57,901	378,286	155,198	396,566	20,454	1,022	901	2,261	5,758	1,018,347
Non-current Liabilities	(121,487)	(8,448)	(46,942)	(12,213)	(2,451)	(8,788)	(3)	(43)	(290)	(200,665)
Current Liabilities	(71,852)	(519,287)	(99,176)	(481,966)	(14,575)	(4,039)	(514)	(679)	(529)	(1,192,617)
Non-controlling interests	-	-	(28,424)	-	(10,908)	-	-	-	-	(39,332)
Unpaid capital	-	-	-	-	-	-	-	71	-	71
Equity attributable to parent (i.e. the Associate)	74,840	67,525	77,548	67,730	41,288	20,566	10,115	7,513	15,173	382,298
PIF's ownership	25,467	23,077	15,666	14,378	8,518	5,810	4,076	2,978	4,848	104,818
Adjustments	-	(1,966)	(214)	(211)	211	-	(26)	896	-	(1,310)
Carrying amount of investment	25,467	21,111	15,452	14,167	8,729	5,810	4,050	3,874	4,848	103,508
Revenues and results of operations:										
Revenues	85,311	24,038	545,414	19,970	44,525	4,471	1,511	-	181	725,421
Results of operations	(16,526)	7,523	8,016	4,217	4,016	(1,057)	198	(641)	(1,781)	3,965
PIF's share of results of operations	(5,624)	2,571	1,619	895	829	(299)	80	(90)	(569)	(588)
PIF's share of other comprehensive income	-	(158)	(88)	(19)	(593)	-	-	-	-	(858)

December 31, 2013	Wataniya Mobile Company	Palestinian Islamic Bank	Arab Palestinian Investment Company	Arab Islamic Bank	Palestine Tourism Investment Company	Palestine Industrial Investment Company	Hospitality Holly Company	Others	Total
	U.S. $ 000's								
Statements of Financial Positions:									
Non-current Assets	222,280	149,241	94,117	151,172	33,158	49,486	9,674	3,284	712,412
Current Assets	57,482	353,011	143,095	318,642	1,130	18,512	487	4,327	896,686
Non-current Liabilities	(129,825)	(6,246)	(41,575)	(11,228)	(8,874)	(4,390)	(7)	(191)	(202,336)
Current Liabilities	(58,573)	(432,544)	(102,364)	(396,265)	(3,794)	(11,398)	(317)	(334)	(1,005,589)
Non-controlling interests	-	-	(23,302)	-	-	(8,391)	-	-	(31,693)
Unpaid capital	-	-	-	1,280	-	-	-	-	1,280
Equity attributable to parent (i.e. the Associate)	91,364	63,462	69,971	63,601	21,620	43,819	9,837	7,086	370,760
PIF's ownership	31,091	21,691	14,134	12,892	6,108	9,040	3,279	2,366	100,601
Adjustments	-	(1,968)	(214)	(82)	-	109	-	77	(2,078)
Carrying amount of investment	31,091	19,723	13,920	12,810	6,108	9,149	3,279	2,443	98,523
Revenues and results of operations:									
Revenues	89,215	20,845	436,542	13,023	5,216	38,452	532	145	603,970
Results of operations	(21,325)	6,527	7,916	3,500	(1,398)	5,010	20	(792)	(542)
PIF's share of results of operations	(7,257)	2,231	1,599	89	(395)	258	7	(304)	(3,772)
PIF's share of other comprehensive income	-	72	197	7	-	87	-	-	363

9. INVESTMENT IN A JOINT VENTURE

	U.S. $ 000's	
	2014	2013
Convention Palace Company	4,087	4,735
	4,087	4,735

The Convention Palace Company in Solomon Pools (CPC), was established as a private limited shareholding company, with a share capital of 1,000,000 shares of U.S. $ 1 par value each, of which 50% is owned by PIF. CPC is jointly managed with Consolidated Contractors Company (Athens). The objective of CPC is to operate the Convention Center Palace in Bethlehem.

The following schedule summarizes the financial information related to PIF's investments in the CPC:

	U.S. $ 000's	
	2014	2013
Statement of financial position of joint venture		
Non-current assets	12,122	13,162
Current assets	342	653
Non-current liabilities	(1,632)	(1,564)
Current liabilities	(2,658)	(2,781)
Equity attributable to venturers	8,174	9,470
PIF's ownership	4,087	4,735
Carrying amount of investment	4,087	4,735
Revenues and results of operations		
Revenues	302	520
Results of operations	(1,896)	(1,858)
PIF's share of results of operations	(948)	(929)

10. HELD-TO-MATURITY FINANCIAL ASSETS

	U.S. $ 000's	
	2014	2013
Bonds quoted in regional markets	11,962	8,782
Unquoted local bonds	3,900	3,900
	15,862	12,682

Average interest rates on held to maturity investment range between 2.5% to 7.6% and their maturity dates range between 1 to 9 years.
The market value of the quoted bonds is U.S. $ 12,087,736 and U.S. $ 8,850,000 as at December 31, 2014 and 2013, respectively.

11. Available-for-sale investments

	U.S. $ 000's	
	2014	2013
Quoted shares	157,806	141,580
Quoted portfolios	52,387	52,215
Unquoted shares *	7,362	8,619
	217,555	202,414

* Unquoted shares are stated at cost as their fair values cannot be reliably measured due to the unpredictable nature of future cash flows. PIF's management believes that the fair values of such investments are not materially different from their carrying amounts.

Movement on available-for-sale reserve is as follows:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	32,440	12,564
Net change in fair value	(6,457)	27,931
Deferred income taxes related to other comprehensive income items	5,341	(5,341)
Realized gains transferred to the consolidated income statement	(4,766)	(4,789)
Impairment loss recognized in the consolidated income statement	2,096	2,075
Balance, end of year	28,654	32,440

12. Other financial assets

	U.S. $ 000's	
	2014	2013
Prepayment on investment *	45,800	45,800
Loans granted **	9,608	8,795
	55,408	54,595

* According to the Ministry of Finance letter dated June 28, 2010, the amount of U.S. $ 45.8 million previously paid on the shareholder account, was considered as a prepayment on investment in Wataniya Palestine Mobile Telecommunications Company (Associate). The amount represents PIF's share in the remaining amount of the second operator license which was paid in advance to the Ministry of Telecommunications and Information Technology (MTIT), until Wataniya gets the frequencies required in accordance with the agreement signed with the MTIT.

** This item includes loans to the following:

	U.S. $ 000's	
	2014	2013
Palestine for Credit and Development - FATEN *	2,735	3,000
Wataniya Palestine Mobile Telecommunications Company **	2,150	2,150
Latin Patriarchate Jerusalem	1,500	1,550
The Arab Hotels Company ***	620	-
Palestine Development Fund	607	607
Al Mashtal Tourism Investment Company	406	406
Others	885	519
Accrued interest on loans	705	563
	9,608	8,795

* During 2013, Palestine for Credit and Development – FATEN was granted a loan of U.S $ 3 million, with an annual interest rate of 5%. The loan and the related interests will be settled in nine semiannual installments after a grace period of one year from the granting date.

** The loan granted to Wataniya Palestine Mobile Telecommunications Company bears interest of LIBOR plus 5.85%. The loan will be settled in one payment at the later of December 31, 2014, or six months after the maturity of all or any priority loan of Wataniya Mobile.

*** During the year, The Arab Hotels Company was granted a loan of U.S $ 620,000, with an annual interest rate of 7.5% mturing within one year renewable to another one year from the date of granting.

Other granted loans bear interest rates from 1% to 5% and due within 2 to 8 years.

13. Properties ready for sale

This item represents the cost of residential units transferred from projects in progress upon completion and becoming ready for sale.

Movements on properties ready for sale are as follows:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	10,726	-
Transferred from porjects in progress	166	27,800
Sold properties	(3,525)	(17,074)
Balance, end of year	7,367	10,726

14. Accounts receivable

	U.S. $ 000's	
	2014	2013
Cap Holding Company	11,305	11,305
Trade receivables	20,801	19,816
Checks under collection	15,061	7,784
First Trading Center	1,477	1,452
Others	1,141	1,284
	49,785	41,641
Provision for doubtful accounts	(14,634)	(15,046)
	35,151	26,595

The movement on the provision for doubtful accounts during the year was as follows:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	15,046	13,633
Additions	86	1,320
Written off during the year	-	(63)
Recovered during the year	(32)	-
Foreign currency differences	(466)	156
Balance, end of year	14,634	15,046

Nominal value of doubtful accounts receivable which are fully provided for, as of December 31, 2014 and 2013 amounted to U.S. $ 14,634,000 and U.S. $ 15,046,000, respectively. As of December 31, 2014 and 2013, the aging analysis of the unimpaired accounts receivables is as follows:

	U.S. $ 000's				
			Past due but not impaired		
	Total	Neither past due nor impaired	< 90 days	91-180 days	> 180 days
2014	35,151	15,702	4,405	11,669	3,375
2013	26,595	7,968	9,503	1,496	7,628

PIF's subsidiaries obtain guarantees against some of these receivables. The subsidiaries' management believes, that the value of the unimpaired receivables is recoverable.

15. Other current assets

	U.S. $ 000's	
	2014	2013
Due from brokerage firms	2,684	3,415
Due from Value Added Tax department	6,463	7,496
Advances to suppliers	4,291	5,070
Cash margins	4,611	4,314
Contribution receivable*	4,608	3,594
Accrued interest	662	446
Due from employees	489	316
Prepaid expenses	160	103
Others	1,416	1,204
	25,384	25,958
Provision for uncollectible current assets	(2,589)	(2,540)
	22,795	23,418

* This account represents contribution receivable from donors. These contributions aim to develop the private sector in Jerusalem especially for small and medium businesses (note 24).

The movement on the provision of uncollectible current assets during the year is as follows:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	2,540	2,595
Provided for during the year	89	-
Written off during the year	-	(80)
Foreign currency differences	(40)	25
Balance, end of year	2,589	2,540

16. Cash and deposits at banks

	U.S. $ 000's	
	2014	2013
Cash in hand and current accounts at banks	18,494	16,936
Term deposits at banks	86,413	105,944
	104,907	122,880

The average interest rate during 2014 and 2013 was 2.08% and 1.55% on U.S. Dollar deposits, 4.04% and 5.00% on Jordanian Dinar deposits and 1.51% and 1.75% on Qatari Riyal deposits, respectively.

Cash and deposits at banks include restricted cash of U.S. $ 2,326,000 and U.S. $ 2,189,000 as at December 31, 2014 and 2013, respectively, as a collateral against certain banks facilities.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2014 and 2013:

	U.S. $ 000's	
	2014	2013
Cash on hand and current accounts at banks	18,494	16,936
Term deposits at banks	86,413	105,944
	104,907	122,880
Deposits maturing after 3 months	(20,968)	(21,604)
Restricted cash	(2,326)	(2,189)
	81,613	99,087

17. Paid-in capital

PIF's paid-in-capital represents the fair value of net assets transferred by the shareholder as determined by Standard & Poor's valuation reports at the date of establishment of PIF. On May 16, 2011, the General Assembly approved the capital increase to U.S. $ 625 million with an increase of U.S. $ 51 million through the capitalization of part of PIF's retained earnings.

18. Shareholder's current account

This item represents the current account between PIF and the shareholder and is not subject to any interest. Following are the details of this account:

	U.S. $ 000's	
	2014	2013
Receivables on returned lands	47,925	58,162
Interim dividends (note 20)	8,000	20,000
Aviation receivable	39,644	36,895
Other	6,985	4,214
	102,554	119,271

19. Reserves

Statutory Reserve

Statutory reserve represents accumulation of profits transferred at 10% of annual net profit in accordance with the Palestinian Companies' Law. This reserve is not available for distribution to the shareholder.

Voluntary Reserve

Based on the Board of Directors recommendation dated July 14, 2009, a voluntary reserve is appropriated at 10% of PIF profit started from 2009, for the purpose of supporting economic development projects in Palestine. PIF started during 2011 to support certain small and medium projects.

20. Paid and proposed dividends

The Board of Directors decided in its meeting held on January 20,2014, to distribute interim dividends of U.S. $ 8 million out of PIF's 2014 profits, subject to approval of the General Assembly.

The General Assembly approved in its meeting held on May 18, 2014, the declaration of U.S. $ 20 million interim dividends in 2013 based on Board of Director's decision dated January 8, 2013, in addition to U. S. $ 6 million cash dividends to the shareholder deducted from the shareholder's current account. Thus, total dividends distributed amounted to U.S. $ 26 million.

The General Assembly approved in its meeting held on May 19, 2013, the declaration of U.S. $ 30 million interim dividends in 2012 based on Board of Director's decision dated June 8, 2012, in addition to U. S. $ 10 million cash dividends to the shareholder deducted from the shareholder's current account. Thus, total dividends distributed amounted to U.S. $ 40 million.

During 2014, Bulk Express Company (subsidiary) distributed cash dividends, the non-controlling interest share of this distribution amounted to U.S. $ 1,000,000 (note 24).

During 2013, Bulk Express Company (subsidiary) distributed cash dividends, the non-controlling interest share of this distribution amounted to U.S. $ 320,000.

21. Long- term loans

	U.S. $ 000's	
	2013	2013
Long-term loans	48,027	47,036
Current portion of long-term loans	(9,050)	(3,957)
	38,977	43,079

PIF and its subsidiaries signed long-term loan agreements with local and regional banks to finance these companies' operations. Interest rates range between 1.75% to 3.5% in addition to one to six months LIBOR with a ceiling of 11%. The loans are to be settled within a period between 5 to 11 years. The utilized loan balances as of December 31, 2014 and 2013 amounted to U.S. $ 48,027,000 and U.S. $ 47,036,000, respectively. The loans were granted with the mortgage of part of these companies' properties (notes 4 and 7).

The maturities of interestbearing loans are as follows:

	U.S. $ 000's
2015	9,050
2016	7,081
2017	9,155
2018	12,729
2019	3,311
Thereafter	6,701
	48,027

22. Deferred tax liabilities

Movement on deferred tax liabilities resulting from re-evaluating investment properties and available for sale investments at fair value was as follows:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	8,677	2,415
Additions	1,513	6,472
Amortization	(5,907)	(210)
Balance, end of year	4,283	8,677

23. Accounts payable

	U.S. $ 000's	
	2014	2013
Trade payables	16,435	13,152
Contractors payables	4,298	6,089
Apartments sales advances	2,231	1,826
Brokerage firms payables	189	-
Others	62	57
	23,215	21,124

24. Provisions and other current liabilities

	U.S. $ 000's	
	2014	2013
Temporarily restricted contribution *	7,055	4,916
Accrued expenses	3,142	1,510
Postponed checks	2,713	1,457
Provision for employees indemnity **	2,251	2,442
Dividends payable (note 20)	1,000	-
Property improvement taxes	814	912
Employees' income tax payable	283	383
Employees accrued bonuses	1,140	1,116
Other	1,111	3,885
	19,509	16,621

* This account represents total temporarily restricted contributions from different donors, revenues are recognised when the purpose or time of these contributions is satisfied. Following is the movement on temporarily restricted contributions during 2014 and 2013:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	4,916	4,937
Additions (note 15)	2,418	-
Released from restriction	(93)	-
Foreign currency differences	(186)	(21)
Balance, end of year	7,055	4,916

** Following is the movement on provision for employees indemnity:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	2,442	3,787
Additions	658	549
Payments	(849)	(1,894)
Balance, end of year	2,251	2,442

25. Provision for income tax

Based on a memorandum of understanding with the Ministry of Finance, PIF and its subsidiaries taxable income became subject to income tax.

Following is the movement on the provision for income tax during the year:

	U.S. $ 000's	
	2014	2013
Balance, beginning of year	883	1,698
Additions during the year	6,163	6,251
Income tax related to prior years	-	34
Amortization of deferred tax liabilities	566	-
Recovered during the year	(344)	-
Payments during the year	(5,508)	(7,460)
Foreign currency differences	539	360
Balance, end of year	2,299	883

Some of PIF subsidiaries reached final settlements with the Income Tax Department for the results of their operations up to 2013. PIF did not reach a final settlement with the Income Tax Department for the results of its operations for the two years 2013 and 2012 despite the fact that PIF submitted the tax returns for these two years to the tax departments on time.

Taxes shown in the console dated income statement represent the following:

	U.S. $ 000's	
	2014	2013
Additions during the year	6,163	6,251
Income tax related to prior years	-	34
Recovery during the year	(344)	-
Deferred tax liabilities	1,513	921
	7,332	7,206

26. Operating revenues

	U.S. $ 000's			
	2014			
	Operating revenues	Cost of sales	Operating expenses	Operating revenues
Investment	8,842	-	(8,162)	680
Trade and transportation	173,918	(140,731)	(4,928)	28,259
Real estate	20,144	(15,412)	-	4,732
Tourism	4,646	(2,085)	(2,317)	244
	207,550	(158,228)	(15,407)	33,915

	U.S. $ 000's			
	2013			
	Operating revenues	Cost of sales	Operating expenses	Operating revenues
Investment	9,439	(1,743)	(8,153)	(457)
Trade and transportation	148,388	(117,601)	(3,973)	26,814
Real estate	24,799	(20,195)	-	4,604
Tourism	4,415	(1,411)	(2,336)	668
	187,041	(140,950)	(14,462)	31,629

27. Gain from investment portfolio

	U.S. $ 000's	
	2014	2013
Gain from sale of available-for-sale investments	4,766	4,789
Dividends income	12,842	11,650
Impairment of available-for-sale investments	(2,096)	(2,075)
Interest on bonds	633	575
	16,145	14,939

28. Interest income

	U.S. $ 000's	
	2014	2013
Interest on deposits with banks	2,648	1,612
Interest on granted loans	355	300
	3,003	1,912

29. Investment expenses

	U.S. $ 000's	
	2014	2013
Employees' salaries, wages and benefits	1,235	1,617
Professional fees	833	734
Travel and transportation	85	93
Others	146	227
	2,299	2,671

30. Other revenues

	U.S. $ 000's	
	2014	2013
Gain on sale of property, plant and equipment	7,018	62
Assets recovery *	2,156	2,317
Gain from acquisition of associates (note 8)	-	3,641
Others	1,031	2,015
	10,205	8,035

* During the year, PIF recovered part of its assets, resulting in a gain of U.S. $ 2,156,000.

31. General and administrative expenses

	U.S. $ 000's	
	2014	2013
Employees' salaries, wages and benefits	8,463	8,157
Professional fees	3,260	1,191
Marketing	430	408
Travel and transportation	608	456
Rents	631	414
Telephones and courier	327	311
Fees and subscriptions	332	211
Maintenance	379	201
Insurance	354	274
Printings and stationery	67	65
Board of Directors remuneration	167	167
Hospitality	131	91
Others	632	347
	15,781	12,293

32. Other expenses

	U.S. $ 000's	
	2014	2013
Value added tax	1,392	-
Provision for uncollectible current assets	89	-
Provision for accounts and other receivable	54	1,320
	1,535	1,320

33. Fair values measurement

The following table provides the fair value measurement hierarchy of PIF's assets as of December 31, 2014:

	Date of measurement	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $ 000's		
Assets measured at fair value:				
Quoted available-for-sale investments	December 31, 2014	210,193	-	-
Investment properties	December 31, 2014	-	-	72,556
Financial assets for which fair value is disclosed:				
Quoted held-to-maturity financial assets	December 31, 2014	12,088	-	-

The following table provides the fair value measurement hierarchy of PIF's assets as of December 31, 2013:

	Date of measurement	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		U.S. $ 000's		
Assets measured at fair value:				
Quoted available-for-sale investments	December 31, 2013	193,795	-	-
Investment properties	December 31, 2013	-	-	66,224
Financial assets for which fair value is disclosed:				
Quoted held-to-maturity financial assets	December 31, 2013	8,850	-	-

There have been no transfers among the Levels mentioned above during the years 2014 and 2013.

Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of PIF's financial instruments carried in the financial statements as at December 31, 2014 and 2013:

	U.S. $ 000's			
	Carrying amount		Fair value	
	2014	2013	2014	2013
Financial assets				
Loans granted	9,608	8,795	9,608	8,795
Available-for-sale investments-quoted	210,193	193,795	210,193	193,795
Held-to-maturity financial assets-quoted	11,962	8,782	12,088	8,850
Accounts receivable	35,151	26,595	35,151	26,595
Other financial assets	18,207	17,061	18,207	17,061
Cash and deposits at banks	104,907	122,880	104,907	122,880
	390,028	377,908	390,154	377,976
Financial liabilities				
Accounts payable	20,984	19,298	20,984	19,298
Loans	48,027	47,036	48,027	47,036
Other current liabilities	11,857	9,261	11,857	9,261
	80,868	75,595	80,868	75,595

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

- The fair values of accounts receivable, other financial assets, cash and deposits at banks, accounts payable, and other current liabilities and the short term loans approximate their carrying amounts due to the short-term maturities of these instruments.
- The fair value of the loans granted and long term loans are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit. The carrying amount of the loans granted and long term loans are not materially different from its fair value.
- The fair values of quoted available-for-sale investments were based on their price quotations at the reporting date.
- The fair values of quoted bonds are based on price quotations at the reporting date.

34. Related party transactions

This item represents transactions with related parties. Related parties represent associated companies, the shareholder, Board of Directors, key management personnel of PIF, and entities controlled, or significantly influenced by such parties. Price policies and terms related to transactions with related parties are approved by PIF's Board of Directors.

Balances with related parties included in the consolidated statement of financial position are as follows:

	U.S. $ 000's	
	2014	2013
Shareholder's current account	102,554	119,271
Loans granted to associates and related accrued interest	2,742	2,613
Cash and deposits at banks (associate)	5,929	4,945
Accrued Board of Directors remuneration	150	150

Transactions with related parties included in the consolidated income statement during the year are as follows:

	U.S. $ 000's	
	2014	2013
Leasing of transportation means to the shareholder	8,747	7,453
Interest income on loans to associates	130	131

Key management salaries and renumeration of PIF and its subsidiaries are as follows:

	U.S. $ 000's	
	2014	2013
Board of Directors remuneration	167	167
Key management share of salaries and related benefits	2,757	3,126
Key management share of end of service indemnity	161	45

Furthermore, PIF is considered as a guarantor for a loan granted to an associate (note 8). Also, a major portion of PIF investment in this associate is mortgaged against that loan.

35. Risk management

PIF's financial liabilities comprise loans, accounts payable and some other financial liabilities. The main purpose of these financial liabilities is to raise finance for PIF's operations. PIF has various financial assets such as accounts receivables, other financial assets, loans granted, cash and deposits at banks, available-for-sale investments and financial assets held-to-maturity which arise directly from PIF's operations. The main risks arising from PIF's financial instruments are interest rate risk, foreign currency risk, equity price risk, credit risk and liquidity risk. PIF's Board of Directors reviews and approves policies for managing these risks which are summarized below:

Interest rate risk

PIF and its subsidiaries' exposure to the risk of changes in interest rates relates primarily to interest bearing assets and liabilities, such as short-term deposits, loans granted and obtained long term loans. The following table demonstrates the sensitivity of PIF's consolidated income statement as at December 31, 2014 and 2013 to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on PIF's profit for one year, based on assets and liabilities with floating interest rates at December 31, 2014. The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increases shown below:

2014	Increase in interest rate (basis points)	Effect on profit for the year U.S. $ 000's
U.S. Dollar	+10	30
Jordanian Dinar	+10	29
Other currencies	+10	9

2013	Increase in interest rate (basis points)	Effect on profit for the year U.S. $ 000's
U.S. Dollar	+10	34
Jordanian Dinar	+10	23
Other currencies	+10	3

Foreign currency risk
The following table demonstrates the sensitivity to a reasonably possible change in the U.S. $ exchange rate against other currencies, with all other variables held constant, of PIF's profit and equity. The Jordanian Dinar (JOD) and the Qatari Riyal (QR) are linked to U.S. $. Therefore, no effect, resulting from the fluctuations in JOD and QR rates is expected on the consolidated financial statements.

The effect of decreases in the exchange rate of U.S. $ against other currencies is expected to be equal and opposite to the effect of the increase shown below:

	Increase in currency rate to U.S. $	Effect on profit before tax	Effect on equity
	%	U.S. $ 000's	U.S. $ 000's
2014			
Israeli Shekel	+10	3,117	(2)
Other currencies	+10	612	-

	Increase in currency rate to U.S. $	Effect on profit before tax	Effect on equity
	%	U.S. $ 000's	U.S. $ 000's
2013			
Israeli Shekel	+10	1,583	103
Other currencies	+10	295	-

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

	Increase in equity price	Effect on equity
2014	(%)	U.S. $ 000's
Shares listed in Palestine Exchange	+10	13,158
Shares listed in other markets	+10	7,861
Shares not listed	+10	763

	Increase in equity price	Effect on equity
2013	(%)	U.S. $ 000's
Shares listed in Palestine Securities Exchange	+10	13,304
Shares listed in other markets	+10	6,075
Shares not listed	+10	862

Credit risk
PIF exposure to credit risk arises from the default of the counterparty.
PIF is currently managing its credit risks by setting credit limits for customers and continuously monitoring the accounts receivable in coordination with legal consultants. The maximum exposure of the loans and accounts receivable to the credit risk is the carrying amount of the loans granted and accounts receivable explained in notes (12) and (14).

With respect to credit risk arising from other financial assets of PIF, including cash and deposits at banks, granted loans, and other financial assets, PIF's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these financial assets.

Liquidity risk
PIF and its subsidiaries manage liquidity risks by ensuring the availability of sufficient cash balances and credit facilities and pursuing the collection of accounts receivables.

The table below summarizes the allocation of undiscounted financial liabilities as at December 31, 2014 and December 31, 2013, based on their remaining maturity:

	U.S. $ 000's				
	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
As at December 31,2014					
Long-term loans	2,719	8,156	39,466	5,188	55,529
Accounts payable	20,984	-	-	-	20,984
Provisions and other financial liabilities	8,632	3,225	-	-	11,857
	32,335	11,381	39,466	5,188	88,370
As at December 31, 2013					
Long-term loans	1,534	4,556	41,184	6,683	53,957
Accounts payable	19,298	-	-	-	19,298
Provisions and other financial liabilities	5,425	3,836	-	-	9,261
	26,257	8,392	41,184	6,683	82,516

36. Capital management

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

PIF and its subsidiaries manage their capital structure and make adjustments in light of changes in business conditions. No changes were made in the objectives, policies or processes during 2014 and 2013.

Capital includes paid-in share capital, retained earnings, shareholder's current account, reserves and non-controlling interest with a total of U.S. $ 697,765,000 and U.S. $ 676,562,000 as at December 31, 2014 and December 31, 2013, respectively.

37. Segment information

PIF's reporting format is business segments as PIF's risks and rates of return are affected predominantly by differences in the products and services provided. Business segments are trade and transportation, real estate investment, tourism, in addition to the investment sector. The following table presents revenue and profit information and certain asset and liability information regarding PIF's business segments for the year ended December 31, 2014:

	U.S. $ 000's					
	Investment sector	Trade and transportation	Real estate investment	Tourism	Eliminations	Total
Revenues						
External revenues	8,842	173,918	20,144	4,646	-	207,550
Inter-segment (eliminated)	-	-	-	-	-	-
Total revenues	8,842	173,918	20,144	4,646	-	207,550
Results of operations						
Profit (loss) before tax	19,787	22,645	2,854	(1,263)	-	44,023
Other information						
Depreciation of property, plant and equipment	4,245	704	418	660	-	6,027
Capital expenditure	921	1,868	9,576	601	-	12,966
Investments in associates and a joint venture	96,947	-	6,598	4,050	-	107,595
Share of associates' results of operations	(328)	-	(340)	80	-	(588)
Share of joint venture's results of operations	(948)	-	-	-	-	(948)

The following table presents segments' assets and liabilities as of December 31, 2014:

Assets and liabilities						
Segment assets	715,756	46,912	157,072	19,130	(143,772)	795,098
Segment liabilities	46,556	20,744	31,230	13,048	(14,245)	97,333

The following table presents revenue and profit information and certain asset and liability information regarding PIF's business segments for the year ended December 31, 2013:

	U.S. $ 000's					
	Investment sector	Trade and transportation	Real estate investment	Tourism	Eliminations	Total
Revenues						
External revenues	9,439	148,388	24,799	4,415	-	187,041
Inter-segment (eliminated)	-	-	-	-	-	-
Total revenues	9,439	148,388	24,799	4,415	-	187,041
Results of operations						
Profit (loss) before tax	11,299	23,969	5,455	(488)	550	40,785
Other information						
Depreciation of property, plant and equipment	4,298	415	536	625	-	5,874
Capital expenditure	312	1,274	14,451	661	-	16,698
Investments in associates and a joint venture	93,042	-	6,937	3,279	-	103,258
Share of associates' results of operations	(3,338)	-	(441)	7	-	(3,772)
Share of joint venture's results of operations	(929)	-	-	-	-	(929)

The following table presents segments' assets and liabilities as of December 31, 2014:

Assets and liabilities						
Segment assets	719,622	55,644	152,395	21,646	(178,404)	770,903
Segment liabilities	76,259	10,243	30,765	11,298	(34,224)	94,341

38. Commitments

- PIF may be exposed to liabilities associated with the liquidation some of non-operating companies which ownership was transferred from the shareholder to PIF.
- On July 25, 2007, PIF entered into partnership with the Overseas Private Investment Corporation (OPIC) and the Middle East Investment Initiative (MEII) to create its Loan Guarantee Facility (LGF), that aims to support the Palestinian private sector by providing guarantees for loans to small-and medium-size enterprises (SME's) throughout Palestine. PIF may be obligated to pay the guaranteed amount in case of default of the loans. As of December 31, 2014, total loans granted under this agreement by local banks amounted to U.S. $ 21.52 million. PIF's share of total guarantee provided against these loans was U.S. $ 4.71 million.
- During 2006, PIF signed a memorandum of understanding with the Palestinian Authority, represented by Palestinian Land Authority, to allow PIF to develop and establish its investment projects on the Saraya Gaza land – located in the center of Gaza and which was used as a security forces headquarter – and on another plot of land in Gaza on which currently the Zahrat Al Madaen Village Bungalows resides. In return, PIF agreed to build a new building to serve as a security forces headquarter in place of the one in Saraya, and to construct a building that substitutes for the one on the Zahrat Al Madaen land currently being used for presidential purposes. The land has not been recorded in PIF's accounting records, since the terms of the agreements were not yet executed.
- As of the financial statements date, PIF has outstanding contractual commitments of U.S. $ 1,478,212 million resulted from construction contracts. The contractual commitments represent the difference between total contract cost and the amounts of materials received as of the financial statements date.
- PIF and its subsidiaries appear as a defendant in a number of lawsuits in the Palestinian courts amounted to U.S. $ 5,248,000 as of December 31, 2014. PIF's management and legal counsels believe that provisions made against these litigations are sufficient.
- During the year, the Swis Chambers' Arbitration Institution in Switzerland notified the Palestinian Commercial Services Company (currently Sanad Construction Industries) of a request for arbitration filed by CAP Holding AG (Claimant) against PCSC and the Palestinian Authority (the PA). The Claimant claims a total amount of USD 1.169 billion plus interest of 5% p. a. and reimbursement of all costs incurred for the arbitration against PCSC and the PA jointly and severally. According to the Company's legal counsel it is possible that the Claimant will succeed in the arbitration and that it is not possible to predict, in a reliable manner, how a pending arbitration will develop in the future. PCSC requested that all claims be dismissed in their entirety, since they are not based on a legal merit. The legal counsels of PCSC and the PA are currently seeking to take the appropriate legal actions.

39. Concentration of risk in geographic area

PIF and most of its subsidiaries are carrying out the majority of their activities in Palestine, in which the political and economic situations are not stable.

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