09

ANNUAL REPORT

صندوق الاستثمار الفلسطيني

PALESTINE INVESTMENT FUND

Annual Report 2009

A Year of Accomplishments

2009 witnessed a number of key wins for the Palestine Investment Fund, through the continuation of an ambitious investment program and the launching of several new initiatives in a number of key strategic sectors, strengthening the local economy and moving towards the goal of establishing a sovereign and independent Palestine.

"The independent and sovereign state of Palestine to which we aspire requires a strong and sustainably growing economy. Efforts to realize this aspiration must be collective, with all of us – individuals and institutions – playing a key role, and living up to our responsibilities. The Palestine Investment Fund ("PIF") plays an important role in placing the foundations for this vision and the impact of its investment programs are widely apparent; not least in terms of their contribution toward supporting the steadfastness of the Palestinian people on their land.

I believe that the PIF, and its committed and professional management and staff, will continue to play a critical role in supporting the aspirations of the Palestinian people. I wish PIF continued success in all of its endeavors."

God bless Palestine and her people.

MAHMOUD ABBAS

Chairman of the PLO Executive Committee
President of the Palestinian National Authority

2009: A Year of Accomplishments

Real Estate & Hospitality

$2 Billion
Investment Outlay

PIF continued its investment program in the real-estate & hospitality sector, through the execution of the National Affordable Housing Program, with the aim of building 30,000 residential units across Palestine in the next five years: 2009 saw the laying of the cornerstones for both Al-Reehan Neighborhood (2,000 residential units) and Al-Jinan Neighborhood (1,000 residential units), in AlBireh-Ramallah and Jenin, respectively. PIF also established its specialized real-estate and hospitality arm – AMAAR Real Estate Group - to execute the planned $2 billion investment program.

Telecommunications

$700 Million
Investment Outlay for Wataniya Mobile

Wataniya Mobile, a joint venture with Qatar based Q-Tel, commenced its operations as the second mobile operator in Palestine with area code '056,' ushering in a new era of local mobile communication. Wataniya Mobile attracted 100,000 subscribers during the first month of operations, creating more than 3,000 new jobs, and generating a multiplier effect in investment activity. Wataniya mobile has an investment outlay of $700 million.

Power & Energy

$700 Million
Investment Outlay for Gaza Gas

PIF is committed to developing the power & energy sector in Palestine. PIF is a founding partner of the Palestine Electric Company in Gaza, currently the only existing local power generation plant. PIF is currently studying the viability with key partners of establishing a second power generation plant in the North of the West Bank. PIF is also the local consortium partner for the developing of the off-shore Gaza gas natural fields – Gaza Gas – this is a key strategic project, which is set to benefit the local economy and in particular the Palestinian Treasury, with projected direct royalty and tax revenues of $2.4 billion in the next 15 years. The total investment outlay for the Gaza Gas project is projected to be $700 million.

2009: A Year of Accomplishments

Trade & Industry

$40 Million
Investment Outlay for Nablus Crafts Complex

PIF invests in the trade & industy sector through a number of subsidiary and affiliate companies including: Palestine Commercial Services Company (PCSC), which is the lead supplier of Cement in Palestine. PCSC generated a net income of more than $18 million in 2009. As well as the Arab Palestinian Investment Company (APIC), one of the leading industrial, manufacturing, trade and retail conglomerates in Palestine. PIF through AMAAR Real Estate Group, will continue strategic investment in industrial zones, with plans for the Nablus Crafts Complex, which has an investment outlay of $40 million.

Financial Services

$500 Million
Facility for AMAL Program

The Affordable Mortgage and Loan Program (AMAL) was established and the program's execution is well underway, with the aim of catalyzing home purchases by medium and low income earners. The program has a size of $500 million, with PIF having committed $72 million and key partners committing the rest. PIF also established an investment portfolio targeting the financial services and banking sector with a size of $30 million, which invests in leading publicly listed local banks.

SMEs

$280 Million
Investment Outlay

PIF's Loan Guarantee Facility (LGF) for SMEs is part of a number of strategic ventures aimed at supporting one of the important components of the local economy; Palestine's SMEs. The LGF facilitates financing for SMEs by providing loan guarantees to the lending banks. PIF, in cooperation with its partners, will facilitate up to $230 million of financing to SMEs over the next 10 years. Reviving the Palestinian private sector and creating around 15,000 employment opportunities throughout the country. The program has already guaranteed over $50 million for approximately 200 projects. Furthermore, PIF launched alongside Abraaj Capital– The Palestine Growth Capital Fund (PGCF) – Palestine's first private equity fund, which focuses on investing in Palestinian SMEs. The target size of the fund is $50 million. PGCF will focus on providing growth capital and enabling SMEs to develop effective platforms through partnerships with regional and international investors, building capabilities to enter new markets, and unlocking value.

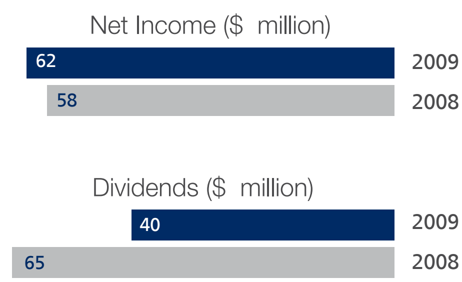
2009 Financial Indicators

2009 witnessed a number of key achievements for PIF on several fronts, which have been reflected in PIF's financial performance. Indeed, in spite of the political and economic challenges faced in Palestine, and the continuing international financial crisis, PIF was able to achieve a net income of $62 million, with assets under-management reaching $802 million.

Income

Net income for the year 2009 reached $62 million, which is a 6.2% year on year increase, from 2008. Profits were driven by subsidiary and affiliate company bottom lines, as well as capital markets gains, which out-performed international and regional market benchmarks. Moreover, PIF managed to reduce its exposure to prospective non-performing loans by closing positions and reaching settlement agreements.

The General Assembly approved the distribution of dividends amounting to $40 million for the year 2009, which will be transferred to the Palestinian Treasury. Consequently, total contribution to the Treasury since 2003 will reach $606 million; a return of 106% on total paid-in capital. Moreover, PIF has an outstanding amount due on the shareholder's account from the Palestinian Authority of $46 million (YE2009).



2009 Financial Indicators

Assets

PIF's portfolio and investment diversification, as well as the re-weighting of investment towards Palestine, and supporting key strategic sectors with significant upside potential, proved successful in increasing the value of assets under management from $656 million to $802 million, from 2008 to 2009, respectively, a year on year increase of 23%.

Financial Health

The table highlights PIF's continued robust financial indicators, which have shown year on year performance increases in 2009. Positive and strong growth was achieved on balance sheet, cash-flow, and income items, which are reflected on the bottom line.

	2009	**2008**
Assets Under Management ($ million)	**802**	656
Total Liabilities ($ million)	**84**	50
Shareholders' Equity ($ million)	**718**	605
Paid in Capital ($ million)	**574**	574
Shareholder Profit ($ million)	**62**	58
Earning per Share ($)	**0.107**	0.101
Net assets Per Share ($)	**1.251**	1.054

Performance Indicators

Key performance indicators have shown strong year on year increases, which also highlight the success of PIF's strategy. Return on assets, equity and capital benchmarked to local investment driven and holding company type funds are competitive, and on taking into account long term performance and returns; position PIF as best in class.

Foreword - 2009 Annual Report

This year's annual report is published as a highlight of the achievements we have shared with our ultimate shareholder - the people of Palestine, our partners and our employees. PIF has exemplified what can be achieved in Palestine, with an appropriate strategy, management, resources, commitment, and partnerships with some of the world's leading international and regional institutions. We continue to work diligently towards the establishment of a strong local economy and realizing our aspirations for an independent and sovereign Palestine.

Our annual report for 2009 demonstrates our commitment and role in developing and strengthening the local economy, through investment in key strategic sectors, attracting international and regional partners and new entrants into the local market. Creating thousands of new jobs and countless new opportunities, as well as supporting existing enterprise. We are also mindful of our responsibility to the community, and operate within a best practice corporate social responsibility and values framework. Our guiding values and principles remind us every day why we are here; for positive transformational change and impact.

Our annual report details the US$4bn investment program we have embarked on in key strategic sectors over the next 5 years. The investment program will be implemented alongside strategic international, regional and local partners. The investments are in key sectors that will build strong foundations for the economy while offering attractive emerging market type returns. The investment drive includes the following strategic sectors: Real Estate & Hospitality, Financial Services, SMEs, Industrials & Manufacturing, Telecommunications, Power & Energy. We also touch upon the development of some of the most strategically important areas to Palestine, such as the Dead Sea and Jordan Valley, where PIF's master planning of an area is set to become a world benchmark in development zones with an investment outlay of $2 billion.

Our annual report also highlights PIF's corporate social responsibility activities, which creates strong links with our community and stakeholders. From our various outreach programs, to the support of cultural and educational institutions and activities. We continue to place a key importance on these activities, which strengthen the fabric of our community and society.

In addition, our audited financial statements are enclosed, which reflect PIF's robust financial health and past performance and are in line with international accounting standards.

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The Chairman's Message

Ladies and Gentlemen,

Yet another year has passed in which we celebrate our achievements and renew our ambitions. Throughout 2009, we have implemented the promises we made, which have helped in building the foundations for a strong economy, leading to our ultimate goal of a sovereign and independent Palestine.

Today the Palestine Investment Fund enjoys a reputation as one of the region's leading investment funds, as it oversees with a best in class team and in partnership with some of the world's leading organizations an ambitious investment program, which broadcasts not only the message that "Palestine is open for business", but that we are well on our way to establishing a sustainably growing and strong local economy.

PIF has made significant strides during 2009 in the implementation of its investment program, which will exceed $4 billion during the next five years. The program is expected to generate more than 100,000 new jobs, strengthen the local economy, and raise standards of living. Moreover, our program has and will continue to generate significant new income streams for the Palestinian Authority; lessening dependence on external aid.

Among the most significant achievements in 2009 was the creation of AMAAR Real Estate Group with a paid in capital of $220 million, which is set to revolutionize the real-estate and hospitality sector, and the laying of the cornerstones for Al-Reehan and Al-Jinan Neighborhoods, two new landmark projects in AlBireh-Ramallah and Jenin, respectively. Moreover, Wataniya Mobile commenced operations as the second mobile operator in Palestine, ushering in a new era of mobile communication, and heralding the liberalization of the sector with the introduction of much needed competition. Wataniya Mobile attracted 100,000 subscribers during the first month of operation, creating more than 3,000 new jobs, and generating a multiplier effect in investment activity.

Furthermore, PIF entered into new and pioneering local and regional partnerships. One of the most significant is our recent partnership with Abraaj Capital, the MENASA region's leading asset management firm, to launch Palestine's first private equity fund targeting small and medium enterprises (SMEs)– "the Palestine Growth Capital Fund," which will be managed by Riyada Enterprise Development – Abraaj's SMEs platform.

In addition, we are proud to have partnered with Qatar Telecom (Q-tel) to launch Wataniya Mobile, as well as a number of international financial institutions and international governmental agencies both in the public and the private sectors to launch strategic projects such as the: Middle East Investment Initiative (MEII), Overseas Private Investment Corporation (OPIC), UN-Habitat, International Finance Corporation (IFC) and Cooperative Housing Foundation International (CHF) as well as a number of local financial institutions such as Bank of Palestine and Cairo-Amman Bank.

These achievements and partnerships would not have been such a success had it not been for our collaborative team culture, with every individual having a winning attitude and a commitment to serving our country. In addition to our corporate governance frameworks, our world-class standards of transparency and accountability, applied to every stage of the firm's activities, and between our internal and external auditors.

Ladies and Gentlemen,

Our financial results for the year are indeed remarkable. As of year-end PIF's assets are estimated to be approximately $802 million. Despite the global financial crisis, PIF generated a net income of approximately $62 million in 2009. Most of these profits will be transferred to the treasury, resulting in PIF having transferred profits of more than $606 million to the public purse.

I am very pleased to present to you our Annual Report for 2009. I consider it a summary of our activities and various projects, as well as an update on the progress we have made, successes made and key wins shared.

Finally, on behalf of the Board of Directors, I express my profound gratitude to HE President Mahmoud Abbas for his wise guidance and continuing support. I also thank the PIF team for their untiring work, dedication and professionalism. I also thank all institutions of the Palestinian Authority, official and governmental entities, and our partners who continue to demonstrate the commitment, dedication and enthusiasm in the implementation of our programs, which are destined for the benefit of our great nation and her citizenry.

God bless Palestine and her people.

Yours,

Dr. Mohammad Mustafa

Chairman & Chief Executive Officer

“2009 saw a number of landmark achievements, which not only placed Palestine on the investor map but also placed us well on our way to realize our ambitious investment program and our aspirations for a strong economy, which is integral to our national goal for the establishment of a sovereign and independent Palestine.”

Board of Directors

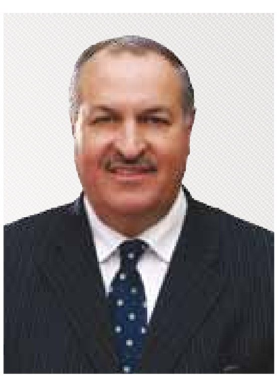
The Board of Directors has senior oversight on all PIF activities, with ultimate responsibility for the realization of targets and objectives as well as the overall success of the fund. The Board of Directors comprises prominent figures reputed for their professionalism, independence, expertise and integrity. Members of the board are appointed by the President for a period of three years.

Dr. Mohammad Mustafa

Dr. Mohammad Mustafa is the Chairman & CEO of PIF. He is also the Economic Adviser to President Mahmoud Abbas. Dr. Mustafa is on the board of several leading Palestinian companies, including Wataniya Mobile (Chairman), Amaar Real Estate Group (Chairman), Arab Palestine Investment Company (Member) and Palestine Power Generation Company (Member). Dr. Mustafa spent fifteen years at the World Bank (Washington, D.C.), where his work covered various countries in four different regions and involved sectors including Private Sector Development, Infrastructure, Industry & Energy, Project Finance and ICT. Dr. Mustafa holds a Master's degree and PhD in Management and Economics from George Washington University, and a Bachelor's of Engineering from Baghdad University.

Mr. Samer Khoury

Mr. Khoury is currently Deputy Executive Chairman of Consolidated Contractors Company (CCC), which is one of world's leading engineering, contracting and construction companies with key operations in the Middle East. Mr. Khoury is active in many economic institutions around the world. He is a Board Member of more than 28 regional and internationally renowned organizations. He holds a Bachelor's degree in Civil Engineering from the University of California, USA and a Master's degree from the University of Southern California, USA.



Mr. Mazen Sinokrot

Mr. Sinokrot is currently Chairman of the Board of Directors and CEO of the Sinokrot International Group, which is engaged in the industry, information technology, tourism, agricultural and commerce sectors. He is a former Minister of Economy, and served as Chairman of the Board of the Directors of the Investment Promotion Agency, Specifications and Standards Agency and the Industrial Estates and Free Zones Authority. He holds a Bachelor's degree with Honors in Production, Engineering, Management and Industry from the University of Nottingham, UK.

Mr. Nabil Sarraf

Mr. Sarraf is the Chairman of Palestine Real Estate and Investment Company (PRICO), Deputy Chairman of Palestine Development and Investment Company (PADICO), and board member of United Arab Investors, Jordan, as well as Chairman of AMTEC Technical Contracting Co, Jordan, and a board member of a number of pioneering regional and local companies. Mr. Sarraf has a strong regional track-record in contracting and real-estate development including in Kuwait and Saudi Arabia. Mr. Sarraf holds a Bachelor's degree in Civil Engineering from Aaachen University, Germany.

Mr. Mohammad Abu Ramadan

Mr. Abu Ramadan is the Chairman of Abu Ramadan Investment Group, as well as Chairman and CEO of Gaza Bus Company, and Deputy Chairman of Palestine Insurance Company and Pal-Trade. He is also a board member of a number of pioneering local companies and institutions, He holds a Bachelor's degree in Business Administration from Syracuse University, USA.

Mr. Tarek Aggad

Mr. Aggad is the Chairman and CEO of Arab Palestinian Investment Company (APIC), and is also an Executive Director of Aggad Investment Company (AICO) – Riyadh, Saudi Arabia. He holds board memberships in several manufacturing, distribution and service companies in Palestine, Jordan and Saudi Arabia. Mr. Aggad holds a Bachelor's degree in Economics from Harvard University, USA.

Mr. Azzam Shawa

Mr. Al-Shawa is General Manager of Al-Quds Bank since 2007, and has worked at a senior management level in both the Arab Bank and Bank of Palestine. He is Chairman of Al-Reef Company, and a board member of a number of leading local companies. Mr. Al-Shawa was a Minister of Energy in the 6th Government, and holds a Bachelor's degree in Mathematics, from the University of Memphis, USA.

General Assembly Members

1. Dr. Mohammed Mustafa
2. Mr. Samer Khoury
3. Mr. Mazen Sinokrot
4. Mr. Nabil Sarraf
5. Mr. Mohammed Abu Ramadan
6. Mr. Tarek Aggad
7. Mr. Azzam Al-Shawa
8. President Office Chief of Staff
9. Governor of the Palestine Monetary Authority
10. Chairman of BoD of the Palestine Capital Market Authority
11. Chairman of the BoD of the Palestine Securities Exchange
12. President of the Federation of the Palestinian Chambers of Commerce
13. President of the Private Sector Coordination Council
14. President of the Palestinian Bar Association
15. Dr. Mohammad Shtayyeh
16. Mr. Khalid Qawasmi

17. Dr. Adnan Amr
18. Mr. Nassar Nassar
19. Mr. Walid Salman
20. Mr. Hashim Al-Shawa
21. Dr. Souad Amiry
22. Mrs. Lana Abu-Hijleh
23. Mr. Ahed Bseiso
24. Mr. Nabeel Al-Zaeem
25. Mr. Jawdat Khoudary
26. Mr. Sam Bahour
27. Mr. Iyad Joudeh
28. Mr. Mazen Hassounah
29. Mrs. Dina Masri
30. Mr. Hani Nigim

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About the Palestine Investment Fund

The Palestine Investment Fund: The Leading Investor in Palestine

PIF was established in 2003 as an independent investment company, which aims to strengthen the local economy through key strategic investments, while maximizing long-run returns for its ultimate shareholder; the people of Palestine.

PIF prudently invests through an investment strategy focused on long-term value creation. With an aim to generate high and stable returns through diversified strategic investments in partnership with international, regional and local partners, based on values of transparency, accountability, commitment and in line with its corporate social responsibility and sustainability objectives. PIF has a strong reputation across global markets as a trusted and responsible investment partner.

01 About PIF

Past, Present and Future

PIF's establishment was marked by the transfer of assets previously managed by the PA. PIF thereby inherited responsibility for managing assets in a manner that contributed to sustainable economic development, as well as maintaining and growing existing national reserves.

PIF today is a publicly limited company, fully owned by the people of Palestine. It is financially and administratively independent and is governed by an independent General Assembly and Board of Directors. PIF owns direct majority and minority stakes in companies, including several fully owned subsidiaries, with a vision to establish pioneering platforms, effect strategy, consequently grow companies with the aim to become leaders in their respective fields. PIF's business model is based on a positive transformational impact through public-private partnership. PIF prides itself on being a beacon of achievement, and a regional benchmark.

A seven-member Board of Directors has senior oversight over all PIF activities. Members of the Board of Directors are selected as renowned and leading independent figures. The 30-member General Assembly includes representation from all stakeholders including; civil society, non-governmental organizations, academia, the public and the private sectors.

Currently, PIF has approximately $800 million in assets under management. Since inception, approximately $606 million has been distributed to the Shareholder as dividends that were transferred in full to the Palestinian Treasury. Despite the world financial crisis, in 2009, PIF achieved a profit of approximately $60million.

PIF is currently leading an ambitious $4 billion investment program expected to stimulate economic growth and create over 100,000 new job opportunities within the next five years. This program includes the implementation of several strategic investment projects.


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371
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An Ambitious Investment Program

PIF follows an ambitious yet diversified investment strategy, a policy which was formulated by PIF's Board and senior management. The policy constitutes a guiding framework as PIF strives towards the realization of a sustainably growing and strong economy. The strategy is underpinned by the following key principles:

Leadership

PIF seeks to play a leading role in reviving the Palestinian economy by focusing on the development of several strategic sectors capable of constituting a driving force for economic growth. Consequently, PIF projects are pioneering in terms of economic impact, implementation, and are unparalleled with regards to their strategic and developmental dimensions. PIF represents a sustainable economic model, capable of achieving economic development through supporting projects that will stimulate Palestine's private sector. Driven by its conviction that distortions in the Palestinian economy must be addressed, PIF strives to revive the private sector and create within it tens of thousands of new job opportunities for the growing labor force. Despite some improvements in the last three years, PIF acknowledges that extensive efforts are required in order to achieve the envisioned economic progress:

PIF'S STRATEGY CURRENTLY INCORPORATES THE FOLLOWING AIMS:

- Stimulating the Palestinian private sector
- Creating new jobs
- Attracting regional and international investment
- Developing strategic economic sectors
- Partnering with relevant government bodies in order to devise appropriate regulations and frameworks
- Partnering with national and international institutions in order to unlock value and minimize investment risks in strategic sectors

Reducing Dependence on Foreign Assistance

PIF seeks to ensure that investment programs and projects are Palestinian initiated and led with regards to both formulation and implementation, consequently guaranteeing an alignment of interests towards national goals. By utilizing locally available human, financial and technical resources, PIF intends to reduce financial and technical dependence on international assistance.

PIF's central conviction is that the Palestinian economy must be developed in line with local priorities and must be significantly reliant on local assets in order to reduce dependence.

PIF projects consequently respond to the needs of the local economy, while considering international organizations to be genuine partners in investment initiatives, and not merely a source of technical and financial assistance.

An example being the AMAL Program for affordable mortgages, which was initiated in 2008, and saw the partnering of 10 local and international organizations, from both the private and public sectors, to provide a total funding of more than $500 million to the scheme. This program was a Palestinian initiative adopted and implemented by PIF.

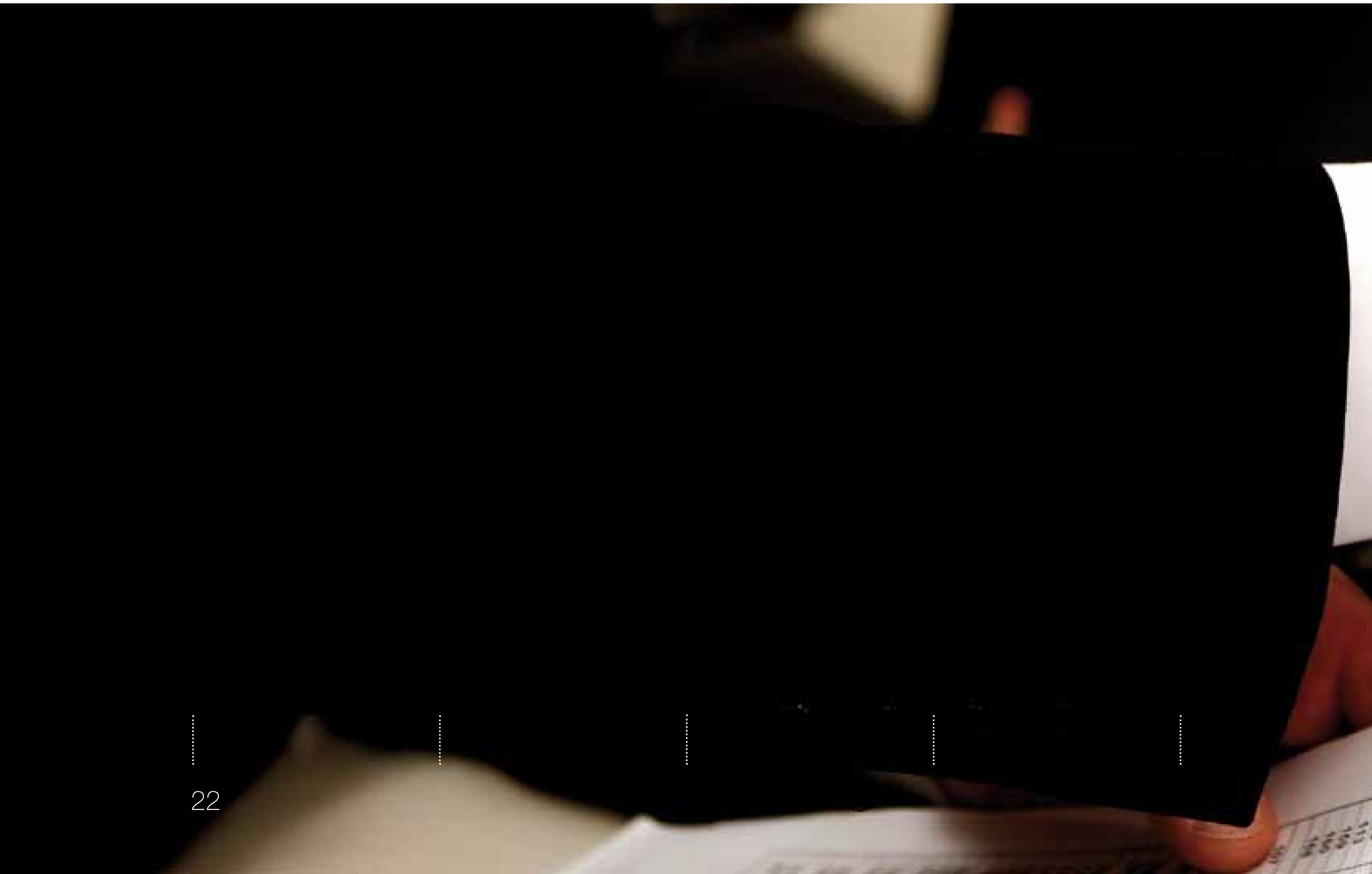
Attracting Foreign Direct Investment ("FDI")

FDI is crucial to economic development in developing countries. Consequently, PIF has expended extensive efforts to attract FDI from regional and international institutions. PIF projects have been able to secure strategic partnerships with some of the world's most renowned firms and institutions. PIF leverages it's in depth knowledge of the local economy, and relations with the local private and public sectors to attract FDI. PIF has also been able to devise attractive risk and profit sharing schemes with partners.

PIF's partnership in Wataniya Mobile Company ("Wataniya"), Palestine's second mobile operator, is a prominent example of a successful partnership with an internationally renowned regional company; Qatar Telecom ("Q-tel") has invested over $200 million in Wataniya to date.

Another key example is PIF's Loan Guarantee Facility ("LGF") for SMEs implemented in partnership with the Overseas Private Investment Corporation ("OPIC"), a US government arm; which seeks to strengthen economic development in developing countries by encouraging private American investment. As well as the Middle East Investment Initiative (MEII); a non-profit US based institution working to support economic development in the Middle East.

Another notable achievement is the recently established partnership with Abraaj Capital, the leading alternative asset manager in the MENASA region. Abraaj has assets under management in excess of $7 billion, and has co-launched with PIF, the Palestine Growth Capital Fund, which will invest growth capital in Palestinian SMEs. Other key partnerships include AMAL – the Affordable Mortgage and Lending program, alongside the Overseas Private Investment Corporation (OPIC) and the International Financial Corporation (IFC) amongst others; as well as a partnership to develop AlBireh-Ramallah's new downtown "Ersal Centre", with Saudi based - Land Holding (a member of AlRajhi Investment Group); and Gaza Gas, to tap off-shore gas reserves in the Mediterranean sea - a joint venture with BG Group and the Consolidated Contractors Company ("CCC").



Public-Private Partnerships

PIF believes that the public and private sector play mutually reinforcing roles with regards to economic development. The private sector cannot effectively function in the absence of public sector support and frameworks. PIF therefore lobbies the public sector to encourage investment, by minimizing bureaucracy, developing the infrastructure necessary for investment, and creating new laws and procedures required to encourage the private sector. PIF plays the role of a facilitator and coordinator between the private and public sectors. For example, PIF and its partners are working on AMAL in conjunction with the Palestine Monetary Fund and the Capital Markets Authority. This partnership resulted in the establishment of procedures and regulations that will transform the real estate sector in Palestine.

Strengthening Palestinian Private Sector Partnerships

PIF works to stimulate private sector activity and remove obstacles facing it. By adopting a participatory approach, PIF has diversified private sector investment opportunities and facilitated private sector participation in its own projects. As these projects develop, PIF reduces its own investment share, attracting private sector partners to take its place, thereby allowing the private sector to build capacity and take the lead. In line with this strategy, PIF has set up two projects, which directly support the Palestinian private sector: The first is the Loan Guarantee Facility, which facilitates and encourages bank lending to SMEs, and the second is the Palestine Growth Capital Fund, which invests growth capital in SMEs.

Transferring Investment to Palestine

PIF has made significant progress with regards to its goal to re-weight the majority of its portfolio to investments in Palestine; a strategy embarked upon in 2003. Key strategic projects have been launched in Palestine that benefit the local economy.

PIF has been able to transfer over two thirds of its capital and investments to Palestine and intends to transfer the remainder within the next three years.

Risk Management

For the past four years, PIF has implemented its investment projects mindful of the risks faced, and has utilized a prudential approach to assess and distribute risks across sectors and investments, in order to secure an appropriate yield, while hedging against market fluctuations and volatility.

Strategic Investment

PIF has concentrated its efforts on strategic sectors, which underpin Palestine's economy. These include: real estate, tourism, telecommunications, energy, manufacturing, services, SMEs, and financial services. Projects in these sectors form the majority of PIF's ventures; a diversified strategy that seeks to have a positive transformational impact on the economy.

Investment in Palestine

PIF investment programs and projects are located throughout Palestine, in order to benefit the widest range of citizens possible. Certain initiatives are restricted to specific areas, such as the Al-Jinan neighborhood in Jenin, a residential neighborhood in Qalqilya, and electricity and gas projects in Gaza. There are also projects with national reach, such as the Loan Guarantee Facility for SMEs, the Palestine Growth Capital Fund for private equity investment in SMEs and Wataniya Mobile Company.

Geographical Focus

PIF continues to prioritize support for initiatives in certain geographical areas, which hold strategic importance for the development of the Palestinian economy as a whole. In particular, certain regions, the most important being Jerusalem, as well as the Jordan Valley and the Dead Sea, which have immense geopolitical significance, especially in context of establishing a viable nation-state. Unfortunately, Israel continues to obstruct Palestinian access and control over these areas.

Projects and Programs on a National Scale

1-Wataniya Mobile
2-Palestine Growth Capital Fund
3-Amaar Real Estate Group
4-Loan Guarantee Facility
5-Arab Palestinian Investment Company (APIC)
6-Palestine Commercial Services Company (PCSC)

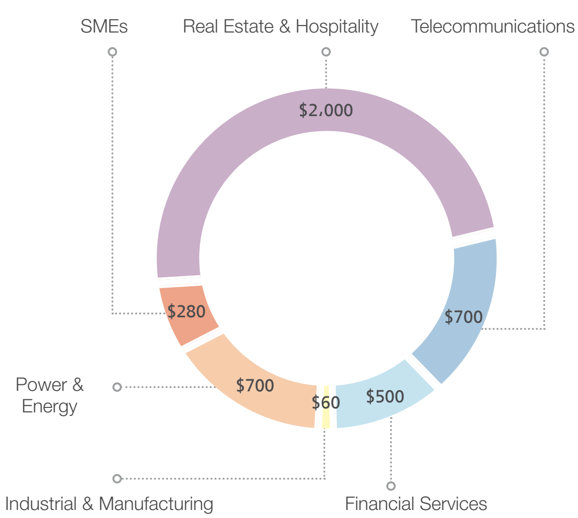
$4 Billion Investment Program in Key Strategic Sectors Over the Next 5 Years

PIF's investment program will be implemented in the next 5 years alongside international, regional and local partners, with a projected investment value exceeding $4 billion. The investments are in key strategic sectors that will build strong foundations for the economy while offering attractive emerging market type returns.

Investment volume

The volume of this investment program is unprecedented locally and is expected to reach $4 billion within the next five years. The investment program will be financed directly by PIF, international and regional partners, as well as local and international banks and financial institutions.

Investment Program – Next 5 Years



Sectors

PIF's focus is on strategic sectors that underpin Palestine's economy, as well projects in geopolitically strategic areas such as the Jordan Valley and the Dead Sea.

Current portfolio and projects under management implemented in these sectors are as follows:

REAL ESTATE & HOSPITALITY: Al-Reehan Neighborhood, Al-Jinan Neighborhood, Ersal Center, Convention Palace –Conference Center, Jacir Palace – Intercontinental, Grand Park Hotel, Jericho's Intercontinental Hotel.

Current real-estate portfolio and projects under development are managed by Amaar Real Estate Group, PIF's real estate holding arm.

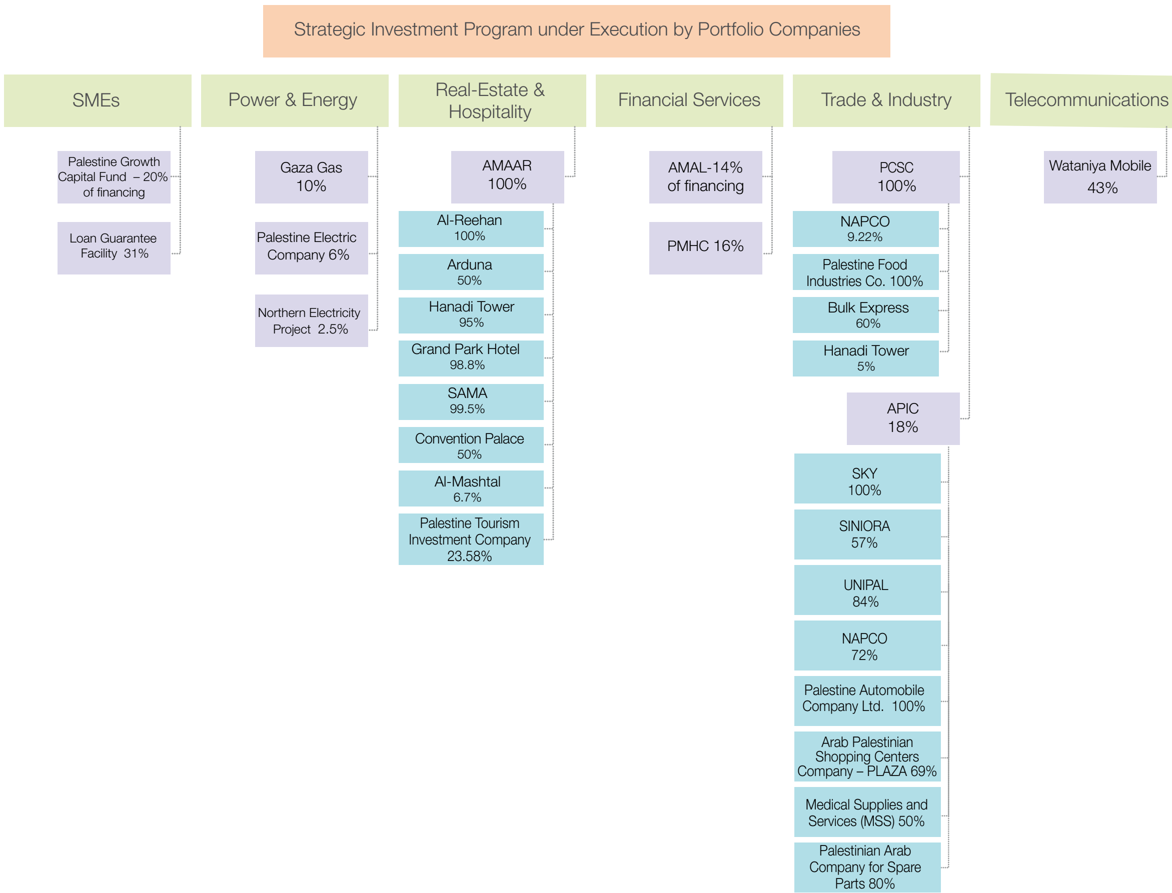
TELECOMMUNICATIONS: Wataniya Mobile; PIF is the strategic local partner and second largest shareholder

ENERGY: Gaza Gas project, Palestine Electric Company, Northern Electricity project.

INDUSTRIALS AND MANUFACTURING: The Arab Palestinian Investment Company (APIC); a market leader in production and distribution, Palestinian Commercial Services Company (PCSC), the first cement company in Palestine.

SMES: The Loan Guarantee Facility (LGF) for small- and medium-size enterprises; and the Palestine Growth Capital Fund (PGCF) for small and medium-size enterprises.


A New Landmark Center in Palestine
أرضنا
ARDUNA
Ersal Center
Investment Outlay of $400 million
The 2nd Mobile Operator in Palestine with area code 056
الوطنية موبايل
wataniya mobile
Investment Outlay of $700 million
Realizing Dreams
AMAL
Financing Facility of $500 million
A New Quality of Life
عمار
AMAAR GROUP
Paid in Capital of $220 million
30,000 Housing Units in the next 5 Years
National Affordable Housing Program
A New Neighborhood in North Palestine
Al Jinan Neighborhood
A New Address in Palestine
الريحان
AL-REEHAN
The Finest Conference Venue in Palestine
The Convention Center Palace
Investment Outlay of $50million
Loan Guarantee Facility
Facility Size of $230 million
Palestine Growth Capital Fund
Target Size of $50 million



Financial Services

PIF's finanial services investment program includes the "AMAL" Affordable Mortgage and Loan Program; and the investment portfolio in the Palestinian financial services sector.

In addition to these strategic projects, PIF manages a diversified investment portfolio in the local, regional and international capital markets. The portfolio constitutes a significant portion of assets under management and will be reweighted in its entirety toward Palestine once the local economy opens up to new investment opportunities.

The current portfolio includes holdings in the Palestinian financial services sector; in light of its importance to the local economy as well as investment portfolios in local, regional, and international equity and fixed income markets.

Economic Benefits

PIF's investment program is expected to directly and indirectly benefit the Palestinian economy. In addition to stimulating key sectors, the program is projected to create over 100,000 new jobs; thereby reducing poverty, unemployment and enhancing the quality of life of Palestinians.

Moreover, the program is set to have a positive transformational impact on the economy by both increasing the supply of particular goods and services, as well as increasing both direct and indirect demand. For example, according to a 2008 PIF commissioned study; the projected housing sector deficit will reach 470,000 housing units in the next decade.

Consequently, PIF established the National Affordable Housing program in order to address the deficit and supply affordable housing units, constructed and designed using the latest engineering know and principles of sustainability.

The overall investment program will promote competition within the sector, leading to the provision of higher quality services. The introduction of Wataniya Mobile has heralded the liberalization of the local telecommunications market, introduced competition and has benefitted consumers; in terms of reduced tariffs and better quality of service. The investment program will also support private sector companies in general, and SMEs in particular, which constitute over 95% of all private sector companies locally.

The competitiveness and productivity of SMEs will be enhanced by programs such as the LGF and PGCF, which offer flexible financing, operational and technical know-how as well as management expertise, new capabilities to build platforms and open new markets. Simultaneously increasing productivity, spurring innovation and creating new job opportunities.

Moreover, the program will stimulate economic activity in interconnected sectors. For example, the launching of Wataniya Mobile has stimulated economic activity in a diverse array of sectors including media and advertising; and PIF real estate projects increase the demand for goods and services provided by engineering companies, contractors and financial service providers.

PIF programs also encourage reforms to the Palestinian legal framework, which allows for better functioning frameworks in a diverse number of sectors; from the real estate and mortgage market to the telecommunications field. PIF cooperates closely with the relevant national institutions to form legal and regulatory frameworks that enhance sector efficiency and encourage investment.

Diversification of Palestinian Authority Income Streams

A major objective of PIF's investment program is to diversify the income streams available to the PA by enabling it to generate revenue through taxes, royalties and license fees, such as the Wataniya Mobile license fee and tax revenues, as well as generate and unlock new income streams, including royalties to be tapped from the Gaza Gas project.

Factors for Success

PIF recognizes that program success is dependent upon several crucial factors, not least idea generation, due diligence, planning, and execution. PIF attaches significant value to its competencies in establishing transformational and value generative projects and to widely communicate their significance. Moreover, PIF continues to devote major attention to risk management policies and processes in order to ensure it is able to effectively address obstacles arising at the stage of project implementation or as a result of exogenous factors. A key benchmark of success is the ability of PIF to attract local, regional and international investment by effectively promoting and marketing attractive investment opportunities, and translating the key message that "*Palestine is open for business.*"

PIF Investment Partners

Telecommunications

Qatar Telecom (Q-tel) is a world leading telecommunications provider and has a presence in 17 countries and is committed to expansion in the Middle East, North Africa region and South East Asia. Q-tel provides coverage to a population in excess of 560 million people with 57.5 million consolidated subscribers.

Al-Wataniya International was established in 1999 as a private Kuwaiti mobile telecommunications company. In March 2007, Q-tel secured a 51% share in Al Wataniya International and the company expanded rapidly in the Middle East and North Africa region and Asia. It now operates in Kuwait, Saudi Arabia, Algeria, Indonesia, the Maldives and Palestine.

Real Estate & Hospitality

The Arab Medical Center (AMC) was established in 1998, the company launched its first project, 'The Arab Hospital in Nablus,' in 2000. AMC is developing the Arab Consulting Hospital in Al-Reehan Neighborhood.

The Land Holding Real Estate and Investment Company ("The Land Company" or "the Land") was established in 2004 by Saudi and Jordanian investors led by AlRajhi Investment Group. The Land is a major developer in prestigious real estate projects in Saudi Arabia, Qatar, Jordan and Bahrain.

Palestine Development and Investment Company (PADICO) was established in 1993 and is one of Palestine's leading conglomerates. PADICO is a publicly limited shareholding company that has approximately $620 million in assets under management. PADICO is traded on the Palestine Securities Exchange (PSE) and its mission has been to develop and strengthen the Palestinian economy through investing in key strategic sectors.

SMEs

CHF International is an international development and humanitarian aid organization that was established in 1952. It serves more than 20 million individuals per year and aims to be a catalyst for long-lasting positive change in low- and moderate-income communities around the world, helping them to improve their social, economic and environmental conditions.

The Middle East Investment Initiative (MEII), an independent non-profit organization, partners with public and private organizations to offer specialized financial products in the Palestinian territories and elsewhere in the region to stimulate economic activity and create jobs. MEII was formed to help revitalize economies in the Middle East, recognizing that a strong economic base is critical for social and political stability.

Abraaj Capital is the largest private equity group in the Middle East, North Africa and South Asia (MENASA). It operates offices in six countries across the region, including Turkey, Egypt, Saudi Arabia and Pakistan, with its base in Dubai.

Financial Services

International Financial Corporation ("IFC") is a member of the World Bank Group. IFC fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments.

The Overseas Private Investment Corporation (OPIC) was established as an agency of the U.S. government in 1971. OPIC helps U.S. businesses invest overseas, fosters economic development in new and emerging markets, complements the private sector in managing risks associated with foreign direct investment, and supports U.S. foreign policy.

The Department for International Development (DFID) is a UK government agency that manages Britain's aid to developing countries. DFID is led by a cabinet minister, one of the senior ministers in the government. DFID work in 150 countries and have 2,600 staff, half of whom work abroad, with headquarters in London and East Kilbride, and 64 offices overseas.

The United Nations Human Settlements Programme (UN-HABITAT) is the United Nations agency for human settlements. It promotes socially and environmentally sustainable towns and cities with the goal of providing adequate shelter for all.

Bank of Palestine P.L.C. is one of the largest national banks with 2008 assets of ca. $1 billion and net income of $24 million. Founded in 1960, it commenced operations in 1961 by giving small loans to projects and businesses and giving limited short-term personal loans. Bank of Palestine has a banking network of 38 branches and sub-branches spreading from Jenin in the North to Rafah in the South.

Cairo Amman Bank ("CAB) has a current paid-in capital of JD88 million with 2008 assets of ca. JD1.5 billion and net income of JD20 million. CAB was established on January 14, 1960 as a Jordanian public shareholding company. CAB's first branch was launched in Palestine in 1961.

Energy

BG Group is a leading player in the global energy market headquartered in the United Kingdom, with 2008 revenues of ca.GBP12.6 Billion and net assets of GBP12.9 Billion. BG has an exemplary history in all aspects of the energy sector, particularly natural gas, where BG Group has experience across the entire gas chain – from exploration to delivery to the consumer.

From its beginnings in 1952 CCC, has become one of the region's largest multinationals and one the world's largest contractors. Today, Greece based CCC embraces has over 140,000 employees composed of over sixty nationalities with 2008 revenues in excess of $3 billion.


OUR VALUES

Our values provide a holistic framework for all our work including its philanthropic aspects. Our investment program is built around guiding principles and aim to have a positive transformational impact on the local economy.

Our Values

Leadership

PIF was launched with the aim of becoming a pioneering Palestinian financial institution. PIF has the competencies, resources and capability to lead the attempts of rebuilding the Palestinian economy on sustainable basis, reducing the need for external aid, grants and assistance. PIF investment initiatives, projects and programs are locally led and supervised. Moreover, PIF has the intellectual capital that makes it the first port of call for foreign investors and stakeholders in Palestine.

PIF also aims to increase FDI into Palestine through partnering with regional and international institutions in order to change the image of the local economy from recipient of aid to a dynamic regional and international force, showcasing the ability of local firms to lead and drive best in class projects.

Innovation

PIF prides itself on innovation and creativity, whether launching projects in green-field sectors as first in kind, or in size, complexity and the overcoming of difficulties through creative solutions; PIF is committed to maintaining its pioneering and innovative spirit.

Transparency and Accountability

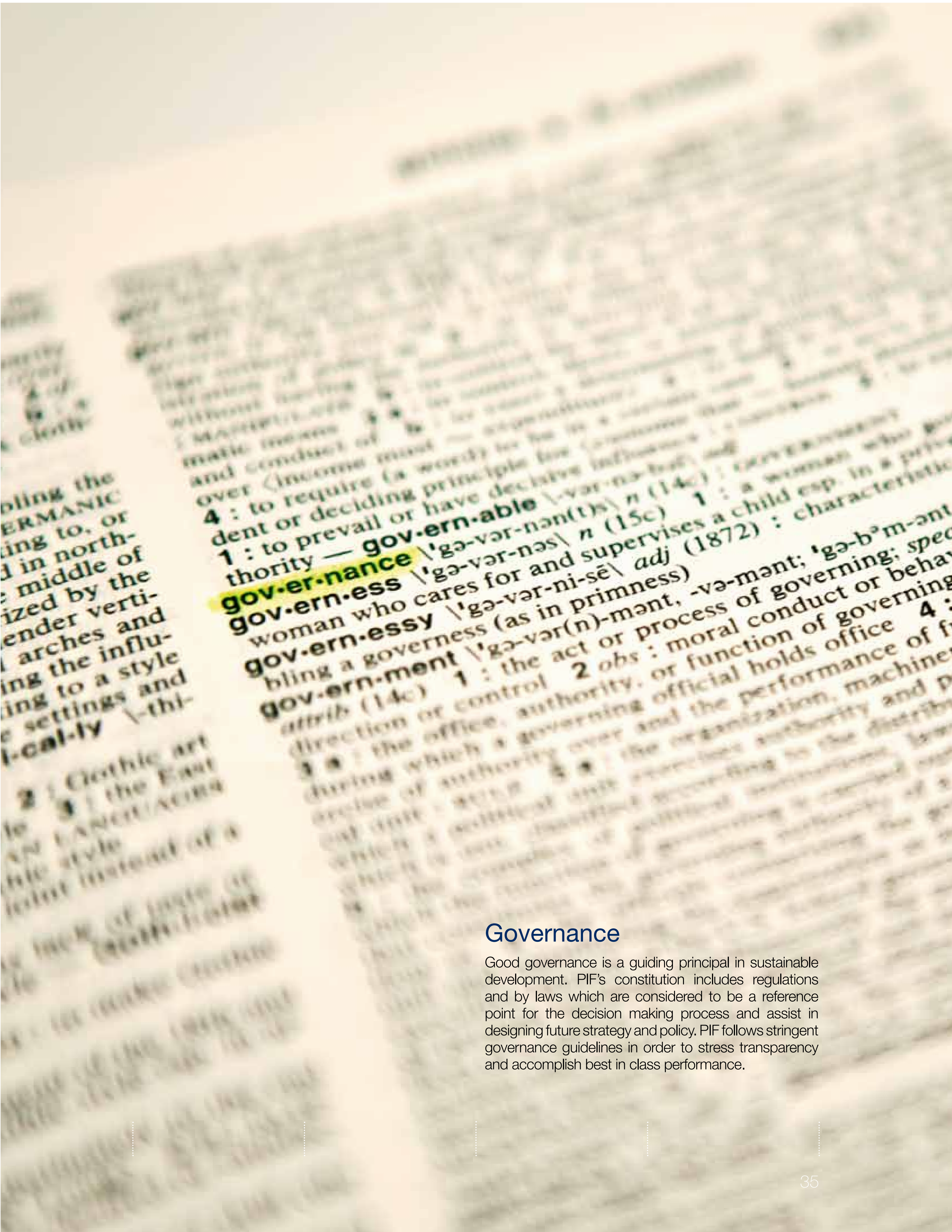
PIF ensures that transparency and accountability, which are mutually reinforcing principles are enshrined in every stage of its work whether internally or externally; through compliance and monitoring mechanisms by relevant authorities and regulators. Furthermore, PIF is committed to transparency as a basic standard in the internal decision making process as well as in publishing annual reports, activity updates, outreach programs including newsletters, and web updates. PIF's strongly held belief is that it must be subjected to stringent internal and external monitoring to ensure both international and local credibility, as well as consistent high performance.

Credibility

PIF's credibility is highlighted by the developing of key strategic sectors, which are experiencing a considerable deficit in investment, activity or dynamism. PIF's approach is characterized by 360 degree responsibility; to its ultimate shareholder - the people of Palestine, its partners, and employees, with an aim to have a transformational positive impact through sustainable and environmentally friendly development. Moreover, PIF aims to create new job opportunities and help in the development of a new cadre of professionals.

Commitment to Palestine

PIF's ultimate guiding value is its commitment to Palestine. PIF works towards the establishment of a dynamic and viable nation-state with a strong and sustainable economy. Our commitment to Palestine is represented in a direct investment approach through launching strategic and pioneering investment programs, with the aim to develop the economy, strengthen the community, and provide new job opportunities for citizenry.



Governance

Good governance is a guiding principal in sustainable development. PIF's constitution includes regulations and by laws which are considered to be a reference point for the decision making process and assist in designing future strategy and policy. PIF follows stringent governance guidelines in order to stress transparency and accomplish best in class performance.

Accountability and Transparency

As a cutting-edge financial institution and a strategic national asset, PIF recognizes the importance of maintaining at all times the highest standards of corporate integrity, accountability and transparency. To do so, PIF has established the following administrative and management structures, which adhere to international best practice standards - in order to oversee its assets, decision-making and operations.

Accountability and Transparency

The General Assembly

The General Assembly represents PIF's ultimate shareholder: the people of Palestine. It executes its obligations in accordance with PIF regulations and the Companies Law. The General Assembly provides strategic guidance to the Board of Directors, gives oversight of annual reports, and approves the distribution of dividends in accordance with the Companies Law.

The General Assembly also assigns an external auditor on the basis of the Board of Directors recommendations. The General Assembly is comprised of 30 qualified individuals recognized for their integrity and experience. Members are appointed by the President for a three-year term.

The Board of Directors

PIF operations are overseen by an independent Board of Directors, responsible for setting and overseeing goals and objectives. The Board is appointed by the President for a three-year term. Members of the Board are reputed experts in finance and management with extensive knowledge of local markets. Collective decision-making by Board members remains a core PIF practice.

An Executive Management team oversees daily operations, reporting directly to the Board of Directors. The strictest conflict of interest rules are adhered to at all times, with Board members prohibited from intervening in projects, contracts, and commercial matters.

Internal Auditors

PIF has an established independent internal auditing tool operated by a qualified auditor appointed by PIF, and selected by the internal auditing committee; composed of Board Members. The internal auditor reports directly to the Head of the Auditing Committee. The internal auditor adheres to the standards of the profession set by international auditing standards. The internal auditor reviews the adequacy of internal regulations, as well as management's commitment in applying the laws and regulations that determine investment and management operations, and is also responsible for presenting and following up on key recommendations. PricewaterhousesCoopers is responsible for PIF's internal Auditing.

External Auditors

PIF's External Auditor is hired by the General Assembly and reports to both the General Assembly and the Board of Directors. The External Auditor independently conducts an audit in accordance with international auditing standards. PIF's current external auditor is Ernst & Young.

Financial Disclosure

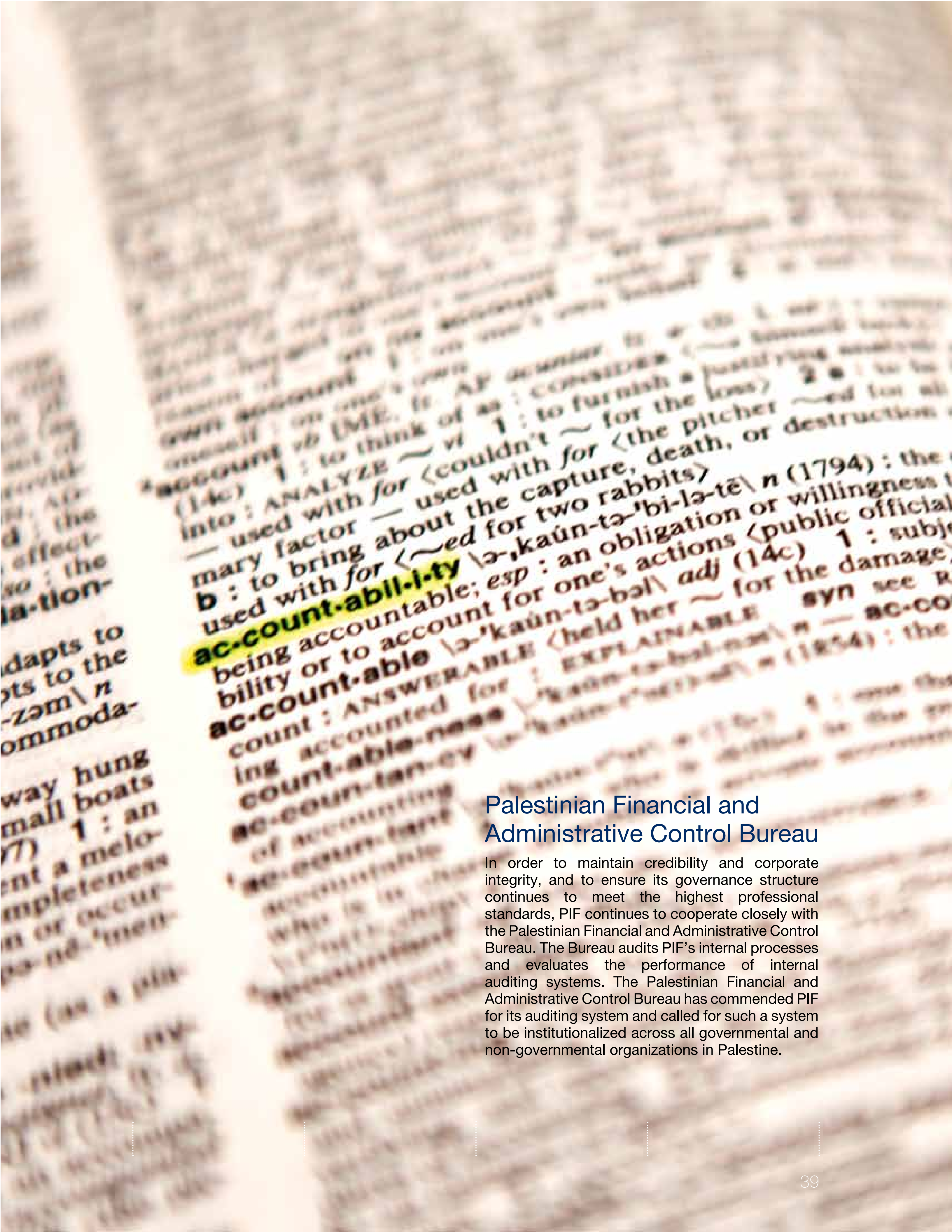
PIF is committed to the principle of transparency, which is manifested in the commitment to disclose its mission, corporate structure, investment programs, and managerial and financial performance.

PIF publishes its audited financial information in the annual report, in line with its principles of transparency and accountability.

Internal Procedures

PIF is committed to ensuring that internal procedures meet international best practice standards, and effectively regulate both managerial and investment decision-making and implementation.

It is also subject to the list of authorizations for investment decision making and budget allocation, which are process driven and require accountable authorizations.



Palestinian Financial and Administrative Control Bureau

In order to maintain credibility and corporate integrity, and to ensure its governance structure continues to meet the highest professional standards, PIF continues to cooperate closely with the Palestinian Financial and Administrative Control Bureau. The Bureau audits PIF's internal processes and evaluates the performance of internal auditing systems. The Palestinian Financial and Administrative Control Bureau has commended PIF for its auditing system and called for such a system to be institutionalized across all governmental and non-governmental organizations in Palestine.

02

Promising Investment Sectors

In line with its five-year investment strategy, PIF invests in strategic projects and programs in vital economic sectors in order to contribute to the development of a strong, sustainable and dynamic Palestinian economy, which is reliant on its own resources and capable of creating sufficient job opportunities to keep up with population growth.

In partnership with Palestine's public sector and with local, regional and international private sector companies, as well as international financial institutions, PIF's investment programs focus on the following sectors:

- Real Estate and Hospitality
- Telecommunications
- Energy
- Trade and Industry
- Small and Medium Enterprises
- Financial Services

PIF also focuses its efforts on developing regions with geopolitical significance such as Jerusalem, the Jordan Valley and the Dead Sea, by laying out master plans for development zones, taking on important phases for projects, and concentrating new investment in these areas. The following table illustrates the range of economic sectors, types of programs and projects, and volumes of investment managed by PIF and its partners.

Sector	Investment Projects and Programs	Region	#
Real Estate & Hospitality	**The National Affordable Housing Program**		52
	Al-Reehan Neighborhood	AlBireh-Ramallah	54
	Al-Jinan Neighborhood	Jenin	58
	Hospitality Projects		62
	Convention Center Palace	Bethlehem	64
	Grand Park Hotel	AlBireh-Ramallah	65
	InterContinental Hotel	Jericho	66
	Jacir Palace InterContinental	Bethlehem	67
	Commercial Real Estate Projects		68
	Ersal Center	AlBireh-Ramallah	70
Telecommunications	Wataniya Mobile	Nationwide	74
Power & Energy	Gaza Gas project	Gaza	80
	Palestine Electric Company	Gaza	82
	West Bank Power Station	West Bank	82
Trade & Industry	**Palestinian Commercial Services Company (PCSC)**		86
	National Aluminium Profiles Company (NAPCO)	Nablus	88
	Nablus Crafts Complex	Nablus	88
	The Palestine Food Industries Company	Gaza	89
	Arab Palestinian Investment Company (APIC)	Nationwide	90
Financial Services	Affordable Mortgage and Loan Program “AMAL”	Nationwide	94
Small and Medium Enterprises	The SMEs Loan Guarantee Facility	Nationwide	100
	The Palestine Growth Capital Fund	Nationwide	104
Capital Markets	Local, Regional & International Portfolios	International	108
Strategic Development Zones	The National Program for the Development of the Jordan Valley & Dead Sea Region	Jordan Valley & Dead Sea	111

The Palestinain Economy... An Economist's View

A strong economy is a vital foundation for any nation-state. As Palestinians, we continue to pursue our legitimate aspirations for the establishment of an independent and sovereign state; consequently, the development of a strong and sustainably growing economy takes on further significance.

An Emerging Market

Although the Palestinian economy faces significant challenges, it possesses attractive market characteristics, first and foremost, is its green-field nature magnified by natural population growth. Secondly, is an entrepreneurial culture and an active private sector, capable of operating under challenging economic and political conditions. Indeed Palestine is the birthplace of many regional and international champions from financial services, pharmaceuticals, to construction and manufacturing. Another significant characteristic is the quality of human resources and intellectual capital available, combined with the importance placed upon education: Literacy rates, school and university enrollment rates and total education expenditure are internationally competitive.

Moreover the adoption by the PA of the principles of free market ensures the private sector a pivotal role in economic development, with public sector focus on regulation and the facilitation of private sector initiatives. Furthermore, the PA encourages investment in Palestine in a number of ways, including investment promotion legislation and regulation, which provide for an attractive investment climate.

In addition, the presence of institutions such as the PIF, which remains engaged in numerous strategic national, regional and international partnerships, provides a benchmark for future investment. PIF holds a deep conviction that attractive investment opportunities in Palestine can be further tapped.

1967 – 1993: Economy under Occupation

Since Israel's occupation of the West Bank and Gaza in 1967, the occupation authorities have taken deliberate and decisive measures to weaken the Palestinian economy by undermining structural development reform efforts. Furthermore, the Israeli authorities have readily exploited the Palestinian economy, increasing economic dependence with the aim to build a captive market for Israeli products and a key source of cheap labor.

During this period, the Israeli occupation authorities isolated the Palestinian economy by disconnecting it; through closures, checkpoints and other separation measures from economies in the region; in particular, by disconnecting the West Bank economy from Jordan, and Gaza from Egypt, respectively, while simultaneously increasing the flow of Israeli goods. This policy has seriously hindered locally driven economic growth.

The Palestinian business sector was particularly hard hit by arbitrary Israeli measures in the 1970s. Palestinian goods were prohibited from export to Israel while the Palestinian markets were flooded with Israeli goods, further dampening economic growth and causing a vicious cycle in balance of trade deterioration. These measures were accompanied by practices aimed at preventing Palestinians from making use of sovereign resources and public goods, including land confiscation, the exploitation of natural resources and of financial resources such as tax and currency revenues; instead of being expended onPalestinian public services and infrastructure, these were transferred to the Israeli treasury. As a result of these policies, state supply of public goods such as infrastructure and public services in the West Bank and the Gaza Strip essentially collapsed.

During this period, businesses and other economic establishments faced a shortfall in the supply of skilled labor, with skilled workers seeking job opportunities in Israel and regional countries, and unskilled workers remaining inside the Green Line. Highlighted by the 1970s oil boom, at which time many Palestinian workers sought employment in the Gulf region; however, by the end of the 1980s, with changing economic conditions, the size of this work force decreased and the Palestinian economy lost another source of revenue. With the outbreak of the first Intifada in 1987, Israeli restrictions escalated and Palestinian workers were forced to apply for permits to work inside the Green Line for the first time. Moreover in 1991, many Palestinian workers were expelled from the Gulf.

Throughout this period, the Palestinian economy experienced negative structural distortions, particularly in terms of its excessive dependence on Israel for employment opportunities and goods. Indeed, at this time, around 90% of imports to Palestine originated in Israel, and around 75% of Palestinian exports went to Israel. This excessive dependence resulted in a growing trade deficit with Israel which was partially financed by transfers from Palestinians working in Israel or overseas.

1993 – 2000: Building a National Economy

In accordance with the Oslo Accords, the PA was granted only limited control over its resources in 1993. Despite this, the PA sought to develop a vibrant economy in preparation for the establishment of an independent state.

With the cooperation of donor countries, the PA sought to develop best practice economic and institutional frameworks, increase productive capacities through establishing agricultural economic, industrial, monetary and financial initiatives and institutions. In addition, numerous pieces of legislation regulating the financial sector were passed into law. Moreover, the PA expended immense efforts to rehabilitate infrastructure in the Palestinian territories, with a significant proportion of donor funds allocated to thispurpose.

The Palestinian private sector was encouraged to participate in infrastructure investment, particularly in the energy and communications sectors. Growth Rates: Palestinian growth rates remained moderate after the signing of the Paris Protocol in 1994 and GDP rose by an average of 3% per annum between 1994 and 2000 as a result of growth in the trade and construction sectors.

Unemployment: The unemployment rate fell significantly from approximately 28% in 1996 to approximately 10% in 2000. However, the competitive advantage of Palestinian goods and services remained structurally weak, as a result of the comparatively high wages Palestinians earned working in Israel, restrictions on trade relations, and high levels of foreign assistance (World Bank, 2003).

Furthermore, throughout this period, arbitrary Israeli measures continued unabated; Israel maintained control over the key components of Palestinian sovereignty including key natural resources and borders. Israeli measures were aimed at destroying Palestinian territorial contiguity and undermining relations with the outside world; as well as maintaining tight control over borders, the Israeli occupation authority confiscated land, built settlements, tightened the various blockades on Palestinian areas, and restricted the freedom of movement of all Palestinians, including crucially the business community.

2000 – 2007: Continued Israeli Assaults on a Fragile Economy

In 2000, after continued Israeli intransigence and frustrations at the faltering peace process, the Al-Aqsa Intifada broke out and Israeli measures against the Palestinians intensified – Palestinian institutions were systematically destroyed, Palestinians working in Israel were expelled and curfews were widely imposed. These measures all but crippled the Palestinian economy. The Israeli occupation authorities also started the construction of the Separation Wall, which accentuated the fragmentation of Palestinian land and further reduced the access of Palestinians to their natural resources. These measures seriously undermined PA efforts toward economic development and strangled the Palestinian economy. GDP and GNI fell, and key economic indicators in investment, consumption, exports, and public expenditure deteriorated. Unemployment rates rose to over 50%, poverty levels escalated on an unprecedented level to up to 60% and accumulated economic losses reached approximately $6 billion per annum; a figure many times higher than the level of foreign assistance provided to Palestine since the beginning of the transitional period.

Israeli measures put in place subsequent to the 2006 legislative elections further asphyxiated the Palestinian economy. Israel refused to transfer tax revenues collected on behalf of the PA and urged the international community to discontinue its support for the PA, under the pretext that the democratically appointed Hamas led government refused to recognize and abide by the Oslo Accords. As economic life in the Palestinian territories further stagnated, a serious financial crisis ensued; Palestinian public sector workers were not paid for many months and Palestinian institutions, including the PA itself, seemed to be at risk of complete collapse. Internal Palestinian divisions, which peaked in 2007, further undermined Palestinian economic development, following a limited recovery in the period 2004 – 2005. In 2006, growth in GDP fell in the range of 5 – 10% and unemployment and poverty rates rose to 40%, 65%, respectively (Palestinian Central Bureau of Statistics, 2007). There was also a net decline in public and private investment. The decline in growth rates was accompanied by structural shifts in the Palestinian economy with GDP increasingly reliant upon foreign aid. Levels of private investment dropped markedly with the International Monetary Fund ("IMF") estimating a decrease of approximately 15% in the period 2006 –2008.

2007 – 2009: Development and Reform

In the last three years, the West Bank economy has seen considerable advances, partly as a result of prudent expenditure plans, increased private sector activity, improved accountability and transparency, as well as an improved security environment and the strengthening of the rule of law, all of which have improved investor confidence.

The following are key the 2009 economic indicators:

GROWTH INDICATORS: Annual blended GDP growth in 2009 increased by 6.8%; comprised of 8.5% GDP growth in the West Bank and 1% in the Gaza Strip, with an annual blended per capita GDP growth of 3.8%. Foreign assistance played an important role, reaching $1.7 billion in 2008, albeit subsequently experiencing a slight drop in 2009. Other significant drivers of this growth include the improved political and security situation in the West Bank and continued domestic structural economic and legal reform.

INFLATION INDICATORS: As a result of global economic conditions, the rate of inflation in 2009 was 4%, in comparison with 8% in 2008. Moreover in 2009, the prices of certain goods that saw price increases in the period 2007 – 2009 actually dropped, notably petrol and food stuffs.

UNEMPLOYMENT INDICATORS: According to the Palestinian Central Bureau of Statistics, the rate of unemployment in Palestine was approximately 25% in 2009 experiencing a small drop from 2008 levels. In the West Bank the unemployment rate was 20% in 2008, which dropped to 18% in 2009, while Gaza unemployment levels have continued at the 38 % level. These constitute high rates of structural unemployment and do not account for underemployment.

The Economic Situation in the Gaza Strip

The economic situation in the Gaza Strip remains in deep crisis as a result of the Israeli imposed economic blockade, which commenced in its current form in 2007. Conditions deteriorated further after the 2008 war on Gaza, during which Israeli forces inflicted severe damage to private and public property and infrastructure, as well as civilian casualties numbering in the thousands.

The economic situation in the Gaza Strip is, as a consequence, significantly worse than that in the West Bank. In 2007, GDP growth in Gaza was 0%. In the period 2006 – 2009, poverty levels rocketed from 35% to 50%. If foreign assistance is excluded, and income criteria as a measure of poverty employed, poverty levels would reach 67%. The economy in Gaza is at the brink of collapse, and international commitments made at the 2009 donor conference for the reconstruction of the Strip have yet to materialize. The Gaza Strip; the population of which comprises 40% of the population of the Palestinian territories, constitutes an indivisible part of Palestine. As such, efforts to revive the Palestinian economy must also focus on re-enabling development in Gaza, by lifting the blockade and restoring political unity between Gaza and the West Bank.

Real Estate & Hospitality

The real estate sector comprises 50 – 60% of total investment in Palestine, employs 11% of the workforce, and the sector's GDP contribution reaches 14% (inclusive of construction and housing activities).

PIF also concentrates its efforts on the hospitality & tourism sector due to its strategic importance to the Palestinian economy. As in several other countries, tourism is expected to stimulate the economy and generate significant income. PIF has historically played a leading role in launching landmark tourism projects such as Jacir Palace - Intercontinental in Bethlehem, the Grand Park Hotel in Ramallah and the Intercontinental Hotel in Jericho; comprising one

of the finest hospitality portfolios in the country. PIF is also currently planning the development of several large-scale hospitality projects in the Jordan Valley and Dead Sea areas.

PIF has also invested in several landmark real estate projects including the Convention Center in Bethlehem and the Ersal Center in Al Bireh-Ramallah. The Convention Center is Palestine's premier venue for public events and conferences. Ersal Center is a new landmark commercial, residential and business hub and includes a variety of mixed use towers, commercial and office buildings, residential units and a 5 star deluxe hotel. The project will generate thousands of new jobs and stimulate economic activity in the local area.

Amaar Real Estate Group (Amaar)

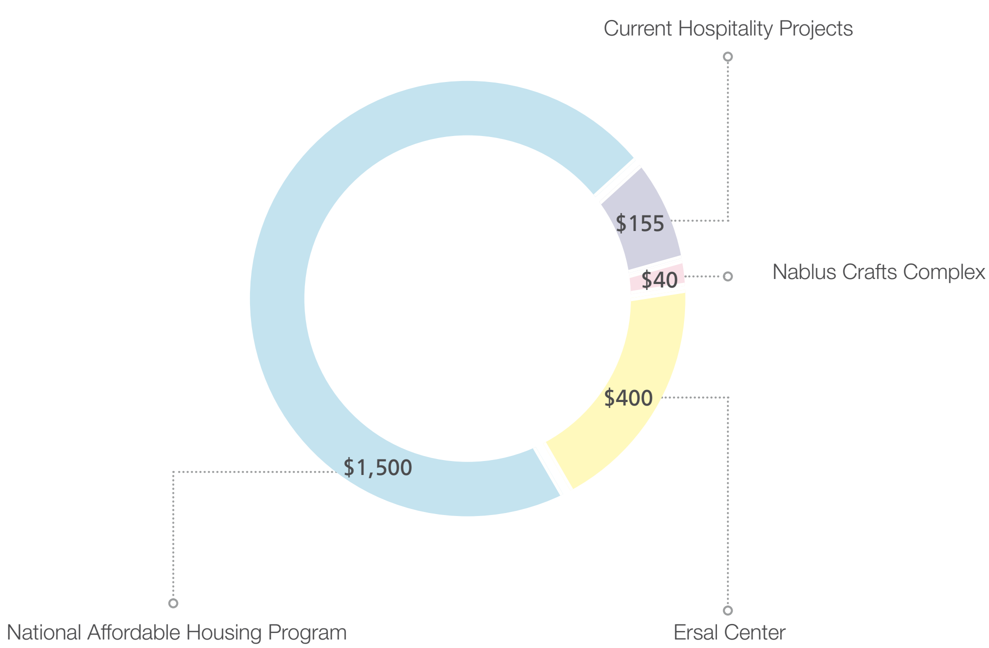
Amaar is PIF's real estate and hospitality holding arm and has assets under management of $220 million. Amaar was established as PIF's specialized real-estate and hospitality arm to manage and develop its pipeline and portfolio.

In light of the increased activity in Palestine's real estate sector, and PIF's sizeable real-estate and hospitality portfolio, Amaar Group was founded to manage its assets and mobilize expertise in the field. Amaar is fully owned by PIF and will oversee all of PIF's real estate and hospitality-related projects. Amaar will also coordinate with PIF to develop strategies for investment in these fields.

In the next five years, Amaar will manage a real estate program with a value of over $2 billion and will oversee several projects that fall under the umbrella of PIF's National Affordable Housing Program, which aims to build 30,000 new housing units throughout Palestine. The program targets low- to medium-income earners. Specific projects include the Al-Reehan Neighborhood, with an investment outlay of $200 million project; the Al-Jinan Neighborhood in Jenin; and the Ersal Center, with an investment outlay of $400 million.

Amaar Group also oversees several PIF tourism projects including the Grand Park Hotel and Jacir Palace – Intercontinental. PIF plans to divest a significant stake in Amaar through an initial public offering on the Palestine Stock Exchange, with an aim to provide an attractive opportunity to local investors, and inject further liquidity into the market.

AMAAR Real-Estate Group Investment Program ($ million)




AMAAR GROUP

The National Affordable Housing Program

PIF launched the National Affordable Housing Program in 2008. The program aims to construct 30,000 new housing units across Palestine within the next ten years, with an investment outlay of over $1.5 billion. PIF launched the program in order to address the growing demand for affordable housing in Palestine and assuage the chronic housing shortage.

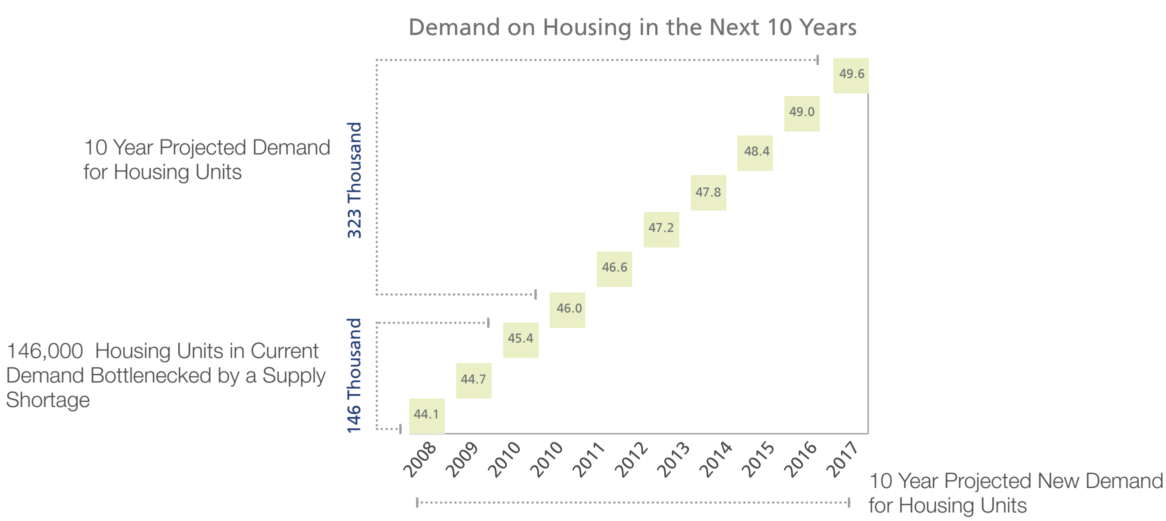
PIF studies have found that Palestinian families struggle to find affordable housing as a result of several obstacles that impede the construction of major housing projects, which are required to respond to demand. These obstacles include a weak investment environment, the absence of an appropriate legal framework and difficulties in finding land suitable for development in Palestinian Authority controlled areas.

Consequently, it is crucial that a highly qualified body effectively manages investment in the housing sector in Palestine in order to address these challenges. PIF has responded to these needs by establishing an ambitious program, which is expected to transform Palestine's housing sector in the coming years.

Implementation of the National Affordable Housing Program commenced in 2009 with the construction of the Al-Reehan and Jinan communities, the first urban planned housing projects of their kind in Palestine. PIF is currently examining avenues for the expansion of this program throughout Palestine.

The National Affordable Housing Program is expected to have a significant positive impact on the Palestinian economy, with a recent study indicating that the projected investment will result in a GDP growth of 2.5% over the next five years – and possibly an even higher percentage if the projects are implemented in a shorter timescale. The program will also create 45,000 direct employment opportunities and 25,000 indirect ones.

Local companies will be contracted to implement the National Affordable Housing Project, enabling the creation of thousands of new jobs. In addition, wherever possible local goods and service providers are contracted for project implementation, such as engineers, architects and project managers. International contractors do not receive any form of preferential treatment and are only awarded if no local contractor is found.



Al-Reehan and Al-Jinan Neighborhoods: Natural Metropolitan Growth Extensions

Al-Reehan and Jinan neighborhoods are the first housing projects launched by PIF. Construction commenced in the middle and northern West Bank in 2009 and these neighborhoods will form part of the natural expansion of Palestinian cities. Service networks and necessary infrastructure will be extended to these neighborhoods.

Al-Reehan Neighborhood

Al-Reehan Neighborhood is situated on a strategic hill-top location in the AlBireh-Ramallah-Birzeit cluster, 800m above sea-level with 360 degree panoramic views. The neighborhood covers an area of 250,000m^2, benefiting from proximity to the AlBireh-Ramallah metropolis and direct infrastructure links include a 4 lane, 20m wide ring and main road. The project is managed by Al-Reehan Real Estate Investment Company, a wholly owned subsidiary of PIF. Al-Reehan is a 2,000 unit residential neighborhood able to accommodate 10,000 residents. Al-Reehan Real Estate Investment Company is currently completing Phase I of the project which includes the construction of 282 housing units of varying sizes. Further stages will be developed by other investors. Al-Reehan has a total investment outlay of $200 million.

Al-Reehan Laying of the Cornerstone and Commencement of Construction

Through this landmark project, PIF is fulfilling its commitment to provide adequate housing and improve the quality of life for the people of Palestine. On 29 June 2009, the cornerstone of Al-Reehan was placed by President Mahmoud Abbas.

Al-Reehan Real Estate Investment Company has commenced the construction of houses and apartment blocks, which should be completed within 18 months. The construction of the main infrastructure and road networks leading to the Neighborhood has also commenced. Al-Reehan Real Estate Investment Company has issued tenders for the construction of 17 buildings comprising 240 individual apartments and has signed a deal with an engineering consultancy firm to oversee the project's construction. In August 2009, Al-Reehan made the first housing units available for purchase and dozens were sold within weeks. Sales for the remainder of the current phase began on 15 March 2009.

Local Design

The Master-Plan for Al-Reehan neighborhood was designed by award-winning Palestinian architect CC-Jafar Tukan. The neighborhood combines modern features with local heritage and traditions, as well as the latest engineering know-how. Interior designs were prepared by several Palestinian engineering companies including: Consultants Engineering House Company in Nablus, "Home" Consultancy Office in Ramallah-Gaza, and Sakakini & Co Office in Ramallah.

Al-Reehan's Medical Complex and Hospital

In order to provide medical services to Al-Reehan residents and residents of the wider metropolitan area, an agreement was signed with the Arab Medical Complex Company for the construction of a hospital

and medical complex on 12,000sqm. The hospital will have capacity for 100 beds and will offer specialized medical services. It will strive to attract expert local, regional and international medical professionals.

The cost of construction for the hospital is expected to reach $30 million. It will commence operations within two years, have a capacity of 250 beds within four years and employ around 1,250 medical professionals. The hospital will be constructed on 12,000sqm, and will comprise 14 floors, and will include a car park with capacity for around 250 cars.

The hospital will offer advanced medical treatments such as catheters and heart surgery and will include a fertility center, a maternity ward and a neonatal ward. It will also offer general and specialized surgical operations and medical support services such as radiology, a blood bank and physiotherapy services.

In early 2010, Prime Minister Salam Fayyad attended the cornerstone laying ceremony. The project will be completed in two stages; at the end of Phase I the hospital will be operating with a capacity of 100 beds and will have created 500 jobs and by completion of the Phase II the hospital will be operating at full capacity.

A Mosque and a Kindergarten

The Al-Reehan Real Estate Investment Company signed an agreement with the Arab Islamic Bank to construct a mosque and kindergarten in Al-Reehan. The projects' costs – including design, construction, oversight and furnishing – will be covered by the Arab Islamic Bank. Both the mosque and the kindergarten are expected to be completed within two years and land has been allocated for their construction and approved by the relevant authorities.

The Techno-Park

Perhaps the most unique aspect of Al-Reehan neighborhood is the planned construction of a 'techno-park' which will act as a hub for the Palestinian technology sector. Several international institutions have already expressed interest in funding components of the park, and PIF continues to explore funding avenues. The techno-park will be managed in cooperation with key local partners including the Palestine Information Technology Association (PITA) and the Palestinian Information and Communications Technology Incubator (PICTI).

Al-Jinan Neighborhood

Under the auspices of the President, the groundbreaking ceremony for Jinan neighborhood took place on 13 October 2009. Jinan is located in a mountainous area with panoramic views of the hills lying East of Jenin. The neighborhood will include approximately 1,000 housing units, a shopping center, a health clinic, a kindergarten and a mosque. Its parks, playground and green areas will provide spaces for social gatherings and recreational activity.

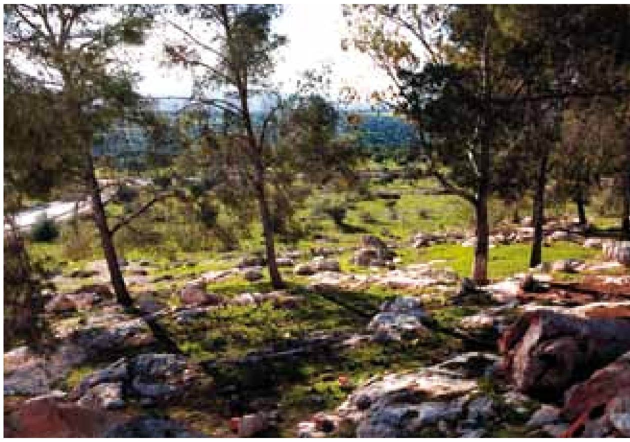
Project Progress

The planning stage for Phase I of Al-Reehan Neighborhood is complete. Phase I involves the construction of 300 housing units, which will be completed within two years. The design for Phase 1 of the Neighborhood has also been completed; this comprises 128 housing units. The construction of water, sanitation and electricity networks, roads, and land leveling has commenced and the first tender for the construction of 64 housing units has been announced. Al-Reehan Real Estate Investment Company has also signed an agreement with an engineering consultancy firm to oversee the project's construction.

Integrated & Modern Construction

Al-Jinan's planners have taken great efforts to ensure the neighborhood's buildings integrate into the region's landscape and architectural surroundings. The Nablus-based company, Al-Ameed for Engineering Services, designed the neighborhood in keeping with local building traditions. The buildings will range from two-floor to four-floor constructions with each floor comprising two apartments. Each apartment will contain three bedrooms, a living room and a spacious reception room. Each building will have an elevator and a car park.



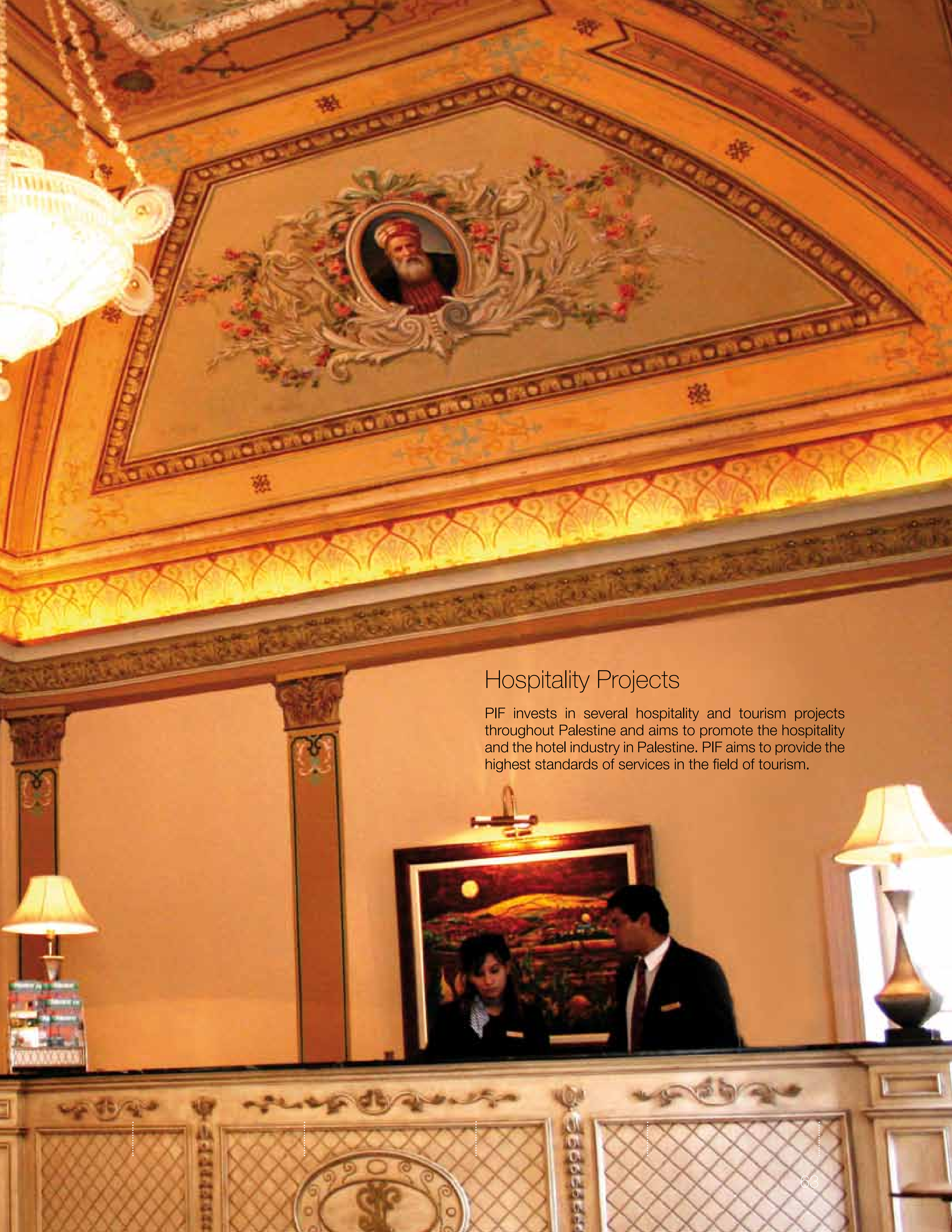



Economic Activity in Jenin

The construction of the Al-Jinan Neighborhood is expected to contribute to the economic recovery in the Jenin area by creating thousands of local jobs, stimulating economic sectors associated with the construction sector and encouraging investment in the area. The project will contribute to meeting the demand for housing in Jenin with demand expected to reach 16,000 housing units in the next five years as a result of population growth and limited investment in the housing sector.

Environmental Protection: Jinan's Local Forest

Al-Jinan neighborhood is surrounded by forests and a stunning fertile landscape. In light of PIF's concern to preserve Palestine's natural green areas the land-title of the forest area has been transferred to the PA. PIF will continue to work closely with relevant authorities to ensure the protection and preservation of Palestine's green areas.



Hospitality Projects

PIF invests in several hospitality and tourism projects throughout Palestine and aims to promote the hospitality and the hotel industry in Palestine. PIF aims to provide the highest standards of services in the field of tourism.

The Convention Center Palace

The Premier Location for Conferences and Events

Located in Bethlehem, the Convention Center Palace is an architectural landmark, as well as Palestine's premier venue for hosting meetings, conferences and workshops. The Convention Center is strategically located and well placed to host high profile international events. Amaar Group and the Consolidated Contractors Company (CCC) jointly own the Center which was completed in 2008. It features a 1,600-seat auditorium, a multifunctional hall that can accommodate up to 500 visitors and two 150-seat conference halls. The venue hosted several local and international events in 2009 including: celebrations to mark Jerusalem's designation as the Arab Cultural Capital of 2009, attended by around 800 guests; the International Orthodox Conference; the third annual forum for the Palestinian Financial Market, attended by over 500 guests; the Third Conference for Engineering Activities, attended by over 1,200 guests; and several New Year celebrations attended by approximately 5,000 guests.

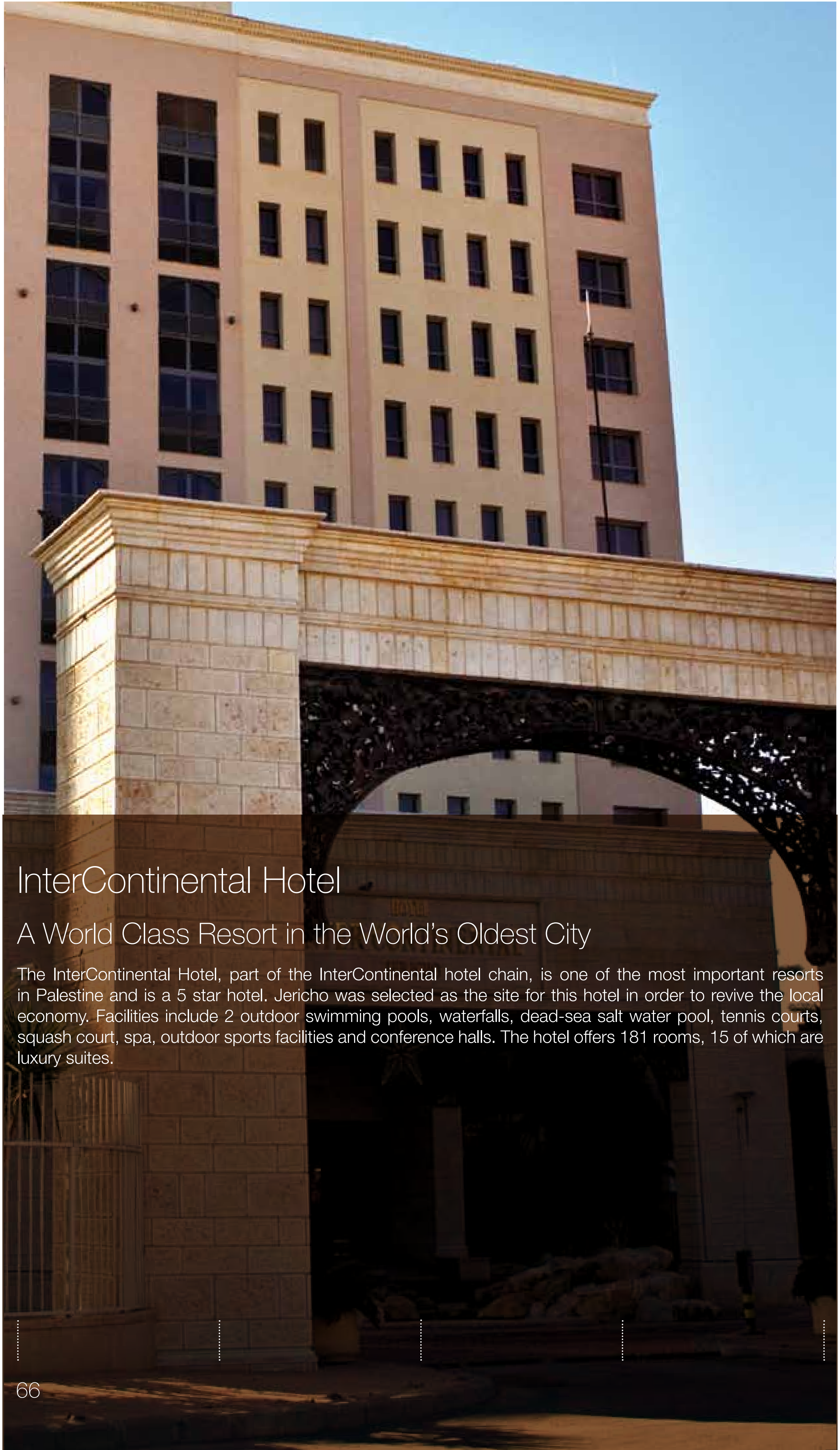
Grand Park Hotel

Palestine's Premier Business Hotel

The Grand Park Hotel in Ramallah is considered one of the finest hotels in Palestine - located in the hill-top exclusive Masyoun district of Ramallah. Facilities include conferencing and banqueting, swimming pool, restaurant, bar and al la carte dining.

In 2009, hotel occupancy increased by approximately 60%, with annual revenues reaching $2.5 million, and net income of nearly $1 million. The hotel is fully owned by Amaar Real Estate Group, which is PIF's real estate development arm. Grand Park Hotel underwent a financial restructuring in 2009 in order to re-list the hotel as a publicly traded company on the Palestine Stock Exchange.

In 2009, the hotel signed an agreement with Home Engineering, to design, plan and execute the renovation of the hotel, bringing it into the 21st century. The agreement forms part of an overall strategy implemented by the hotel management in coordination with Amaar. The new look of the hotel will be launched by next summer.



InterContinental Hotel

A World Class Resort in the World's Oldest City

The InterContinental Hotel, part of the InterContinental hotel chain, is one of the most important resorts in Palestine and is a 5 star hotel. Jericho was selected as the site for this hotel in order to revive the local economy. Facilities include 2 outdoor swimming pools, waterfalls, dead-sea salt water pool, tennis courts, squash court, spa, outdoor sports facilities and conference halls. The hotel offers 181 rooms, 15 of which are luxury suites.

Jacir Palace

A Traditional Palace Hotel

Jacir Palace InterContinental (“Jacir”) stands as a landmark in Bethlehem and is the epitome of modern elegance while in keeping with the holy sanctity of its location. The palace building has a century rich historical heritage, established by a wealthy Bethlehemite aristocrat as a family residence. Its architecture fuses French and local traditions, echoing travels between Europe and the Holy Land. The palace continues to host leading international and regional personalities. The Jacir is the largest and most luxurious hotel in the city of Bethlehem, and part of the Intercontinental hotel chain.

The Palestine Tourism Investment Company converted the Jacir Palace into a five-star hotel with a series of upgrades made by master artisans. The renovation of the palace modernized the building without compromising its historical character. Significant effort was placed into locating and returning antiques and original artwork that were once housed. While the hotel’s lobby, restaurants and business center are located in the main wing, two new wings have been constructed to provide a total of 250 rooms.

Jacir Palace effortlessly fuses the history of a palace property with the highest standards of traditional hotel keeping and contemporary styling, creating a truly unique and world class luxury hotel in the heart of the holy land.

Commercial Real Estate

In line with its strategy to launch multi-purpose real estate commercial ventures in the heart of Palestinian metropolitan areas, PIF has launched a new landmark project; Ersal Center, in AlBireh-Ramallah. The Center will cater to approximately 800,000 residents in the central West Bank region including Jerusalem. This project falls under PIF's mission to implement a package of dynamic investment projects in the real estate sector, which is hoped to create new city centers to take the pressure off existing centers.

The project is also complimentary to existing commercial real estate projects, which are managed by AMAAR Real Estate Company, including Hanadi Tower in Gaza, which provides luxury and VIP residential accommodation to locals and expatriates.

PIF is currently conducting due diligence on proposals to set up other real estate commercial ventures in southern and northern areas of the West Bank, which it plans to launch in 2010.

A Midnight View of the Commercial Towers at the Ersal Center

Ersal Center

The New Downtown of AlBireh-Ramallah

Ersal Center ("Ersal" or "the Center") is a new landmark commercial, residential and business hub in the heart of AlBireh-Ramallah City, developed by Arduna Real Estate Development Company ("Arduna"), a joint venture between The Land Investment and Real Estate Development Company (a member of the AlRajhi Investment Group, Saudi Arabia) and PIF. The Center is a new high-quality mixed-use, commercial, residential and business district benefiting more than 800,000 Palestinians living in Al-Bireh-Ramallah and the central region of the West Bank, including Palestine's Capital - Jerusalem. The development covers an area of 50,000sqm. The proposed master plan includes a variety of mixed use towers, commercial and office buildings, residential units and a 5 star deluxe hotel, with a total BUA ("Built-Up Area") of approximately 260,000sqm.

About Arduna: Ersal Center's Developer

PIF's partnership agreement with The Land Holding resulted in the founding of Arduna Real Estate Development Company Ltd, with an initial capital investment of $45.5 million. Arduna Real Estate Development Company Ltd. has approved the conceptual design for the Center and broken ground. While the first phase of the project is expected to be completed in 2011, the entire Center will be finished in 2014.

Accelerated Progress

The project witnessed significant progress in 2009, most notably the submission and awarding of tenders for structural designs of Phase I, which will include four commercial towers and a hotel. Moreover, the tenders for the architectural design have been awarded along with a tender for executing infrastructure of the project. The project is located near congested areas in AlBireh-Ramallah, consequently the minimization of negative externalities such as further traffic and pollution play an important role in project execution: a traffic study tender has been awarded, whose scope of work includes proposing mechanisms to avoid congestion and pollution in proximity to the site. In line with PIF's commitment to the environment an EIA or Environmental Impact was awarded to a leading international firm - Engineering and Consultancy International Group ("ECIG"). ECIG will conduct a comprehensive study of the impact on the surrounding environment, and recommend ways to ensure during both the construction and end phase; Ersal Center is a world-class 'green' and environmentally friendly architectural landmark.

Ersal Center – Phase I

Phase I of the Ersal Center entails the construction of several multipurpose commercial districts and offices, including four commercial towers with a combined area of 48,000sqm. Preliminary plans and the concept design for Phase I, which includes the four main commercial towers are now complete. These multipurpose spaces will offer various facilities including conference halls, meeting rooms, offices, commercial and retail space, as well as restaurants, cafes and a cutting edge health & fitness club.

Ersal Center will be designed to maximize the use of roof space; according to current plans, the roof will contain gardens, entertainment facilities, recreational facilities and restaurants. The final plans for the towers will be completed in the near future and tenders will be issued for the construction of both the towers and essential infrastructure for the project. Construction itself is expected to commence in the second half of 2010.

Telecommunications

The Palestinian telecommunications sector has grown rapidly in recent years as demand for internet access, fixed phone lines and cell phone technology has spiraled. According to the Palestinian Central Bureau of Statistics (PCBS) in 2004, 40.8% of Palestinian households had a fixed phone line compared with 47.5% in 2009. PCBS figures also show that there were 354,804 fixed telephone lines and 93,000 fast (ADSL) internet lines in Palestine YE 2009. The internet lines are provided by 23 companies, which had a total of 1,314,406 subscribers by the end of 2008. Nonetheless penetration remains comparatively low, with significant catch-up potential.

Wataniya Mobile was launched in 2006 by a consortium of PIF and Wataniya International, Kuwait winning an international tender to set up Palestine's second mobile operator, spearheading the sectors' liberalization and opening up the market to competition. The consistent growth in Palestine's telecommunications sector makes the market exceptionally attractive, especially in context of the current dynamism in information technology. Fixed and cellular phone penetration in Palestine is relatively low in comparison to regional and international usage, thus growth opportunities remain significant. The telecommunications sector remains one of Palestine's most promising sectors with further growth and development expected.

Wataniya Mobile Enters the Market with Area Code "056"

In November 2009, Wataniya Mobile opened for business, launching itself as the second mobile phone operator in Palestine. The launch of Wataniya Mobile is widely seen as a major development in Palestine, which has boosted the national economy and marks a paradigm shift in Palestine's telecom sector towards more open and competitive behavior. PIF has played a leading role in making this venture a reality, in the face of significant challenges.

Achievements

Wataniya Mobile was founded in 2006 with the consortium partners (PIF and Wataniya International, Kuwait), having won the competitive bidding process to acquire an operating license to form Palestine's second mobile service provider. Subsequently, Wataniya was strategically purchased by Qatar based Q-tel, which operates in 17 countries and has more than 57 million subscribers. Q-tel currently owns 57% of Wataniya Mobile's shares and PIF owns the remaining 43%.

From the outset of its journey, Wataniya Mobile has enjoyed extensive support from local and international government agencies. This support has been extended in light of the company's potential to make a significant contribution to Palestine's communications sector specifically, and more broadly, the Palestinian economy. As well as create new job opportunities, Wataniya Mobile will generate approximately $650 million of revenue for the Palestinian treasury in the coming years, through license fees and taxes.

The Launch

Wataniya Mobile launched its operations with a promotional campaign and the slogan "Reserve Your Number;" introducing a range of high quality services previously unavailable in the Palestinian market. During the first month of its operations alone, over 100,000 subscribers joined the network. The number of subscribers is expected to rise to over 400,000 by the end of 2010.

By establishing a modern communications network in Palestine – with technical assistance and equipment from the internationally renowned company Ericsson – Wataniya Mobile has raised the standards of cellular communications' services in Palestine to international levels. Wataniya offers its customers the facility to connect to all local and international communications networks, and to contract a range of different packages available at competitive rates. This will enable firms and individuals to secure the specific services they need at the lowest possible prices.

Strategic Partnerships

One of the most important aspects of Wataniya Mobile is the marriage between two leading institutions, with the sector and strategic expertise of Qatar based Q-Tel, and Wataniya International, combined with PIF's local knowledge and reach, Wataniya Mobile is able to provide subscribers with world-class services and local reach at competitive prices.

This strategic partnership demonstrates that Palestine's telecommunications sector has significant growth potential and is capable of attracting regional and international investment. As cell phone usage in Palestine does not exceed 50% of the total population, which is comparatively low penetration, there are considerable opportunities for further investment. Wataniya Mobile also presents opportunities though which the Palestinian economy can reduce its dependence on the Israeli economy.

Wataniya Mobile: Boosting Economic Development

As well as significantly enhancing the quality of cellular telecommunications services available in Palestine, Wataniya Mobile will boost economic development and contribute to growth and prosperity. Over 3,000 direct and indirect employment opportunities will be created in interconnected fields in the Information Communication & Technology (ICT) space.

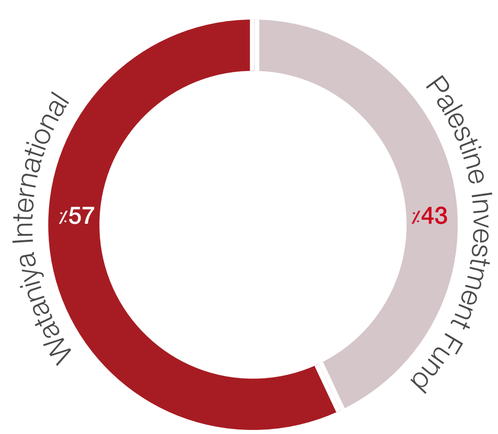
Over the next 10 years, total investment in Wataniya Mobile is expected to reach up to $700 million, making Wataniya Mobile one of the most significant investments since the creation of the Palestinian Authority. To date, the volume of investment in Wataniya Mobile by both partners; PIF and Q-tel has reached $300 million, of which $140 million was received by the PA as the first installment of the operating license. The balance was used to finance the construction of the network. Wataniya Mobile also raised $85 million from international banks, international agencies and local institutions to finance the network.

In addition, Wataniya Mobile has contributed to the liberalization of the Palestinian cellular communications market, thereby sending out a clear message to investors that there are attractive investment opportunities in Palestine, despite the existence of a complex and challenging political situation.

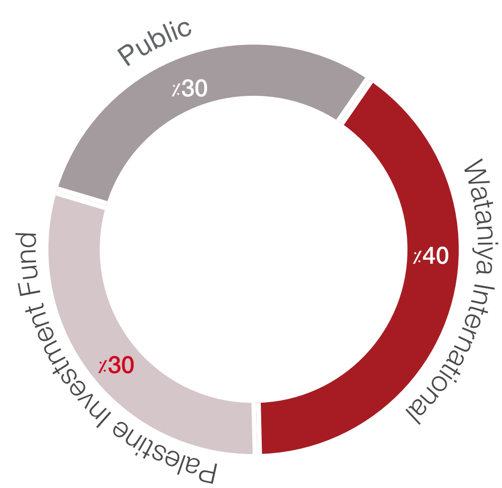
30% of Wataniya Mobile's Shares to be Offered to the Public

In the coming months, 30% of Wataniya Mobile's shares will be offered to the Palestinian public. This move will revive and inject liquidity into the Palestinian stock market and offer small investors the opportunity to invest in the company and become stakeholders in its future.

Ownership Prior to the IPO



Ownership Post IPO



Power & Energy

Energy is one of the key drivers for the global economy. Consumers in Palestine currently acquire electricity from the power station in Gaza as well as from Israel, Egypt and Jordan. Electricity comprises 31% of total energy consumption in Palestine.

As a result of decades of neglect and chronic under-investment by the Israeli occupation authorities, the PA inherited a struggling energy sector in 1994. At present, the PA is compelled to spend billions of dollars on the import of natural energy resources such as oil and gas. To illustrate, in 2008 alone, Palestine imported 43,147TJ of energy, according to the PCBS, comprised of 44% diesel and 44% electricity.

Palestine's energy sector plays a crucial role in economic development due to its significant cost impact. The sector is also a major contributor to the PA's budget through fuel excise duties and VAT.

In light of the importance of the energy sector to Palestine's economy, PIF has endeavored to advance its development for many years. Importantly, PIF has sought to reduce Palestine's dependence on foreign states - especially Israel - for energy resources. Therefore, PIF teamed up with the Gaza Electric Company as a founding partner to develop a natural gas field situated off the coast of Gaza. This venture is being undertaken in cooperation with international and regional partners. PIF is also in the process of developing a power station in the West Bank.

Gaza Gas Project

PIF is a minority strategic partner in the consortium that was granted exclusive oil and gas exploration rights off the Gaza coast in an agreement signed in 1999 with the PA. The consortium comprises BG Group, Consolidated Contractors Company (CCC), and PIF with rights apportioned at 60:30:10, respectively.

In 2000, the consortium discovered over 30 billion cubic meters of natural gas in two Palestinian offshore gas fields: the largest is Gaza Marine, which is located entirely in Palestinian territorial waters, and contains an estimated 28 billion cubic meters of gas; and the smaller is Border Field, which is an extension of the Israeli Noa Field, partially located in Israeli territorial waters. The volume of gas in Border Field is estimated at around 3.5 billion cubic meters.

$800 Million Investment Outlay

At current prices, the value of the natural gas discovered in both fields is estimated at over $6.5 billion. To date, the consortium has invested around $100 million in the venture. The total volume of investment in the next three years is projected to be an additional $700 million.

Financial Revenues for the PA

The natural gas project will be a major contributor to the PA's fiscal budget; especially in light of the fact that the Palestinian proceeds will amount to 50% of the venture's net profits. The PA will receive royalties, tax revenues and PIF profit. The PA is expected to generate a healthy income of $2.4 billion from this project throughout its 15-year lifespan.

Savings in the Production of Electricity

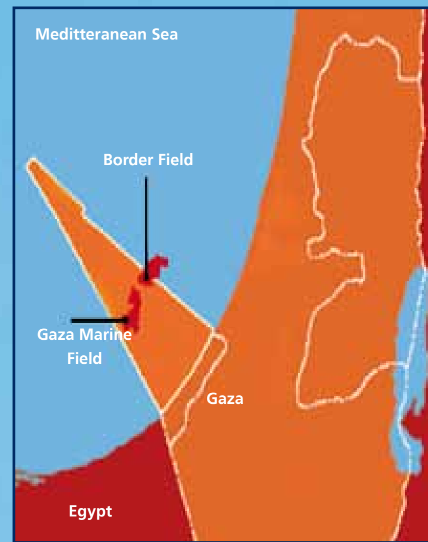
The replacement of diesel currently used at the Gaza Power Station with Palestinian natural gas will reduce the cost of electricity production by over $1 billion over the project lifespan. Furthermore, Palestine will be able to restrict the volume of diesel it imports from Israel, thereby increasing its economic independence from Israel. In addition, a healthier trade balance with Israel would be created in the event that gas is exported to Israel.

Protecting the Environment

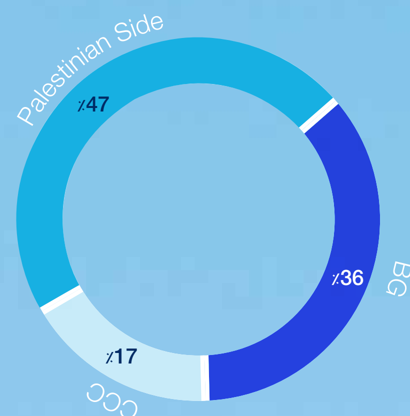
In comparison to other sources of energy, natural gas is relatively clean. Emissions cause less damage to health and the environment than other fuels. Natural gas also results in less pollution than gasoline and heavier fuel types.

Obstacles to the Gaza Gas Project

Attempts to develop Gaza's gas fields have faced several major obstacles. Significantly, Israel's de facto and illegal control of Palestinian territorial waters has impeded attempts to export Palestinian natural gas to international markets. For example, Israel has refused to implement measures required to extend a pipeline to Al-Areesh in Egypt, a prerequisite to liquefying the gas and exporting it to international markets. Israel has also refused to provide the necessary clearances required by developers. In addition, negotiations to export gas to Israel have been unsuccessful to date, as the PA and developers are unwilling to sell gas at lower than fair market prices. The Palestinian Authority and developers continue to demand clear guarantees, backed by commercial contracts, that the Gaza power station will be supplied with natural gas on an uninterrupted basis in the event that Palestinian natural gas is exported to Israel. Guarantees are also being sought that gas revenues be transferred to the PA without hindrance.



Financials Returns of the Projects



The Palestine Electric Company

PIF is one of the main founding partners of the Palestine Electric Company (PEC). PEC owns Palestine's only power plant, which is located in the Gaza Strip. PEC's other shareholders include the CCC, PADICO, the Arab Bank and APIC. PEC is publicly listed and actively traded on the Palestine Stock Exchange (PSE).

The power plant in Gaza was constructed in 2004 and financed by a group of Palestinian investors, including PIF, with an aim to develop Palestine's essential infrastructure, strengthen the local economy, create new job opportunities and decrease dependence on the Israeli economy. The power station has the capacity to generate 92MW and run on diesel or natural gas operated turbines. When operating at full capacity, the station consumes a daily average of 700 cubic meters of diesel. The power station has the capacity to hold 20,000 cubic meters of diesel and can operate for 30 days in the event of an interruption in the fuel supply.

Preliminary financial data for the 2009 fiscal year exhibits net income of approximately $6.98 million, an increase of 11% year on year, from $6.28 million for the year 2008.

A Power Station in the Northern West Bank

Currently 88% of domestic Palestinian electricity is imported including 100% of electricity in the West Bank. Consequently, a group of Palestinian investors – including PIF – decided to explore the viability of constructing a power station in the Northern West Bank. This initiative is intended to reduce the dependence of the Palestinian energy sector on Israel. Investment in the station is expected to exceed $300 million.

Plans to design, construct and commission the power plant in the northern West Bank are well underway. A group of leading Palestinian firms are partnering in the process, including: PADICO, the Palestine Electric Company, the CCC, APIC, the Bank of Palestine, the Cairo Amman Bank and the Housing Bank. The construction and commissioning of the power plant is expected to take between 24 and 30 months, after the required clearances have been secured. The plant will use gas turbines to generate electricity in the region of 140 – 200 MW.

This project is expected to strengthen the Palestinian economy by increasing its reliance on domestic energy resources and creating new employment opportunities. Palestinian companies will benefit from this project by participating in the construction of the plant, and supplying the necessary human resources including highly qualified engineers and technicians. The plant will supply electricity to the Palestinian people at reduced price and Palestinian firms will be contracted to distribute the electricity within Palestine and overseas.

Gaza Power Station

Trade & Industry

Trade and industry are important strategic sectors for the local economy. Trade conditions in Palestine are unique as a result of Israeli-imposed measures that heavily restrict freedom movement. These measures cause a partial paralysis for commerce and are exacerbated by a host of other Israeli measures including internal closures, checkpoints, the destruction of infrastructure - and at times - complete blockades. In addition, the Israeli authorities have put in place complex trade clearance procedures that result in trades people losing precious time and resources when attempting to import or export.

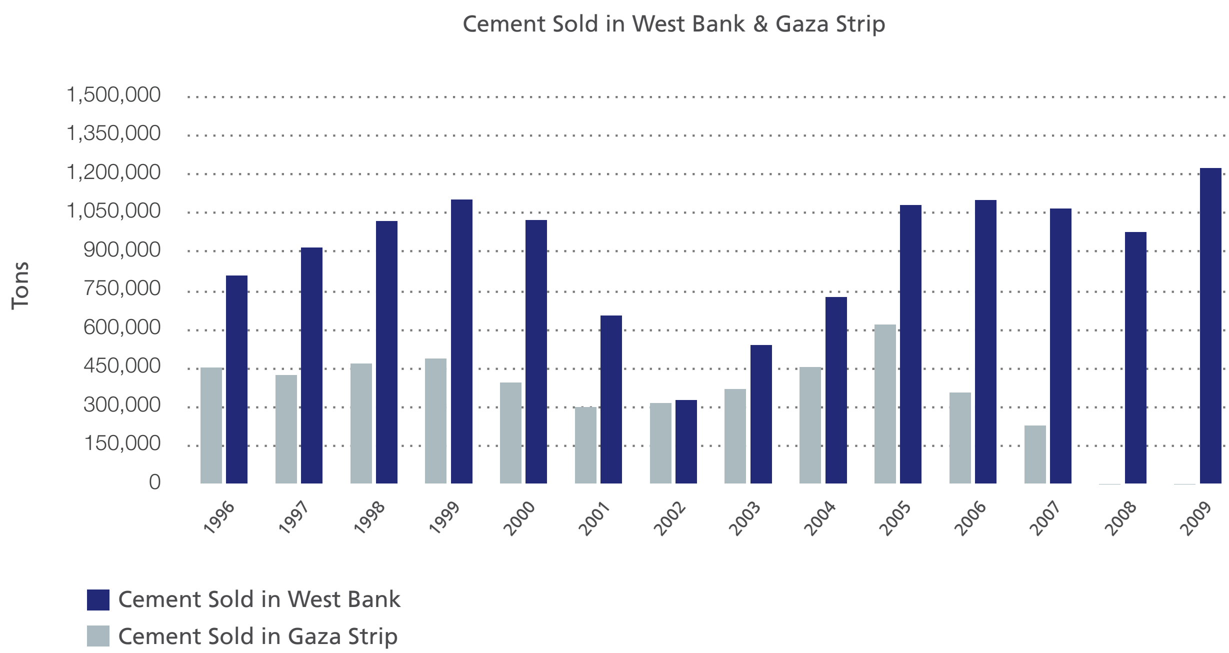
The industrial sector is a leading productive sector in Palestine and it makes a significant contribution to economic growth and development. In 2008, 14,510 industrial enterprises employing 61,690 workers were operational in Palestine. In the same year, production in the industrial sector amounted to approximately $1.81 billion.

The Palestinian Commercial Services Company

The Palestinian Commercial Services Company (PCSC) has pioneered the supply of domestic cement in Palestine. Currently, PCSC has the capacity to meet domestic demand for cement at competitive prices.

PCSC imports cement from Jordan via the Jordan Cement Company with which it has negotiated favorable agreements. PCSC also owns Bulk Express Company, which specializes in transporting cement in large quantities, generating synergies and consequently allowing for price reductions.

The following chart shows the total quantities of cement sold/marketed in the West Bank in tons in the period 1996 - 2009. Cement sales to Gaza cannot take place as a result of the Israeli blockade. The financial performance of PCSC has been strong in the past few years. In 2009, net income was ILS 70,884 million from revenues of ILS 456 million.



NAPCO

Fruit Juice Factory

National Aluminum and Profile Company

National Aluminum and Profile Company (NAPCO) was established in 1991. PIF is NAPCO's second largest shareholder; APIC being the largest. NAPCO aims to meet the demand for aluminum profiles in the Palestinian market by providing quality products at competitive prices.

NAPCO applies the highest industrial standards at all stages of production. Operations are overseen by 185 highly qualified employees, including experienced engineers and technicians. NAPCO has recently put in place plans that will enhance overall performance, efficiency, quality of production and sales increases. NAPCO is a strategic and value driven growth investment as the only local company specialized in the production of aluminum.

Nablus Crafts Complex

As part of a wider strategic plan to revive Palestine's industrial sector, PIF has signed a Memorandum of Understanding with Nablus Municipality to develop a crafts and light industries complex in the city. The project will be completed in several phases: Phase 1 will see the construction of workshops on a space of around 120,000sqm in the east of Nablus, with an overall investment outlay of JD25 million. Planning for Phase 2, along with efforts to attract investors to the project, are currently underway.

Palestine Food Industries Company

The Gaza Juice Factory, run by the Palestine Food Industries Company, is a prime example of resilient local economic enterprise, operating under the toughest conditions; Israel's blockade of the Gaza Strip. Partially destroyed in the 2009 war on Gaza, the factory was rebuilt and continued to operate in the following year. Since its establishment in 1993, the Gaza Juice Factory has boosted Palestinian trade in the juice production sector by supplying locally produced products made from natural juices at competitive prices. This has in turn reduced dependence on the import of similar products. In the past, the company exported products such as concentrate, natural flavors and oils to Egypt, the United Arab Emirates, Israel and the US. However, as a result of the Israeli-imposed closure of the Gaza Strip, the company has been unable to export in recent years.

The Gaza Juice Factory supports the Palestinian agricultural sector – a sector threatened by the Israeli blockade and actions – by purchasing produce grown in Gaza by local farmers, including: citrus fruits, strawberries, guavas and tomatoes. The factory has implemented several capital expenditure plans and increased its investment in machinery and equipment by purchasing pipes for bottles and light juice filling machines. It has also developed new brands for the local market such as Fruita, Tropica and Larmoni.

The factory currently employs 55 people who work in development, management and on the production lines. By increasing the range of its products, the Gaza Juice Company was able to double sales in 2009 and generate $580,000 in net income. During 2009, sales increased from $419,000 to $1.8 million.

Arab Palestinian Investment Company

Arab Palestinian Investment Company, Ltd. (APIC) was founded in 1995 by expatriate Palestinian and Arab businessmen seeking to channel funds and investments into Palestine. They hoped to create - through this initiative - local projects which would pave the way to greater economic development and attract investment to Palestine. The Aggad investment group is the largest shareholder in APIC and PIF is the second largest.

APIC operations span diverse sectors such as food processing, trade and distribution. APIC oversees activities which are implemented by subsidiary companies. These include:

- Siniora Food Industries Company
- Unipal General Trading Company
- Palestine Automobile Company Ltd.   Hyundai
- Medical Supplies and Services (MSS)
- Arab Palestinian Shopping Centers Company - PLAZA
- Sky Advertising
- The Palestine Electric Company (APIC is a founding partner)
- Palestinain Arab Company for Spare Parts

At current, APIC and its affiliated companies employ over 1,000 people. The size of its workforce illustrates the extent to which APIC has positively impacted the Palestinian economy, not least by reviving commercial and industrial activity. To a significant degree, it is a model of successful investment in Palestine.


PALESTINE CURRENCY BOARD
FIVE PALESTINE POUNDS

Financial Services

Once the Palestinian Authority was established in 1993, the frameworks and institutions of a financial services sector were formed. In spite of continuous significant challenges put in place by the Israeli Authorities, the PA has been able to establish an independent and stable financial sector, which is now served by banks, insurance companies, lenders and a stock exchange. The PA has also established two main regulatory institutions: the Palestine Monetary Authority (PMA) and the Capital Market Authority (CMA).

PIF seeks to strategically develop the sector through investment programs both direct and indirect, and support regulatory reforms.

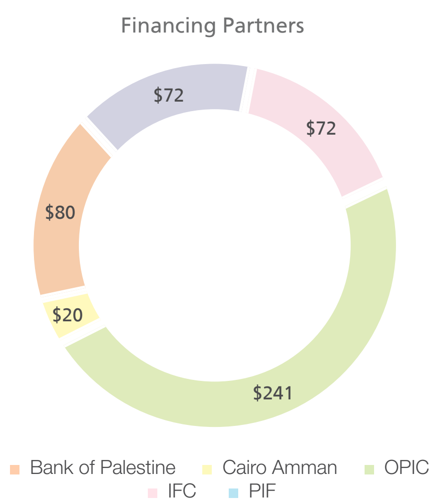
The Affordable Mortgage and Loan Program (AMAL)

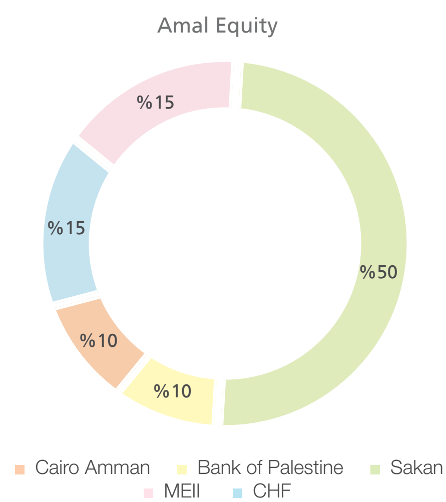
A close look at the Palestinian housing market revealed that the high price of property in Palestine, coupled with the absence of affordable long-term mortgage loans, has made it difficult for average families to purchase homes.

In an effort to alleviate the burden on young families seeking adequate housing, PIF is launching the Affordable Mortgage and Loan program (AMAL) – a $500 million program that provides loans to low- and middle-income Palestinian households. This program is in step with the development needs of the housing sector in Palestine and complements PIF's strategy of constructing 30,000 new housing units over the next ten years.

Through AMAL, PIF aims to facilitate the process of purchasing a new home and eventually double the number of citizens with limited income who are unable to do so within current market terms. The program will offer long-term loans for up to twenty-five years at fixed and variable interest rates, with monthly payments commensurate with the income of the borrowers, and will employ reasonable conditions and guarantees.

The AMAL Program will bestow far-reaching socio-economic benefits on Palestine – as many low– and middle-income families will finally be able to enjoy the security of owning a proper home without placing too much of a burden on their monthly incomes. AMAL will also rejuvenate the housing sector and all of its affiliated industries, especially since it has been designed to facilitate PIF's National Affordable Housing Program and similar affordable housing efforts by private sector developers. In the process, AMAL, and the affordable housing projects that it will facilitate, will create tens of thousands of new job opportunities and spur economic growth.





AMAL: Introducing Long-term Mortgage Finance to Palestine

ENABLING HOME OWNERSHIP

With the launching of PIF's affordable housing developments, housing stock targeting the working and middle-income households is expected to become more widely available. Moreover, with the establishment of AMAL, long-term mortgage financing will become broadly available, which will significantly improve the affordability of housing for many Palestinian households. Thus, AMAL will play an important role in helping to expand homeownership in the Palestinian territories. It is estimated that the AMAL program will be able to increase the percentage of Palestinians who can afford buying a new home from less than 20% to more than 70%. The AMAL initiative will also help establish a homebuyer education program in Palestine, resulting in well-informed mortgagors and a more sustainable mortgage finance industry.

Moreover, homeownership contributes to wealth-building through the accumulation of equity and to stronger and a more viable society by giving citizens a permanent beneficial stake in their communities.

JOB CREATION

Increasing the availability of mortgage financing to potential homebuyers, encourages developers to build homes. In effect, increased home construction results in an increased demand for skilled workers (i.e., carpenters, stone masons, plumbers, electricians, etc.) which therefore contributes to job creation and to the expansion of the skilled work force in Palestine.

In addition, thousands of permanent jobs will be created to serve the new communities and neighborhoods that will be established as part of the program.

Stemming from PIF's housing units under development, an estimated 1.03 jobs will be generated per housing unit constructed, for a total of approximately 30,900 new jobs created under its 30,000 unit National Affordable Housing Program over the course of ten years.

EFFECTS ON OVERALL ECONOMY

More than $500 million will be invested to develop the 10,000 housing units that will benefit from AMAL. In addition, it is estimated that PIF's overall 30,000 National Affordable Housing program will result in approximately a $2.25 billion dollar investment in the Palestinian economy by PIF, its partners, private sector investors from Palestine and foreign investors. The $500 million that will be invested in developing the 10,000 housing units which will benefit from the AMAL program, is estimated to generate a multiplier effect on overall GDP of between 0.5% to 0.75% growth annually. The total investment injected into the economy during the next five years to develop all of the planned 30,000 units in the amount of $2.25 billion would result in an annual GDP growth rate of 2.25% to 3.38%.

BENEFITS OF LONG-TERM MORTGAGE FINANCE

AMAL will offer Palestinian homebuyers mortgages with tenors of up to 25 years, thus significantly reducing the required monthly payments, allowing Palestinian households to own adequate shelter without excessively burdening their incomes.

Moreover, AMAL will make available to home buyers fixed-rate mortgage financing, which will enable them to lock in the amount of their monthly payments for the entire life of the mortgage. This will insulate home buyers from interest rate risk and enable them to more easily manage their monthly finances.

IMPACT OF THE AMAL PROGRAM ON PALESTINIAN BANKING SECTOR

AMAL will work to improve the existing banking capacity in Palestine, and will help the banking community build and expand a sustainable line of business and extend credit and mortgage finance loans to segments of society that haven't benefit from such services in the past

Technical assistance provided to the initiative will also be developing standardized processes and forms that emphasize transparency of the transaction, and a rigorous underwriting and servicing regime that the Originating Banks will be required to follow. This includes upgrading and improving current banking systems and processes.

Program Structure

ROLE OF THE FINANCING PARTIES

The funding for the program will be provided by OPIC, PIF, IFC, BOP and CAB. The pool of funds available from these parties will amount to $485 million USD, which AMAL will re-lend to homebuyers in the form of mortgages with tenors of up to 25 years.

The banks will also play a central role in the lending process. The participating banks will conduct all direct interaction with the borrowers, as these banks will originate and service the mortgage loans. Local bank participation will add $100 million USD to the pool of funds and will allow AMAL to work through and develop existing bank capacity.

ROLE OF AMAL

AMAL will act as service provider on behalf of the financiers, and will be established with a relatively small initial capital investment. The proposed program structure allows AMAL to develop local bank capacity – not compete with it.

As a corporation, AMAL will be majority-owned by Palestinians with a 30 percent U.S. equity participation.

PARTICIPATION BY THE LOCAL BANKS

As part of PIF's mission of involving and stimulating the private sector, PIF sought the commitment of local financiers – namely the Bank of Palestine and the Cairo Amman Bank. Combined, these banks have pledged $100 million USD for the program.

OTHER PARTICIPANTS IN THE PROGRAM

DFID will provide approximately $20 million in financial support to the AMAL program.

UN Habitat will provide $1 million that will be used to finance part of SAKAN's equity participation in AMAL.

Citibank will serve as Calculation agent for the program, whereby Citibank will be responsible for compiling account position information and analyzing asset performance.

The World Bank has initiated a technical assistance program aimed at developing the mortgage finance sector in Palestine, and improving the regulatory system governing this sector.

Small and Medium Sized Enterprises

Small and medium sized enterprises (SMEs) are the backbone of the Palestinian economy. Following recent growth in the sector, SMEs now constitute more than 95% of Palestine's private companies and employ over 80% of Palestine's workforce. They play a key role in supporting major industries and service companies as they are their main service providers. SMEs account for around 55% of GDP and they make a significant contribution to reducing unemployment and poverty. SMEs also stimulate innovation and competitiveness in the Palestinian private sector and promote economic growth.

Palestine's SMEs face a number of challenges as a result of Israeli measures that restrict import, export activities and basic freedoms to trade. Particular skill-sets, such as the latest marketing, innovation and management techniques, are also in need of development. Moreover, the small size of the Palestinian market, inadequate organizational infrastructure and the domination of Israeli products in some sectors, pose additional challenges to the sector.

SMEs struggle to secure the finances needed for development and expansion, largely as a result of the stringent conditions imposed by financial institutions. According to a Palestinian Central Bureau of Statistics study, 66% of SMEs in Palestine are in need of direct short- and long-term financing.


NOW
OPEN

SMEs Loan Guarantee Facility

PIF's Loan Guarantee Facility (LGF) is part of a number of strategic ventures aimed at supporting Palestine's SMEs. LGF facilitates financing for SMEs by providing loan guarantees to the lending banks. The scheme is intended to enable existing SMEs to secure sufficient capital to develop their operations and to enable new enterprises to be set up.

PIF, in cooperation with its partners, will facilitate up to $230 million of financing to SMEs over the next 10 years. This will revive the Palestinian private sector and create around 15,000 employment opportunities throughout the country over the next five years.

Agency for International Development (USAID), which has donated $2 million toward the costs of technical assistance to the banks.

Program Partners

PIF has partnered with eight Palestinian banks and two international organizations in order to implement this program.

The international organizations are:

THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC): OPIC is an arm of the US government that aims to support economic development in developing countries.

THE MIDDLE EAST INVESTMENT INITIATIVE (MEII): MEII is a non-profit US-based institution working to support economic development in the Middle East.

CHF INTERNATIONAL (CHF): CHF is an International Development Organization whose mission is to promote socioal, economic and environmental development around the world, serves as the program's coordinating agent, providing managerial expertise and technical services required to support LGF's operations.

The Loan Guarantee Facility program also receives support from the Norwegian government, which has donated $5 million toward operating costs, and the United States Agency for International Development (USAID), which has donated $2 million toward the costs of technical assistance to the banks.

Loan Guarantees

LGF will provide loan guarantees to banks that will facilitate in excess of $230 million of financing to SMEs. The guarantees will cover risk to 70% of loans with banks bearing the risk to 30% of the loans.

The Role of the Banks

This program will encourage banks operating in Palestine to lend to SMEs, thereby promoting the role of banks in economic development. The program will also enhance lending standards and enable lenders to make best use of their available assets. By the end of 2009, eight banks had joined the scheme. This program will guarantee up to 70% of a given loan, thereby making loans available to SMEs that would have otherwise been unable to secure financing. The loan guarantees will also encourage banks to adopt lending practices based on the feasibility of ventures rather than extensive safeguards.

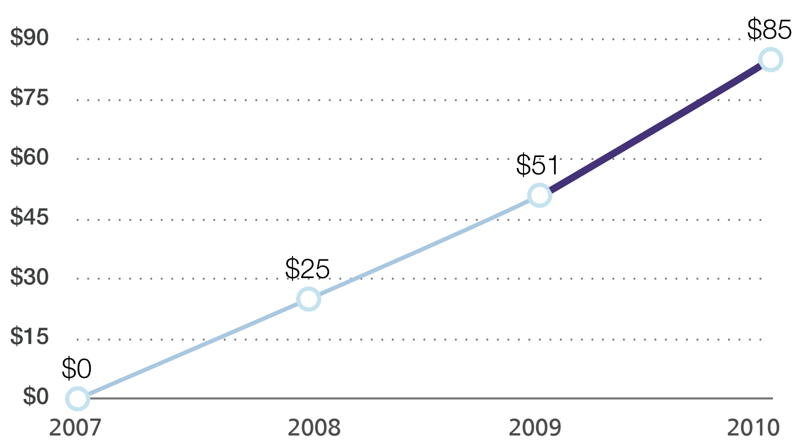
SMEs in the Local Economy

Local SMEs are dynamic and have been able to grow in Palestine in spite of the difficult political and economic conditions. Developing the sector is expected to stimulate economic activity throughout Palestine, raise GDP per capita and improve living standards and quality of life.

Challenges for SMEs in Obtaining Loans

The difficulties faced by SMEs in securing bank loans constitute a major barrier to further development of the sector. Local banks usually request sizable guarantees which may amount to 200% of the value of the loan applied for. As a result of difficulties in obtaining such guarantees, 75% of loan applications are rejected.

Expected Growth in Lending Portfolio YE2010



Challenging Prevailing Lending Culture

This program will challenge the prevailing lending culture in Palestine by reducing the reliance of banks on guarantees, and raising the importance of assessing the feasibility of ventures and analysing business plans, projected cash flow and financial health indicators.

Technical Support for the Banks

The LGF program will extend technical support to the banks in order to enable them to develop the requisite skills to implement the program. This support will also enable the banks to improve the standards of their lending services and develop mechanisms through which they can make best use of their capital. The LGF will also work with the banks to enable them to develop financial services specifically needed by SMEs. To date, 50 training sessions have been held for bank employees working on loans programs, two training sessions have been held on cash flow and one on credit analysis.

In addition, workshops aimed at assessing the training needs of the banks have been held, as well as open discussion sessions on how best to move the program forward.

Employment Opportunities

3000 new employment opportunities were created as a result of this program. In total, the program is expected to create 15,000 new jobs throughout Palestine in the next five years by stimulating certain economic sectors, increasing capacity, size, productivity, and profitability. This program will also increase job opportunities for women in Palestine. By the end of 2009, 24% of the newly created jobs were secured by women.

Achievements in 2009

By the end of December 2009, the program had provided financial guarantees for 228 loans, amounting to $51.3 million. The value of the loans ranged from $10,000 to $20,000. In 2010, the value of the loan guarantees offered is expected to reach $85 million.

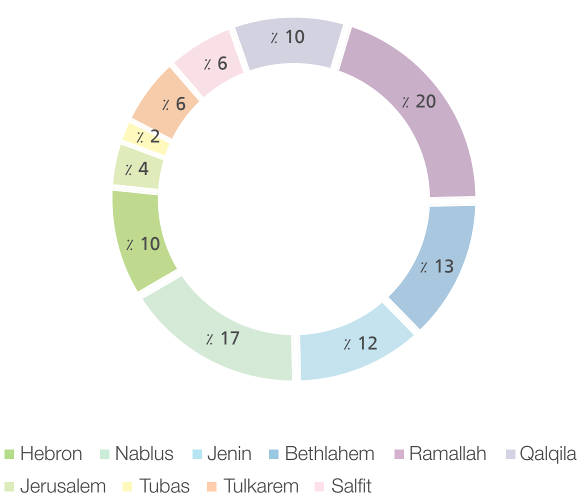
The Impact on Other Economic Sectors

PIF has sought to ensure that a diverse number of economic sectors benefit from the program. The services and industrial sectors have received the largest number of loans guaranteed by the schemes, amounting to 22% of the total each. The trade sectors received 21% of the loans and the construction, agriculture, tourism and transportation sectors have also benefited significantly.

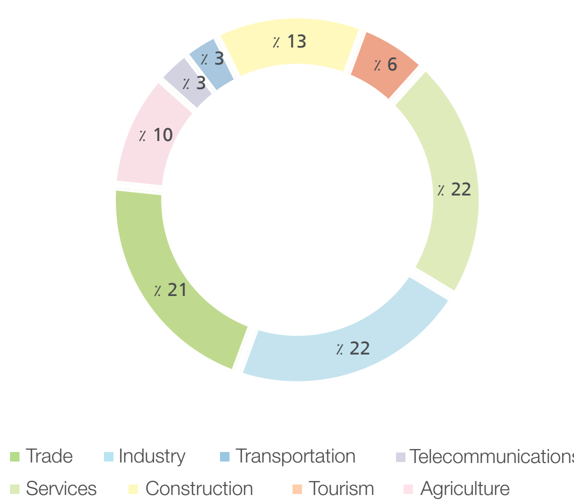
Nation-Wide Reach

The LGF program has targeted SMEs in a range of districts and cities, especially in areas which have suffered from economic decline. To date, the following districts have benefited from the program: Nablus, Jericho, Jenin, Qalqilia, Bethlehem, Salfit, Tulkarem, AlBireh-Ramallah and Hebron.

Geographic Distribution of loans YE2009



Sectors Benefiting from the program YE2009



Palestine Growth Capital Fund

PIF and private equity group Abraaj Capital have set up a private equity fund – the Palestine Growth Capital Fund (PGCF), which focuses on investing in Palestinian SMEs. Abraaj Capital has committed to an initial investment of $5 million and PIF will invest $10 million in the fund. The target size of the fund is $50 million, which is expected to be raised by the end of 2010. Abraaj Capital through its SME arm - Riyada Enterprise Development will manage the fund's operations.

The Goals of the Private Equity Fund

PGCF will facilitate access to much needed capital for growth and also addresses the biggest issue facing SMEs today other than access to finance, namely institutional support, including back-office functionality, improved governance, and access to top-tier human talent and mature business networks. PGCF will also focus on enabling SMEs in Palestine to develop effective platforms through partnerships with regional and international investors, entering new markets, and unlocking value.

Abraaj Capital

Abraaj Capital is the largest private equity group in the Middle East, North Africa and South Asia (MENASA). Since inception in 2002, it has raised about $ 7bn and distributed almost $3bn to investors. The group has made 36 investments in 11 countries and exited 21. It operates offices in six countries across the region, including Turkey, Egypt, Saudi Arabia and Pakistan, with its base in Dubai. More than 80 investment-related professionals work for Abraaj. The private equity fund with Abraaj is the first investment vehicle managed by Riyada Enterprise Development, Abraaj's recently launched investment platform dedicated to SMEs. Abraaj has permanently relocated several of its senior investment professionals into Riyada and will establish a presence in the Palestinian city of Ramallah to support the private equity fund.

Economic Sectors Targeted by the Private Equity Fund

Although PGCF will not have an industry-specific focus, it will take a thematic approach reflecting the nature of the Palestinian economic landscape and the investment opportunities available. Key themes will include knowledge-based sectors, such as technology, communications, pharmaceuticals and education, and sectors that have the opportunity to create long-term sustainable employment in the Palestinian economy, such as high-value added agricultural products, manufacturing, fast moving consumer goods and professional services. Influential minority stakes will provide sufficient control for PGCF (through customary minority rights) whilst ensuring that the entrepreneur continues to remain fully aligned with the future success of the business and without crossing the culturally sensitive boundary of majority control. PGCF will focus on growth capital investments wherein entrepreneurs are not 'cashing out' and proceeds are being used to fund the expansion of the core business. Given the varying needs of SMEs in this regard, the investment structures will be flexible and would accommodate ordinary/preferred equity as well as convertible debt, hybrid and mezzanine instruments. PGCF will also allocate a portion of its capital to provide early stage venture capital for innovative start-up companies with committed entrepreneurs and validated market needs, but with partially developed products or services that need the funding and strategic support to approach cash flow positive status. $5 million is earmarked for such opportunities. These businesses are likely to be in the technology, media and telecom sectors, where the Riyada team has a significant track record of investment.

Capital Markets

Capital markets increase the efficiency of trade and investment, and promote local investment from international, regional and domestic investors.

The most important function of capital markets is to allow issuers of securities to raise money from investors; the primary market. This provides a mechanism for funding expansion and new ventures. Capital markets also encourage investors by acting as exit mechanisms.

Capital markets also help in expanding the base of shareholders and give an opportunity for smaller investors to weigh in on successful ventures. Moreover, they provide a transparent climate by offering regular and accurate financial reporting on listed companies.

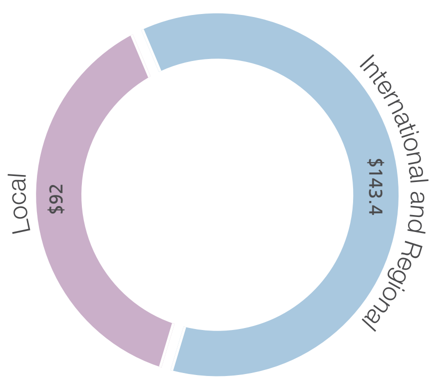
Dealing on the Palestine Stock Exchange started in 1997. The Exchange had kicked off to a modest, albeit good start in terms of number of companies listed, membership, and the volume of dealing. By early 2010, the Palestine Stock Exchanged was turned into a public shareholding company. Such a step falls within parameters of strengthening the investment environment in Palestine and encouraging domestic and international capital to invest locally.


400M
300M
200M
100M
1.643
1.456
1.344
1.201
1.199
-0.-49
-1.211
2009
Feb
Mar
Apr
May
Jun

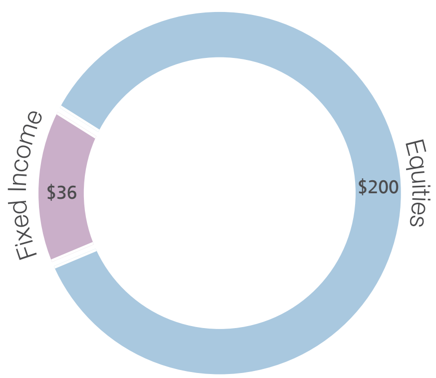
Capital Markets Investment

PIF's capital markets division manages a portfolio of $236 million on the international, regional and local capital markets. PIF undertakes a prudent approach to portfolio management, with a diversification strategy that has a conservative risk appetite. PIF is overweight on equities, which comprise 84.7% of the portfolio or approximately $200 million, and 15.3% of fixed income products or approximately $36 million.

Capital Markets Portfolio Distribution by Geography YE 2009



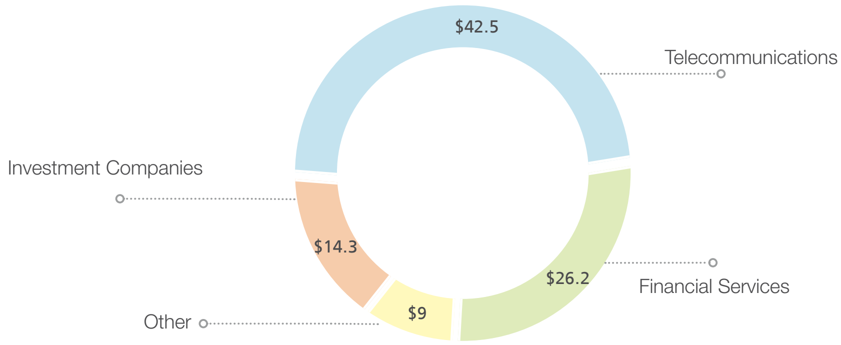
Capital Markets Portfolio Distribution by Class YE 2009



CAPITAL MARKETS – PALESTINE

PIF is committed to investing in Palestine and its Stock Exchange, in context of both the developmental and commercial returns that will be generated as a result. The Palestine Stock Exchange is a leading regional exchange and is a beacon to the health and dynamism of the local economy. PIF currently has a local portfolio with a size of $92 million, which is projected to increase to $500 million over the next five years, spread over a number of sectors including financial institutions, telecommunications, industry, and real-estate development.

Palestinian Capital Markets Portfolio Distribution by Sector YE 2009



FINANCIAL INSTITUTIONS

Local financial institutions play an important role in the economy, and act as the key financiers of development. The local banking sector is renowned for its consistent high performance, corporate governance, transparency, and healthy financial indicators. Despite the most significant bottleneck being continued Israeli policies of severing ties, lack of freedom of movement and blockades, the sector continues to perform well, with continued positive projections in terms of profitability and assets. Due to its significance and to support it, PIF is investing in the banking sector, and its portfolio in the sector reached approximately $26.2 million by YE2009.

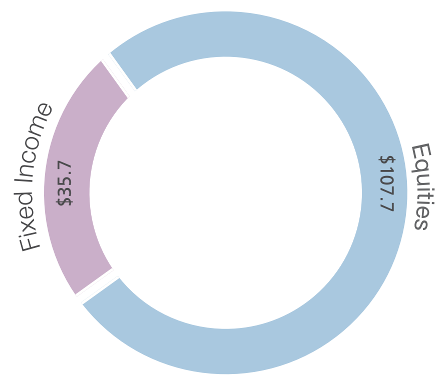
INITIAL PUBLIC OFFERINGS

In context of PIF's developmental role and the importance of the Palestine Stock Exchange, as well widening the participation in the fund's numerous successes. PIF will undertake the divestment and initial public offering of several stakes in its subsidiary and affiliated companies, which will include the sale of a 30% stake of Wataniya Mobile by year end (2010), as well as the divestment of a significant stake in Amaar Real Estate Group – established with a paid in capital of $220 million, within the next two years. PIF is also considering an initial public offering for the Palestine Commercial Services Company. These three projected offerings will increase the volume of trade, capital flows, confidence, and liquidity on the Palestine Stock Exchange, by attracting local, regional and international capital.

INTERNATIONAL AND REGIONAL CAPITAL MARKETS

PIF's manages an international and regional capital markets portfolio with a size of $143 million. The portfolio is characterized by liquid products, diversified spread; by country and industry, as well as prudential risk levels. At present the direct equity portfolio has a size of $108 million and fixed income products of $36 million. The portfolio is being incrementally reweighted towards Palestine.

International and Regional Capital Markets Portfolio Distribution by Class YE2009



The National Program for the Development of the Jordan Valley and Dead Sea Region

The Jordan Valley and the Dead Sea region comprise 2,400sqm or 30% of the total land area of the West Bank. The area is of immense geo-political and economic importance to Palestine; in terms of its size, geographic location and in context of its agricultural base, as the land is highly fertile and rich in natural resources. The area as a whole benefits from a warm and all year round tropical climate, and is suitable for growing diverse agricultural products. As a result of all these factors, investment in the Jordan Valley and Dead Sea region remains a strategic priority.

In light of the above, PIF is committed to putting in place a long-term development plan that will revive and energize the region as a whole, and hopes to launch a series of projects as soon as Israeli-imposed obstacles have been overcome. The development plan will focus on developing and expanding diverse enterprises, creating thousands of new employment opportunities and attracting thousands if not millions of tourists to the area.

Efforts to secure funding for the development plan are currently underway, in coordination with relevant PA departments and the Palestinian private sector. The development plan will require around $2 billion in financing. Once implemented, it is expected to create around 50,000 new jobs and attract as many as two million Palestinian and foreign tourists to the area during the next ten years.

An Attractive Region for Investment

The Jordan Valley and Dead Sea region has attracted visitors from around the Mediterranean basin for thousands of years. Jericho was one of the world's first health resorts (for Herod the Great and Cleopatra amongst others), and the region has been the supplier of a wide variety of products, from balms for Egyptian mummification to potash for fertilizers. In a sense, it is Palestine's eastern gateway to the outside world, with three crossings in the region linking Palestine to Jordan. It has unique geographical and environmental characteristics unparalleled anywhere in the world. These unrivaled features increase the growth potential of the region and its attractiveness to investors. In terms of agriculture, the region can be seen as a natural greenhouse, with natural springs and wells, tropical weather, and the ability to produce agricultural goods throughout the year. The Jordan Valley contributes around 17% of the agricultural GDP in the West Bank.

The Dead Sea is the lowest and most saline body of water in the world. The sea itself is abundant in minerals with therapeutic value. Many tourists seeking to heal various skin, artery and joint ailments are attracted to the region. Valuable minerals and saline elements such as phosphate, magnesium, sodium, calcium and bromide are also extracted from the Dead Sea. The region has 81 tourist sites, including those of significant archeological and natural value. It is also the oldest continually inhabited area in the world.

In 2007 – 2008, approximately 0.5 million foreign tourists visited the region. Annually, around one million Palestinian visitors also visit the region, in spite of Israeli-imposed restrictions.

Israeli Assaults on the Region

The Israeli occupation authorities have long recognized the geo-political strategic importance of the Jordan Valley and Dead Sea region. Consequently, they have devised and implemented systematic measures aimed at ensuring absolute control over the region and isolating it from the rest of the West Bank. They have designated it a closed military zone, placing it out of reach of Palestinian development efforts. Moreover, they have seized vast swaths of fertile agricultural land in the Jordan Valley for use by Jewish settlements, thereby depriving Palestinian farmers of the right to make use of their own land.

Israel also controls the water resources around the Dead Sea; it has destroyed dozens of Palestinian owned wells and has expropriated Palestinian shares of Jordan River water.

The Israeli occupation authorities exert military and security control over all border crossings in the Jordan Valley, obstructing the movement of people and goods. By tightening its grip on Palestinian access to the outside world, the Israeli occupation authorities have seriously impeded Palestinian attempts to build an independent viable nation-state.

Investment Plans in the Region

PIF is developing an investment strategy for the region that is appropriate to its historical and cultural heritage, as well as its unique climate. This strategy will revive local economic activity, including the tourism & hospitality sector, creating thousands of new employment opportunities and raising the quality of life for local residents.

Strategic Vision for Development in the Region

PIF's strategic vision for developing the Jordan Valley and the Dead Sea revolves around the establishment of a range of dynamic sectors and essential infrastructure. Underpinned by comprehensive analysis and due diligence in order to meet the development needs of the region and transform the Jordan Valley into a hub. The development plan will include the implementation of a variety of projects in the tourism, commerce, industrial and agricultural sectors. Investment in these projects is expected to reach $2 billion during the next 10 years.

This strategic development will bolster the economy of the region, preserve the region's heritage and historical identity and enhance the quality of life for local residents.

Moonlight Tourism City

A critical component of PIF's development plan for the Jordan Valley and the Dead Sea region is the hospitality project, 'Moonlight Tourism City.' Moonlight City is planned on a 7 km strip of the Dead Sea shore and it will focus on six key economic nodes: tourism, commerce, recreational, residential, therapeutic and cultural nodes. The plan also includes the construction of luxury hotels, conference centers, educational and research institutes and student hostels.

LOCAL ENVIRONMENT

Local environmental characteristics will be factored into the project design. These include the nature of the local terrain, the location of the natural borders of the Dead Sea, the local fauna and plant-life of the region, and existing local road networks. Specific areas will be designated for development after the project objectives have been assessed alongside external geographic and environmental factors.

PIF is committed to the preservation of the historic, religious and archaeological identity of the region and will endeavor to develop and maintain the integrity and character of region and its' sites. PIF is also committed to protecting the natural environment, inclusive of the local fauna and flora of the region, and its breathtaking natural landscapes. The strategic design of the project has been divided into several development areas, each one serving a particular objective of the project. The development areas include recreational, tourism, commerce, residential, therapeutic and cultural zones.

1. A 1.5 SQM RECREATIONAL AREA

Moonlight City will include two recreational areas of 785,000sqm each. Each will contain a water based recreational area or park of 15,000sqm and five luxury hotels offering 200 – 350 bedrooms each. Moonlight City will also offer chalets overlooking the Dead Sea, evoking memories of ancient civilizations as well as a glimpse of modernity. A large multi-purpose shopping mall will also be constructed to meet the city's shopping needs.

2. CONFERENCE CENTERS FOR THE BUSINESS COMMUNITY

Moonlight City will contain a business center with meeting rooms, a 3,000-person conference hall, a further eight conference rooms and three exhibition halls. Modern equipment and facilities will be offered in order that high profile events meeting the highest international standards can be convened. In order to ensure Moonlight City events receive media coverage, a 6,000sqm information center will be constructed. This center will be equipped with up-to-the-minute communications equipment and a platform for journalists and representatives of the media. Additional facilities such as restaurants and cafes will be constructed on 12,000 sqm space.

3. DEAD SEA THERAPY CENTERS

The Dead Sea is abundant in natural resources - such as minerals and mud, which have therapeutic values. In order to utilize these resources, Moonlight City

will contain an advanced medical center specialized in therapy treatments based on Dead Sea minerals, water and mud. In light of the availability of mineral springs in the area, a resort specializing in mineral water therapies, which treat and revitalize the human body, will be set up. In addition, a health club will be set up on a 2,600sqm strip of land, alongside a teaching hospital that will both provide medical services and disseminate medical knowledge.

4. EDUCATION AND CULTURE IN MOONLIGHT CITY

Moonlight City will host a large science center, which will include several educational and cultural facilities such as a center for translation, a center for environmental studies, a center for geographical research and an archeological and historical studies center. Through these centers, the history and culture of the region will be shared both regionally and further afield. The latter two centers in particular will benefit immensely from being situated in the Dead Sea area's unique landscape. All of the centers will have halls for convening lectures and workshops.

5. RESIDENTIAL FACILITIES

Moonlight City will have apartment buildings with a total built up area of 280,000sqm, to be built on an area of 77,000sqm. These buildings will provide residential and commercial facilities and will be able to meet the demand for housing that is generated as a result of this project. Residential apartments and around 60 luxurious villas, shopping malls and shopping districts will be constructed to meet the needs of both tourists and residents.

Jericho Economic Development Zone

To the north of Jericho lie large tracts of undeveloped land. PIF has plans to develop these parcels by establishing an eco-friendly development zone on 9 million sqm of land. The zone will comprise agricultural projects, a commercial area and recreational spaces. Investment is expected to reach approximately $700 million. Phase I of the project will be developed on a land area of 1.5 – 2 million sqm, and will focus on the construction of vital infrastructure such as water, sanitation, communications and roads networks, as well as social and medical services.

The zone will contribute to the development of domestic tourism and local agricultural activity, thereby creating new employment opportunities. The development zone itself will contain recreational facilities, parks, tourist resorts, open spaces for sports activities, restaurants and malls.

The project also includes provision for technical assistance to farmers in the region by providing training that will enable them to maximize crop output, harvesting efficiency and agricultural land use. An agricultural research unit will be set up to contribute to development in the agriculture sector in Palestine, for both developing and marketing products for export.

In line with PIF policy to preserve the natural environment of the Jordan Valley and landscape, PIF will ensure that the area under development will be eco-friendly, and dependent on renewable sources of energy, such as solar power, rather than on conventional non-renewable energy sources.

Center of Trade in the Development Zone

The agricultural and industrial sectors are reliant on a strong infrastructure for trading and exporting. Consequently, PIF is in the planning stages for the development of logistics and storage depots for the shipping and storing of goods. The Jordan Valley and Dead Sea region is an ideal location for the construction of cargo clearance depots and the shipping of materials due to its close proximity to the Jordanian border. PIF is currently examining proposals to establish a logistics center with a commercial freight airport, in conjunction with the creation of a free zone that will be cargo and freight tax free. The facility will enable the business community to circumvent Israeli-controlled border crossings and their complex and bureaucratic procedures. With the presence of free trade zones, storage facilities for goods in the Jordan Valley, and an airport linking the Jordan Valley to regional hubs such as Amman, Ramallah and Aqaba. The need to pay steep duties at Israeli ports will become obsolete, facilitating the movement of goods to and from Palestine.

Industry and Mining Development Zone

The Dead Sea has some of the largest reserves of potash, magnesium and bromide in the world, along with millions of tonnes of minerals and saline. PIF is drawing up plans to extract minerals and saline from the Dead Sea in cooperation with Israel and Jordan, both of which currently manufacture minerals and saline from the Dead Sea through specialised private companies.

Developing Agriculture in the Jordan Valley

Throughout history, the Jordan Valley has been celebrated for its fertile soil, abundant waters and superior agricultural output. In the past, grains such as wheat, barley, corn and sesame; fruit trees such as citrus, bananas, grapes, olives and palm; and other crops such as tobacco were cultivated and transported to West Bank cities and Jordan.

In light of the impact of Israeli closures on the Jordan Valley's agricultural sector and the inability of local farmers to effectively develop and market their products, PIF has devised a plan to revive the region's agricultural sector via projects to support the export of local products. PIF will also support the diversification of this sector by supporting high value added agricultural and food industries.

PIF plans to develop innovative frameworks that will revive the agricultural sector in the Jordan Valley and Dead Sea region. Given the diversity in agricultural products in the region, PIF is exploring the possibility of establishing projects specialized in the field of light food industry.

Agricultural greenhouses are crucial to the agricultural development process; they improve, develop and protect agricultural products. Greenhouses also provide a suitable environment for growing various crops throughout the year. PIF, in cooperation with private sector investors, is examining proposals to construct greenhouses in the Jordan Valley.

PIF is also exploring plans to set up a marketing company for agricultural products in cooperation with private sector investors, which would support the marketing and export of products. PIF is currently examining frameworks for the company, which would support agriculture in the Jordan Valley and the Dead Sea region in particular, but also in Palestine as a whole, by raising marketing standards in the sector.

Moreover PIF is reviewing proposals to develop high quality agriculture crops in the Jordan Valley - such as the expansion of palm cultivation and the production and export of dates – by investing and providing technical assistance to improve marketing techniques, branding, packaging, increase productivity, and enhance quality. Already, Jordan Valley dates are widely considered the highest quality dates in the world.

50,000 Job Opportunities and 1 Million Tourists

New projects in the Jordan Valley and Dead Sea region are expected to create in the region of 50,000 new jobs distributed across several sectors including construction, tourism, agriculture, services and commerce. These projects will also stimulate the SME sector in Palestine. Moreover, projects in the region are expected to contribute to an increase in the number of foreign tourists visiting the region, raising the number to over 1 million international visitors annually by 2015. Domestic tourism is also expected to be revived through these projects, which will promote the image that reflects the historical and natural wonders of the region, and provides therapeutic services unavailable elsewhere in the world.

Commitment to the Development And Construction Of The Jordan Valley And Dead Sea Region

The next 10 years will be a turning point for the Jordan Valley and Dead Sea region, economically, socially and politically. PIF will continue to pursue its goal to develop the region, in spite of Israeli-imposed obstacles. PIF believes that the Jordan Valley and Dead Sea region is of critical strategic importance to a future independent and viable nation-state.

PIF's strategic plan for developing the Jordan Valley and Dead Sea region embodies goals with economic and national dimensions. At the economic level, these projects will revive the region - potentially transforming it into one of the world's most important tourism sites - and creating approximately 50,000 new employment opportunities, which could increase the local population by 140,000 persons. It will also strategically develop key sectors of the economy on the hospitality, agricultural, commercial, and industrial space. At the national level, this development plan will contribute to the preservation of the region's natural environment and historical identity, underline the right of Palestinians to benefit from the Jordan Valley and the Dead Sea region, and affirm the right of Palestinians to live on their own land.

Challenges to Overcome

PIF is currently studying ways in which a host of obstacles to developing the Jordan Valley and Dead Sea region can be overcome. The primary challenge lies in the fact that the majority of this region is situated in Area C, which falls under full Israeli administrative and security control. Bringing this area under Palestinian sovereignty must therefore become part of the Palestinian political agenda if this plan is to be realized. In addition, the region has long been neglected, and therefore lacks critical infrastructure including roads, modern water and sanitation networks needed to service the development projects under study. Furthermore, the region suffers from limited population concentration as a result of a 2004 Israeli military order prohibiting non-residents from living in the area. Non-Jordan Valley residents are therefore currently detained and expelled from the area by Israeli forces.

Plan For Infrastructure Development And Social Services

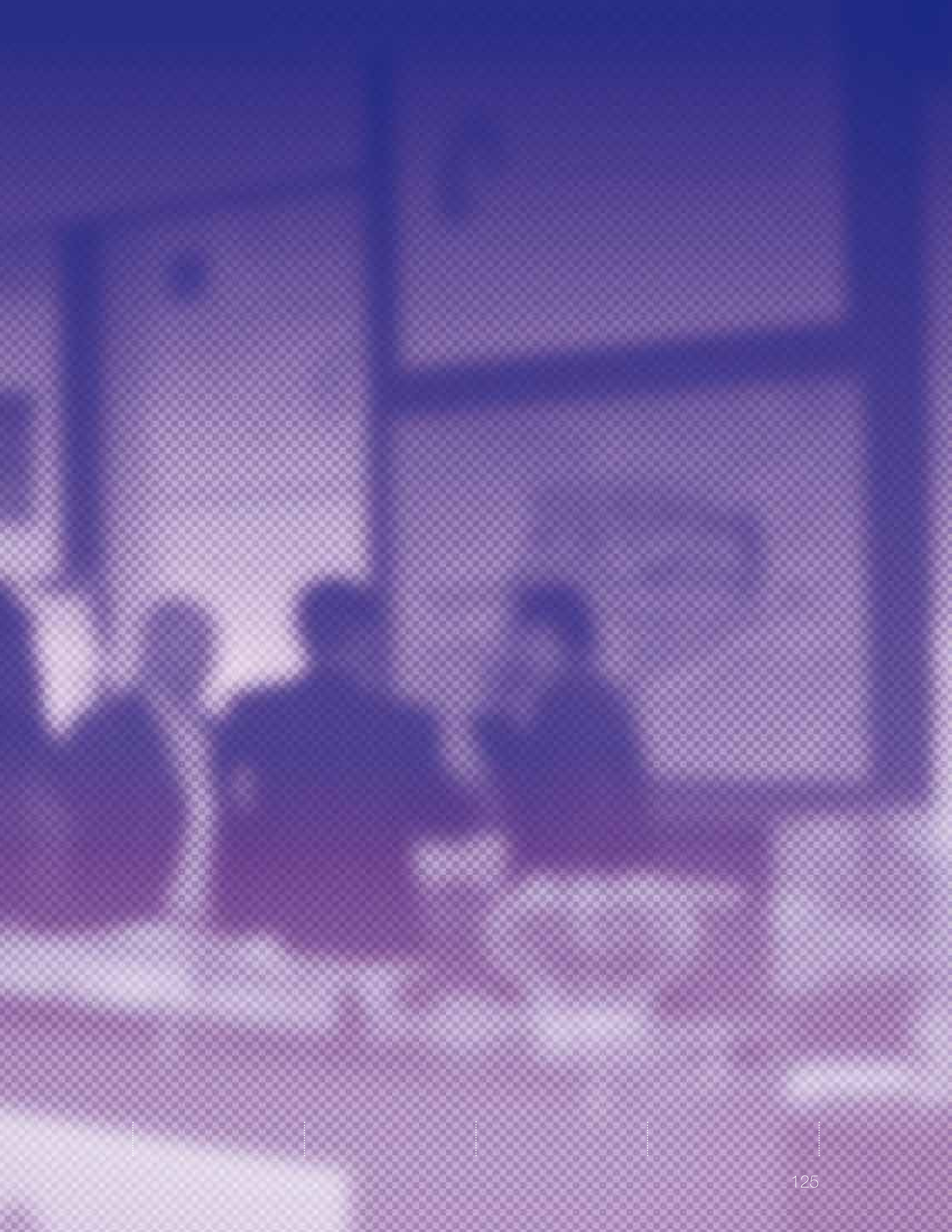
Infrastructure, social service provision, and transportation networks in the Jordan Valley and the Dead Sea region have long been in decline, prompting internal migration to nearby population centers. PIF has therefore put in place plans for the development of social and infrastructure services in the region.

New Partnerships

PIF is currently presenting its Jordan Valley and Dead Sea regional development strategy to a group of partners with a strong track-record in large scale development. A number of organizations have expressed interest in contributing to the development of the region due to its economic and geo-political importance, as well the prospectively attractive commercial returns.

03
Activities

In 2009, PIF implemented a range of activities aimed at strengthening partnerships with the private and public sectors, the local and international press, and regional and international institutions. The bulk of these activities were aimed at enhancing PIF's presence in order to familiarize them with PIF investment programs as well as its long-term strategic direction.




General Assembly Meeting

First General Assembly Meeting

PIF held the first General Assembly meeting, which was attended by: the General Assembly members; key private sector partners; Dr. Mahmoud Abu Alrub, President of the Financial and Administrative Control Bureau; PricewaterhouseCoopers, PIF's internal auditor; Ernst & Young, PIF's external auditor; and Nitham Ayoub, State Comptroller. Members of the General Assembly were received by HE President Mahmoud Abbas at the Office of the President after the meeting.

The annual meeting of General Assembly is one element of PIF's internal procedures aimed at upholding the highest standards of good governance, transparency and accountability. The General Assembly represents the people of Palestine and functions as a key oversight mechanism on PIF's direction and operations. The General Assembly also provides strategic guidance to the Board of Directors, approves the annual financial report, and distributes dividends in accordance with PIF's bylaws. The General Assembly appoints an external auditor on the recommendation of the Board of Directors and also approves the audit reports.

PIF Wing at Property Link

PropertyLink ’09 Real Estate Conference and Expo, Amman and Workshop with the Greater Amman Municipality

PIF participated in the PropertyLink ’09 Real Estate conference and Expo held in Amman, Jordan in order to learn about the scale of real estate projects underway in the region.

During the conference, PIF held meetings with several prospective investors. In addition, PIF met with the Greater Amman Municipality, including the Mayor of Amman HE. Omar Maani, and the Amman Institute in order to organize a workshop in Palestine to transfer planning expertise. The workshop was held to wide acclaim in October 2009 in cooperation with the Palestinian Ministry of Local Government and key local municipality officials.

PIF welcomes visitors to Al-Reehan Neighborhood Stand

Palestine's First Real Estate Exhibition

PIF participated in Palestine's first Real Estate Exhibition which was held at the Salem Effendi City Hall in Al Bireh Park, 3 August 2009 – 5 August 2009.

PIF was represented at the exhibition by Al-Reehan Real Estate Investment Company. The event was held under the auspices of HE Mohammad Shtayyeh, Minister of Public Works and Housing. Real estate companies, engineering firms, mortgage companies and banks which finance the housing sector, also participated in the event. Al-Reehan's stand was particularly memorable and received many visitors. Moreover, Al-Reehan sales' team saw strong demand for marketed apartments and villas in Al Reehan Neighborhood.


Participants at PIF's National Road-show

PIF Road-show

In 2009, PIF held a series of road-shows to acquaint the business community, civil society leaders and other relevant parties with PIF's vision and operations. These tours were held in a number of key Palestinian cities. A major objective of the initiative was to develop and maintain relationships with a wide and diverse base of citizens, and to emphasize the relationship between PIF, the private sector and the public sector as mutually reinforcing.

Four tours were held in 2009. The first was held in Hebron on 13 August; the second in Qalqilia on 18 August 2009; the third in Salfit on 20 November; and the fourth in Tubas on 23 December.

The tours were well-attended, with participants applauding PIF's portfolio of projects. The tours also presented an opportunity for discussion on important issues raised by concerned participants such as the development of transparency mechanisms at PIF and the potential to establish further development projects in Palestine's various districts.

These tours constitute part of PIF's strategy to enhance communication with various sectors of Palestinian society, strengthen relations with the public and private sectors, and ensure connectivity throughout Palestine.


World Bank Delegation

World Bank Delegation Visits PIF

In 2009, PIF received a high-level World Bank delegation. Among the attendees were Dr. Mirza Hasan, a member of the World Bank, Middle East; Rashad Rudolph Kaldany, the Vice President of the International Finance Corporation (IFC); Shamshad Akhtar, the World Bank's Middle East & North Africa Vice President; James Bond, the Head of Operations for the Multilateral Investment Guarantee Agency (MIGA); David Craig, the Head of the World Bank's mission to Palestine; Youssef Habash, the IFC's representative to Palestine; Sufyan Al-Issa, Advisor to the Executive Director; and Dina Abu Ghida, Vice President of the World Bank's mission to Palestine.

The purpose of the meeting was to provide a detailed explanation of the current political and economic situation in Palestine, as well as to give the visiting delegation an opportunity to monitor the progress of its joint projects with PIF and explore opportunities for future cooperation. Together, PIF and the World Bank aim to strengthen Palestine's economy and develop a facilitating environment for investment and sustainable economic growth.


MEII Delegation

MEII Delegation Visits PIF

In 2009, the Palestine Investment Fund received a U.S. delegation from the Middle East Investment Initiative (MEII), comprised of high profile figures in the United States' political and economic spheres. Many of these individuals have previously worked at leading governmental and non-governmental organizations. The delegates included Berl Bernhard, MEII's chairman, Henry E. Catto, an American diplomat and businessman; William E. Mayer, head of one of America's leading investment companies; and Jim Pickup, President of MEII.

During their visit, the delegation was provided with an overview of Palestine's economy and the major projects being implemented by PIF. Members of the delegation expressed their appreciation for PIF's various achievements. They also offered their support for the pioneering role that PIF has taken to improve the Palestinian economy by making it self-reliant and enabling job creation for the rapidly expanding workforce.

Chilean Businessmen Delegation visit to Al-Reehan Neighborhood Construction Site

Chilean Businessmen Delegation Visits PIF

In 2009, PIF hosted a delegation of Chilean businessmen of Palestinian descent.

The purpose of the delegation was to provide the businessmen with insight into the economic situation in Palestine and to facilitate meetings with public and private sector representatives. PIF and the delegation exchanged ideas on current and future PIF projects. This meeting constitutes part of PIF's strategy to develop strong relations with expatriate Palestinian business professionals and to explore prospects for future joint investment with them.

Jerusalem Press Club Meeting with PIF Chairman & CEO Dr. Mohammed Mustafa

Meeting with the Jerusalem Press Club

In 2009, PIF met with members of the Jerusalem Press Club's Board of Directors who were informed about PIF's strategic investment and development vision for the coming years.

At the meeting, PIF stressed the importance of Jerusalem and its institutions. This meeting is part of PIF's activities that are aimed at strengthening presence in media circles and developing relations with Jerusalem-based organizations. Jerusalem remains a priority to PIF due to its strategic importance for the Palestinian people, as well is its religious, historic and national significance.

04
Corporate Social Responsibility

PIF's role in Palestine extends far beyond the establishment of profit-generating programs. PIF's vision is guided by national aspirations and therefore contributing to holistic and sustainable human development. PIF also believes that by creating new job opportunities through direct investment while supporting important community programs, will raise standards of living and contribute to the creation of a true "community."

The World Business Council for Sustainable Development defines Corporate Social Responsibility as: "The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". While this text confers no legal obligations, PIF is guided by its principles. Based on the World Business Council for Sustainable Development's definition, PIF has developed a strategic vision for its CSR agenda. The primary objectives are as follows;

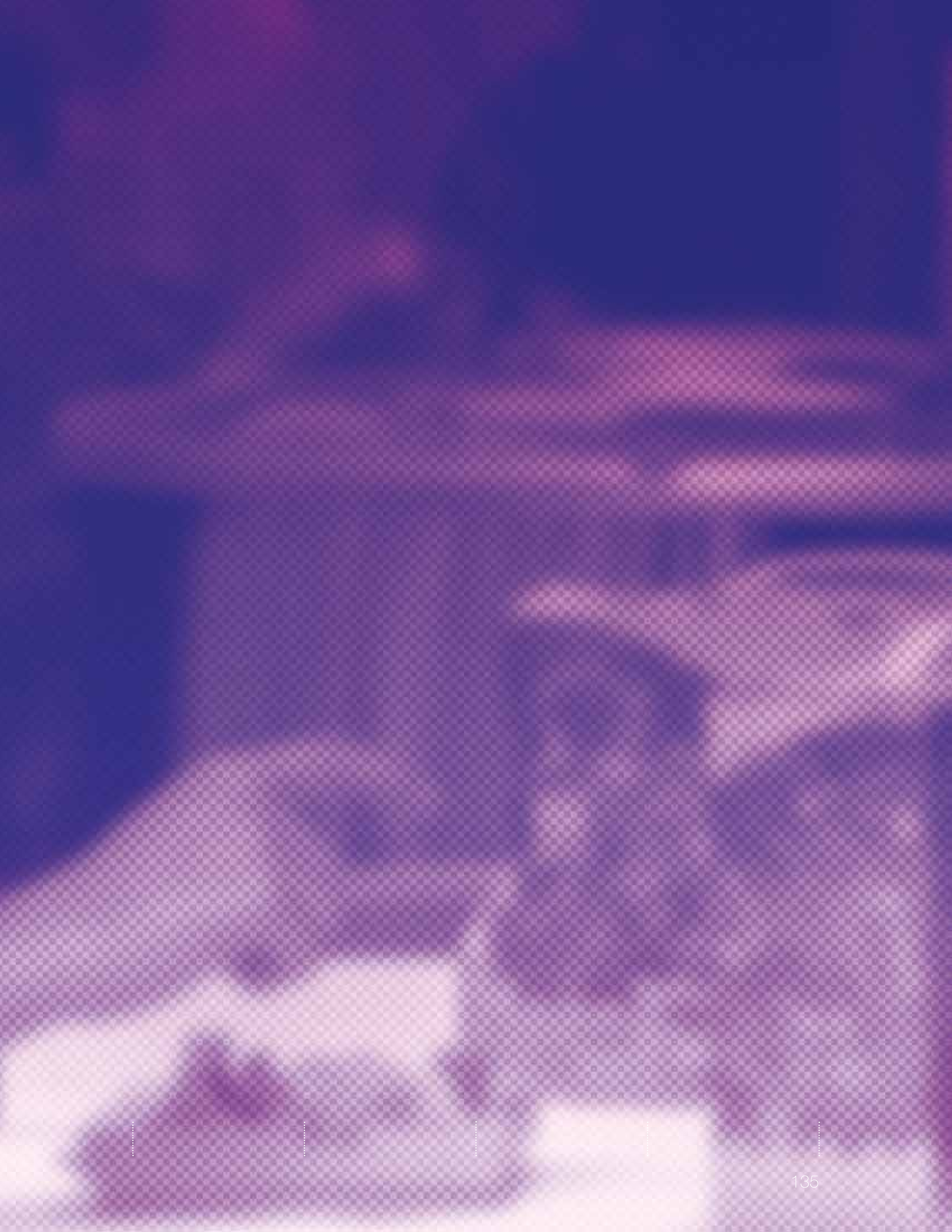
a. To link corporate social responsibility projects with PIF's investment vision, strategy and objectives

b. To support a diverse portfolio of economic sectors

c. To set up sustainable long-term projects which meet the needs of the largest possible numbers of people

d. To establish programs that will directly affect the lives of Palestinian citizens

e. To support charitable work through financial or in-kind donations and sponsoring activities



11th Palestine International Cultural Festival Orchestra Performance

Over $1.5 million for Community Endeavors

In 2009, PIF supported the local community with grants of approximately $1.5 million including initiatives in the spheres of science, education, culture, history, art, youth and sports. Some of these initiatives focused solely on Jerusalem, given its critical importance to Palestine. Several of these initiatives are outlined below.

Science and Education

Supporting Palestine's education sector is of strategic importance to PIF. As well as supporting educational institutions and programs, PIF supports a number of high achieving undergraduate students.

The American International School in Gaza

After the destruction of the American International School during Israel's war on Gaza in January 2009, PIF pledged to support the school's budget and cover the emergency costs incurred as a result of its destruction, including cost of renting and furnishing a temporary site.

This support enabled the schools' 250 students, traumatized as a result of the war and the destruction of the school, to restart their education and attempt to regain some sense of normalcy, while striving once again to attain long-held dreams. PIF also awarded 20 graduates with academic scholarships to continue their education in Palestine and abroad.

Since its establishment in 2000, the American International School has been a leading provider of educational services to children living in the Gaza Strip. It is the first school in Gaza to follow an advanced American curriculum, which is taught by a team of highly qualified teachers.

Despite the siege and the destruction of the school, the American International School's fourth graduating class completed its studies in June of 2009.

Al Nayzak Foundation

PIF believes that progress can only be attained in an environment that supports creativity and innovation.

PIF recognizes the importance of investing in youth and education; and is committed to supporting Palestine's creative innovators. In line with this commitment, in 2009, PIF provided support to the 'Made in Palestine' competition and exhibition. This initiative connects Palestinian innovators – both students and those situated outside of a university context - to industry and the business community. As part of this program, creative individuals were given the opportunity to develop and then present their innovative ideas. This process will lead to the development of local products which can be successfully marketed overseas. The competition itself is part of a contest entitled, 'Made in the Arab World,' which links creative individuals in Palestine to others in the region.

Supporting Al-Najah University to Adopt E-Learning

PIF has financed a studio to record lectures at Al-Najah University in Nablus. As the adoption of e-learning becomes an increasingly important educational tool, this support will enable Al-Najah to modernize its teaching methods. Currently, many lectures at Al-Najah University – especially for courses with large numbers of students – are recorded and uploaded onto the university website where students can watch them at any time and from any place.

Graduation Ceremony for the 4th Class of the American School in Gaza

Culture, History and Art

PIF recognizes the importance of preserving Palestine's national heritage as well as its historic and cultural sites, not least because of the importance of culture to the development and continuity of nation-states. Therefore, in the last year, PIF has supported several initiatives in these spheres, several of which are outlined below.

The 3rd Riwaq Biennale

In 2009, PIF extended support to the 3rd Riwaq Biennale for the second time. This initiative seeks to preserve Palestinian architectural heritage by reviving ancient neighborhoods and supporting the preservation of 50 Palestinian 'heritage' villages. These villages were selected on the basis of their historical and architectural significance. The Riwaq Biennale also seeks to reconnect an isolated Palestine with the international art world. As part of this process, the 3rd Riwaq Biennale was presented both in Venice as part of the 53rd Venice Biennale and various platforms in the Birzeit area. This initiative also presented opportunities for cultural exchange and interaction between Palestinian artists, and those from the region and further afield.

Reprinting "Before Diaspora"

PIF has reprinted the historian Walid Khalidi's book, entitled "Before Diaspora", as part of an Institute for Palestine Studies' initiative. It was first published in 1987. PIF's interest in Khalidi's book stems from the need to establish an archive about the social history of Palestine. PIF supported the convening of a conference as part of this project in 2008. Walid Khalidi's book is of immense historical, social and political value. It preserves the history of the Palestinian people through its rare collection of images which capture social, economic, cultural and religious life in Palestine in the period 1876 – 1948.

11th Annual Palestine International Festival

The Popular Arts Centre in Ramallah has organized the Palestine International Festival on an annual basis since 1993. This prestigious event helps break the state of isolation imposed upon the Palestinian people. In 2009, PIF sponsored the festival, which is the largest event of its kind on Palestine's cultural scene. The festival promotes artistic and cultural life in Palestine by hosting local, regional and international artists who give performances which draw audiences of more than 12,000, of all ages and backgrounds.

Dancing at the 11th Palestine International Cultural Festival

Supporting Jerusalem

Extending support to Jerusalem remains a major priority for PIF. In 2009, over $1 million was donated to more than 50 Jerusalem-based foundations working to revive social and cultural life in the city. Support in this sphere is aimed at preserving the heritage of Jerusalem and its Arab identity. Specific activities financed include projects to modernize school libraries, the purchase of electronic programs, and the renovation and furnishing of school halls. The situation in Jerusalem is perhaps the toughest facing any Palestinian city, due to the complex economic and political situation. This in turn has ramifications for institutions in Jerusalem, many of which struggle to remain open. Supporting their resilience is therefore a critical priority. PIF supports a diverse number of sectors in Jerusalem including in the spheres of arts, culture, sports and education. One of the most significant is PIF's sponsorship of Jerusalem as the Arab Cultural Capital for 2009.

Promoting National Products

In line with its commitment to supporting the local economy, PIF sees the importance of expanding the market share of Palestinian products by supporting relevant initiatives.

The Launch of Asasat

PIF, in cooperation with Solutions for Development Consulting Co. organized Asasat's program launch. This was attended by government officials, legal professionals, business figures, construction sector companies and institutions, and other private sector companies, some of whom are PIF partners.

Asasat is an initiative aiming at improving the quality of Palestinian construction products and increasing their share of the market.

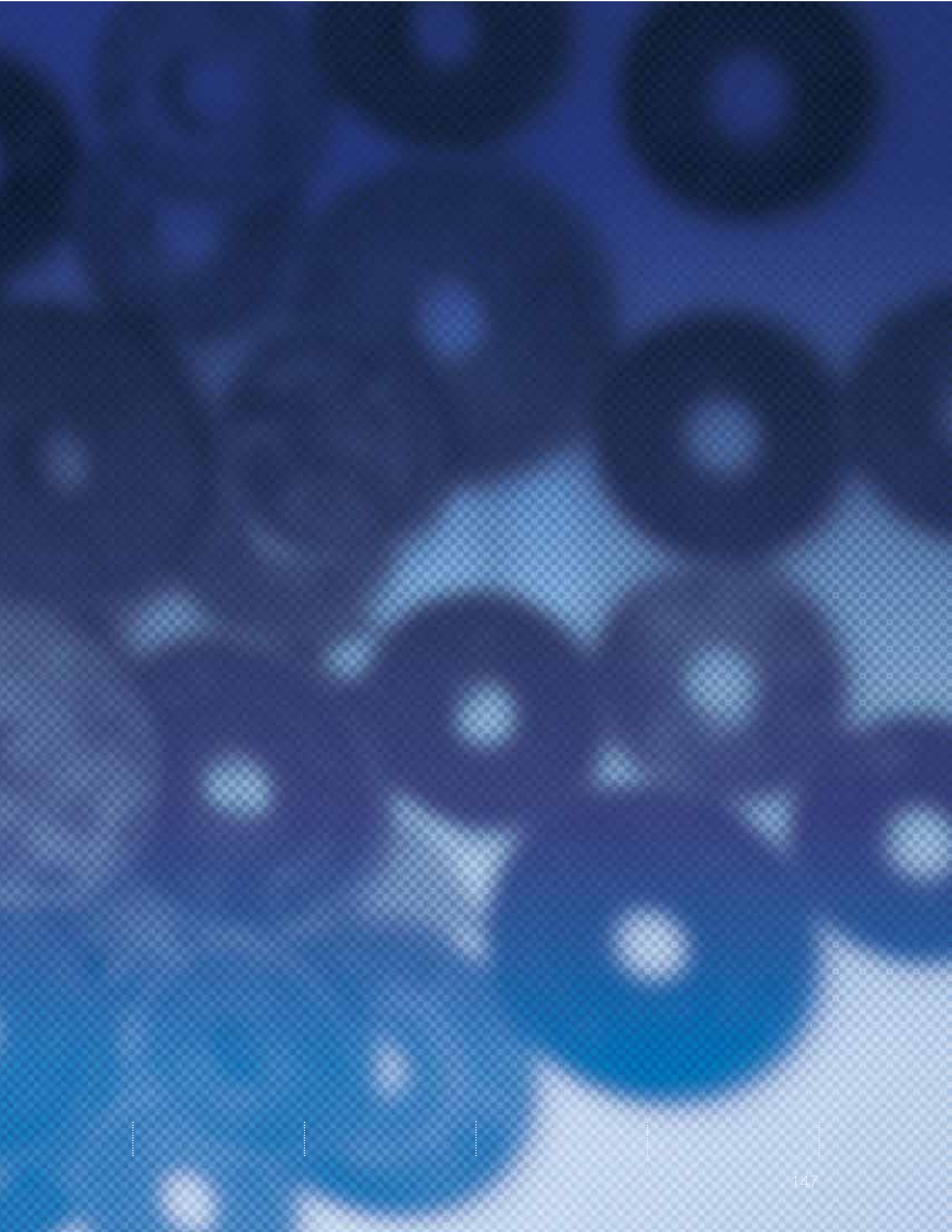
The National Initiative to Promote Local Products

PIF supports the National Initiative to Promote Local Products, an initiative of the Palestinian Federation of Industries, as part of its commitment to build a strong Palestinian economy. This initiative aims to stimulate Palestine's industrial sector and make it more competitive through an ambitious long-term campaign to promote national products in partnership with the public, private and non-governmental sectors. The initiative aims to extend its reach to all Palestinian industries situated throughout the West Bank and the Gaza Strip. It focuses on consumers, producers and the government.

Youth and Sports

PIF recognizes the importance of expanding the role of Palestinian sports institutions, and supporting youth and sports activities in Palestine. In 2009, PIF supported several Palestinian football league clubs including Nour Shams and Al Ran. PIF also extended support to the Silwan Sports Club, which was continually harassed and attacked after adjacent land was expropriated by the Israeli authorities to establish a Jewish settlement outpost. Silwan Sports Club is Palestine's oldest sports club; it has made a significant contribution to developing sport in Palestine, and will continue to do so.

05
Financial Statements



Independent Auditors’ Report to the Shareholders of Palestine Investment Fund Company

Ernst & Young
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Independent Auditors' Report to the Shareholders of Palestine Investment Fund Company

We have audited the accompanying consolidated financial statements of Palestine Investment Fund Company (PIF), which comprise the consolidated statement of financial position as at December 31, 2009 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 notes. The financial statements of some of the subsidiaries were audited by other auditors whose unqualified reports have been furnished to us. Total assets and profits of these companies represent 9.9% and 30.7% respectively of the total assets and profit of the consolidated financial statements of PIF as at December 31, 2009. Our opinion is based solely on the reports of the other auditors, as far as it relates to the data included in the financial statements of these companies.

Board of Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and based on the reports issued by the other auditors, the consolidated financial statements give a true and fair view of the financial position of Palestine Investment Fund Company as at December 31, 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

April 12, 2010
Ramallah, Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2009
(U.S. $ 000'S)

	Notes	U.S. $ 000'S 2009	2008
Assets			
Non-current assets			
Property, plant and equipment	5	89,155	38,103
Goodwill	6	26,483	25,582
Investment in properties	7	90,238	8,994
Projects in progress	8	23,350	14,098
Investments in associates	9	54,143	65,672
Joint ventures	10	27,562	28,980
Loans granted	11	15,134	4,739
Available-for-sale investments	12	252,289	260,284
		578,354	446,452
Current assets			
Accounts receivable and other receivables	13	20,327	18,521
Other current assets	14	39,772	6,947
Cash and deposits at banks	15	163,173	183,756
		223,272	209,224
Total assets		801,626	655,676
Equity and liabilities			
Equity			
Paid-in share capital	16	574,000	574,000
Shareholder's current account		(45,800)	(139,628)
Advances on capital increase	17	-	11,851
Statutory reserve	18	70,570	64,422
Special reserve	18	6,148	-
Proposed dividends	19	40,000	9,929
Foreign currency translation		7,737	8,414
Cumulative changes in fair value	12	44,260	64,721
Retained earnings		20,396	11,212
Total equity attributable to shareholder		717,311	604,921
Non-controlling interests		795	338
Total equity		718,106	605,259
Non-current liabilities			
Long-term finance lease obligations	20	27,430	-
		27,430	-
Current liabilities			
Accounts payable	21	15,044	16,342
Provisions and other current liabilities	22	26,464	21,896
Short term loan	23	8,255	-
Finance lease obligations maturing within one year	20	6,327	12,179
		56,090	50,417
Total liabilities		83,520	50,417
Total equity and liabilities		801,626	655,676

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2009

(U.S. $ 000'S)

	Notes	U.S. $ 000'S 2009	 2008
Operating income	24	139,702	109,517
Cost of goods sold	24	(96,156)	(74,281)
Operating expenses	24	(16,217)	(7,991)
		27,329	27,245
Gain from investment portfolio	25	50,889	-
Finance revenues	26	3,305	7,059
Gain from sale of property, plant & equipment		-	3,865
Recovery of litigations and other contingencies	22	-	51,150
Recovery of doubtful loans	11	9,000	10,553
Gain on sale of an impaired investment		-	2,678
Gain from business combination of subsidiaries	4	3,423	-
Other revenues		3,479	2,547
Currency exchange gain		326	1,146
		97,751	106,243
Share of joint ventures losses	10	(2,087)	-
Share of losses of associates	9	(13,558)	(5,426)
Loss from investment portfolio	25	-	(26,594)
Investment department expenses	27	(4,507)	(4,597)
Depreciation and amortization		(956)	(560)
Loss from sale of property, plant & equipment		(67)	-
General and administrative expenses	28	(8,921)	(7,174)
Finance costs		(2,250)	(776)
Donations		(1,370)	(1,716)
Provision for doubtful accounts and advances	29	(1,204)	(1,098)
Provision for litigations and other contingencies	22	(989)	-
Profit for the year		**61,842**	**58,302**
Attributable to:			
Shareholder		61,480	58,225
Non-controlling interests		362	77
Profit for the year		61,842	58,302
Basic and diluted earnings per share attributable to shareholder	30	0.11	0.10

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2009

(U.S. $ 000'S)

		U.S. $ 000'S	
	Notes	2009	2008
Profit for the year		61,842	58,302
Other comprehensive income			
Net change of available–for-sale investments	12		
Change in fair value of available for sale investments		21,853	(209,156)
Realized profit reclassified to the consolidated income statement		(51,117)	(12,598)
Impairment of available-for-sale investments reclassified to the consolidated income statement		8,803	49,874
		(20,461)	(171,880)
Foreign currency translation		(677)	530
Total other comprehensive income		(21,138)	(171,350)
Total comprehensive income for the year		40,704	(113,048)

Attributable to:			
Shareholder		40,342	(113,059)
Non-controlling interests		362	11
		40,704	(113,048)

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2009

(U.S. $ 000'S)

	Attributable to Shareholder											
	Paid-in share capital	Shareholder's current account	Advances on capital increase	Statutory reserve	Special reserve	Proposed dividends	Foreign currency translation	Cumulative change in fair value	Retained Earning	Total	Non-controlling interests	Total equity
2009												
At January 1, 2009	574,000	(139,628)	11,851	64,422	-	9,929	8,414	64,721	11,212	604,921	338	605,259
Total comprehensive income for the year	-	-	-	-	-	-	(677)	(20,461)	61,480	40,342	362	40,704
Transferred to reserves	-	-	-	6,148	6,148	-	-	-	(12,296)	-	-	-
Land transferred from the share-holder	-	78,983	-	-	-	-	-	-	-	78,983	-	78,983
Land returned to the shareholder	-	-	(4,960)	-	-	-	-	-	-	(4,960)	-	(4,960)
Distributed dividends (note 19)	-	9,929	-	-	-	(9,929)	-	-	-	-	-	-
Proposed dividends (note 19)	-	-	-	-	-	40,000	-	-	(40,000)	-	-	-
Settlement of advances on capital	-	4,916	(6,891)	-	-	-	-	-	-	(1,975)	-	(1,975)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	95	95
At December 31, 2009	574,000	(45,800)	-	70,570	6,148	40,000	7,737	44,260	20,396	717,311	795	718,106
2008												
At January 1, 2008	574,000	(341,699)	798	58,600	-	212,000	7,818	236,601	23,738	771,856	327	772,183
Total comprehensive income for the year	-	-	-	-	-	-	596	(171,880)	58,225	(113,059)	11	(113,048)
Transferred to statutory reserve	-	-	-	5,822	-	-	-	-	(5,822)	-	-	-
Land transferred from the share-holder	-	-	11,053	-	-	-	-	-	-	11,053	-	11,053
Shareholder withdrawals	-	(9,929)	-	-	-	-	-	-	-	(9,929)	-	(9,929)
Distributed dividends (note 19)	-	212,000	-	-	-	(212,000)	-	-	(55,000)	(55,000)	-	(55,000)
Proposed dividends (note 19)	-	-	-	-	-	9,929	-	-	(9,929)	-	-	-
At December 31, 2008	574,000	(139,628)	11,851	64,422	-	9,929	8,414	64,721	11,212	604,921	338	605,259

The attached notes 1 to 37 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009

(U.S. $ 000'S)

	U.S. $ 000'S	
	2009	2008
Operating activities		
Profit for the year	61,842	58,302
Adjustments:		
Net finance income	(1,055)	(6,283)
Share of losses of associates	13,558	5,426
Share of losses of joint ventures	2,087	-
(Gain) loss from investment portfolio	(50,889)	26,594
Loss (gain) from sale of property, plant & equipment	67	(3,865)
Recovery of doubtful loans	(9,000)	(10,553)
Provision (recovery) for litigations and other contingencies	989	(51,150)
Gain from sale of an impaired investment	-	(2,678)
Other non cash revenues	(4,221)	-
Other non cash expenses	9,135	4,314
	22,513	20,107
Working capital adjustments:		
Accounts receivable and other receivable	(9,038)	(4,635)
Other current assets	(5,902)	(1,884)
Accounts payable	(3,942)	744
Provisions and other current liabilities	78	(133)
Net cash flows from operating activities	3,709	14,199
Investing activities		
Purchase of available-for-sale investments	(110,823)	(149,619)
Sale of available-for-sale investments	113,098	25,636
Purchase of property, plant and equipment	(17,090)	(15,268)
Sale of property, plant and equipment	-	22,923
Purchase of investment properties	(2,251)	-
Joint ventures	(669)	(23,481)
Purchase of investment in an associate and a subsidiary	(4,729)	(10,750)
Projects in progress	(113)	(180)
Loans granted	(9,610)	(3,440)
Collections from loans granted	9,000	18,553
Sale of an impaired investment	-	2,678
Dividends received	7,372	5,589
Interest received from bank deposits and loans	2,749	6,889
Cash flow from acquisition of subsidiaries	939	-
Net cash flows used in investing activities	(12,127)	(120,470)
Financing activities		
Cash dividends paid	-	(55,000)
Payments of finance lease obligations	(17,451)	(664)
Proceeds from short term loans	8,000	-
Repayments of short term loans	-	(57)
Finance costs paid	(1,935)	(777)
Shareholder withdrawals	-	(9,929)
Net cash flows used in financing activities	(11,386)	(66,427)
Net decrease in cash and cash equivalents	(19,804)	(172,698)
Cash and cash equivalents, beginning of year	183,756	356,197
Foreign currency translations difference	(779)	257
Cash and cash equivalents, end of year	163,173	183,756

The attached notes 1 to 37 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

(U.S. $ 000'S)

1. Corporate Information

The Palestine Investment Fund (PIF), a Public Shareholding Company, was incorporated in Gaza under registration number 562600718 on March 17, 2003 with an initial capital of U.S. $500 million. In its meeting on March 28, 2004, the Board of Directors decided to increase PIF's share of capital to U.S. $574 million by capitalizing the advances paid on the capital account.

The shareholders of PIF are 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, 2009 were authorized for issuance in accordance with a resolution of the Board of Directors on April 12, 2010.

2. Consolidated Financial Statements

The consolidated financial statements are composed of the financial statements of PIF and its subsidiaries as at December 31, 2009. PIF's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

			Ownership		Capital (U.S. $ 000's)	
	Activity	Country of establishment	%		2009	
			2009	2008	Subscribed	Paid
Palestine Commercial Services Company	Cement trade	Palestine	100	100	20,000	20,000
Sama Al Aqaria PSC *	Real estate	Palestine	100	100	6,578	6,578
Bulk Express Company PSC	Cement transporting	Palestine	60	60	846	846
Reehan for Real Estate Investment Company	Real estate investment	Palestine	100	100	19,300	19,300
Amaar Real Estate Group **	Real estate investment	Palestine	100	-	174,332	174,332
Grand Park Hotel and Resorts LTD	Tourism investment	Palestine	99	67	1,880	1,880
Others	Investment in real estate and securities	Palestine	100	100	644	644

Subsidiaries are companies over which PIF exercises control over their financial and operational policies.

* On July 5, 2009, the name of Tri Fitness Company was changed to Sama Al Aqaria Company PSC.

** PIF established during 2009 Amaar Real Estate Group in order to manage PIF's investments in real estate sector. PIF transferred assets with a total value of U.S. $ 174,332,000 to Amaar Real Estate Group.

3.1 Basis of Preparation

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

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).

Basis of consolidation

As a result of the early adoption of IFRS 3 (Revised) and IAS 27 (Amended) following are the basis of consolidation before and after the early adoption of these standards.

Basis of consolidation from January 1, 2009

The consolidated financial statements comprise the financial statements of PIF and its subsidiaries as at December 31, 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which PIF obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If PIF loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to January 1, 2009

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

Non-controlling interests represented the portion of profit or loss and net assets that were not held by PIF and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity.

Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by PIF were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these losses.
- Upon loss of control, PIF accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

3.2 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 and IFRIC Interpretations as at January 1, 2009:

- IFRS 3 – Business Combinations (Revised) effective July 1, 2009 (early adopted)
- IFRS 7 – Financial Instruments Disclosures effective January 1, 2009
- IFRS 8 – Operating Segments effective January 1, 2009
- IAS 1 – Presentation of Financial Statements effective January 1, 2009
- IAS 23 – Borrowing Costs (Revised) effective January 1, 2009
- IAS 27 – Consolidated and Separate Financial Statements (Amended) effective July 1, 2009 (early adopted)
- IAS 32 – Financial Instruments Presentation effective January 1, 2009

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

PIF adopted the revised IFRS 3 from January 1, 2009. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy.

The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 31. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 33.

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. PIF concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 35.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. PIF elected to present two statements.

Standards issued but not yet effective up to the date of issuance of PIF's financial statements are as follows:

- IFRS 9 – Financial Instruments*
- IAS 24 – Related Party Disclosures (Revised)
- IAS 39 – Financial Instruments: Recognition and Measurement (Amended)
- IFRIC 17- Distributions of Non-cash Assets to Owners
- IFRIC 18 - Transfers of Assets from Customers

* IFRS 9 allows, among other provisions, to make an irrevocable election to present in other comprehensive income changes in the fair value of an equity instrument that is not held for trading with no recycling to the income statement.

3.3 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. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

Providing for doubtful debts

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, if applicable, at each financial year end.

Taxes

PIF's subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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 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.

Provision for litigation and other contingencies

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

3.4 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 revenue

Real estate 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 revenues on properties installments are recognised in the period in which it occurs for all the installment 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, usually on delivery of the goods.

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 gains

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 expensed 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 is exempted from tax. However, PIF's subsidiaries provide for income tax in accordance with the Income Tax Law and IAS (12), which requires recognising the temporary differences at the reporting date. Such temporary differences might result in recognising deferred tax assets and liabilities. However, PIF's subsidiaries management elected not to recognise deferred tax assets due to uncertainty of benefiting from their future outcomes.

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 non-taxable income or non-deductible expenses. Such income/expenses may be taxable/deductible in the following years.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Property, plant and equipment (except land) are depreciated according to the straight line method over the estimated useful life as follows:

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

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

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

Business combinations and goodwill

PIF early adopted IFRS 3 (Revised) and IAS 27 (Amended).

BUSINESS COMBINATIONS FROM JANUARY 1, 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured 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.

When PIF acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the consolidated income statement.

Goodwill is initially measured at cost being the excess of the consideration transferred over PIF's 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 profit or loss.

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.

BUSINESS COMBINATIONS PRIOR TO DECEMBER 31, 2008

In comparison to the above mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, PIF had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable.

Joint Ventures

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.

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 at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful lives of investment properties. Land is not depreciated.

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

Investment properties are derecognised 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 recognised 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 carrying 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.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- Raw materials - purchase cost on weighted average cost basis
- Finished goods and work in progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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.

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 reflects the share of the results of operations of the associates. Where there has been a change recognised directly in the equity of the associates, PIF recognises its share of any changes and discloses this, when applicable, in the consolidated statement of comprehensive income. Unrealised gains and losses resulting from transactions between PIF and the associates are eliminated to the extent of the interest in the associates.

The share of profit of associates is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the associates and therefore is profit after tax and non-controlling interests in the subsidiaries of 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.

After application of the equity method, PIF determines whether it is necessary to recognise an additional impairment loss on PIF's investment in its associates. 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.

Upon loss of significant influence over the associates, PIF measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

Loans granted and Accounts receivable

Loans are measured initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis.

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

Financial assets

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit and loss, directly attributable transaction costs. PIF determines the classification of its financial assets upon initial recognition.

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

Available-for-sale financial assets

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

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

Fair values of financial instrument

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 31.

Impairment and uncollectibility of financial assets

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

a. For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated income statement;

b. For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;

c. For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Cash and deposits at banks

For the purpose of the consolidated statement of cash flows, cash and deposits at banks consist of cash in hand and bank balances and short-term deposits with an original maturity of three months or less, net of restricted bank deposits and outstanding bank overdrafts.

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.

Provision for employees' indemnity

Provision for employees' indemnity is calculated in accordance with the Labor Law prevailing in Palestine based on one-month salary for each year of employment.

Provision for provident fund

PIF employees' contributions to the provident fund represent 5% of their basic salary, while PIF's contribution represents 10% of the basic salary.

Palestine Commercial Services Company employees' contributions to the Provident Fund represent 8% of their basic salary, while Palestine Commercial Services Company's contribution represents 12% of the basic salary.

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 income statement with the exception for available-for-sale financial assets 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. Business Combinations

On February 8, 2009, Amaar Real Estate Group (Amaar) – subsidiary of PIF, increased its investment in Grand Park Hotel and Resorts Company (Grand Park) to reach 98.76%. This increase allowed Amaar to gain control over Grand Park financial and operating policies, and accordingly Grand Park's financial statements were consolidated with Amaar. Grand Park contributed a profit of U.S. $ 915,000 to PIF's profit during the period from acquisition date to December 31, 2009.

Moreover, during 2009 Amaar gained control over financial and operating policies of some companies located in Jerusalem. Accordingly, their financial statements were consolidated with Amaar's financial statements. The companies contributed a loss of U.S $ 78,020 to PIF's profit for the year ended December 31, 2009.

Amaar accounted for these business combinations at fair value of assets and liabilities in accordance with IFRS 3 (Revised). As a result, an amount of U.S. $ 3,423,000 was recorded as gain from business combinations in the consolidated income statement. Non-controlling interest in the acquired companies was measured at fair value.

Following are the fair values of the assets and liabilities of the acquired subsidiaries at the date of acquisition:

	U.S.$ 000's Fair values at the acquisition date
Assets at Fair value	
Property, plant and equipment (Note 5)	7,484
Intangible assets (Note 6)	901
Projects in progress (Note 8)	8,723
Inventory	27
Accounts receivable and other current assets	456
Cash and deposits at banks	939
	18,530
Liabilities at Fair value	
Long term loan	658
Other liabilities	3,370
Provision for employees' indemnity	131
	4,159
Fair value of net assets	14,371
Non-controlling interest's share in the net assets of the acquired subsidiaries	(95)
Fair value of investment in the acquired companies at the date of acquisition	(8,153)
Cost of acquisition of additional shares	(2,700)
Gain as a result of business combination recognised in the consolidated income statement	3,423

The carrying value of the assets and liabilities of the acquired companies are not materially different from their fair value at the date of acquisition, except for the property, plant and equipment and the project in progress. Net carrying value of the property, plant and equipment and the project in progress at the date of acquisition was U.S $ 4,568,000 and U.S. $ 9,000,000, respectively. While the fair value of the property, plant and equipment and the project in progress amounted to U.S. $ 7,484,000 and U.S. $ 8,723,000, respectively.

5. Property, Plant and Equipment

U.S. $ 000's

December 31, 2009	Land	Buildings	Transportation means, equipment and spare parts	Computers and systems	Furniture and decoration	Total
Cost						
At January 1, 2009	16,789	12,544	23,243	2,712	992	56,280
Acquisition of subsidiaries	3,482	3,512	48	212	230	7,484
Additions	1,034	1,859	52,251	330	616	56,090
Disposals	(4,161)	(115)	(603)	(25)	(404)	(5,308)
Transferred to project in progress	(416)	-	-	-	-	(416)
Foreign currency translation	(6)	169	492	(15)	92	732
At December 31, 2009	16,722	17,969	75,431	3,214	1,526	114,862
Accumulated depreciation						
At January 1, 2009	-	2,325	13,895	1,515	442	18,177
Depreciation charge for the year	-	494	6,791	364	282	7,931
Disposals	-	(100)	(600)	(16)	(364)	(1,080)
Foreign currency translation	-	222	430	(13)	40	679
At December 31, 2009	-	2,941	20,516	1,850	400	25,707
Net carrying amount						
At December 31, 2009	16,722	15,028	54,915	1,364	1,126	89,155

- Property, plant and equipment include U.S. $ 2,140,000 of fully depreciated assets owned by PIF and its subsidiaries that are still operational as at December 31, 2009.
- Depreciation expense includes transportation means, equipment and spare parts depreciation of U.S. $ 6,595,000 that was charged to operating expenses.
- Transportation means include leased asset of a cost of U.S. $ 52,050,000 and a net book value of U.S. $ 47,556,000 as at December 31, 2009.

U.S. $ 000's

December 31, 2008	Land	Buildings	Transportation means, equipment and spare parts	Computers and systems	Furniture and decoration	Total
Cost						
At January 1, 2008	18,622	11,859	22,982	2,458	854	56,775
Additions	27,020	595	205	288	170	28,278
Disposals	(28,918)	(44)	(137)	(66)	(44)	(29,209)
Foreign currency translation	65	134	193	32	12	436
At December 31, 2008	16,789	12,544	23,243	2,712	992	56,280
Accumulated depreciation						
At January 1, 2008	-	1,917	11,586	1,107	286	14,896
Depreciation charge for the year	-	406	2,275	357	176	3,214
Disposals	-	-	(55)	(15)	(29)	(99)
Foreign currency translation	-	2	89	66	9	166
At December 31, 2008	-	2,325	13,895	1,515	442	18,177
Net book value						
At December 31, 2008	16,789	10,219	9,348	1,197	550	38,103

- Property, plant and equipment include U.S. $ 1,478,000 of fully depreciated assets owned by PIF and its subsidiaries that are still operational as at December 31, 2008.
- Depreciation expense includes transportation means, equipment and spare parts depreciation of U.S. $ 2,125,000 that was charged to operating expense.
- Transportation means include leased asset of a cost of U.S. $ 21,000,000 and a net book value of U.S. $ 8,394,000 as at December 31, 2008.

6. Goodwill

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

	U.S. $ 000's	
	2009	2008
Cement trade - Palestinian Commercial Services Company	25,244	25,244
Cement transportation - Bulk Express	338	338
Tourism - Grand Park Hotel & Resorts	901	-
	26,483	25,582

A. CEMENT TRADE

The recoverable amount of the cement trade 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 11.49%, and cash flows beyond the five-year period are extrapolated using a 3.5% growth rate.

B. CEMENT TRANSPORTATION

The recoverable amount of the 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 14.19%, and cash flows beyond the five-year period are extrapolated using a 3% growth rate.

C. TOURISM

The recoverable amount of the 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 10.1%, and cash flows beyond the five-year period are extrapolated using a 3% growth rate.

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 rate used and growth rate used to extrapolate cash flows beyond the budget period:

Discount rate

Discount rate reflects management's estimate of the risks specific to each business segment. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

In determining appropriate discount rate for each business segment, regard has been given to each segment's weighted average cost of capital using the capital asset pricing model to determine cost of equity and an estimated borrowing rate to determine cost of debt.

Growth rate estimates

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.

7. Investment Properties

	U.S. $ 000's	
	2009	2008
Balance, beginning of year	8,994	8,994
Additions during the year	81,244	-
Balance, end of year	90,238	8,994

Additions during the year include land lots in Jericho of U.S $ 78,983,000 that were transferred at fair value from the shareholder during the year.

8. Projects in Progress

	U.S. $ 000's	
	2009	2008
At January 1, 2009	14,098	-
Additions	1,283	14,098
Land transferred from property, plant and equipment	416	-
Land sold out of project in progress	(1,170)	-
Acquisition of subsidiaries	8,723	-
At December 31, 2009	23,350	14,098

Following are the projects in progress during 2009 and 2008:

AL-REEHAN PROJECT

Al-Reehan Real Estate Investment Company (a Subsidiary) is currently developing Al Reehan residential project at the northern city of Ramallah and Al Beera. The project aims at constructing nearly 2,000 residential units on 250 dunum. The total costs of the project as at December 31, 2009 and 2008 amounted to U.S $ 14,183,000 and U.S $ 14,098,000, respectively. The project is expected to be completed with a total estimated cost of U.S $ 220 million. During 2009, Al Reehan started the first phase of the project that includes the construction of 20 detached villas.

AL-JINAN PROJECT

During 2009, Al-Reehan Real Estate Investment Company (a subsidiary) started Al-Jinan residential project. The project aims at its first phase to develop approximately 140 residential units in the city of Jenin on 32 dunum. The total costs of the project as at December 31, 2009 amounted to U.S. $ 446,000. The project is expected to be completed with a total estimated cost of U.S. $ 11 million.

TOURISM PROJECTS IN JERUSALEM

Amaar (a subsidiary) is constructing tourism projects in Jerusalem that includes a hotel, restaurant and antique museum. The total costs of the projects as at December 31, 2009 amounted to U.S. $ 8,721,000. The projects are expected to be completed with a total estimated cost of U.S $ 16.5 million.

9. Investments in Associates

This item represents investments in associates operating in Palestine:

	Ownership		Carrying Amount	
	2009	2008	2009	2008
	%	%	U.S. $ 000's	
Palestine Tourism Investment Company	23.58	22.58	1,083	-
Wataniya Palestine Mobile Telecommunications Company	43	43	53,060	65,672
			54,143	65,672

Following is PIF's share in the associates' assets and liabilities:

	U.S. $ 000's	
	2009	2008
Non-current assets	117,454	100,015
Current assets	11,677	5,280
Non-current Liabilities	(54,616)	(22,837)
Current liabilities	(20,372)	(17,067)
Net assets	54,143	65,391

PIF's share of associates' revenues and losses:

Revenues	2,470	801
Loss for the year	(13,558)	(5,426)

PIF's investment in Wataniya Palestine Mobile Telecommunication Company (the Company) is mortgaged for the benefit of banks against loans granted to the Company.

10. Joint Ventures

	U.S. $ 000's	
	2009	2008
Convention Palace Company	8,518	10,094
Arduna Real Estate Development Company	19,044	18,886
	27,562	28,980

Following is PIF's share in the joint ventures' assets and liabilities:

	U.S. $ 000's	
	2009	2008
Non-current assets	19,468	20,632
Current assets	10,892	11,215
Non-current liabilities	(2,726)	(2,729)
Current liabilities	(72)	(138)
Equity	27,562	28,980
PIF's share of joint ventures revenues and losses		
Revenues	39	24
Loss for the year	(2,087)	-

PIF has no share of any contingent liabilities or capital commitments of its joint ventures as at December 31, 2009 and 2008.

CONVENTION PALACE COMPANY

PIF in cooperation with Athens based Consolidated Contractors Company (CCC) established a jointly controlled entity named "The Convention Palace Company in Solomon Pools (CPC)" with a share capital of 1,000,000 shares of U.S. $1 par value each, of which 50% is owned by PIF. The objective of CPC is to construct and operate the Convention Center Palace in Bethlehem; this property is a world class facility that includes venues for hosting conferences, exhibitions, seminars, meetings and workshops. During 2009, the construction work of CPC was completed and its operations were launched.

ARDUNA REAL ESTATE DEVELOPMENT COMPANY

PIF, in cooperation with the Land Holding Company, established Arduna Real Estate Development Company Ltd. (Arduna) with a total paid in capital of U.S. $ 45,500,000, of which 50% is owned by PIF. Arduna was established to oversee the development of the Ersal Center Project in Ramallah and Al-Bireh Governorate. The project is a multi-purpose real estate development on 50 donum of land.

11. Loans Granted

U.S. $ 000's

	2009	2008
Wataniya Palestine Mobile Telecommunications Company (a)	13,354	4,572
Hancock Overseas Company (b)	-	11,000
Latin Patriarchate in Jerusalem (c)	1,000	-
Palestine Tourism Investment Company (d)	215	215
Dar Al Hayat for press, printing and publication company	72	72
Accrued interest on loans	810	3,225
	15,451	19,084
Provision for doubtful loans	(317)	(14,345)
	15,134	4,739

Following is the movement on the provision for doubtful loans:

U.S. $ 000's

	2009	2008
Balance, beginning of year	14,345	25,896
Recoveries	(9,000)	(10,553)
Write offs	(5,042)	(1,302)
Additions	14	304
Balance, end of year	317	14,345

A. WATANIYA PALESTINE MOBILE TELECOMMUNICATIONS COMPANY

During the years 2008 and 2007, PIF granted Wataniya Palestine Mobile Telecommunications Company (Wataniya) loans of U.S. $ 4,571,579 for the purpose of financing working capital requirements. The loans bear interest of LIBOR (daily) plus interest rate ranging between 2% - 3%. The loans were scheduled to be settled as Wataniya collects the proceeds from its public offering or March 31, 2009, whichever is earlier.

During 2009, PIF and QTEL Company granted Wataniya a syndicated loan in the amount of U.S. $ 31,057,000, in which PIF's share amounted to U.S. $ 13,354,000. PIF's previous loans and accrued interest balances were settled in the new loan. The loan bears interest of LIBOR plus interest rate of %5.85. The loan will be settled in one payment the later of December 31, 2014, or six months after the maturity of all or any senior loan(s) which Wataniya is or becomes part of.

B. HANCOCK OVERSEAS COMPANY

On June 20, 2004, PIF granted Hancock Overseas Company a loan of U.S. $11 million for the purpose of financing the construction and operation of a power plant for Al-Muthana Cement Factory in Al-Muthana area in Iraq. The loan bears an annual interest rate of 8%.

During 2009, the loan and accrued interests in the amount of U.S. $ 14,042,000 were sold for U.S. $ 9 million.

C. LATIN PATRIARCHATE IN JERUSALEM

During 2009, PIF granted the Latin Patriarchate in Jerusalem a loan of U.S $ 1 million to finance the construction of a residential complex project in Jerusalem. The loan bears an annual interest rate of 1% and is repayable in 20 semi annual payments starting on July 27, 2011.

D. PALESTINE TOURISM INVESTMENT COMPANY

On August 1, 2007, PIF granted a loan in the amount of U.S. $ 214,000 to Palestine Tourism Investment Company. The loan bears interest rate of one- month LIBOR plus 1.75%. The loan and interest were scheduled to be settled on September 30, 2008.

12. Available-for-Sale Investments

	U.S. $ 000's	
	2009	2008
Quoted shares	155,902	166,551
Portfolios investments	43,936	75,405
Quoted bonds	35,389	-
Unquoted shares *	17,062	18,328
	252,289	260,284

* Unquoted shares are stated at cost as their fair values can not 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.

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

	U.S. $ 000's	
	2009	2008
Balance, beginning of year	64,721	236,601
Unrealized gains (losses)	21,853	(209,156)
Realized profit reclassified to the consolidated income statement	(51,117)	(12,598)
Impairment of available-for-sale investments reclassified to the consolidated income statement	8,803	49,874
Balance, end of year	44,260	64,721

13. Accounts Receivable and Other Receivables

	U.S. $ 000's 2009	2008
Orascom Telecommunications Holdings *	45,000	45,000
Cap Holding Company	11,305	11,305
President office	7,512	-
Trade receivable	7,552	3,525
Checks under collection	5,700	7,570
Golden Gate Company	-	4,051
First Trading Center	1,100	1,100
Grand Park Hotel	-	2,474
Others	1,373	3,298
	79,542	78,323
Provision for doubtful accounts	(59,215)	(59,802)
	20,327	18,521

* This item represents accounts receivable arising from selling investments in an associate, which was not settled due to a decision by a court in the United States of America (Note 37).

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

	U.S. $ 000's 2009	2008
Balance, beginning of year	59,802	59,426
Additions	19	386
Recoveries	(600)	-
Foreign currency translation	(6)	(10)
Balance, end of year	59,215	59,802

Nominal value of doubtful accounts receivable and other receivables which are fully provided for, as at December 31, 2009 and 2008 amounted to U.S. $ 59,215,000 and U.S. $ 59,802,000, respectively. As at December 31, 2009 and 2008, the aging analysis of the unimpaired accounts receivables and other receivables is as follows:

U.S. $ 000's

	Total	Neither past due nor impaired	Past due but not impaired		
			> 90 days	91-180 days	< 181 days
2009	20,327	9,379	8,301	808	1,839
2008	18,521	14,730	1,086	764	1,941

PIF's subsidiaries do not obtain any guarantees against these receivables. Nonetheless, management believes, based on its past experience, that the value of the unimpaired receivable is recoverable.

14. Other Current Assets

	U.S. $ 000's 2009	2008
Due from brokers*	34,035	-
Cash margin	4,817	4,076
Value added tax	2,459	390
Advances to suppliers	1,976	4,006
Employees' receivables	256	537
Accrued interest on deposits at banks	365	156
Prepaid expenses	189	184
Others	158	316
	44,255	9,665
Provision for uncollectible current assets	(4,483)	(2,718)
	39,772	6,947

* This item represents balances due from brokers as a result of selling available-for -sale investments.

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

	U.S. $ 000's 2009	2008
Balance, beginning of year	2,718	3,125
Additions	1,771	408
Write-offs	-	(815)
Foreign currency translation	(6)	-
Balance, end of year	4,483	2,718

15. Cash and Deposits at Banks

	U.S. $ 000's	
	2009	2008
Cash on hand and current accounts at banks	18,957	13,106
Term deposits at banks	144,216	170,650
	163,173	183,756

Term deposits at banks as at December 31, 2009 include deposits at banks with an original maturity of less than three months. During 2009, the average interest rate was 0.46% on U.S. $ deposits, 3.36% on Jordanian Dinar deposits, 0.1% on Euro deposits and 0.53% on Israeli Shekel deposits.

16. Paid-in Capital

PIF's paid-in-capital represents the fair value of net assets transferred by the shareholder as determined by Standard and Poor's valuation reports at the date of establishment of PIF.

17. Advances on Capital Increase

This item represents the fair value of the net assets transferred to PIF from its shareholder. The movement on the account during the year was as follows:

	U.S. $ 000's	
	2009	2008
Balance, beginning of year	11,851	798
Land transferred from the shareholder	-	11,053
Land returned to the shareholder	(4,960)	-
Reclassification to other liabilities (Note 22)	(1,975)	-
Remaining balance closed in the shareholder current account	(4,916)	-
Balance, end of year	-	11,851

18. Reserves

■ Statuary Reserve

In accordance with the Corporate Law, an appropriation of 10% of the annual profit shall be made to the statutory reserve account. Such appropriation shall not be halted before the accumulated amounts equal to 25% of the capital. The statutory reserve is not available for distribution to shareholders.

■ Special Reserve

Based on the Board of Directors recommendation dated July 14, 2009, a special reserve is appropriated at 10% of the 2009 profit in the amount of U.S. $ 6,148,000. This reserve will be used to finance the establishment of a new company that aims at supporting the economical development in Palestine.

19. Paid and Proposed Dividends

The Board of Directors in its meeting held on April 12, 2010, proposed to the shareholder to distribute U.S. $ 40 million as dividends from the year 2009 profits.

Based on the recommendation of the Board of Directors, the shareholder decided on May 9, 2009 to distribute dividends of U.S. $ 9,929,076 from the year 2008 profits. The amount was deducted from the shareholder current account.

Based on the recommendation of the Board of Directors, the shareholder decided on November 26, 2008 to distribute U.S. $ 55 million as advance dividends from the year 2008 profits. The amount was deducted from the shareholder current account.

Based on the recommendation of the Board of Directors in its meeting held on April 28, 2008, the shareholder decided on May 12, 2008 to distribute U.S. $ 212,000,000 as dividends from the year 2007 profits. The amount was deducted from the shareholder's current amount.

20. Finance Lease Obligations

U.S. $ 000's

	2009		2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due within one year	7,515	6,327	12,793	12,179
Due after one year and within five years	29,756	27,430	-	-
Total minimum lease payments	37,271	33,757	12,793	12,179
Less: finance costs	(3,514)	-	(614)	-
Present value of minimum lease payments	33,757	33,757	12,179	12,179

A finance lease agreement was signed on February 17, 2009, for leasing of a transportation mean for six years. The lease is subject to an interest rate of LIBOR plus 3.5%. The lease is paid on monthly installments. The ownership of the leased property will be transferred to PIF at the end of the lease contract. The last payment will be due on February 15, 2015.

The lease obligation is guaranteed by retaining the ownership of the leased equipment by the lessor until PIF settles all the obligations under the lease agreement, in addition to cash deposits of U.S. $1,900,000.

A finance lease agreement was signed on October 8, 2002, for leasing of transportation means for seven years. The lease is subject to an interest rate of LIBOR plus 3.35% with a minimum interest rate of 5.35%. PIF has to pay a total amount of U.S.$ 11,625,000 on October 30, 2009. During the year PIF settled all the payments of the lease. The ownership of the leased equipment was transferred to PIF.

21. Accounts Payable

U.S. $ 000's

	2009	2008
Trade payables	11,643	9,748
Contractors payables	354	3,765
Others	3,047	2,829
	15,044	16,342

Terms and conditions of the above financial liabilities:

- Trade and contractors' payables are non-interest bearing and are normally settled on 30-60-day terms.
- Other payables are non-interest bearing and have an average term of six months.

22. Provisions and Other Current Liabilities

	2009	2008
	U.S. $ 000's	
Liabilities related to the development of the National Park *	12,000	12,000
Provision for litigation and contingent liabilities	2,998	4,784
Provision for end of service indemnity	2,777	2,240
Property betterment taxes	2,482	-
Due to Palestinian National Authority (17)	1,975	-
Accrued expenses	1,315	869
Postponed checks	1,176	180
Employees' income tax payable	684	696
Others	1,057	1,127
	26,464	21,896

* On March 25, 2007, PIF and the National Committee for Establishment and Supervision of National Park Project and Palestinian Economic Council for Development and Reconstruction (PECDAR) signed a memorandum of understanding by which PIF will finance the establishment of the national park in Al-Bireh city (Ersal area). PIF's total obligation under this agreement amounted to U.S. $ 15,000,000 payable in five installments. During 2007 and 2008, PIF paid a total of U.S. $ 3,000,000; accordingly, PIF will be obligated to pay an additional U.S. $ 12,000,000 subsequent to the financial statements date.

Following is the movement on the provision for litigation and contingent liabilities:

	2009	2008
	U.S. $ 000's	
Balance, beginning of year	4,784	55,934
Paid during the year	(2,627)	-
Additions during the year	989	4,784
Recovered during the year	-	(55,934)
Currency variance	(148)	-
Balance, end of year	2,998	4,784

23. Short Term Loan

On February 8, 2009, PIF obtained a loan of U.S.$ 8 million from Arduna Real Estate Development Company Ltd. (a joint venture company) .The loan bears an annual interest rate of 3.5%, and is payable together with the accrued interest in one payment after 1 year of the granting date.

24. Operating Income

U.S. $ 000's

	2009			
	Operating revenues	Cost of goods sold	Operating expenses	Operating Income
Lease of transportation means	13,633	-	(11,703)	1,930
Palestine Commercial Services Company	119,750	(94,549)	(2,577)	22,624
Sama Al Aqaria	817	-	(248)	569
Hanadi Tower Company	284	-	(98)	186
Al Reehan Real Estate Company	2,400	(1,186)	-	1,214
Grand Park	2,818	(421)	(1,591)	806
	139,702	(96,156)	(16,217)	27,329

U.S. $ 000's

	2008			
	Operating revenues	Cost of goods sold	Operating expenses	Operating income (loss)
Lease of transportation means	4,835	-	(4,925)	(90)
Palestine Commercial Services Company	103,682	(74,281)	(2,188)	27,213
Sama Al Aqariya	890	-	(656)	234
Hanadi Tower Company	110	-	(222)	(112)
	109,517	(74,281)	(7,991)	27,245

25. Gain (loss) from Investment Portfolio

U.S. $ 000's

	2009	2008
Gain from sale of available-for-sale investments	51,117	17,691
Dividends income	7,372	5,589
Impairment of available-for-sale investments	(8,803)	(49,874)
Interest on bonds	441	-
Other	762	-
	50,889	(26,594)

26. Finance Revenues

U.S. $ 000's

	2009	2008
Interest on deposits with banks	2,506	6,889
Interest on loans	799	170
	3,305	7,059

27. Investment Department Expenses

U.S. $ 000's

	2009	2008
Professional fees	1,559	2,204
Employees salaries, wages and benefits	1,551	1,514
Investment sale commissions	450	212
Travel and transportation	216	247
Others	731	420
	4,507	4,597

28. General and Administrative Expenses

U.S. $ 000's

	2009	2008
Employees salaries, wages and benefits	5,644	5,015
Rents	463	251
Fees and subscriptions	397	126
Professional fees	398	72
Travel and transportation	267	312
Telephones and courier	174	228
Marketing	173	-
Insurance	137	131
Printings and stationery	96	265
Maintenance	86	88
Hospitality	63	71
Others	1,023	615
	8,921	7,174

29. Provision for Doubtful Accounts and Advances

U.S. $ 000's

	2009	2008
Provision for doubtful loans (note 11)	14	304
(Recovery) provision for doubtful accounts (note 13)	(581)	386
Provision for uncollectible current assets (note 14)	1,771	408
	1,204	1,098

30. Basic and Diluted Earnings Per Share Attributable to the Equity Holder of the Parent

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

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

U.S. $ 000's

	2009	2008
Profit for the year attributable to the equity holder of the parent	61,480	58,225
	Shares 000's	
Weighted average number of shares during the year	574,000	574,000
Basic and diluted earnings per share attributable to the equity holders of the parent	0.11	0.10

31. 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, 2009 and 2008:

U.S. $ 000's

	Carrying amount		Fair value	
	2009	2008	2009	2008
Financial assets				
Loans granted	15,134	4,739	15,134	4,739
Available-for-sale investments				
quoted	235,227	241,956	235,227	241,956
Account receivable and other receivables	20,327	18,521	20, 327	18,521
Other current assets	37,607	2,757	37,607	2,757
Cash and deposits at banks	163,173	183,756	163,173	183,756
	471,468	451,729	471,468	451,729
Financial liabilities				
Finance lease obligation	33,757	12,179	33,757	12,179
Accounts payable	15,044	16,342	15,044	16,342
Provisions and other current liabilities	23,687	19,656	23,687	19,656
Short term loan	8,255	-	8,255	-
	80,743	48,177	80,743	48,177

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 current assets, cash and deposits at banks, accounts payable, provisions and other current liabilities and the short term loan approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of the loans granted and finance lease obligations are determined based on variables such as interest rates, specific country risk factors and the other party. As at December 31, 2009 the carrying amount of the loans granted and finance lease obligations is 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.

Fair value hierarchy

PIF uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

- **LEVEL 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- **LEVEL 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- **LEVEL 3:** Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

However, PIF used only Level 1 to determine and disclose the fair value of its quoted available-for-sale investments. None of the other two levels was used.

32. Related Party Transactions

This item represents transactions with related parties. Related parties represent associated companies, major shareholders, Board of Directors and 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 as at December 31, 2009 and 2008 are as follows:

U.S. $ 000's

	2009	2008
Accounts receivable from sister companies	-	7,096
Due from the President Office	7,512	-
Shareholder current account	45,800	139,628
Loans granted to associates and sister companies	14,134	4,787
Loan from a joint venture	8,255	-
Assets transferred from the shareholder	78,983	13,010
Accounts payable due to a sister company	333	1,957
Due to Palestinian National Authority	1,975	-

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

U.S. $ 000's

	2009	2008
Gain from sale of property, plant and equipment to a joint venture	-	3,864
Leasing of transportation means to the shareholder	13,633	4,835
Other revenues from a sister company	-	950
Interest revenue on loans to associates and sister companies	788	153
Interest expense on loan from joint venture	255	-

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

U.S. $ 000's

	2009	2008
Board of Directors compensations	90	90
Key management share of salaries and related benefits	2,639	1,966
Key management share of end of service indemnity	244	182

33. Financial Risk Management Objectives and Policies

PIF's principal financial liabilities comprise finance lease obligations, accounts payable, provisions and other financial liabilities and the short term loan. The main purpose of these financial liabilities is to raise finance for PIF's operations. PIF has various financial assets such as loans granted available-for-sale investments, accounts receivables, other financial assets and cash and deposits at banks 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 the finance lease obligation. The following table demonstrates the sensitivity of PIF's consolidated income statement as at December 31, 2009 to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on PIF's profit for one year, based on the floating rate of short-term deposits at banks held at December 31, 2009. The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increases shown below:

2009	Increase in interest rate	Effect on profit for the year
	(basis points)	U.S. $ 000's
U.S. Dollar	+10	58
Jordanian Dinar	+10	56
European Monetary Unit (EURO)	+10	2
Israeli Shekel	+10	7

2008	Increase in interest rate	Effect on profit for the year
	(basis points)	U.S. $ 000's
U.S. Dollar	+10	79
Jordanian Dinar	+10	35
European Monetary Unit (EURO)	+10	2
Israeli Shekel	+10	23

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. $ exchange rate, with all other variables held constant, of PIF's profit and equity. The Jordanian Dinar (JOD) is linked to U.S. $ (1.41 U.S.$ for JOD) therefore, no effect, resulting from the fluctuations in JOD rate, is expected on the consolidated income statement.

	Increase in currency rate to U.S. $	Effect on profit before tax	Effect on equity
2009	%	U.S. $ 000's	
Israeli Shekel	+10%	473	5,276
European Monetary Unit (EURO)	+10%	239	-
Emirate Dirham	+10%	114	-
Kuwaiti Dinar	+10%	659	-
Qatar Riyal	+10%	298	-
Saudi Riyal	+10%	388	-
Others	+10%	128	-

	Increase in currency rate to U.S. $	Effect on profit before tax	Effect on equity
2008	%	U.S. $ 000's	
New Israeli Shekel	+10%	758	5,899
European Monetary Unit (EURO)	+10%	210	-

Equity price risk

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

	Change in equity price	Effect on equity
2009	(%)	U.S. $ 000's
Shares listed in Palestine Securities Exchange	+10	9,044
Shares listed in Amman Stock Exchange	+10	1,451
Shares listed in other markets	+10	13,062
Shares not listed	+5	853

	Change in equity price	Effect on equity
2008	(%)	U.S. $ 000's
Shares listed in Palestine Securities Exchange	+10	6,200
Shares listed in Amman Stock Exchange	+10	1,604
Shares listed in other markets	+10	16,392
Shares not listed	+5	916

Credit risk

PIF and its subsidiaries have a broad client base. The credit risk associated with the accounts receivable is widely distributed among a large number of individual customers. PIF is currently managing its credit risks by receiving collaterals from some customers and monitoring the accounts receivable collections 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 (11) and (13). In addition, PIF's real estate companies limit the credit risks by not transferring the ownership of the sold properties to customers until collection of all installments.

With respect to credit risk arising from other financial assets of PIF, including cash and deposits at banks, 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 credit facilities and pursuing the collection of accounts receivables.

The table below summarizes the allocation of undiscounted financial liabilities as at December 31, 2009 and December 31, 2008, based on their remaining maturity:

U.S. $ 000's

	Less than 3 months	3 to 12 Months	1 to 5 years	Total
As at December 31, 2009				
Finance lease obligations	1,898	5,617	29,756	37,271
Accounts payable,	15,044	-	-	15,044
Provisions and other financial liabilities	9,205	14,482	-	23,687
Short term loan	8,249	-	-	8,249
	34,396	20,099	29,756	84,251
As at December 31, 2008				
Finance lease obligations	-	12,793	-	12,793
Accounts payable,	16,342	-	-	16,342
Provisions and other financial liabilities	7,656	12,000	-	19,656
	23,998	24,793	-	48,791

34. 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 of the capital structures during this year and the previous one.

Capital includes paid-in share capital, advances on capital increase, retained earnings, shareholder's current account, statuary and special reserve, proposed dividends, foreign currency translation and cumulative changes in fair value and non controlling interest totalling of U.S. $ 718,106,000 and U.S. $ 605,259,000 as at December 31, 2009 and December 31, 2008, respectively.

35. 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 cement operations, 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:

U.S. $ 000's

December 31, 2009	Investment sector	Cement operations	Real Estate Investment	Tourism	Eliminations	Consolidated
Revenues						
External revenues	80,632	119,750	6,924	2,818	-	210,124
Inter-segment	413	-	-	-	(413)	-
Total revenues	81,045	119,750	6,924	2,818	(413)	210,124
Expenses						
Other expenses	(41,711)	(98,313)	(3,996)	(2,012)	-	(146,032)
Profit before finance costs	39,334	21,437	2,928	806	(413)	64,092
Finance costs	(2,250)	-	-	-	-	(2,250)
Profit for the year	37,084	21,437	2,928	806	(413)	61,842
Assets and liabilities						
Operating assets	579,150	55,131	158,394	9,719	(768)	801,626
Operating liabilities	62,693	14,544	5,460	1,141	(318)	83,520
Other information						
Depreciation	6,968	318	381	264	-	7,931
Capital expenditure	54,238	528	2,552	55	-	57,373

U.S. $ 000's

December 31, 2008	Investment sector	Cement operations	Real Estate Investment	Eliminations	Consolidated
Revenues					
External revenues	82,365	104,873	1,277	-	188,515
Inter-segment	-	-	-	-	-
Total revenues	82,365	104,873	1,277	-	188,515
Expenses					
Other expenses	(38,854)	(86,020)	(1,181)	(3,382)	(129,437)
Profit before interest	43,511	18,853	96	(3,382)	59,078
Finance cost	(776)	-	-	-	(776)
Profit for the year	42,735	18,853	96	(3,382)	58,302
Assets and liabilities					
Operating assets	657,607	62,907	28,660	(93,498)	655,676
Operating liabilities	107,515	14,321	1,066	(72,485)	50,417
Other information					
Depreciation	2,499	344	371	-	3,214
Capital expenditure	27,538	369	14,469	-	42,376

36. Income Tax

PIF is exempted from income tax in the Territories of the Palestinian National Authority. PIF's other subsidiaries are subject to Palestine Income Tax Law with 15% on taxable annual profits.

37. Provision for Litigation and other Contingencies

- PIF may be liable for obligations associated with liquidating some non-operating companies whose ownerships were transferred by the shareholder to PIF. Moreover, PIF is liable for losses as a result of litigations imposed against both PIF and the Palestinian National Authority. PIF's management believes that provisions included in the consolidated financial statements as at December 31, 2009 are sufficient to cover any potential losses.

- A court decision was issued by a court in Rhode Island, USA, on September 13, 2006 regarding a lawsuit raised by American plaintiffs against the Palestinian National Authority and the Palestinian Liberation Organization claiming an amount of U.S. $ 116,409,000. If the decision is executed, some of PIF's assets equal to this claim may be seized. PIF is currently seeking to take the appropriate legal actions.

  PIF's management believes that the provisions taken by PIF against the lawsuit are adequate. The American plaintiffs were able to control and/or seize a substantial portion of the defendant's assets that include assets that belong to the Palestine National Authority, the Palestine Monetary Authority, the Palestine Liberation Organization, and the Pension Fund. Moreover, the American plaintiffs were able to detach some of the PNA's assets in Israel. PIF's management and its legal advisors believe that the provision against this lawsuit is sufficient. Given PIF's refrain from investing in the USA and/or making any transfers abroad in U.S. $. In addition, decisions are issued by Ramallah First Instance Court and Amman First Instance Court for the two lawsuits raised by PIF against the plaintiffs' in order to protect PIF's assets in the two countries until the final resolution of the lawsuit is issued.

- 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 – which is located in the center of Gaza and which is currently being used as a military camp - and on another plot of land in the Gaza Strip on which currently the Zahrat Al Madaen Village Bungalows resides. In return, PIF agreed to build a new building to serve as a military camp 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 plots of land to be used are to be assigned by the shareholder. The same will apply to plots of land located in Hebron and Nablus provinces on which military camps currently reside. Accordingly, liabilities may arise against PIF; an estimate of the potential liabilities cannot be measured with sufficient accuracy at this time.

The land has not been recorded in PIF's accounting records, since the terms of the agreements were not yet executed.

- Upon the Palestinian Ministry of Telecommunications fulfilment of obligation towards Wataniya Palestine Mobile Telecommunication Company (the Company) by providing it with the needed frequencies to launch the second generation service in the West Bank and Gaza, and provides the Company with sufficient frequencies to offer the mobile third generation services, and when Wataniya's number of customers agreed upon is reached, Wataniya will be obligated to pay the second and third installments of the license fees. If the company increases its share of capital to pay the second and third installments, PIF will be obligated to pay a maximum amount of U.S. $ 34,9 million to maintain an ownership percentage in Wataniya, of no less than 30%.

- 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 (SMEs) throughout Palestine. PIF may be obligated to pay the guaranteed amount in case of default of the loans.

As at December 31, 2009, total loans granted under this agreement by local banks amounted to U.S. $ 27,6 million. PIF's share of the total guarantee provided against these loans was U.S. $ 6 million.

Investing for our Children’s Future