صندوق الاستثمار الفلسطيني

Palestine Investment Fund

ANNUAL REPORT | 2011

Investing in our People's Future

ANNUAL REPORT | 2011

Palestine Investment Fund

I am proud of the Palestine Investment Fund, which continues to accomplish one success after the other and contributes to fulfilling the aspirations of our people. PIF continues to present a bright image of Palestine the state; an image whose features have started to crystallize through our collective efforts to build a strong and independent national economy; As part of our efforts to achieve national independence, and building our Palestinian state, with Jerusalem as its capital.

Year after year, PIF is positioning itself as a leading economic and investment institution in Palestine that works towards achieving a sustainable economic development in Palestine, benefiting Palestinians first and foremost through dedicating the principles of professional and efficient work in all our institutions, and its eagerness to implement a group of strategic projects in a number of vital economic sectors.

I am confident that PIF will continue to achieve our ambitions, year after year, and it has my best wishes for brighter future and more accomplishments to come.

Mahmoud Abbas

President of Palestine

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Chairman's Message

Ladies and gentlemen,

On behalf of the Board of Directors, it's my pleasure to present you with the Palestine Investment Fund 2011 annual report, which provides a summary of PIF's achievements throughout the previous year, and it's positive sequels over the levels of:

- Palestinian economy.
- Financial performance & return to shareholders.
- Governance & institutional development.
- Corporate social responsibility.

On the economic front, PIF succeeded to positively affect the Palestinian economy through its investment programs. In terms of employment, PIF contributed to the creation of about 10,000 direct and indirect job opportunities, in different economic sectors, during the years 2008-2011. Taking the real estate as an example, PIF helped create more than 3,500 job opportunities during 2009-2011, through its real estate projects, emplemented by Ammar Group, PIF's real estate investment arm. These projects presented 5.2% of the construction sector's contribution to the GDP and 0.45% of the whole Palestinian GDP for 2009-2011.

Furthermore, PIF's implemented projects have substantially contributed to the apparent growth of the Palestinian economy, especially in the small and medium enterprises (SME's) sector, industrial sector, real estate, telecommunications, energy and financial market. In addition to focusing our efforts on developing a number of regions through specialized projects and programs, such as Dead Sea & Al-Aghwar Development program. Accordingly, PIF's projects are characterized by geographical diversity, which has helped to spread the benefit throughout the Palestinian territories.

In parallel with the economic sectors benefiting from PIF's projects, the aforementioned projects have also triggered the initiation and promotion of a number of complementary sectors, as well as the creation of a number of small and medium enterprises. This report will provide more detailed impact of PIF's programs and initiatives on the Palestinian economy during the year 2011.

Notably, PIF has maintained its policy of investing inside Palestine. Wherefore during 2011 more than 80% of the PIF's investments were located in Palestine, a significant increase from 72% during 2010, beside the increase in assets located in Palestine to 83% during 2011 from 71% during 2010.

On the financial front, PIF's 2011 profit before taxes was US$39 million, which exceeds the estimated of budget by US$2.5 million. While net income of 2011 was around US$33 million, to sum up a net income of US$800 million since 2003. I addition, equity during 2011 was US$747 million.

In light of the above, PIF's Board of directors has recommended a transfer of US$20 million to the Palestinian National Authority's treasury, as shareholder dividends for the year 2011 and bringing total distributed dividends since 2003 to more than US$653 million, which represents more than 104.5% of the PIF's paid capital. In 2011 the general assembly decided to raise PIF's capital by US$51 million, to become $625 million.

Despite the difficult situation that the Palestinian economy is going through, as well as the regional and international financial crisis; PIF's results during 2011 are better than budgeted. Moreover, PIF has succeeded in attaining reasonable return on its investments, in a manner consistent with PIF's strategy of keeping the balance between financial return and economic and development growth. PIF also followed a conservative approach aimed at minimizing investment risks, and focusing on low-risk investments, in an attempt to protect the PIF's assets amidst the troubling crisis of world economics.

Ladies and gentlemen,

The successes and achievements of PIF's projects and initiatives never overshadowed PIF's efforts towards promoting and enhancing corporate governance and institutional development. The year 2011 was of special significance in that regard. Notably, a World Bank report praised the reforms undertaken by PIF in the areas of acountability, internal controls, audit (internal and external) and publishing its financial statements online. Also, the report applauded PIF's transparency in transferring dividends to the shareholder, as well as the accountability undertaken by its Board of Directors and General Assembly. Also, the adoption of robust measures that are aimed at preventing conflict of interests, and that prevent Board of Directors members from influencing decisions that impact them, were also noted.

Measures and standards that were adopted by the PIF to promote transparency and corporate governance included: continued cooperation with the State Audit and Administrative Control Bureau, the presence of an internal auditor (Deloitte) reporting to the audit committee, and of an external auditor (Ernest & Young) reporting to the Board of Directors and to the General Assembly. Such measures have enabled the PIF to better manage its assets, decisions and investment operations, and have significantly contributed to its success in achieving strategic projects throughout Palestine.

In parallel with its investment operations, PIF has played a substantial role on the social responsibility front. PIF has supported a number of activities and initiatives aimed at promoting entrepreneurship as well as Palestinian cultural and heritage identity. Within that context, PIF is currently working on the development of a social responsibility strategy that is aimed at supporting Palestinian entrepreneurs, while focusing on the disadvantaged sectors of the community. This strategy, will promot sustainable initiatives that have the potenial to create jobs, partnerships between the private and public sectors, and the civil society—with the aim of keeping the momentum to support new or ongoing projects that will have a developmental impact over the Palestinian society.

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

Sincerely,

Dr. Mohammed Mustafa

Chairman & CEO

2011 Highlights

Small and Medium Enterprises Project

PIF SME's Program has continued its success in 2011. The Loan Guarantee Facility (LGF) achieved promising results in 2011, with a total number of 446 benefiting projects.

The Palestine Growth Capital Fund (PGCF), launched in partnership with Abraaj Capital, also succeeded in attracting international partners and in investing in agricultural, educational and other projects which contributed to job creation for Palestinians.

In parallel with these projects, PIF launched the Economic Empowerment Program for Palestinian Refugees in Lebanon, in support of our people there. PIF is currently developing an integrated program in the field of small and medium enterprises, which form the backbone of the national economy.

Industrial and Trading Sector

Stemming from its belief in the vital role industrial and trading sector plays in sustainable economic development, PIF has been keen to invest in it to help stimulating and developing this sector. In this context, PIF invests in the Arab Palestinian Investment Company (APIC), which was established by a number of Arab and Palestinian businessmen, to invest in a number of projects in Palestine in trade, distribution and services sectors.

PIF also signed, through Amaar Real Estate Group, an agreement with Nablus municipality to establish an industrial craft zone in the city of Nablus, which will accommodate a number of specialized industries and handicrafts. PIF is also a major shareholder in the National Aluminum and Profiles Company (NAPCO), and a number of other manufacturing companies, through its investments in Palestine Exchange, such as the Palestine Industrial Investment Company, and Birzeit Pharmaceutical Company. In the field of trade, PIF has established the Palestine Commercial Services Company, the largest supplier of cement for the construction sector.

Real Estate and Hospitality Sector

PIF investments in the real estate and hospitality sector witnessed major developments in 2011. The Amaar Real Estate Group, PIF's investment arm in the real estate sector, achieved significant progress in the construction and infrastructure at Al-Reehan and Al-Jinan neighborhoods and a number of residential units will be handed over to their owners in 2012. In addition, during 2011 the infrastructure work continued and the roads construction was completed at Ersal Center. The construction work also started on the Amaar Group Tower, and the cornerstone was placed for the Consolidated Contractors Company (CCC) Tower at Ersal Center. The renovation and expansion works at the Grand Park Hotel were also continued during the year.

Infrastructure Sector

In 2011, PIF continued its achievements in the infrastructure sector ;both in telecommunications and energy. Wataniya Mobile emerged as an outstanding Palestinian Mobile company at the professional, financial and managerial levels. Its numerous successes are evident in the increasing number of subscribers, reaching 465 thousand, and in the advanced services provided by the company. After the successful public offering in 2010, Wataniya mobile was listed on the Palestine Exchange in 2011.

As for the energy and due to its importance its, PIF is a major shareholder in the Palestinian Electricity Company in Gaza. In addition ,PIF has established, in partnership with other investors, the Palestine Power Generating Company (PPGC), and is a major shareholder in the company. PPGC will build the West Bank electricity generation plant. PIF continues to exert additional efforts to ease the obstacles posed by Israeli occupation on developing the natural gas field off coast of Gaza.

Capital Markets Investments

In an effort to support investment in the Palestine Exchange PIF has focused its capital market investment in Palestine Exchange, Palestine portfolio represents a major part of PIF's investments in capital markets, which are managed through Khazanah Assets Management Company, PIF's Capital Markets investment arm. PIF's investments in Palestine Exchange amounted to US$160 million of its total investments in Capital Markets of US$290 million. The portfolio in Palestine Exchange includes a number of listed companies in various sectors including communications, banking and investment. PIF has also launched, in partnership with Rasmala Investment Bank of UAE, Rasmala Palestine Equity Fund to invest in Palestinian securities. The fund includes in addition to PIF a number of leading Arab and Palestinian companies and investors.

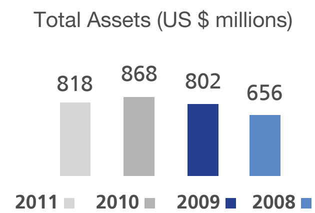
2011 Financial Indicators

Despite of the national financial crises. PIF has achieved positive financial results in 2011. These results were due to the conservative investment policy adopted by PIF's Board of Directors in order to preserve PIF's assets and to limit the impact of the financial crises and the current political situation on PIF and its assets. Despite of this policy, PIF's profits before taxes for 2011 reached US$39 million, while net income after deducting income taxes amounted to approximately US$33 million, and PIF's total assets reached $818 million by the end of 2011.

PIF transferred an amount of US$20 million of its 2011 income to the treasury of the Palestinian National Authority as shareholder's dividends, bringing total dividends transferred to the Authority's treasury since 2003 to over US$653, or 104.5% of PIF's paid capital.

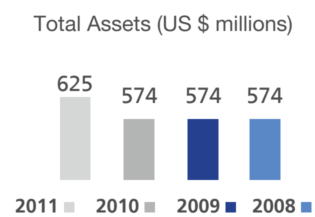
Assets

PIF's assets reached US$818 million by the end of 2011, compared to US$868 by the end of 2010. This decrease in assets is due to dividend distribution of about US$45 million for the years 2010 and 2011, in 2011. In addition to the decrease in the value of some of PIF investments in regional and international financial markets, and some of PIF's assets in the Gaza Strip due to the prevailing political and economic conditions.



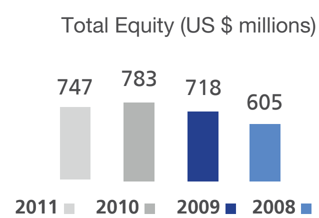
Paid In Capital

PIF's capital was increased from US$574 million in 2010 to US$625 million in 2011 as a result of PIF's General Assembly decision to capitalise US$51 million of is retained earnings in order to increase PIF's ability to expand its investment activities.



Equity

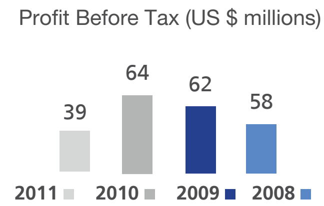
PIF's equity amounted to US$747 million by the end of 2011, witnessing a small decrease compared to 2010. This decrease is attributed to dividend distribution of US $45 million for 2010 and 2011, which was paid in 2011. Along with the impact of the financial crisis, which the national and global economy suffer.



Income

PIF's net income before tax for the year 2011 amounted to US$39 million which is US$2.5 million over budget. Net income after tax reached US$33 million bringing total net income since inception to $800 million, or an average of US $89 million per year.

PIF's Board of Directors recommended dividend distribution of US$20 million of PIF's net income of 2011 to the Palestinian National Authority's treasury, bringing PIF's the total dividends distributions since its inception in 2003 to over US$653 million, or 104.5% of PIF's paid up capital.



Key Indicators

The following table provides a summary of selected components of PIF's financial statements for the years 2008, 2009, 2010 and 2011, which represent the key financial performance indicators of PIF. The growth in a number of indicators, is due to the continuous implementation of PIF's balanced investment strategy.

	2008	2009	2010	2011
Total Assets (Million US$)	656	802	868	818
Total Liabilities (Million US$)	51	84	85	71
Owners' Equity (Million US$)	605	718	783	747
Paid-in Capital (Million US$)	574	574	574	625
Net Profit (Million US$)	58	62	59	33
Profit per Share (US$)	0.101	0.107	0.102	0.053
Net Book Value per Share (US$)	1.054	1.251	1.357	1.195

About PIF

PIF is a public shareholding company owned by the Palestinian people. It is financially and administratively independent and is governed by an independent General Assembly and Board of Directors. PIF manages a strategic investment program in a number of vital sectors directly or through a number of fully owned subsidiaries.

PIF is professionally managed based on the principles of transparency, accountability and good governance. PIF is considered a role model in good governance

PIF's Mission and Vision

PIF's mission is to promote a strong and sustainable independent Palestinian economy that will be a cornerstone of the independent Palestinian state with Jerusalem as its capital.

In fulfilling its mission to build the Palestinian economy, PIF has adopted an investment strategy according to which PIF's investments are allocated among the most important sectors of the economy, and focused on those with high developmental impact which include: SME's sector, manufacturing sector, real estate and hospitality sector, infrastructure sector and capital markets sector. PIF's investments in these sectors shall strengthen the competitiveness of these sectors.

This investment strategy aims to revitalize the Palestinian economy by creating new job engines to reduce poverty and unemployment, and raise living standards.

PIF has been focusing on the use of local resources in delivering its investment program. On the other hand, PIF has been keen on attracting foreign direct investment (FDI) into Palestine. PIF believes that the kind of institutional support and international network that FDI brings into Palestine is a key driver of economic development in Palestine.

PIF has also been focusing on stimulating the growth of a strong, cohesive, efficient and highly experienced and competitive private sector which is a very important factor in building and growing the national economy.

Through its projects and investments, PIF hopes to contribute to the steadfastness of the people of Palestine and their ability to hold on to their rights and identity, and to build a healthy foundation for our future independent state.

PIF's Investment Strategy

PIF investments activities are guided by a comprehensive, well-structured and ambitious investment strategy that was adopted by its Board of Directors to achieve its goal of developing a strong economy to be a cornerstone of the independent Palestinian state.

Serving National Goals

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

PIF's initiatives and projects ensure the maximum use of Palestinian talent and resources both in terms of planning and implementation. This is why PIF stresses the importance of balanced and equitable relations with regional and international partners that are in line with Palestinian economic priorities and based on mechanisms that are developed and led by PIF.

Moreover, PIF has worked during the past few years to transfer much of its assets into Palestine to support large scale strategic projects in vital and dynamic economic sectors . The goal of this strategic shift is to optimize the developmental impact of PIF's overall activities. So far, PIF has managed to grow the share of Palestinian investments in its total investment portfolio from 30% in 2007 to close to 80% today. PIF's foreign asset portfolio is composed of highly liquid capital markets investments that are managed professionally with the goal of maximizing return within strict risk parameters, until adequate opportunities arise for deploying these funds in Palestine.

Attracting Foreign Direct Investment (FDI)

FDI is crucial to economic development in Palestine. For this reason, 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 influential institutional investors and development agencies.

PIF leverages its 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 like joint equity investments and joint financing facilities.

Supporting the Private Sector

PIF believes that a healthy Palestinian private sector is a critical component of any sound national development agenda and therefore works to stimulate private sector activity and to remove obstacles facing it. 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.

Creating Job Opportunities

PIF pays special attention to ensure that its projects and initiatives serve to create a substantial number of new job opportunities, at a time when high unemployment rates continue to worry our Palestinian society.

Distributing Investments Throughout All Governorates

PIF investment programs and projects are located throughout Palestine. Certain initiatives have 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.

On the other hand, some areas are politically and economically critical for the future Palestinian state and therefore receive extra attention from PIF including Jerusalem, the Jordan Valley and Dead Sea region, and Gaza. In fact, PIF has already established Al-Aghwar Al-Falastiniyah Development Company to manage its planned projects in the Jordan Valley and Dead Sea region in partnership with local, regional and international investors.

PIF's investments in these different localities aim to develop and optimize the use of their natural resources and strengthen their ability to resist all Israeli attempts to undermine their connection and contribution to the Palestinian economy.

Transparency and Governance

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

PIF's strong corporate governance practices assure the shareholder, the People of Palestine, that PIF is being operated in their interests. Good governance made PIF's more attractive to business partners, locally and internationally.

The strengths of PIF's governance start at the top, with an independent general assembly supported by an independent Board of Directors.

Auditors, internal and external, are cornerstones to PIF's governance structure. Since its inception, PIF's operations and activities are audited by the internal audits and its financial statements are audited by PIF's external auditors.

In addition to the internal and external audit, PIF is subject to audit by the State Audit and Administration Bureau.

General Assembly

The general assembly composed of 30 independent reputable members representing the business community, regulatory agencies and civil society appointed by the president for three years term. The general assembly represents PIF's ultimate shareholder, the people of Palestine. It executes its obligations in accordance with PIF bylaws and the Palestinian Companies Law. The General Assembly provides strategic guidance to the Board of Directors, reviews annual reports, and approves the distribution of dividends to the Palestinian Treasury. The General Assembly also appoints the external auditor on the basis of the Board of Directors recommendations.

Board of Directors

PIF operations are overseen by an independent Board of Directors, responsible for setting and overseeing PIF's goals and objectives. The Board is appointed by the President for a three years term. Members of the Board are reputable experts in finance and management with extensive knowledge of the local market. 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 time.

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

1. Audit Committee

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

2. Investment Committee

Members of this committee have experience in investment and financial management. The committee responsibilities include; reviewing and approving the investment policies, reviewing and recommending investment decisions and reviewing and monitoring performance of the investment portfolio.

3. Human Resources Committee

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

Internal and External Auditing

PIF considers auditing, internal and external, as key elements in its institutional building and cornerstones to effective governance structure. Since its inception, PIF's operations and activities are audited by internal audits. In 2011, PIF's activities and operations were subject to a thorough internal audit from our internal auditors, Deloitte, who worked closely with PIF's internal audit unit. The internal audit findings were reported directly to the Board audit committee.

In addition to internal audit, our annual financial statements are audited by our external auditors, Ernst& Young. Our audited financial statements are published both in our annual report and on PIF's website.

Policies and Procedures

PIF adopts detailed policies and procedures that are in line with best practices. These policies and procedures regulate managerial and investment decision making process. PIF is also subject to a strict authority matrix for investment decision making.

According to this authority matrix all investment decisions reviewed by PIF's executive committee, and approved either by the Board investment committee or the Board of Directors.

Transparency and 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 and on its website, in line with its principles of transparency and accountability.

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

World Bank Report

In its report , titled "West Bank and Gaza: Improving Governance and Reducing Corruption," The World Bank praised PIF for the reforms it carried out, including improvements in supervisory functions through the introduction of regular internal and external audits, regular financial disclosures on its website and annual report, and transparent dividend distribution process to the Palestinian treasury. In addition to having an active Board of Directors and involved General Assembly, and strict policies regarding conflicts of interest.

PIF's Acheivements at the Governance Level in 2011

During 2011, PIF has continued the focus on enhancing its governance structure. As part of this process the following actions were taken:

- PIF has developed a comprehensive governance code that covers the Board of Directors and its committees, conflict of interests, transparency and disclosure, compliance and internal and external audit. The code was developed with the assistance of a leading consulting firm based on best practices.
- An internal audit unit was established within PIF. The internal audit unit reports directly to the Board Audit Committee. PIF has also signed an internal audit co-sourcing agreement with Deloitte, under which PIF's internal audit team and Deloitte's team worked together to perform the internal audit for PIF.
- Certain changes were made within PIF's internal organization structure to strengthen the internal control system and to adhere to best practices in corporate governance.
- In December 2011, President Abbas has signed a presidential decree to expand PIF's Board of Director by adding four public figures.

Board of Directors

PIF is managed by an efficient and independent Board of Directors composed of public figures known for their efficiency and integrity, appointed for a period of three years by the President. Members of the Board of Directors hold outstanding experience in management and economics. The Board is responsible for PIF's success and achievement of its objectives. At the end of 2011, PIF's Board of Directors was expanded by a Presidential decree to include four new members: Dr. Jihad Al-Wazir, Mr. Maher Al-Masri, Dr. Mohammad Nasr and Mrs. Lana Abu Hijleh.

Dr. Mohammad Mustafa, Chairman

Dr. Mustafa holds a Doctorate and a Master's degree in Management and Economics from George Washington University in the United States, and a Bachelor's degree in Engineering from the University of Baghdad. He is presently the Palestine Investment Fund's Board of Directors Chairman, and its Chief Executive Officer, as well as chairman and member in the boards of directors of some companies in which PIF invests. Dr. Mustafa has a long history of working with the World Bank and a number of regional and local companies and funds.

Mr. Mazen Sinokrot

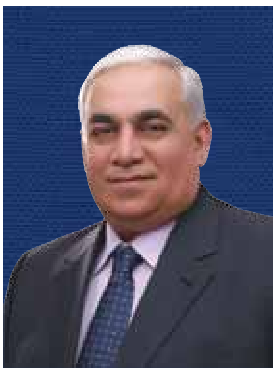
Mr., Sinokrot holds a Bachelor's Degree with Honors in Production, Management and Industry Engineering from Nottingham University in England, and is the Chairman of the Board of Directors and Chief Executive Officer of the Sinokrot International Group which is engaged in various sectors including industrial, tourism, agricultural and commercial investments, in addition to information technology. He is a former Minister of Palestinian National Economy, and was the Chairman of the Board of Directors of the Investment Promotion Agency, Specifications and Standards Agency and the Industrial Estates and Free Zones Authority.

Mr. Samer Khoury

Mr. Khoury holds a Bachelor's degree in Civil Engineering from the California State University and a Master's Degree from the University of Southern California in the United States. He is currently the Deputy Executive Chairman of the Consolidated Contractors Company (CCC), one of the major engineering and construction companies in the Middle East. Mr. Khoury is active in many economic institutions around the world, and is a Board of Directors member in more than 28 Arab and international institution operating in the field of economics.

Mr. Nabil Al-Sarraf

Mr. Al-Sarraf holds a Master's degree in Civil Engineering from Aachen University in Germany, and has worked for a long time in managing contracting and real estate development in Kuwait and Saudi Arabia. He is the Chairman of the Board of Directors of the Palestine Real Estate Investment Company (PRICO), and the Deputy Chairman of the Palestine Development and Investment Company (PADICO). He is also a member of the Board of Directors of United Arab Investors-Jordan and Chairman of the Board of Managers of AMTEC Technical Contracting Company-Jordan, and a board member in a number of pioneering Arab and Palestinian companies.



Mr. Mohammad Abu Ramadan

Mr. Abu Ramadan holds a Bachelor's degree in Business Administration from Syracuse University in the United States, and is the Chairman of the Abu Ramadan Investment Group, the Chairman and CEO of Gaza Bus Company, Deputy Chairman of Palestine Insurance Company and PalTrade, in addition to member of the Board of Directors of the Palestine Monetary Authority, and the boards of a number of companies and other pioneering economic and social institutions.

Mr. Tareq Al-Aggad

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

Mr. Azzam Shawa

Mr. Shawa holds a Bachelor's degree in Mathematics from Memphis University in the United States, and has held the position of General Manager of Jerusalem Bank since 2007. Prior to that, he held senior management positions in the Arab Bank and the Palestine Bank, and is currently the Chairman of the Board of Al-Reef Company and a board member of a number of leading Palestinian companies and other economic and social institutions. He was also Minister of Energy in the sixth Palestinian cabinet.

General Assembly

1. Dr. Mohammad Mustafa
2. The Governor of the Palestinian Monetary Authority
3. Chairman of the Board, Capital Markets Authority
4. Chairman of the Board of Directors, Palestine Stock Exchange
5. Chairman of the Federation of the Palestinian Chambers of Commerce
6. President of the Private Sector Coordination Council
7. President of the Palestinian Bar Association
8. Presidential Court Director
9. Dr. Mohammad Shtayyeh
10. Mr. Khaled Al-Qawasmeh
11. Dr. Adnan Amr
12. Mr. Nassar Nassar
13. Mr. Waleed Salman
14. Mr. Hashem Shawa
15. Dr. Suad Al-Amiri
16. Mr. Lana Abu Hijleh
17. Mr. ‘Ahed Bseiso
18. Mr. Nabil Al-Za’im
19. Mr. Jawdat Al-Khudari
20. Mr. Sam Bahour
21. Mr. Eyad Joudeh
22. Mr. Mazen Hassouneh
23. Mrs.Deena Al-Masri
24. Dr. Hani Nijem
25. Mr. Samer Khoury
26. Mr. Mazen Sinokrot
27. Mr. Nabil Al-Sarraf
28. Mr. Mohammad Abu Ramadan
29. Mr. Tareq Al-Aggad
30. Mr. Azzam Shawa

Presidential Decrees to Increase the Number of PIF's Board of Directors' Members, and another Decision to change the Composition of the General Assembly

In line with the efforts exerted by the Palestine Investment Fund to promote transparency and governance, and in compliance with the provisions of PIF's articles of association and internal bylaws, President Mahmoud Abbas, issued a Presidential Decree renewing the terms of PIF's current Board of Directors for three years, and increasing the number of its members from 7 to 11 members, headed by Dr. Mohammad Mustafa. The Decree went into effect as of January 1, 2012. The new Board members are Mr. Maher Al-Masri, Dr. Jihad Al-Wazir, Dr. Mohammad Nasr and Mrs. Lana Abu Hijleh. The President also issued a Presidential Decree regarding PIF's General Assembly, renewing its mandate and membership for an additional term, and making a number of changes to its composition. New members of the General Assembly include Dr. Khalil Hindi, Mrs. Amal Al-Masri / Al-Mughrabi, Mr. Abdul Qader Al-Husseini, Mr. Kamal Hassouneh and Dr. Mohammad Nasr.

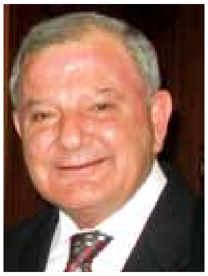
The changes are part of PIF's efforts to promote good governance and transparency principles, and are in compliance with the provisions of the companies law and PIF's internal bylaws, and aim to reinforce PIF's governing bodies with new members whose experience and knowledge can add real value to PIF.

PIF is considered one of the leading Palestinian institutions when it comes to transparency and good governance, as well as accountability and financial reporting prachces.

New Members Joining the PIF's General Assembly as of January 1, 2012

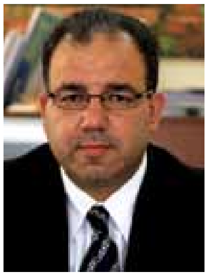
Dr. Khalil Hindi
Mr. Kamal Hassouneh
Dr. Mohammad Nasr
Mr. Abdul Qader Al-Husseini
Mrs. Amal Al-Masri / Al-Mughrabi

New Members Joining PIF's Board of Directors as of January 1, 2012



Mr. Maher Al-Masri

Mr. Al-Masri is currently the Chairman of the Board of Directors of the Palestine Capital Markets Authority. He was the Minister of National Economy for the years 1996 to 2005. Mr. Masri was a chairman and a board member for a number of organizations. Mr. Al-Masri holds a Master's degree in Economics.



Dr. Jihad Al-Wazir

Dr. Al-Wazir holds a Doctorate degree in Business Administration. He is the Governor and Chairman of the Board of Directors of the Palestinian Monetary Authority since 2008. Dr. Al-Wazir is currently the Deputy Chairman of the Board of Trustees of the Arab American University of Jenin.

Dr. Mohammad Nasr

Dr. Nasr is currently the Dean of the Commerce and Economics Faculty at Birzeit University. He is also the Chairman of the Board of Directors of the Palestinian Governance Institute and a board member in a number of advisory councils and committees.

Mrs. Lana Abu Hijleh

An expert in Palestinian development, Mrs. Abu Hijleh holds a Bachelor's degree in Civil and Environmental Engineering. Over the past 26 years, she worked with international development and humanitarian agencies in Palestine. Mrs. Abu Hijleh is currently the General Director of CHF International in the West Bank and the Gaza Strip.

PIF's Contributions to the National Economy

The Palestinian Economy: Promising Potentials

The Palestinian economy is a promising economy possesses a number of sound fundamentals that form the base for high growth potentials. Those fundamentals have to do with Palestine's young and fast-growing population, investor and business friendly regulatory environment, active private sector and fast evolving financial sector.

The Palestinian economy has witnessed healthy growth rates over the past few years. Much of this positive trend has been driven by the institutional and financial reforms. The Palestinian Authority has been working relentlessly on improving and managing its government's spending. It adopted full-transparency in its operations and regulations, which in turn, increased the confidence of local and foreign investors in the Palestinian economy and the confidence of the local private sector in its ability to grow in a safe and regulated economy.

The economic achievements over the past few years have been remarkable, especially having materialized in a difficult and extremely inhibiting economic and political environment.

The Palestinian economy grow by an annual average of 6% between 2004 and 2009. This growth rate even reached 9% in 2010.

2011 was a difficult year for the Palestinian economy which slowed down noticeably during the year. This is primarily because of added political uncertainty locally and in the region. The deterioration in the global and regional economy also played a role in undermining investor sentiment in Palestine, in addition to the decline in donor aid.

According to the World Bank, the Palestinian economy's growth rate is expected to drop to 7% in year 2012.

Overcoming Obstacles Set By Israeli Occupation

Palestinian economy has suffered from many years of insecurity, stagnation and underinvestment. The biggest impediments to economic development in Palestine have to do with the obstacles imposed by Israeli occupation; lake of full and unhindered access to land and resources in Israeli-controlled areas, restriction on movement of people and trade, and import and export restrictions.

In addition, in 2011 tax and customs revenues collected by Israeli authorities on behalf of the Palestinian Authority, which accounts for 70% of the Palestinian Authority revenues and pays over 80% of public sector salaries, were used to put political pressure on the Palestinian Authority by stopping the transfers of collected amounts to the Palestinian Authority after its UN membership bid.

Despite all of this, Palestinian economy continues to achieve healthy growth rates and still full of opportunities.

Gross Domestic Product

The Gross Domestic Product (GDP) continued its growth during 2011, reaching about US$6.32 billion, compared to $5.73 billion in 2010. Per capita share of GDP increased during 2011, reaching US$1,509.90, compared to US$1,502.40 in 2010.

GDP in Palestine (at Fixed Prices. Base Year 2004)
(Source: Palestinian Central Bureau of Statistics)

	2010	2011
Gross Domestic Product (US$ Million)	5,728	6,323
Growth in GDP (%)	9.29	9.9
Per Capita Share of GDP (US$)	1,502.4	1,509.9
Growth in per Capita Share of GDP (%)	6.23	7.2

Unemployment

Unemployment rate in Palestine amounted to approximately 21% in 2011, with a noticeable decrease compared to 2010, when unemployment rate stood at 23.7%. One of the main characteristics of unemployment in Palestine is that it is rampant among the youth reaching about 38% in the 15 - 24 years age group.

Average Unemployment among Labor Force Members in Palestine 2010 - 2011 (%)
(Source: Palestinian Central Bureau of Statistics)

Status of the Economy of Gaza

Recent data shows that Gaza's economy has improved dramatically over the past year. The data shows an increase in GDP of 28% during the first half of 2011, compared to the same period in 2010, while unemployment rates remained at 25%. The economic improvement in Gaza is attributed to a growth in the real estate sector during the first half of 2011 compared to the same period in 2010. The growth in this sector comes as a result of easing constraints imposed on construction material entering Gaza for the purpose of implementing real estate projects funded by donor countries.

Other sectors witnessed varying levels of growth, such as industry and services, achieving a growth rate of 12% and14% respectively. Despite these indicators, there is an urgent need for directing the efforts of the public and private sectors towards reconstruction in the Gaza Strip, and working at the political level for the purpose of lifting the devastating Israeli blockade and reuniting Gaza and the West Bank.

PIF's Role in the National Economy

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

PIF plays a leading role in motivating and supporting the Palestinian private sector to enable it to assume a greater role in economic development and to provide new employment opportunities to absorb Palestine's fast-growing labor force. PIF does that by entering into projects and ventures that the private sector, on its own, would be hesitant to carry out because of the perceived risk involved. PIF also supports the private sector by investing in projects that develop the country's infrastructure and hence improves the overall business and operational environment for all investors in Palestine. PIF also strives to attract direct regional and international investments, due to their fundamental role in bringing in much needed capital, knowledge and expertise. Its investments in Palestine Exchange through Khazan Assets Management Company, a fully owned subsidiary, has increased the confidence of local and foreign investors in Palestine Exchange. Similarly, its involvement in the energy, telecommunication and cement sectors has created healthy competition in these sectors which in turn was reflected on quality of services provided.

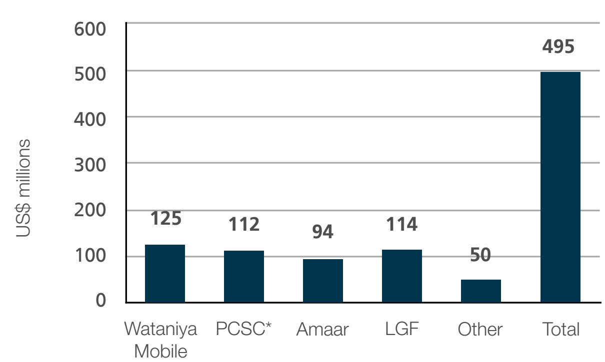
In summary, PIF managed to create greater investor confidence in Palestine and built an important network from which the Palestinian business community can benefit tremendously.

Total PIF Contribution to the Palestinian Economy: Key Indicators

PIF has contributed extensively to the Palestinian national economy through a number of ways that can be summarized as follows:

First: PIF's contribution to the GDP through creating economic value added where PIF's operational and investment expenditures have contributed US$495 million to the Palestinian economy, this contribution comprises; Wataniya Mobile contribution of US$125 million, Amaar contribution of US$94 million, the Palestine Commercial Services Company contribution of US$112 million, and the Loan Guarantee Facility contribution of $114 million, during the period between 2007 to 2011; with an average contribution of US$123 million annually.

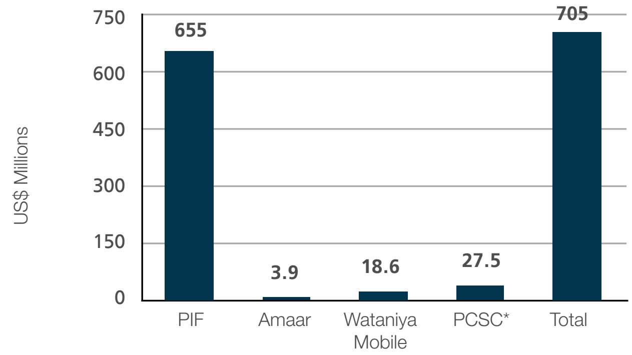
PIF's Value added to GDP



* PCSC's contribution of 2010 -2011

In addition, PIF's contribution in terms of taxes paid to the Palestinian Authority (income and value added taxes), amounted to $52 million over the past two years, representing 5.5% of the total tax revenues of the Palestinian National Authority for these two years. Which makes PIF's total contribution to the Palestinian Authority's revenues between 2003 and 2011 over US$700 million, including US$653.6 million in dividends, and $51.7 million in taxes.

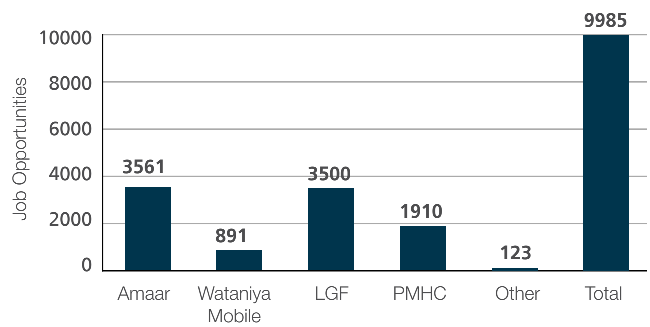
Taxes and Dividend distribution for 2003 - 2011



* PCSC taxes from 2010 -2011

Second: PIF's contribution in job creation where PIF and its subsidiaries have contributed to the creation of about 10,000 direct and indirect job opportunities between 2008 - 2011 in various sectors including real estate, telecommunications, and small and medium enterprises, representing 1.4% of total employment in Palestine, and about 2% of private sector employment. These new jobs have contributed to the reduction of unemployment, while the related wages and salaries have stimulated the economy through the spending multiplier, which reaches 4 in Palestine.

Job opportutions created by PIF's program 2003 - 2011



Third: PIF's contribution to the Palestinian Authority's budget in the form of dividends, which reached over US$653 million for the years 2003 to 2011, at an average of US$72 million annually, and accounts for 14% of the average domestic revenues for the same period. This contribution has been critical to the sustainability of the Palestinian Authority's finances, especially in periods of donor aid disruptions.

All in all, PIF's contribution to the Palestinian economy is multidimensional and involves supporting the private sector through various initiatives that bring in additional capital, knowledge, expertise, infrastructure and other sources of value to the Palestinian economy including; job creation; tax and dividend distributions to the Palestinian Authority.

PIF's Investments

PIF's investments are numerous, and cover a number of vital economic sectors to achieve its main objectives of economic growth, private sector stimulation and job creation.

PIF has also contributed to the creation of a healthy investment environment in Palestine through supporting the private sector, attracting regional and international investments, and creating healthy competition.

PIF operates an investment structure that is divided into two parts:

1.Sector specific fully owned subsidiaries:

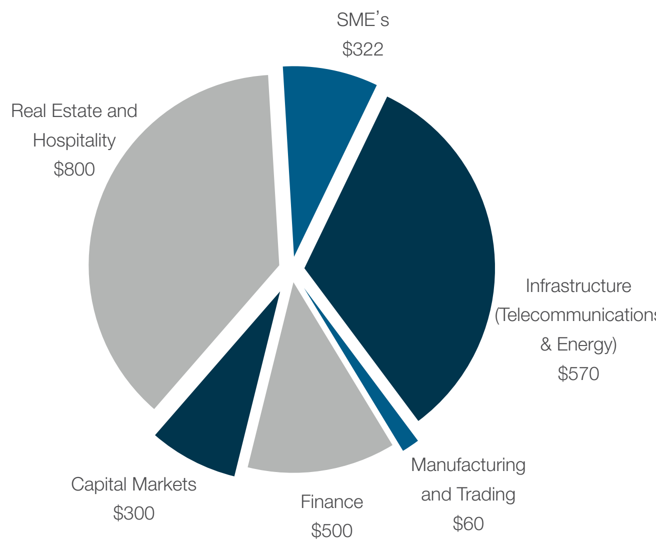
These companies are specialized in specific economic sectors and manage a number of projects in these sectors. These companies are:

- Amaar Real Estate Investment Group
- Khazanah Assets Management Company
- Palestinian Commercial Services Company

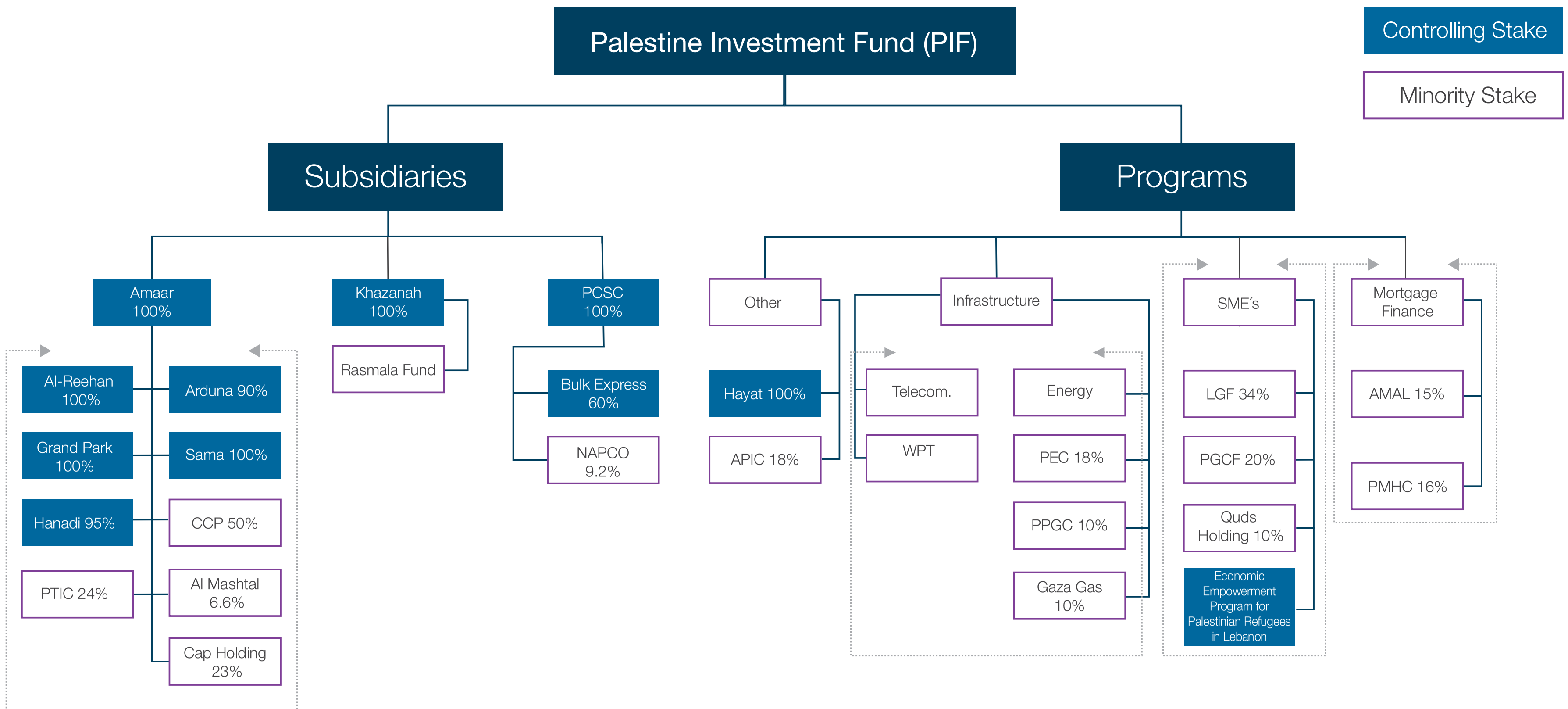
2.Programs managed by PIF:

- Small and Medium Enterprises Program
- Infrastructure Program (Telecommunications and Energy)
- Industry Program
- Affordable Mortgage and Loan Facility

Investment Program (US $ Millions)



PIF Investment Structure



Geographic Distribution of PIF's Investments in Palestine

PIF's projects and programs are characterized by their wide geographic distribution. PIF has always been keen on ensuring that all Palestinian communities regardless of their geographic location benefit from its projects, programs and activities. Hence, a number of projects implemented by PIF demonstrate wide distribution over Palestine, and contribute to a group of economic sectors in various areas, providing thousands of employment opportunities to our people throughout all governorates.

Among these projects characterized by their geographic dispersion over all areas of the nations:

- Wataniya Mobile
- Palestine Growth Capital Fund
- Amaar Real Estate Group
- Rasmalah Investment Fund
- SME's Loan Guarantee Facility (LGF)
- Affordable Mortgage and Loan Program (AMAL)
- Arab Palestinian Investment Company (APIC)
- Palestinian Commercial Services Company (PCSC)

On the other hand, PIF gives special attention to certain regions in Palestine that have strategic and national importance which include Jerusalem, the Jordan Valley and Dead Sea region, and the Gaza strip. These regions have tremendous economic and strategic importance to Palestine, have been generally overlooked by institutional investors, and historically have been subject to disproportionate Israeli restrictions and hostile practices.

PIF is keen on expanding its existing programs and projects to cover these regions, and also to establish dedicated programs and facilities for these regions. Jerusalem was in the core of PIF's programs, dedicated programs were designed to stimulate a number of economic sectors in the city, the National program to develop the Jordan Valley and Dead Sea region was established to develop the area, PIF is also working on developing dedicated programs in vital economic sectors in the Gaza strip.

PIF's focused intervention aims to grow and take advantage of the economic potential that exists within these regions, and to support their populations by creating new job engines and business opportunities.

Geographic Distribution of PIF's Investment in Palestine

Projects and Programs on a National Scale

1- Wataniya Mobile
2- Palestine Growth Capital Fund
3- Amaar Real Estate Group
4- Loan Guarantee Facility (LGF)
5- The Affordable Mortgage and Loan Program (AMAL)
6- Arab Palestinian Investment Company (APIC)
7- Palestine Commercial Services Company (PCSC)
8- Rasmala Palestinian Stock Investment Fund

First: Small and Medium Enterprises (SMEs) Sector

PIF was one of the earliest institutional investors in Palestine to allocate significant resources to the Small and Medium-Sized Enterprises (SMEs) segment in Palestine. This segment constitutes the backbone of the Palestinian economy, representing close to 95% of all operating enterprises, and accounting for around 55% of the GDP and 80% of job opportunities in the private sector. Today, this segment represents one of the fastest growing components of PIF's asset portfolio.

PIF is planning to significantly expand its presence in the SME space, it has launched a number of vital programs in this sector in partnership with local, regional and international institutions to develop this sector and open new markets for it. These programs include sectorial focused programs, for agriculture and manufacturing sectors, and geographical focused programs for Jerusalem, Jordan Valley and Gaza strip.

PIF's programs and projects in the SME space include:

1. Loan Guarantee Facility (LGF)
2. Palestine Growth Capital Fund
3. Economic Empowerment Program for Palestinian Refugees in Lebanon
4. Jordan Valley and Dead Sea Development Program
5. Future projects

Our Partners in SME Sector

Overseas Private Investment Corporation (OPIC) is an American governmental agency that supports the economic development of developing countries. OPIC is PIF's partner in the LGF program.

Middle East Investment Initiative (MEII) is a non-profit investment organization that aims to stimulate Middle Eastern economies. MEII is PIF's partner the LGF program.

Abraaj Capital is the largest private equity firm in the Middle East and North Africa. Abraaj is our partner in the Palestine Growth Capital Fund (PGCF) for SMEs.

The Islamic Development Bank is an international financial institution aimed at supporting economic and social development. It is PIF's partner in the Economic Empowerment Program for Palestinian Refugees in Lebanon.

Bank of Palestine is the largest bank in Palestine and has been in operation since 1961. It is currently PIF's partner in Palestine Growth Capital Fund and other SME's initiatives.

The European Investment Bank is a financing agency affiliated to the European Union. The Bank's role is represented in providing long-term financing to support investment projects. It is one of PIF's partners in financing the PGCF.

CISCO is US company specialized in networks and internet security. CISCO is PIF's partner in the PGCF.

P & S Agricultural Investment Company was established in 2010 to export Palestinian agricultural products to international and regional markets, particularly to the Arabian Gulf. The company was established by initiative of the Delmond Group in the UAE and the Zughayar Trade Company.

SMEs Loan Guarantee Facility

The Loan Guarantee Facility (LGF) continued its positive contribution to various economic sectors in 2011. LGF is a landmark program that PIF launched in 2008 in partnership with leading international and local investors and development agencies to facilitate SMEs access to affordable finance by offering local banks the guarantees needed to loan SMEs over $230 million over five years. Loans are offered to both existing SMEs and startups to enable them to develop their assets and expand their operations. PIF expects that the program will revitalize the Palestinian Economy and will help create more than 15 thousand job opportunities for Palestinians over five years.

Number of Benefiting SMEs

The number of SMEs benefiting from LGF has increased during 2011 to reach 446 SMEs in various sectors benefiting from a total of US$79 million in loans guaranteed by the program.

Positive Effects on GDP

The loans granted as part of LGF are expected to have considerable value added to the Palestinian GDP. Estimates indicate that these loans have contributed to increasing GDP by $114 million over the past three years; an average of $38 million annually.

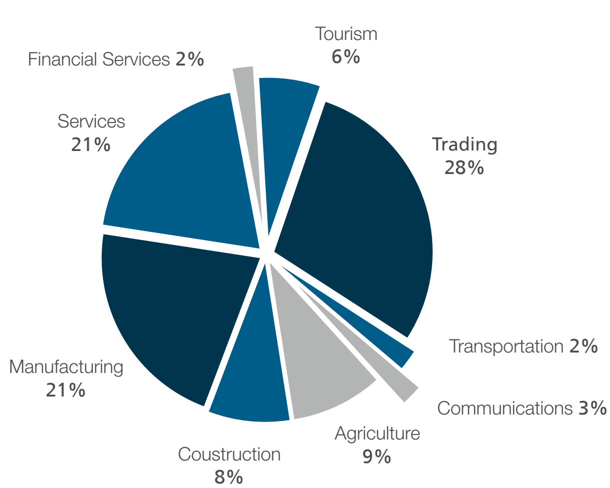
Various Economic Sectors and Wide Geographical Distribution

PIF has ensured that the benefits of the program are distributed among all economic sectors. The trade sector was the sector with the greatest number of loans, about 28% of all loans offered. The services and industry sectors followed with 21% of all loans offered. Other sectors that benefitted from the program as well were the construction, transportation, tourism and agriculture sectors. The participated SEMs were widely spread across all Palestinian cities and governorates.

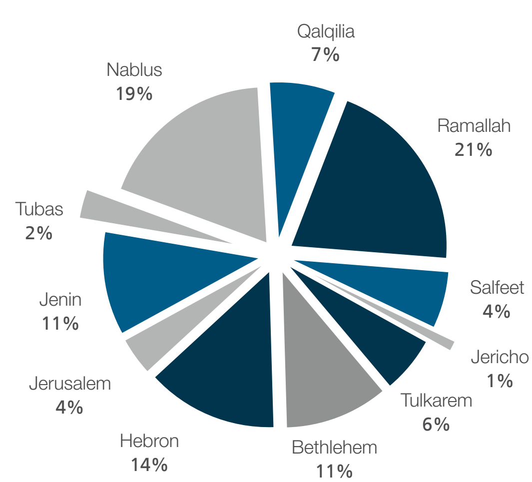
Job Creation and Economic Stimulus

Job opportunities created as a result of LGF activities reached more than 3,500 direct and indirect opportunities. It is expected that LGF will help create more than 15,000 job opportunities for Palestinians over its term.

Sectoral Breackdown of LGF portfolio - 31/12/2011



Geographic breackdown of LGF portfolio



Palestine Growth Capital Fund for Investment in SMEs

PIF has partnered with Abraaj Capital, and other partners including CISCO Company, European Investment Bank (EIB), Bank of Palestine and the International Financial Corporation (IFC) and others to establish the Palestine Growth Capital Fund (PGCF) in 2010, a US$50 million private equity fund that will actively invest in a number of promising businesses in the SME sector in Palestine.

Vital Economic Sectors Targeted by PGCF

PGCF covers a number of economic sectors, such as communication and information technology, education, health care, industry, tourism, trade and agriculture. The Fund will contribute to expanding the activities of a select number of projects through providing them with investment capital, technical assistance, and working side by side with them to expand their target markets locally and abroad.

PGCF in 2011

PGCF invested in the agriculture and education sectors through "Thimar" and "Anoud" companies in 2011. The Fund has plans for investment in other sectors in 2012 including industry, tourism and services.

PGCF's investment in Thimar and Anoud

In line with its focus on agriculture and education, PGCF invested in Thimar and Anoud during 2011. "Thimar" company, is a leader in fresh herbs production and marketing in Palestine as well as regional and international markets including the United States and Europe. "Anoud" company, is a designer and producer of interactive educational games.

Economic Empowerment Program for Palestinian Refugees in Lebanon

As part of PIF's commitment to supporting Palestinian refugees in the diaspora, especially in refugee camps in Lebanon, it launched, in cooperation with President Mahmoud Abbas Association and Al-Aqsa Fund / Islamic Development Bank, the Economic Empowerment Program with an initial amount of US$2 million. The program size will be increased to US$5 million within the next few years. The program target is to provide microloans of US$500 – US$5,000 per loan to about 2000 projects during the first stage of the Program, to create new business and support existing ones to provide job opportunities for Palestinians in refugee camps.

The proceeds from loans repayments will be reinvested in the program to be used for new loans to increase the number of projects benefiting from the Program.

Implementation Mechanism

The Program will be implemented by a number of specialized microfinance institutions based in Lebanon. The Program's operating agreements have been signed with a number of institutions, namely: Al-Najda Social Institution, Arab Palestinian Women's Federation, General Union of Palestinian Women and the Lebanese Development Group (The Group).

These organizations are active in Lebanon in the field of developing and supporting the Palestinian refugee community in the economic, social and cultural fields, and building the capacities of various groups within the Palestinian refugee community and improving their living standards. Others are specialized in providing the financing needed for small enterprises, for the purpose of developing these projects and improving the well-being of these communities.

Economic Sectors Benefiting from the Program

Financed projects cover a number of economic sectors that contribute to creating sustainable development in Palestinian refugee camps in Lebanon including; industry, agriculture, services, technology, health and education.

National Program for Developing the Jordan Valley and the Dead Sea

PIF launched the National Program for Developing the Jordan Valley and the Dead Sea to invest in a number of vital economic projects to revive and energize the area utilizing its abundant natural resources, creating thousands of new job opportunities and boosting the agriculture and tourism sectors in Palestine.

Polystyrene Production Plant and Cold Storage

PIF has signed a partnership agreement with B & S Agricultural Investment Company to develop cold storage facilities for agricultural products and a polystyrene manufacturing plant in Jordan Valley area.

The polystyrene factory will specialize in the production of multiple-use insulation materials, which represent a better alternative to plastic containers used to store agricultural products and provide a longer lifespan of these products.

The cold storage facilities will be used to preserve and store agricultural products for export. The facilities will be able to store 5,000 tons of vegetables and fruits throughout the year.

Future Projects

PIF is preparing to launch a number of sector-based investment funds that target small and medium enterprises (SMEs) in the agricultural and industrial sectors, in addition to geographic-based investment funds targeting SMEs in strategic regions, such as Jerusalem, Jordan Valley and Gaza. These investment funds aim at developing the vital economic sectors such as agriculture and industry, in addition to concentrating on developing the economies of strategic regions, providing employment opportunities, reviving their economies and attracting local, Arab and international investments.

■ Sectoral Portfolios

PIF is currently preparing to launch investment funds targeting SMEs in the agriculture and industry sectors. These funds will help providing the needed capital for SMEs in these sectors for expansion.

PIF is planning an investment program in the agricultural sector with a total value of US$20 million. The program will target agricultural projects related to medical herbs, dates, fruits and livestock to help these projects expand and open new markets.

■ Geographical Portfolios

PIF is working to launch a number of dedicated investment funds for SMEs in certain areas such as Jerusalem, the Jordan Valley region and the Gaza Strip. In Jerusalem, PIF has been keen to support the city economically through a number of initiatives including the Jerusalem SME Loan Facility, Al-Quds Holding and the Jerusalem SME Investment Fund.

In the Gaza Strip, PIF has been keen to expand its projects to include Gaza Strip, in addition to prepare a package of programs which contribute to activating Gaza's economy and creating a sustainable economic development through a partnership between PIF and large local, regional and international investors.

In the Jordan Valley and Dead Sea region, PIF has been keen to utilize its natural and touristic potential as well as investing in the region's abundant natural resources, in order to revive the economy and provide a respectable standard of living for the region's residents.

Second: Industrial and Trading Sector

PIF has given special attention to the industrial and trading sectors, which play a major role in the sustainable economic development process and provide substantial employment opportunities. The value added of the industrial sector in Palestine amounts to US$706.6 million annualy.

PIF plays an important role in developing industrial and trading sectors and has a number of direct and indirect investments in these sectors. The following list includes the industrial and trading initiatives and companies in which PIF invests:

1. Arab Palestinian Investment Company (APIC)
2. Palestine Food Industries Company (PFIC)
3. Palestine Industrial Investment Company (PIIC)
4. Birzeit Pharmaceutical Company
5. Industrial Crafts Zone in Nablus
6. Palestinian Commercial Services Company (PCSC)

Our Partners

The Arab Palestinian Investment Company (APIC) was established by a group of Arab and Palestinian businessmen. It has a number of specialized companies in various economic sectors.

Nablus Municipality plays a major role in positioning Nablus as a commercial, historical and cultural center. The municipality is PIF's partner in developing the Industrial Crafts zone in Nablus.

PADICO Holding: is one of the largest and most important companies in the Palestinian economy. Over the past couple of years, PADICO has been investing in the Palestinian economy to develop its different sectors.

Birzeit Pharmaceutical Company is a leading company in the pharmaceutical manufacturing field. In addition to the Palestinian market, its products are exported to a number of the African and East European countries.

Arab Palestine Investment Company (APIC)

APIC was established in 1995 by a number of Arab and Palestinian businessmen who were interested in investing in Palestine. APIC has investments in various economic sectors including; trade and distribution, food manufacturing and services, through a number of specialized companies. APIC operations has reached eight African countries in 2011.

APIC has offered its first commercial bonds through private placement in 2011, the nominal value of the offered bonds was US$15million. Total subscription exceeded the offered bond and the offering was raised to US$20.5 million.

The Company has a total staff of 1,000 employees in its eight subsidiaries; namely:

- Seniora Food Industries Co.
- UNIPAL General Trading Company
- Palestine Automobile Ltd.- Hyundai.
- Medical Supplies and Services Company
- Arab Palestinian Shopping Centers Company - Plaza
- National Aluminum and Profile Company (Napco)
- UNIPAL Middle and West Africa Company
- Sky Advertising Company

Siniora Food Industries Company

Siniora was established in 1920 and is a well-known brand in the region. APIC acquired Siniora in 1996. During 2011, Siniora has acquired the brand name UNIUM, a well know brand name in Jordan.

In addition, the company started exporting its products to Saudi Arabia after being authorized by the Saudi Food and Drug Administration.

National Aluminum and Profile Company (NAPCO)

NAPCO is the only aluminum profiles company in Palestine. NAPCO's production capacity is around 6 thousand metric tons. In 2011, the Company launched its new product (NAPCO+) of improved aluminum, which will be used in all engineering projects NAPCO supervises.

NAPCO is a 100% Palestinian company as far as ownership and management are concerned. PIF is a major shareholder in NAPCO.

NAPCO products are recognized for quality and have a number of quality certificates including; ISO9002, OHSAS 18001, and the Palestinian quality certification PS.

NAPCO has five main production lines that include the largest and most advanced equipment.

Palestine Food Industries Company (PFIC)

PIF is the main shareholder in the Gaza Juice Factory, managed by PFIC. The factory remains one of the most remarkable success stories of our national products in Gaza, despite all the difficulties facing various economic sectors in Gaza as a result of the Israeli blockade.

The factory has vitalized the Juice industry in Gaza by providing a local alternative to foreign juices available in the market. It also plays a vital role in supporting the agricultural sector in Gaza, as it is considered a major buyer of the certain farms products including; citrus products, strawberries, guava, and tomatoes, used in producing of its products.

Providing Employment Opportunities for our People in the Strip

The factory employs 55 employees and workers.

In early 2011, Gaza government assumed control over PIF's properties and investments in Gaza, including the factory. Despite this, PIF looks forward to retrieving the factory in the near future, in order to continue serving our people in Gaza.

In 2010 the factory has achieved net income of US$580,000 and a total sales revenue of US$1.8 million.

PFIC was planning to replace production lines that sustained damage as a result of the war on Gaza, and to buy new advanced production lines in order to persevere it in the face of market dumping policies by Israeli manufactures and to expand its operations.

Birzeit Pharmaceuticals Company

Birzeit Pharmaceuticals Company is a listed public shareholding company with US$13 million capital. PIF holds 5.5% of the company's shares with a total market value of US$3.3 million.

The Company has multiple pharmaceutical production lines and its products are sold in the local market and exported to a number of countries in North Africa and Eastern Europe.

Palestine Industrial Investment Company (PIIC)

PIF is a major shareholder in PIIC, a listed public shareholding company with US$18 million capital. PIF holds 18.8% of PIIC shares with a market value of US$7.7 million.

PIIC is a major shareholder in the following companies:

Palestine Poultry Company

PIIC owns 80% of the Palestine Poultry Company's capital, which is one of the largest private sector investments in the field of food manufacturing with 222 employees. The quality of its products has limited the Israeli competition in hatching eggs and meat chickens.

The Company established an animal feed plant with a total cost of Jordan Dinars (JD)5.5 million and an annual production capacity of 60,000 tons. The Company also established a poultry slaughterhouse to produce frozen poultry with capacity of 50,000 birds a day and a total cost of JD6.5 million.

Vegetable Oils Company

The Vegetable Oils Company is the first public shareholding company in Palestine. It was established in 1953 to produce different types of vegetable ghee vegetable oils. The Company products are have unique flavors and tastes and high quality, which enabled it to maintain its position in the local and Arab markets.

Golden Wheat Mills Company

This Company was established in 1995 with a total capital of JD15 million. The Company produces flour, semolina, and bran with a production capacity of 450 tons daily. The Company utilized production capacity increased by 30% during 2011. PIIC is a major shareholder of the company and 19.33% of the holds Company's shares.

Palestine Plastics Company

The Plastic Company is the largest investment in the plastics industries sector. It has succeeded over the past few years in exporting part of its production to neighboring Arab countries. PIIC owns 71% of the Company. The Company's operations include producing, manufacturing, and selling plastic tubes and juice containers. The Company has 22 employees.

National Cardboard Manufacturing Company

National Cardboard Manufacturing Company was established in 1993 with a total capital of JD5 million. The Company is the only specialized company in cardboard manufacturing in Palestine. The Company imports carton rolls, treats them and turns them into ready boxes. PIIC owns 18.5% of the Company shares.

Nablus Industrial Crafts Zone

Stemming from PIF's belief in the importance of the industrial sector in Palestine, and its role in creating job opportunities, as well as the pivotal role this sector plays in the sustainable economic development process, PIF is currently working, through Amaar Group, its investment arm in the Real Estate sector, and in partnership with the Nablus municipality, on developing the Nablus Crafts Complex, an industrial crafts zone in the city of Nablus, which will house various workshops and light industries currently spread across the city of Nablus.

The project will provide a number of light industries, handicrafts and workshops specialized in manufacturing traditional products, with adequate facilities and infrastructure in order to improve the quality and competitiveness of these enterprises, and to empower them to excel and expand, thus creating additional employment opportunities.

The total cost of the project is US$25 million. The first stage will comprise 150 commercial, multi-purpose shops, out of the 850 shops the complex will include when all its stages are completed.

Numerous Industries Benefiting from the Project

The project will support a number of industries, including furniture, wood, cement, artwork, paint, and electric manufacturers, in addition to copper workshops, vehicle repair shops, printing presses, storage facilities, and food processing companies.

Palestinian Commercial Services Company (PCSC)

PCSC is the main supplier and distributor of cement in Palestine, with a vast distribution network and broad customer base. In 2011, PCSC sold over 1.4 million tons of cement to Palestinian contractors. PCSC's capital is US$25 million, and it employs 90 people.

PCSC has an ambitious future plan to transition from a cement importer / distributor to a producer, thereby maximizing the value added to the Palestinian economy.

Future Projects

Due to the importance of industrial sector in the a sustainable economic development, PIF is exploring a number of projects and investments in this sector, across various regions in Palestine, particularly in the Jordan Valley and Dead Sea region.

PIF's existing projects and programs play a major catalytic role in developing the Palestinian industrial sector. For instance, the SMEs LGF program contributes to boosting the industrial sector, as one of the key sectors benefiting from LGF, where job opportunities provided by the LGF in industrial projects amounted to 1,000 opportunity.

In addition, PGCF will concentrate during 2012 on investing in a number of SMEs in the industrial sector, providing them with growth capital to help their expansion.

Third: Real Estate and Hospitality Sector

The real estate and hospitality sector in Palestine is considered one of the fastest growing and the most resilient sectors in Palestine. It is also the main contributor to job creation and to stimulating complimentary sectors. The housing sector witnessed high growth during 2011, with 60% growth in the number of residential units built during the first half of 2011, compared to the same period in 2010, and a 24.4% increase in the number of building permits issued during the first half of 2011, compared to the first half of 2010.

Similarly, the number of entities operating in the Hospitality sector exceeded 4700 entity in 2011, and the number of hotel nights in Palestine reached 1.3 million nights. The number of people working in this sector exceeded 15,000 workers.

Amaar Group is currently managing or has a significant stake in a number of real estate projects

PIF's investments in this sector include:

1. Amaar Real Estate Group, which is currently managing the following projects:

- Al-Reehan Residential Neighborhood in Ramallah.
- Al-Jinan Residential Neighborhood in Jenin
- Hospitality Real Estate Projects
- Commercial Real Estate Projects - Ersal Center

2. The Affordable Mortgage and Loan Program (AMAL).

Our Partners in the Real Estate and Hospitality Sector

The Arab Medical Company is the developer of the Arab Consultative Hospital in Al-Reehan Neighborhood. The Arab Consultative Hospital is the second project of its kind to be implemented by the company, the first being the Arab Hospital in Nablus in 2000.

Land Holding is specialized in real estate investments and development. The Land Holding is PIF's partner in Ersal Center. Land Holding is one of the leading real estate companies in the Middle East and has operations throughout the Middle East.

Saraya Real Estate Development was founded in 2010 a number of Palestinian investors and businessmen that are well experienced in the real estate sector. Saraya is one of PIF's partners in the real estate sector, and is responsible for developing part of the residential units in Al-Reehan Neighborhood

PADICO Holding is one of the largest and most important companies in the Palestinian economy. Over the past couple of years, PADICO has been investing in the Palestinian economy to develop its different sectors.

Amaar Real Estate Group

Amaar Real Estate group is a wholly owned PIF subsidiary with a registered capital of US$140 million. It was established by PIF to oversee its diverse real estate portfolio which include a number of residential, hospitality, real estate and commercial projects.

Amaar manages these projects through a number of specialized companies in a real estate, tourism, and housing, such as Al-Reehan Real Estate Investment Company which implements Al-Reehan Residential Neighborhood Project in Ramallah, and Al-Jinan Residential Neighborhood project in Jenin. Amaar also manages Arduna Real Estate Development Company which is the master developer of the Ersal Center project. The Group is also a shareholder in a number of hotels in Palestine, and is the key developer of the crafts complex in Nablus.

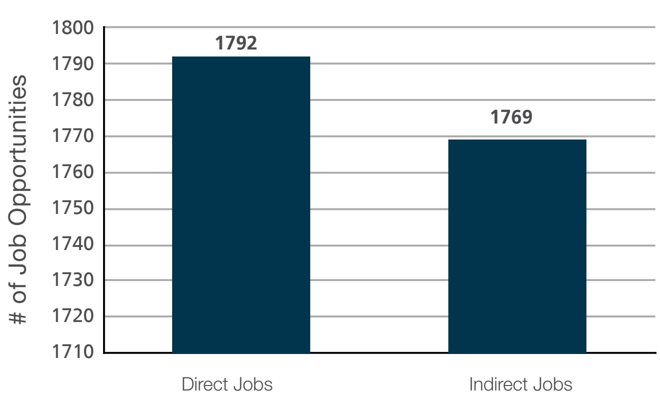
A Diversified Portfolio Across Palestine

Amaar manages a number of real estate and hospitality projects across Palestine, aimed at reviving the real estate and hospitality sector in Palestine. Amaar is a major shareholder in Al-Mashtal Hotel in Gaza and Jacir Palace Hotel - Intercontinental in Bethlehem, and the Convention Center in Bethlehem. Amaar also owns Sama tower-Ramallah, and the Grand Park Hotel, which is one of the Ramallah's leading hotels.

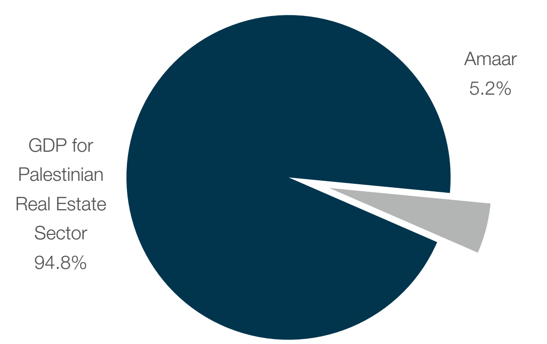
Amaar: Future Development and Growth Plans

As part of Amaar's strategy to promote economic development and creating job opportunities, it is currently working on completing a number of existing projects such as Al-Reehan and Al-Jinan residential neighborhoods, the renovation of the Grand Park Hotel, in addition to start working on the first stage of the Crafts Complex in Nablus. Meanwhile, preparations are underway to implement Ersal Center, a multi-use commercial center north of the city of Ramallah, the Center will house a number of commercial and recreational facilities, and a number of residential neighborhoods.

Job Opportunities Created by Amaar Group



Amaar's Coutribution in Palestinian Real Estate Sector GDP Between 2009-2011



Al-Reehan Residential Neighborhood

Construction work is well underway at Al Reehan Residential Neighborhood. The project has advanced considerably with 73% of the construction work of the first stage is completed. This stage, which comprises 240 apartments distributed over 17 residential buildings, in addition to 42 semi-independent residential units, is expected to be delivered by mid-2012.

Similarly, construction work has commenced in the commercial center at the neighborhood, with an area of 7,500 square meters. The center will comprise 4 buildings to be developed over two stages. The first stage contains three 4 story buildings, and the second will include a 12 story building. The buildings include various facilities such as retail shops and restaurants, in addition to a fitness center. The commercial center will include car parking facilities designed to prevent any traffic bottlenecks in the neighborhood.

Work is underway on the first package of the project's second phase, which comprises 230 residential units. The first package includes 72 residential units. Excavation work has been completed for this package, which was sold to Jawwal company employees provident fund. The residential units in this package will be built on an area of 33 thousand sqm in Al Reehan neighborhood, and will include independent and semi-independent units, in addition to residential buildings.

Construction of Al-Reehan public facilities has also commenced, including a mosque, a children's park and the public library, which was financed in partnership with the Arab Islamic Bank. Moreover, work is underway on the two residential high-rises in Al-Reehan neighborhood. The two executive towers will contain 42 residential units.

State of the Art Infrastructure at Al Reehan Neighborhood

PIF was keen on implementing a high quality infrastructure across its residential projects. Al-Reehan's road network will include a 6.5 kilometers long main road, in addition to internal roads, which are almost complete. Moreover the installation of a water network 3,500 meters long was completed, as well as a wastewater and sewage network, and a wastewater treatment plant. Water output from this plant will be utilized for agricultural irrigation in an environmentally friendly way, in order to preserve a clean and healthy living environment. A modern electric power network of cables is being installed underground, in addition to a cable and wireless communications network.

Al-Jinan Residential Neighborhood

Al-Jinan represents an integrated community composed of residential buildings and semi-independent units, in addition to a group of social, health and commercial facilities. The neighborhood is located on the eastern hills of Jenin, surrounded by trees and scenic views on all sides, on a land 77 thousand sqm in area.

Internal finishing work for the first package of units is almost completed, comprising 28 apartments in 3 buildings, in addition to 26 semi-detached residential units. Furthermore, construction work on the second package comprising 28 semi-detached residential units has gone a long way towards completion.

Al-Jinan's commercial center has been completed. It contains 6 commercial stores on a 200 square meters area. 80% of the project's electric power network and 90% of the water network have also been completed, as well as 25% of sidewalks and streets, 80% of the foundations of the communications network and about 90% of the wastewater network. In general, 60-65% of the overall infrastructural work has been completed.

Hospitality Real Estate Projects

In an effort to uplift the tourism sector in Palestine and to attract tourism to the Palestine, PIF through the Amaar Group, invests in a number of hotels and tourism projects.

Al-Mashtal Hotel

Al-Mashtal Hotel, located on the Mediterranean coast of Gaza, was reopened in 2011 after signing a management agreement with a European hotel management company to the manage the hotel and changing its name to ArcMed Hotel. The hotel includes 250 rooms, in addition to meeting halls, restaurants, cafes and other recreational facilities. PIF is an investor in the hotel, together with a group of leading Palestinian companies such as; Consolidated Contractors Company (CCC), Al-Mashtal Hospitality Investments Company and the Palestinian Communications Group (Paltel).

Grand Park Hotel

The Grand Park Hotel is located in a prime location in the heart of the city of Ramallah. It is fully owned by the Amaar Real Estate Group, PIF's real estate investment arm. As part of the hotel's development plan, a complete renovation of the hotel took place in 2011 to upgrade hotel services and amenities.

Jacir Palace Hotel-Intercontinental Hotel Bethlehem

Jacir Palace represents a touristic landmark in the city of Bethlehem. It is a member of the international Intercontinental Group, and has a five star rating. Amaar Real Estate Group is the second largest shareholder in Palestine Tourism Investment Company, the hotel's owner. Jacir Palace Hotel hosted a number of activities and conferences in 2011, including medical, energy, cultural and art conferences and events.

Convention Palace

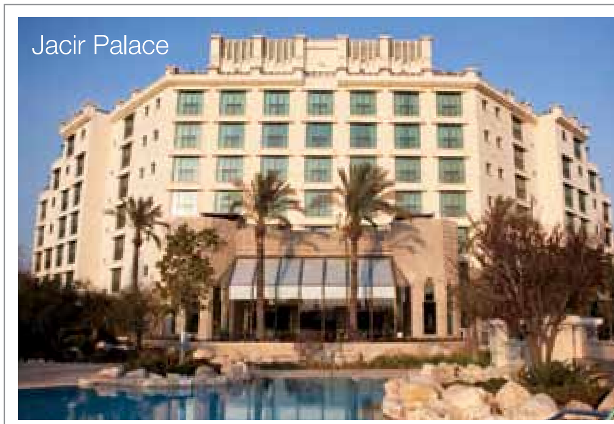
The Convention Palace is Palestine's leading conference facility. It is strategically located in the heart of Bethlehem and provides numerous facilities and services, designed according to the best international standards to host major international events.

The Palace is jointly owned by Amaar Real Estate Group and CCC, and includes a large theater, a multi-purpose hall that can accommodate 500 person, and two meeting halls which can accommodate 150 person each.

During 2011, the Palace hosted a number of activities and events, making it a beacon for various cultural, scientific and social activities.

Jericho Intercontinental Hotel

The Jericho Intercontinental hotel is located in the oldest city on earth, and is rated as a five-star hotel. It is part of the international Intercontinental Group, and provides various facilities and amenities to its guests, including swimming pools, therapeutic pools with Dead Sea water, tennis courts and open-air courts. The hotel includes 181 guest rooms and 15 luxury suites, as well as meeting halls. In 2011, the hotel hosted a number of events, international delegations and activities. PIF, through Amaar Group, is considered the second largest shareholder in the hotel.



Jacir Palace

Commercial Real Estate Projects - Ersal Center

Ersal Center is one of Amaar's largest commercial real-estate developments and is set to become Palestine's business hub. Ersal is a multi-purpose project, and is being implemented by "Arduna Real estate Development Company" on an area of 50 thousand sqm in Ramallah and Bireh governorate, and will form a new commercial center of the governorate. The project will include a number of office buildings and retail spaces, and will serve over 800,000 people in the central West Bank.

A number of leading companies in Palestine have chosen Ersal Center as the location for their headquarters. Among these are Amaar Real Estate Group, Bank of Palestine, Quds Bank, and the Consolidated Contractors Company (CCC). More are expected to join in 2012.

Multi-Purpose Modern Facilities

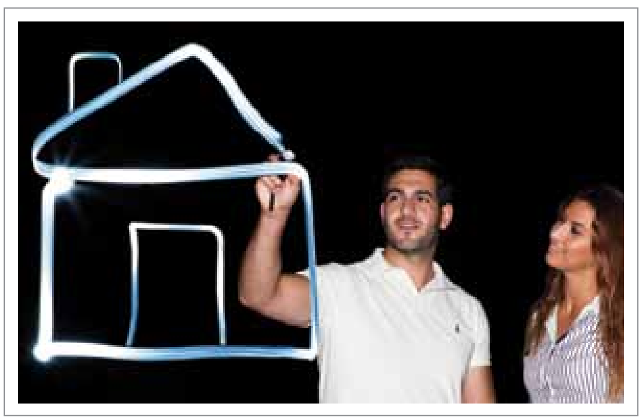
Ersal Center will provide mix of facilities that fulfill different needs, the project will contain a number of office towers which will serve as headquarters for financial institutions, banks, insurance companies and IT and Telecom companies. In addition to libraries, restaurants, cafes, a hotel, residential apartments and a number of gardens, coupled with wide pedestrian walkways, green areas, shopping centers and boulevards. In addition to the use of a ring road to absorb traffic jams, and the indoor and outdoor parking solutions.

Affordable Mortgage and Loan Program (AMAL)

PIF launched the US$500 million Affordable Mortgage and Loan Program (AMAL). Of the program's total funding pool, PIF will contribute $72 million, while other partners will provide the balance.

The Program targets medium and low income households, as well as youth and young couples, providing them with an opportunity to own adequate housing without excessively burdening their income, through providing them with long-term financing for a period up to 25 years, with fixed or variable interest rates, and with reasonable conditions and guarantees.

It is expected that AMAL will increase the percentage of people capable of buying personal residence from 20% to 70%. In addition, AMAL will contribute effectively to developing the real estate mortgage and soft lending sector in Palestine, and will have other significant economic effects that will contribute to boosting economic growth. AMAL will also contribute to activating the complementary sectors.

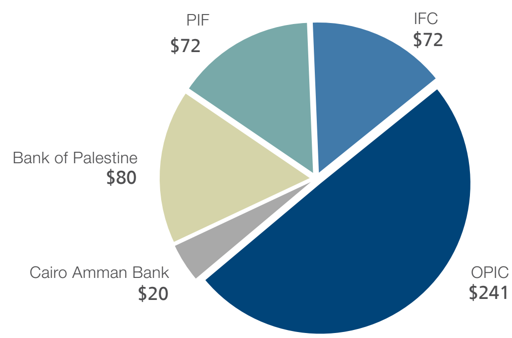


First: Financers

PIF will provide financing amounting to US$72 million, while the rest of the partners in AMAL will provide the balance. These partners are:

- Overseas Private Investment Corporation (OPIC): An American government institution that works on enhancing economic development in developing countries through encouraging US investment in these countries. OPIC pledged to invest US$313 million.

Project Financiers (US $ million)



- International Financing Corporation (IFC): IFC is the investment arm of the World Bank. It encourages sustainable private sector investments in developing countries. IFC pledged to guarantee US$72 million of the amount OPIC pledged to provide.

- Palestine Bank and Cairo Bank Amman: Among the largest and most prominent Palestinian banks, these two banks will provide financing amounting to US$100 million.

Second: AMAL Company Shareholders

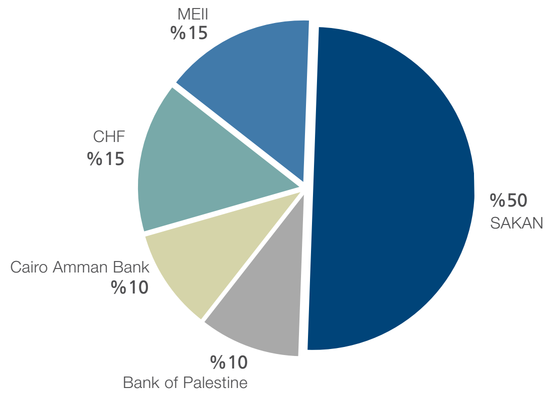
- Palestinian Affordable Housing Association -SAKAN: is a Palestinian non-profit organization aiming at developing, improving, and facilitating home ownership for low and middle income households. SAKAN owns 50% of Al-AMAL Company.

- Cooperative Housing Foundation - CHF International: An international organization operating in the field of improving the living standards of limited and medium level income people. CHF will provide technical and administrative support to AMAL, and owns a 15% stake of AMAL.

- Middle East Investment Initiative - MEII: An independent non-profit American organization working at enhancing economic development in the Middle East through partnerships between the public and private sectors. MEII owns a 15% stake in the company.

- Palestine and Cairo Amman Banks, are also shareholders in AMAL with a 10% ownership stake each.

AMAL Equity Shareholders



Third: Other Support

- British Department of International Development - DFID: Managing the British Government's aid to developing countries, DFID has provided US$20 million to support the Program.

- UN-HABITAT: A United Nations organization that strives to enhance the process of building environment-friendly and socially adequate cities and villages, for the purpose of providing adequate housing for everyone. UN-HABITAT financed part of SAKAN's share in AMAL, through a US$1 million long-term loan.

- World Bank: An international agency that provides financial and technical assistance to developing countries all over the world. Its mission is combating poverty, achieving sustainable results, empowering citizens and forming partnerships in the private and public sectors. As part of the AMAL program, the World Bank started implementing a technical support program which aims to develop the mortgage sector in Palestine, in coordination with the Palestinian Monetary Authority and the Palestinian Capital Market Authority.

Fourth: Infrastructure Sector

Infrastructure is the mainstay of economic development and advancement. Despite the recent activity in this sector, infrastructure in Palestine continues to develop at a much slower pace than needed. Therefore, PIF has launched a number of vital investments to participate in developing this sector. These initiatives include Wataniya Mobile, and the Palestinian Telecommunications Company in the telecommunication field, in addition to establishing, in partnership with a number of parties, the power generation station in the West Bank, and Palestinian electric company in Gaza, it also continued its effort to activate the Gaza Gas project

Following are PIF's investments in this sector:

1. Wataniya Mobile
2. Palestinian Electric Company
3. West Bank Power Generation Station
4. Gaza Gas Project

Partners

Qtel, With projects in more than 17 countries, Qtel is considered to be one of the largest telecommunication companies in the Middle East, North Africa, and South East Asia. Qtel is PIF's artner in Wataniya Mobile.

Wataniya Telecom was founded in 1999 to be the first privately owned telecommunication company in Kuwait. In 2007, Qtel acquired 51% of Wataniya Telecom's shares and since then it has been steadily growing in the Middle East, North Africa, and Asia. Currently, Wataniya Telecom offers its services in Kuwait, the Maldives, Saudi Arabia, Algeria, Tunisia, and Palestine. In Palestine, Wataniya Telecom established Wataniya Mobile company in partnership with PIF.

BG Group is a leading company in the global energy market, and is one of the top 20 companies registered in London's stock market. With a capital of over $50 billion, BG is specialized in the exploration and production of natural gas, and is a main partner in PIF's gas field project off the shore of Gaza.

The CCC was established in 1952 as one of the first Arab engineering and contracting companies. Today, it is one of the world's largest contractors. The CCC is PIF's partner in the Gaza Gas project and the Palestine Electric Company.

PADICO is a leading Palestinian company which have investments in a number of important economic sectors. PADICO is PIF's partner in the Palestine Electric Company, and the Palestine Power Generation Company, and in other major projects.

Arab Bank was founded in Palestine and became one of the largest banks in the region. Arab Bank, along with other institutional investors, is PIF's partner in number of programs.

Wataniya Mobile

2011 was a successful year for Wataniya Mobile. Its subscribers' base reached 465,000 subscriber. Moreover, it positioned itself well in the market and gained the confidence of its subscribers through providing high quality advanced telecommunication services, using a modern network and building its stations in compliance with environmental and regulatory standards and criteria.

On the financial front, Wataniya managed to improve all of its key performance indicators; its revenues increased by more than 96%, the average monthly revenue reached US$12.7 per subscriber, it has a positive operational income before interest, taxes, depreciation and amortization (EBITDA), which increased by 118%, reaching to US$3.9 million by the end of 2011.

Listing at the Palestine Exchange, and Entering Al-Quds Index

In early 2011, Wataniya Mobile was listed at the Palestine Exchange. This listing presented a Remarkable addition to Palestine Exchange, raising its market value by 14% on the first day of listing.

Wataniya Mobile was also selected to be a part of Palestine Exchange Index, Al-Quds Index's composition for the year 2012. Wataniya was selected after fulfilled the strict criteria set, by Palestine Exchange which includes; number of trading sessions, stocks' liquidity, average stock turnover, the Company market value, number of deals on the share, volume of trading and a number of other factors.

It is expected that the selection of Wataniya Mobile in Al-Quds Index composition will have positive impacts on Wataniya Mobile such as; increasing the share price as well as increasing the attractiveness of the share.

Palestine Electricity Company (PEC)

PIF is one of the founding shareholders of PEC, which owns Palestine's only power generation plant in Gaza with an output capacity of 140 Megawatts.

PEC observes the highest environmental standards in its operations and complies with the related World Bank standards and the Palestinian environmental standards. PEC has 166 employees including administrative staff, engineers, and technicians, who hold relevant educational background.

During 2011, PEC has achieved promising financial results, its net income increased from US$6.7 million in 2010 to US$8.37million in 2011.

West Bank Power Generation Plant

PIF has established, in partnership with a number of investors, the Palestine Power Generation Company with an initial capital of US$2 million. The Company will develop a power generation plant in the West Bank to help meet the growing demand there, and to reduce the reliance on imported power from the Israeli side. The total investment in the power plant is expected to exceed US$300 million. The Company's management is currently working on identifying an appropriate site, as well as securing gas supply for the project, and obtaining the necessary approvals to start the implementation process on the ground.

Gaza Gas Project

In 2000, a group of developers discovered over 30 billion cubic meters of natural gas in two fields in the Gaza Strip regional waters. The first field, "Gaza Marine", is the larger of the two and is located totally in the Palestinian regional waters. The amounts of natural gas discovered in it exceed 28 billion cubic meters. The second field, named "Border Field" is smaller, and the amount of gas it contains is estimated by 3 billion cubic meters. The field is considered an extension of the "Noa South Field" which is located in the Israeli regional waters.

The Palestinian National Authority had granted the PIF and a group of partners exclusive rights to excavate for natural gas near the Gaza coast. The group includes BG and CCC. According to the agreement with the Palestinian Authority, PIF owns 10% of the project, while BG owns 60% and CCC owns 30%.

The value of gas discovered in the two fields exceeds US$6.5 billion in current gas prices. The developers have so far invested about $100 million for exploration, and it is expected that the total investment required for developing the field will amount $800 million.

Ongoing Challenges

Attempts to develop Gaza's gas fields have faced several major obstacles. Primarily, Israel's de facto and illegal control of Palestinian territorial waters has impeded attempts to export Palestinian natural gas to international markets. Israel has refused to implement the required measures 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 will be transferred to the PA without hindrance.

Project Revenues

It is expected that revenues to the Palestinian Authority from the project will reach US$2 billion over 15 years, which is the project's lifetime, in the form of royalties, taxes and profits to PIF; amounts which are considered crucial for supporting the Palestinian Authority budget.

Utilizing the Produced Gas

Utilizing the natural gas reserves available offshore Gaza for domestic power generation considered a strategic objective that both PIF and the Palestinian Authority strive to achieve. PIF will work, in coordination with the Palestinian Authority and in cooperation with a group of local parties and international institutions on preparing appropriate plans to utilize the quantities of gas extracted from gas fields in Gaza to fulfill the Palestinian market needs. Any surplus will be exported to international markets.

Fifth: Capital Markets Sector

PIF manages capital markets portfolios in local, regional and international capital markets. These diverse portfolios adhere to strict investment guidelines that are in line with PIF's risk appetite and investment strategy. By the end of 2011, PIF's capital market investments amounted to US$290 million, with over 50% invested in the Palestine Exchange.

PIF invests in low risk equity securities and fixed income securities to optimize the use of its asset base and achieve growth and profitability, while maintaining sufficient liquidity to finance its strategic investment program. PIF's portfolios are diversified and cover various economic sectors including; telecommunications, banking, industrial, energy, mining, and consumer-goods sectors and others.

PIF's investments in the capital markets sector are managed by Khazana Asset Management Company, a wholly owned subsidiary of PIF specializing in assets management.

Our Partners in the Capital Markets Sector

RASMALA

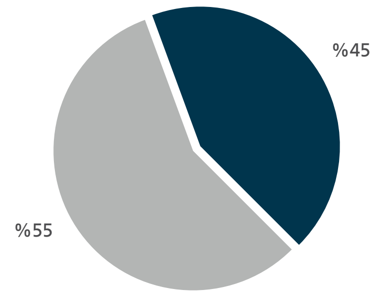
The Dubai-based Rasmala Investment Company is considered one of the leading companies in the field of investment fund management. Rasmala is PIF's Partner the Rasmala Fund for Palestinian Stock.

Khazana Assets Management Company

Khazanah is the PIF capital markets investments arm responsible for managing PIF investments in local, regional and global capital markets. Khazanah has a highly experienced management team that brings together expertise and knowledge in different asset classes including equities and fixed income investments.

Khazana manages a portfolio of US$160 million in the Palestine Exchange, and regional and global portfolios of US$130 million. This geographical allocation of investments demonstrates PIF's commitment to invest in the Palestinian market to support and uplift the national economy.

Geographic Distribution of Khazanah Investment Portfolio 31/12/2011



- $160 million investment in PEX.
- $130 million investment in MENA vegion.

PIF's Investments in the Palestine Exchange (PEX)

Stemming from its believe in the role of a robust capital market in developing the private sector, PIF focuses its capital market investments in the Palestine Exchange (PEX). PIF's investments in PEX play a key role in enhancing the market efficiency as well as attracting local and foreign investments to the market.

PIF's investments in the Palestine Exchange reached US$160 million by the end of 2011, distributed across a number of vital economic sectors, including telecommunications, banking, industrial and services sector.

Rasmala Palestinian Stock Investment Fund

In early 2011, PIF launched, in partnership with Rasmala Investment Bank of UAE, Rasmala Palestine Equity Fund to invest in Palestinian securities with an initial investment of US$15 million. The fund was able to attract a number of leading institutional investors including the Arab Bank Group, the Palestine Telecommunications Group and PADICO, and the total Fund was raised to US$40 million.

The Fund is registered in Luxemburg, being one of the best regulatory environments for investment funds. The Fund will help attract regional and international investors by creating a prober medium for channeling investments into the Palestine Exchange, which has proved its ability to provide a safe environment for trading financial securities. The Fund looks forward to attract a Arab and international investors to Palestine in 2012.

PIF's Activities in 2011

PIF Holds its Ordinary and Extraordinary General Assembly Meetings

PIF's General Assembly held its annual ordinary and extraordinary meetings, chaired by President Mahmoud Abbas at the Presidential Headquarters in Ramallah. PIF's Board of Directors' report on PIF's performance in 2011 was submitted to the General Assembly, and the audited financial statements for the year 2010 were approved, in the presence of the members of the Board of Directors and the General Assembly. In its report submitted to the General Assembly, the Board of Directors recommended an increase of PIF's capital by US$51 million, to reach $625 million. This amount will increase PIF's ability to attract additional financing resources that will facilitate PIF's expansion of its investment activities.

Al-Reehan Residential Neighborhood Hosts a Delegation of National Figures

Al-Reehan Residential Neighborhood hosted a delegation composed of members from the Palestinian Legislative Council, and other public figures in addition to a number of land developers, architectures and engineers. The delegation were briefed about the project background and progress, future and toured the project site.

PIF Organizes a Workshop for the World Food Program and the Palestinian Private Sector

In cooperation with the World Food Program, PIF organized a workshop titled "Methods of Cooperation between the World Food Program and the Palestinian Private Sector". Participants in the seminar included the Program's Director for the West Bank and Gaza, members of PIF's executive team and representatives from the Palestinian private sector. This seminar comes as part of PIF's effort to support the Palestinian private sector, and to create cooperation between the World Food Program and the Palestinian private sector, to promote Palestinian products.

PIF Delegation's Visit to Gaza Strip to Assess its Economic Situation

With directions from President Mahmoud Abbas, a delegation headed by Dr. Mohammad Mustafa, PIF Chairman visited Gaza Strip, to assess the economic situation there and to explore means to develop Gaza's economy. The delegation visited a number of business entities in Gaza, the American School and Gaza's commercial center.

A Delegation of Expatriate Youth Visits Al-Reehan Residential Neighborhood

A Palestinian expatriate youth delegation from the United States visited Al-Reehan Residential Neighborhood in Ramallah as part of the "Know Your Home" program, implemented by the Holy Land Christian Ecumenical Institution, with support of PIF and other Palestinian institutions. Each delegation member planted a tree in the neighborhood, recording his/her name on it as an expression of their connection to Palestine.

PIF's 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 by linking corporate social responsibility projects with PIF's investment vision, strategy and objectives and supporting initiatives that can directly affect the lives of Palestinians everywhere through financial or in-kind donations.

Some of the sectors that receive significant attention from PIF in this regard include education, health, and culture. Following is a summary of some PIF's initiatives in these sectors:

Education

Realizing the importance of education in social and economic development, PIF has been keen on providing support and participation in a group of initiatives aimed at developing education in Palestine, and providing university scholarships to a number of outstanding students.

Supporting Palestine's education sector is of strategic importance to PIF because of its role in supporting human capital development in Palestine. During 2011, PIF supported a number of initiatives in the education sector, and provided scholarships to high achieving undergraduate students from financially disadvantaged backgrounds.

Supporting the "Net Kitabi" Initiative

In a step aimed at enhancing the use of technology among students in the Palestinian schools, PIF has been a key supporter of the "Net Kitabi" initiative, aimed at providing students with the twenty first century skills of creative thinking and communication. Thousands of laptops have been distributed, through the project, to students. The initiative also includes developing educational material to be used in these laptops.

Science and Technology Project in the Arab Jaffa School

PIF supported an initiative launched by the Arab Democratic School of Jaffa, to develop new educational methods that emphasizes the use of technology, research and experiments specially in the field of sciences. This initiative includes an integrated lab that is currently being installed at the school, providing the students with an interactive environment to carry out their scientific experiments and researches.

Health Sector

Because a well-developed and accessible health sector is an important component of any successful society, PIF dedicates special attention and resources for health projects in Palestine.

Grant to St. John's Eye Hospital in Hebron

PIF provided a grant to cover the treatment cost for a number of needy cases benefiting from services of the St. John's Eye Hospital Branch in Hebron. This step by PIF has helped many Palestinians, who were unable to travel to Jerusalem or abroad to receive the necessary eye treatment. The St. John's Hospital branch was established in Hebron in 2005. In 2011, the Hospital's branch in Hebron treated 12,617 cases. PIF's grant supports the continuity of the Hebron branch and enables it to provide the necessary service to our people.

PIF Supports the Friends of Multiple Sclerosis Patients Society

PIF provided the support to the Friends of Multiple Sclerosis Patients Society to buy necessary medical equipment. MS is a neurological disorder that attacks the central neurological system, causing a number of symptoms that require treatment and follow-up.

Cultural and Art

PIF recognizes the importance of preserving Palestine's national heritage as well as its historic and cultural sites, and because of the importance of culture to the development and continuity of nation-states. In the last year, PIF has supported several initiatives in these spheres, several of which are outlined below.

PIF is the Main Sponsor of the First International Film Festival (Insan)

As part of its strategy to support the cultural sector in Palestine, PIF sponsored the First International Film Festival (Insan), in Ramallah. The festival shed light on human rights issues through international fiction movies that were screened all over the city in open spaces (street theaters). The importance of the festival stems from the fact that it represents a group of unusual cinematic activities that are distant from the traditional form of film festivals, and in that it shows movies which carry important juridical issues.

PIF Supports the Cultural Development Fund of the Ministry of Culture

PIF supported the Ministry of Culture's Cultural Development Fund, and pledging to continue its support for the next 5 years. The Fund supports cultural activities in Palestine and encourages cultural plurality and the development of creative ideas in this field. The Cultural Development Fund also work on enhancing social cohesion and societal development.

Jerusalem

Sponsoring "Jerusalem: Heavenly City on Earth" Book

PIF provided sponsorship to print a book titled "Jerusalem: Heavenly City on Earth", published by Dar Al-Ouruba Printing and Distribution Company, as part of a series titles "The Identity of Location". The book addresses the city of Jerusalem in its various historical, political, civilization and cultural dimensions, presenting the most prominent details related to the city and its inhabitants over the ages.

Support of the Arab Union Orthodox Club in Jerusalem

PIF supported the renovation and maintenance of the Arab Union Orthodox Club facilities in Jerusalem. This support is part of PIF's support to entities working with youth and provide cultural and sport services to Jerusalem residents.

Palestine Investment Fund Company

Consolidated Financial Statements

December 31, 2011

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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 of December 31, 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PIF as of December 31, 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

March 28, 2012
Ramallah, Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2011

(U.S $ 000's)

	Notes	U.S. $ 000's 2011	2010
Assets			
Non-current assets			
Property, plant and equipment	4	38,402	83,541
Goodwill	5	26,521	26,505
Investment properties	6	95,827	89,471
Projects in progress	7	63,933	58,281
Investments in associates	8	56,328	66,023
Joint ventures	9	6,773	7,633
Loans granted	10	4,656	3,224
Available-for-sale investments	11	237,330	251,766
Prepayment on investment	12	45,800	45,800
		575,570	**632,244**
Current assets			
Accounts receivable	13	52,725	80,042
Other current assets	14	20,945	29,624
Cash and deposits at banks	15	168,882	125,789
		242,552	**235,455**
Total assets		**818,122**	**867,699**
Equity and liabilities			
Equity			
Paid-in share capital	16	625,000	574,000
Statutory reserve	17	79,636	76,413
Voluntary reserve	17	15,214	11,991
Foreign currency translation		-	10,881
Available-for-sale reserve	11	14,239	38,623
Interim dividends	18	(20,000)	-
Retained earnings		28,128	67,140
Total equity attributable to shareholder		**742,217**	**779,048**
Non-controlling interests		4,875	3,924
Total equity		**747,092**	**782,972**
Non-current liabilities			
Long-term finance lease obligations	19	-	21,094
Long-term loans	20	8,600	-
		8,600	**21,094**
Current liabilities			
Accounts payable	21	25,385	26,621
Provisions and other current liabilities	22	26,625	23,276
Provision for Income tax	23	10,420	7,409
Finance lease obligations maturing within one year	19	-	6,327
		62,430	**63,633**
Total liabilities		**71,030**	**84,727**
Total equity and liabilities		**818,122**	**867,699**

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2011

(U.S $ 000's)

	Notes	U.S. $ 000's 2011	2010
Operating income	24	181,893	161,186
Cost of goods sold	24	(125,495)	(106,742)
Operating expenses	24	(21,285)	(21,950)
		35,113	**32,494**
Gain from investment portfolio	25	13,991	19,825
Interest revenues	26	3,134	2,100
Gain from business combination of subsidiaries	27	-	5,191
Share of associates results of operations	8	(9,695)	(14,396)
Share of joint ventures results of operations	9	(860)	(862)
Investment department expenses	28	(3,420)	(3,738)
Other revenues	29	17,611	2,310
		55,874	**42,924**
General and administrative expenses	30	(13,374)	(12,200)
Finance costs		(957)	(1,328)
Donations		(2,354)	(2,017)
Depreciation of property, plant and equipment		(1,431)	(1,116)
Assets impairment loss	31	(5,630)	(647)
Currency exchange (loss) gain		126	(2,713)
Gain (loss) from sale of property, plant & equipment	4	5,835	38
Recovery of doubtful loans , receivables and advances	32	860	40,968
Profit before tax		**38,949**	**63,909**
Income tax expense	23	(5,916)	(5,125)
Profit for the year		**33,033**	**58,784**
Attributable to:			
Shareholder		32,230	58,430
Non-controlling interests		803	354
		33,033	**58,784**

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2011

(U.S $ 000's)

	Notes	U.S. $ 000's 2011	2010
Profit for the year		33,033	58,784
Other comprehensive income:			
Change in fair value of available for sale investments	11	(21,425)	4,505
Realized profit reclassified to the consolidated income statement	11	(6,055)	(13,917)
Impairment of available-for-sale investments reclassified to the consolidated income statement	11	3,096	3,775
Foreign currency translation		323	3,144
Total other comprehensive income		**(24,061)**	**(2,493)**
Total comprehensive income for the year		**8,972**	**56,291**
Attributable to:			
Shareholder		8,169	55,937
Non-controlling interests		803	354
		8,972	**56,291**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2011

(U.S. $ 000's)

	Attributable to Shareholder										
2011	Paid-in share capital	Shareholder's current account	Statutory reserve	Voluntary reserve	Foreign currency translation	Available-for-sale reserve	Interim dividends	Retained Earnings	Total	Non-controlling interests	Total equity
						U.S. $ 000's					
At January 1, 2011	574,000	-	76,413	11,991	10,881	38,623	-	67,140	**779,048**	3,924	**782,972**
Profit for the year	-	-	-	-	-	-	-	32,230	**32,230**	803	**33,033**
Other comprehensive income	-	-	-	-	323	(24,384)	-	-	**(24,061)**	-	**(24,061)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**323**	**(24,384)**	**-**	**32,230**	**8,169**	**803**	**8,972**
Paid-in share capital (Note 16)	51,000	-	-	-	-	-	-	(51,000)	**-**	-	**-**
Distributed dividends (Note 18)	-	-	-	-	-	-	-	(25,000)	**(25,000)**	-	**(25,000)**
Interim dividends (Note 18)	-	-	-	-	-	-	(20,000)	-	**(20,000)**	-	**(20,000)**
Transfers	-	-	3,223	3,223	(11,204)	-	-	4,758	**-**	-	**-**
Change in non-controlling interest	-	-	-	-	-	-	-	-	**-**	148	**148**
At December 31, 2011	**625.000**	**-**	**79,636**	**15,214**	**-**	**14,239**	**(20,000)**	**28,128**	**742,217**	**4,875**	**747,092**

	Attributable to Shareholder										
2010	Paid-in share capital	Shareholder's current account	Statutory reserve	Voluntary reserve	Foreign currency translation	Available-for-sale reserve	Interim dividends	Retained Earnings	Total	Non-controlling interests	Total equity
						U.S. $ 000's					
At January 1, 2010	574,000	(45,800)	70,570	6,148	7,737	44,260	-	60,396	**717,311**	795	**718,106**
Profit for the year	-	-	-	-	-	-	-	58,430	**58,430**	354	**58,784**
Other comprehensive income	-	-	-	-	3,144	(5,637)	-	-	**(2,493)**	-	**(2,493)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**3,144**	**(5,637)**	**-**	**58,430**	**55,937**	**354**	**56,291**
Transferred to reserves	-	-	5,843	5,843	-	-	-	(11,686)	**-**	-	**-**
Shareholder's current account (note 12)	-	45,800	-	-	-	-	-	-	**45,800**	-	**45,800**
Non-controlling interest arising on a business combination	-	-	-	-	-	-	-	-	**-**	2,993	**2,993**
Distributed dividends (note 18)	-	-	-	-	-	-	-	(40,000)	**(40,000)**	(218)	**(40,218)**
At December 31, 2010	**574,000**	**-**	**76,413**	**11,991**	**10,881**	**38,623**	**-**	**67,140**	**779,048**	**3,924**	**782,972**

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

(U.S. $ 000's)

		U.S. $ 000's	
		2011	2010
Operating activities	Notes		
Profit before tax		38,949	63,909
Adjustments:			
Net interest		(2,177)	(772)
Share of associates results of operations		9,695	14,396
Share of joint ventures result of operations		860	862
Gain from investment portfolio		(13,991)	(20,265)
Gain from sale of property, plant & equipment		(5,835)	(38)
Recovery of doubtful loans		-	(324)
Gain from sale of Investment properties		-	(70)
Assets impairment loss		5,630	647
Recovery of doubtful loans and advances		(860)	(40,644)
Other non cash revenues		(9,408)	(7,501)
Other non cash expenses		8,092	8,905
		30,955	19,105
Working capital adjustments:			
Decrease (increase) in accounts receivable		28,412	(15,668)
Decrease (increase) in other current assets		8,049	9,489
Decrease) increase in accounts payable)		(1,236)	11,617
Increase (decrease) in provisions and other current liabilities		3,349	(5,168)
Income tax paid		(2,764)	-
Increase in restricted cash		(5,269)	-
Term deposits maturing after three months		(17,514)	-
Net cash flows from operating activities		**43,982**	**19,375**
Investing activities			
Purchase of available-for-sale investments		(223,074)	(160,085)
Sale of available-for-sale investments		224,288	165,553
Purchase of property, plant and equipment		(2,088)	(2,771)
Sale of property, plant and equipment		44,265	57
Investment properties		(4,504)	190
Joint ventures		-	23
Purchase of investment in associates and subsidiaries		-	(13,845)
Projects in progress		(10,515)	(5,232)
Loans granted		(1,080)	(8,600)
Collections from granted loans		100	-
Dividends and bonds interest received		13,714	9,683
Cash flows from acquisition of subsidiaries		-	5,144
Net cash flows from (used in) investing activities		**41,106**	**(9,883)**
Financing activities			
Cash dividends paid		(45,000)	(40,000)
Payments of finance lease obligations		(27,421)	(6,336)
Proceeds from term loans		8,600	-
Short term loan		-	(255)
Non-controlling interests reduction		-	(2,115)
Finance costs paid		(957)	(1,328)
Net cash flows used in financing activities		**(64,778)**	**(50,034)**
Increase (decrease) in cash and cash equivalents		**20,310**	**(40,542)**
Cash and cash equivalents, beginning of year		125,789	163,173
Foreign currency translations difference		-	3,158
Cash and cash equivalents, end of year	15	**146,099**	**125,789**

The attached notes 1 to 39 form part of these consolidated financial statements.

1. Corporate information

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

The 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 of December 31, 2011 were authorized for issuance in accordance with a resolution of the Board of Directors on March 28, 2012..

2. Consolidated financial statements

The consolidated financial statements are composed of the financial statements of PIF and its subsidiaries as of December 31, 2011. PIF's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

			Ownership %	
	Activity	Country of incorporation	2011	2010
Palestine Commercial Services Company	Cement trade	Palestine	100	100
Bulk Express Company PSC	Cement transporting	Palestine	60	60
Amaar Real Estate Group	Real estate investment	Palestine	100	100
Reehan for Real Estate Investment Company	Real estate investment	Palestine	100	100
Sama Al Aqaria PSC	Real estate investment	Palestine	100	100
Grand Park Hotel and Resorts LTD	Tourism investment	Palestine	100	100
Arduna real estate development company	Real estate investment	Palestine	90	90
Red sea international investment company	Real estate investment	Palestine	100	100
Khazaneh Financial Investments Company	Financial investment	Palestine	100	100
Ded Sea Company	Tourism and real estate investment	Palestine	100	100
Others	Investment in real estate and securities	Palestine	100	100

Subsidiaries are companies over which PIF exercises control over their financial and operational policies. Most of PIF subsidiaries operate in the Palestinian National Authority territories.

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 of the financial statements date. The consolidated financial statements have been presented in U.S Dollars which is the functional currency of PIF. All values except when otherwise indicated, are rounded to the nearest thousand dollars (U.S. $ 000's).

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

The consolidated financial statements comprise the financial statements of PIF and its subsidiaries as of December 31, 2011.

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.

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

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

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.

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. Adoption of these standards did not have any effect on the financial performance or position of PIF.

- IAS 24 – Related Party Disclosures (Amendment)
- IAS 32 – Financial Instruments: Presentation (Amendment)

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

- IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012) *
- IAS 27 Separate Financial Statements (effective for annual periods beginning on or after January 1, 2013)
- IAS 28 Investment in associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013)
- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements (effective for annual periods beginning on or after July 1, 2011)
- IFRS 9 Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after January 1, 2015)**
- IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013)***
- IFRS 11 Joint Arrangements (effective for annual periods beginning on or after January 1, 2013)
- IFRS 12 Disclosure of Involvement with Other Entities (effective for annual periods beginning on or after January 1, 2013)
- IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013)****

* The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future date would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on PIF's financial position or performance.

** IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of PIF's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. PIF will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*** IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

**** IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. PIF is currently assessing the impact that this standard will have on the financial position and performance.

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.

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.

Provision for income tax

PIF and its subsidiaries use certain estimates in determining the provision for income tax.

PIF management believes that the estimates and assumptions used are reasonable.

Fair value of financial instruments

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

Impairment of goodwill

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

Provision for litigation

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

3.4 Summary of significant accounting policies

Revenue recognition

Real estate sale revenue is recognised when the major risks and the real estate ownership are transferred to the buyer, which is usually when the real estate is delivered. Interest 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.

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 charged to the consolidated income statement in the period they occur. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income tax

PIF and its 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.

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

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

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

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

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

Business combinations and goodwill

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

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 fair value of net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in 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.

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

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.

Cost represents all expenditures incurred in bringing each product to its present location and conditions to be ready for its intended use. 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 and the statement of comprehensive income reflect the share of the results of the associates. Profits and losses resulting from transactions between PIF and the associates are eliminated to the extent of the interest in the associates.

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

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

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.

Investments in financial assets

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

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that PIF commits to purchase or sell 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 investments

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

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

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

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 32.

Impairment of financial assets

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

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

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.

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. Property, plant and equipment

U.S. $ 000's

	Land	Buildings	Transportation means, equipment and spare parts	Computers and systems	Furniture and decoration	Total
Cost						
At January 1, 2011	**17,290**	**18,697**	**76,118**	**3,903**	**3,834**	**119,842**
Additions	-	5,386	664	503	398	**6,951**
Disposals	-	(136)	(52,224)	(1,333)	(1,119)	**(54,812)**
Foreign currency translation	72	(13)	-	354	30	**443**
At December 31, 2011	**17,362**	**23,934**	**24,558**	**3,427**	**3,143**	**72,424**
Accumulated depreciation						
At January 1, 2011	**-**	**3,977**	**27,833**	**2,801**	**1,690**	**36,301**
Depreciation charge for the year	-	598	6,918	445	294	**8,255**
Impairment loss (Note 31)	526	5,002	-	21	50	**5,599**
Disposals	-	(18)	(14,265)	(1,090)	(1,031)	**(16,404)**
Foreign currency translation	-	53	-	185	33	**271**
At December 31, 2011	**526**	**9,612**	**20,486**	**2,362**	**1,036**	**34,022**
Net carrying amount						
At December 31, 2011	**16,836**	**14,322**	**4,072**	**1,065**	**2,107**	**38,402**
At December 31, 2010	**17,290**	**14,720**	**48,285**	**1,102**	**2,144**	**83,541**

- Property, plant and equipment include U.S. $ 1,665,000 and U.S. $ 2,469,000 of fully depreciated assets owned by PIF and its subsidiaries that are still operational as at 2011 and 2010, respectively.
- Depreciation expense includes transportation means, equipment and spare parts depreciation from which U.S.$ 6,824,000 and 7,789,000 were reclassified as operating expenses for 2011 and 2010 respectively.
- Transportation means include assets previously purchased as finance lease with a cost of U.S.$ 52,050,000 were sold during the year resulting in a gain of U.S.$ 4,612,000.
- Total gain recognized from sale of property, plant and equipment during the year amounted to U.S.$ 5,835,000.
- Property, plant and equipment include an amount of U.S. $ 1,155,000 of properties mortgaged against credit facilities (Note 20).

5. 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	
	2011	2010
Cement trade	25,244	25,244
Cement transportation	360	360
Tourism	917	901
	26,521	**26,505**

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 four-year period. The pre-tax discount rate applied to cash flow projections is 17.4%, and cash flows beyond the four-year period are extrapolated using a 3.5% growth rate.

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 four-year period. The pre-tax discount rate applied to cash flow projections is 17.4%, and cash flows beyond the four-year period are extrapolated using a 3.5% growth rate.

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 six-year period. The after-tax discount rate applied to cash flow projections is 10%, and cash flows beyond the six-year period are extrapolated using a 5.8% 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.

■ Growth rate estimates

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

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

6. Investment properties

This item represents cost of PIF's investments in land in the West Bank and Gaza. PIF's management estimates the fair value of these lands, based on reports of specialized actuaries at U.S. 130,452,000. The fair value reflects market conditions at the date of appraisal. Following is the movement on investment properties:

	U.S. $ 000's	
	2011	2010
Balance, beginning of year	89,471	90,238
Additions	5,709	-
Land registration fees	-	22
Recovery (impairment) of investment properties	647	(647)
Sale of investment properties	-	(142)
Balance, end of year	**95,827**	**89,471**

Investment properties include land lots in Al-New'emeh near the city of Jericho with a total book value of U.S. $ 79 million. PIF obtained the required approvals to replace these land lots with other land lots in the same area or other areas with the same value. To the date of the issuance of these consolidated financial statements, these land lots are still registered in the name of PIF and no final agreement were reached regarding the procedures to replace these land lots.

7. Project in progress

	U.S. $ 000's	
	2011	2010
Balance, beginning of year	58,281	23,350
Additions	25,553	6,180
Land sold out from projects in progress	(15,038)	(948)
Transferred from property, plant and equipment	(4,863)	-
Acquisition of subsidiaries	-	29,699
Balance, end of year	**63,933**	**58,281**

Following are the projects in progress as of December 31, 2011 and 2010:

	U.S. $ 000's	
	2011	2010
Al Reehan Project	28,255	19,214
Ersal Center Project	16,105	27,029
Al Jenan Project	5,967	2,228
Grand park development project	4,770	718
Ammar tower project	4,579	-
Tourism projects	3,884	8,841
Other projects	373	251
	63,933	**58,281**

Projects in progress include a piece of land with a carrying value of U.S. $ 8,991,000 mortgaged against long term loans (note 20). Costs to complete projects are estimated at U.S. $ 192 million.

8. Investments in associates

This item represents investments in associates operating in Palestine:

	Ownership		Carrying Amount	
	2011	2010	2011	2010
	%	%	U.S. $ 000's	
Palestine Tourism Investment Company	25.72	25.72	6,431	6,557
Wataniya Palestine Mobile Telecommunications Company	36.55	36.55	49,897	59,466
			56,328	**66,023**

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

	U.S. $ 000's	
	2011	2010
Non-current assets	97,207	98,294
Current assets	17,565	40,153
Non-current Liabilities	(42,400)	(47,903)
Current liabilities	(16,044)	(24,521)

PIF's share of associates' results of operations:

Revenues	28,654	15,234
Results of operations	(9,695)	(14,396)

During 2010, PIF capitalized an amount of U.S. $ 21,199,000 from total loans granted to Wataniya Palestine Mobile Telecommunication Company as an additional investment in Wataniya's capital (note 10).

The fair value of PIF investment in Wataniya Palestine Mobile Telecommunication Company amounted to U.S. $ 121,646,000 as of December 31, 2011.

PIF investment in Wataniya Palestine Mobile Telecommunication Company includes 77,658,000 shares with a total fair value of U.S. $ 100,189,000 mortgaged against a syndicated loan granted from banks to Wataniya Palestine Mobile Telecommunication Company.

9. Joint ventures

	U.S. $ 000's 2011	2010
Convention Palace Company	6,773	7,633
	6,773	**7,633**

	U.S. $ 000's 2011	2010
PIF's share in the joint ventures' assets and liabilities:		
Non-current assets	8,080	9,913
Current assets	75	1,616
Non-current liabilities	(508)	(1,563)
Current liabilities	(874)	(2,333)
PIF's share of joint ventures results of operations:		
Revenues	232	475
Result of operations	**(860)**	**(862)**

10. Loans granted

	U.S. $ 000's 2011	2010
Wataniya Palestine Mobile Telecommunications Company *	2,150	2,150
Latin Patriarchate - Jerusalem	1,900	1,000
Other	80	-
Accrued interest on loans	526	74
	4,656	**3,224**

* During 2010 PIF granted Wataniya an amount of U.S. $ 8,600,000 in addition to the previously granted loan by PIF and Qtel Company. PIF's share from these loans amounted to U.S. $ 21,954,000 in the syndicated loan. In addition during 2010, an amount of U.S. $ 21,199,000 from the granted loans and related accrued interest were capitalized as investment in Wataniya share capital (note 8). The loan bears interest of libor plus 5.85%, and is repayable in one instalment due on December 31, 2014, or six months after the settlement of all or part of priority loans, whichever comes after.

11. Available-for-Sale investments

	U.S. $ 000's	
	2011	2010
Quoted shares	192,232	190,816
Quoted Portfolios	25,270	45,561
Quoted bonds	5,314	973
* Unquoted shares	14,514	14,416
	237,330	**251,766**

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

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

	U.S. $ 000's	
	2011	2010
Balance, beginning of year	38,623	44,260
Net change in fair value	(21,425)	4,505
Realized gains transferred to the income statement	(6,055)	(13,917)
Impairment loss recognized in the income statement	3,096	3,775
Balance, end of year	**14,239**	**38,623**

12. Prepayment on investment

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

13. Accounts receivable

	U.S. $ 000's	
	2011	2010
Aviation receivable	30,444	15,998
Cap Holding Company	11,305	11,305
Trade receivables	10,475	7,176
Checks under collection	5,866	10,704
Due from Ministry of Finance	3,964	-
First Trading Center	1,100	1,100
* Orascom Telecommunications Holdings	-	45,000
Other	2,390	2,771
	65,544	**94,054**
Provision for doubtful accounts	(12,819)	(14,012)
	52,725	**80,042**

* This item represents amounts due from selling certain investments to Orascom Telecommunications Holdings during 2005. PIF has provided in full for this amount. During 2010 PIF reached a final settlement with Orascom Telecommunications Holdings Company to settle the amounts due, as a result PIF recovered an amount of U.S. $ 41 million from the provision and recognized it in the consolidated income statement.

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

	U.S. $ 000's	
	2011	2010
Balance, beginning of year	14,012	59,215
Additions	154	154
Recoveries	(1,132)	(41,075)
Written off	(98)	(4,346)
Foreign currency translation	(117)	64
Balance, end of year	**12,819**	**14,012**

Nominal value of doubtful accounts receivable which are fully provided for, as of December 31, 2011 and 2010 amounted to U.S. $ 12,819,000 and U.S. $ 14,012,000, respectively. As of December 31, 2011 and 2010, the aging analysis of the unimpaired accounts receivables is as follows:

	U.S. $ 000's				
			Past due but not impaired		
	Total	Neither past due nor impaired	90 < days	days 91-180	days 181 >
2011	**52,725**	6,571	6,743	18,648	20,763
2010	**80,042**	13,167	64,140	1,278	1,457

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	
	2011	2010
Due from brokers	7,750	19,054
Value added tax	6,146	3,975
*Arab Fund for Economic and Social Development	3,693	-
Advances to suppliers	3,042	4,488
Cash margins	2,970	5,486
Employees' receivables	533	489
Accrued interest	382	258
Prepaid expenses	226	168
Others	808	359
	25,550	**34,277**
Provision for uncollectible current assets	(4,605)	(4,653)
	20,945	**29,624**

* During the year PIF reached an agreement with the Arab Fund for Economic and Social Development (Arab Fund). The agreement includes the payment of KD 1,450,000 (equivalent to U.S. $ 5,201,000) to finance some projects in Jerusalem for the purpose of providing financing services and business development and trainings to small businesses. During the year the first payment of U.S. $ 1,508,000 was received and the project implementation will start during 2012.

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

	U.S. $ 000's	
	2011	2010
Balance, beginning of year	4,653	4,483
Additions	118	270
Write-offs	-	(100)
Foreign currency translation	(166)	-
Balance, end of year	**4,605**	**4,653**

15. Cash and deposits at banks

	U.S. $ 000's	
	2011	2010
Cash on hand and current accounts at banks	21,193	23,428
Term deposits at banks	147,689	102,361
	168,882	**125,789**

The average interest rate during 2011 was 1.17% on U.S. $ deposits, 3.42% on Jordanian Dinar deposits, 1.25% on Euro deposits, and 1.26% on Pound Sterling deposits.

Cash and deposits at banks include restricted cash of U.S. $ 5,269,000 as of December 31, 2011 as a security against certain facilities.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2011 and 2010:

	U.S. $ 000's	
	2011	2010
Cash on hand and current accounts at banks	21,193	23,428
Term deposits at banks	147,689	102,361
	168,882	**125,789**
Deposits maturing after 3 months	(17,514)	-
Restricted cash	(5,269)	-
	146,099	**125,789**

16. Paid-in capital

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

17. Reserves

Statutory Reserve

In accordance with the Corporate Law, an appropriation of 10% of the annual profit shall be made to the statutory reserve account. The statutory reserve is not available for distribution to shareholders.

Voluntary Reserve

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

18. Paid and proposed dividends

The Board of Directors in its meeting held on September 11, 2011, decided to propose to the shareholder to distribute U.S. $ 20 million as interim dividends to be approved in the next meeting of the General Assembly.

The General Assembly decided on May 16, 2011 based on the Board of Directors recommendations to distribute cash dividends of U.S. $ 25 million.

The General Assembly decided on April 12, 2010 based on the Board of Directors recommendations to distribute cash dividends of U.S. $ 40 million.

19. Finance lease obligations

U.S. $ 000's

	2011		2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due within one year	-	-	7,270	6,327
Due after one year and within five years	-	-	22,508	21,094
Total minimum lease payments	**-**	**-**	**29,778**	**27,421**
Less: finance costs	-	-	(2,357)	-
Present value of minimum lease payments	**-**	**-**	**27,421**	**27,421**

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 last payment will due on February 15, 2015.

During the year, PIF repaid the total amount of the finance lease obligation through short term loan agreement signed with a regional bank in the amount of U.S. $ 23.4 million for the purpose of the settlement of all the amounts due from PIF as finance lease obligations (note 20).

20.Long- term loans

On May 19, 2011, Al-Rihan company (subsidiary) signed an agreement with a local bank in the amount of U.S. $ 10 million to finance the operations of the company project in Ramallah on two stages, the first stage of U.S. $ 6.5 million after which the company and based on the project's needs to order the second payment of U.S. $ 3.5 million. The loan bears interest rate of six months libor plus 3.5% with a ceiling of 6%. The loan is repayable on 12 equal semi annual instalments starting after 12 months from the date of the last payment utilized from the loan, and the utilization period shall not exceed one year. The loan was granted by mortgaging the land included in the projects in progress (note 7). The utilized loan balance as of December 31, 2011 amounted to U.S. $ 5.8 million.

During the year, Grand Park (subsidiary) signed an agreement with a local bank in the amount of U.S. $ 4 million for the purpose of the renovation of the Hotel. The loan bears interest of three months libor plus 1.75% with a minimum of 4.5% and a ceiling of 7%, and is repayable in quarterly payments not to exceed 12 years starting after a grace period of six months from the last payment utilized from the loan, and the utilization period shall not exceed one year. The loan was granted with the mortgage of part of the properties, plant and equipment (note 4). The utilized loan balance as of December 31, 2011 amounted to U.S. $ 2.8 million.

On May 23, 2011, PIF signed a short term loan agreement in the amount of U.S. $ 23.4 million to settle the amounts due from PIF as long term finance lease obligations (note 19). The loan and the related interest is repayable in one instalment within six months from the date of the loan. The loan bears interest of 4%. The loan and the accrued interest were repaid during the year.

The maturitg of interst bearing loans and borrowings are as follows:

	U.S. $ 000's
2012	-
2013	717
2014	717
2015	717
2016	717
Thereafter	5,732
	8,600

21. Accounts payable

	U.S. $ 000's	
	2011	2010
Trade payables	11,780	12,788
Customer advances	9,506	6,089
Contractors payables	2,031	766
Brokerage firms payable	1,154	-
Other	914	6,978
	25,385	**26,621**

22. Provisions and other current liabilities

	U.S. $ 000's	
	2011	2010
Liabilities related to the development of the National Park *	6,000	9,000
Accrued expenses	6,259	3,572
Temporarily restricted contribution (note 14)	5,201	-
Provision for employees indemnity	4,265	4,093
Property improvement taxes	2,394	2,580
Employees' income tax payable	711	786
Postponed checks	181	25
Due to Palestinian National Authority	-	1,975
Other	1,614	1,245
	26,625	**23,276**

* 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 the year and previous years, PIF settled a total of U.S. $ 9,000,000,

23. Provision for income tax

Based on a memorandum of understanding with the Ministry of Finance, PIF and its subsidiaries taxable income became subject to income tax starting January 1, 2010.

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

	U.S. $ 000's	
	2011	2010
Balance, beginning of year	7,409	-
Additions during the year	5,916	5,125
Others provisions	-	3,085
Advances paid during the year	(2,764)	(1,074)
Currency variance	(141)	273
Balance, end of year	**10,420**	**7,409**

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

	U.S. $ 000's	
	2011	2010
Accounting profit before income tax	38,949	63,909
Non-taxable income	(22,191)	(46,659)
Non-deductible expenses	22,682	16,917
Taxable income	**39,440**	**34,167**
Tax expense at statutory income tax rate of 15%	**5,916**	**5,125**
Effective income tax rate	**%15.19**	**%8.02**

To the date of these financial statements, PIF did not reach a final settlement with the Income Tax Department for its taxable income for the years from inception to December 31, 2010.

24. Operating income

	U.S. $ 000's 2011			
	Operating revenues	Cost of goods sold	Operating expenses	Operating Income
Lease of transportation means	17,654	-	(17,322)	**332**
Cement trading	141,491	(109,254)	(3,577)	**28,660**
Real estate	19,944	(13,208)	-	**6,736**
Tourism	749	(1,160)	(386)	**(797)**
Media	2,055	(1,873)	-	**182**
	181,893	**(125,495)**	**(21,285)**	**35,113**

	U.S. $ 000's 2010			
	Operating revenues	Cost of goods sold	Operating expenses	Operating Income
Lease of transportation means	18,043	-	(16,826)	**1,217**
Cement trading	138,000	(105,222)	(3,393)	**29,385**
Real estate	2,714	(1,168)	(102)	**1,444**
Tourism	2,429	(352)	(1,629)	**448**
Media	-	-	-	**-**
	161,186	**(106,742)**	**(21,950)**	**32,494**

25. Gain from investment portfolio

	U.S. $ 000's	
	2011	2010
Gain from sale of available-for-sale investments	6,055	13,917
Dividends income	10,813	8,247
Impairment of available-for-sale investments	(3,096)	(3,775)
Interest on bonds	219	1,436
	13,991	**19,825**

26. Interest revenues

	U.S. $ 000's	
	2011	2010
Interest on deposits with banks	2,449	1,177
Interest on granted loans	477	777
Other interest	208	146
	3,134	**2,100**

27. Gain from business combination of subsidiaries

During April 2010, Amaar Real Estate Group (subsidiary) acquired an additional 40% share of Arduna for Real Estate Development Company (Arduna) for U.S. $ 17,284,000. Accordingly, Arduna became a subsidiary of Amaar with ownership percentage of 90% starting May 1, 2010.

Also, PIF acquired the capital of Al Hayat Newspaper (Al Hayat) for U.S $ 300,000, accordingly, Al Hayat became a subsidiary of PIF from December 31, 2010.

According to IFRS (3), the business combinations of Arduna and Al Hayat resulted in a gain (negative goodwill) of U.S. $ 2,626,000. Amaar also re-evaluated its share in Arduna as of the acquisition date and recognized an amount of U.S. $ 2,565,000 as a gain in the consolidated income statement, accordingly total gain from business combinations recognized in the consolidated income statement amounted to U.S. $ 5,191,000.

28. Investment expenses

	U.S. $ 000's	
	2011	2010
Employees salaries, wages and benefits	1,467	1,810
Professional fees	1,608	1,553
Travel and transportation	237	197
Others	108	178
	3,420	**3,738**

29. Other revenues

	U.S. $ 000's	
	2011	2010
Assets recovery *	13,888	-
Other	3,723	2,310
	17,611	**2,310**

* This item represents the fair value of certain assets released as a result of the settlement of the lawsuit raised against Palestinian Authority in the USA (note 38).

30. General and administrative expenses

	U.S. $ 000's	
	2011	2010
Employees salaries, wages and benefits	8,949	7,234
Professional fees	958	1,212
Marketing	491	492
Travel and transportation	437	354
Rents	404	403
Telephones and courier	198	205
Fees and subscriptions	153	132
Maintenance	148	139
Insurance	137	160
Printings and stationery	102	91
Board of Directors compensations	100	100
Hospitality	70	75
Others	1,227	1,603
	13,374	**12,200**

31. Assets Impairment Loss

	U.S. $ 000's	
	2011	2010
* Impairment loss on PIF assets in Gaza		
Property, plant and equipment	4,409	-
Other assets	678	-
Impairment of property, plant and equipment	1,190	-
(Recovery) impairment of investment properties	(647)	647
	5,630	647

* During the year, Gaza government seized certain of PIF assets including buildings and other assets with a total book value of U.S. $ 5,087,000. PIF management recognized an impairment loss as a result of loss of control on these assets.

32. Recovery of provisions for doubtful acounts and advances

	U.S. $ 000's	
	2011	2010
Recovery for doubtful loans	-	317
Recovery for doubtful accounts (note 13)	1,132	40,921
Provision for uncollectible current assets	(272)	(270)
	860	**40,968**

33. 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, 2011 and 2010:

	U.S. $ 000's			
	Carrying amount		Fair value	
	2011	2010	2011	2010
Financial assets				
Loans granted	4,656	3,224	4,656	3,224
Available-for-sale investments				
quoted	222,816	237,350	222,816	237,350
Accounts receivable	52,725	80,042	52,725	80,042
Other current assets	16,231	26,760	16,231	26,760
Cash and deposits at banks	168,882	125,789	168,882	125,789
	465,310	**473,165**	**465,310**	**473,165**
Financial liabilities				
Finance lease obligation	-	27,421	-	27,421
Accounts payable	15,879	20,532	15,879	20,532
long term loans	8,600	-	8,600	-
Other current liabilities	17,159	19,183	17,159	19,183
	41,638	**67,136**	**41,638**	**67,136**

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 of December 31, 2011 the carrying amount of the loans granted and finance lease obligations are not materially different from its fair value.
- The fair values of quoted available-for-sale investments were based on their price quotations at the reporting date.

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.

34. Related party transactions

This item represents transactions with related parties. Related parties represent associated companies, major shareholder, 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 are as follows:

	U.S. $ 000's	
	2011	2010
Aviation receivables	30,444	15,998
Loans granted to associates	2,392	2,172
Account receivable from a joint venture	2,032	-
Due from Palestinian National Authority	3,964	-
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	
	2011	2010
Leasing of transportation means to the shareholder	14,446	18,043
Interest revenue on loans to associates and sister companies	131	757
Interest expense on loan from joint venture	-	63

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

	U.S. $ 000's	
	2011	2010
Board of Directors compensations	100	100
Key management share of salaries and related benefits	4,582	3,696
Key management share of end of service indemnity	372	302

Furthermore, PIF is considered as grantor for a loan granted to an associate company (note 8), also, the largest portion of PIF investment in the company is mortgaged against that loan.

35. Risk management

PIF's principal financial liabilities comprise loans, accounts payable and some other financial liabilities. The main purpose of these financial liabilities is to raise finance for PIF's operations. PIF has various financial assets such as 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, the finance lease obligation and loans. The following table demonstrates the sensitivity of PIF's consolidated income statement as at December 31, 2011 and 2010 to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on PIF's profit for one year, based on assets and liabilities with floating interest rates at December 31, 2011. The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increases shown below:

2011	Increase in interest Rate	Effect on profit for the year
	(basis points)	U.S. $ 000's
U.S. Dollar	+10	96
Jordanian Dinar	+10	42
Other currencies	+10	3

2010	Increase in interest Rate	Effect on profit for the year
	(basis points)	U.S. $ 000's
U.S. Dollar	+10	37
Jordanian Dinar	+10	40
Other currencies	+10	1

Foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. $ exchange rate against other currencies, with all other variables held constant, of PIF's profit and equity. The Jordanian Dinar (JOD) 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 financial statements. The effect of decreases in the exchange rate of U.S. $ against other currencies is expected to be equal and opposite to the effect of the increase shown below:

2011	Increase in currency rate to $ .U.S	Effect on profit before tax	Effect on equity
	%	U.S. $ 000's	
Israeli Shekel	+10	(684)	-
European Monetary Unit (EURO)	+10	(41)	-
Other currency	+10	(909)	-

2010	Increase in currency rate to $ .U.S	Effect on profit before tax	Effect on equity
	%	U.S. $ 000's	
Israeli Shekel	+10	2	1,971
European Monetary Unit (EURO)	+10	(414)	-

Equity price risk

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

2011	Change in equity price	Effect on equity
	(%)	U.S. $ 000's
Shares listed in Palestine Securities Exchange	+10	16,017
Shares listed in Amman Stock Exchange	+10	45
Shares listed in other markets	+10	6,220
Shares not listed	+5	726

2010	Change in equity price	Effect on equity
	(%)	U.S. $ 000's
Shares listed in Palestine Securities Exchange	+10	12,109
Shares listed in Amman Stock Exchange	+10	1,162
Shares listed in other markets	+10	10,464
Shares not listed	+5	721

Credit risk

PIF exposure to credit risk arises from the default of the counterparty,

PIF is currently managing its credit risks by setting credit limits for customers and continuously monitoring the accounts receivable in coordination with legal consultants. The maximum exposure of the loans and accounts receivable to the credit risk is the carrying amount of the loans granted and accounts receivable explained in notes (10) and (13).

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

Liquidity risk

PIF and its subsidiaries manage liquidity risks by ensuring the availability of credit facilities and pursuing the collection of accounts receivables.

The table below summarizes the allocation of undiscounted financial liabilities as at December 31, 2011 and December 31, 2010, based on their remaining maturity:

U.S. $ 000's

	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
As at December 31, 2011					
Long term loans	-	-	4,071	6,765	**10,836**
Accounts payable	15,879	-	-	-	**15,879**
Provisions and other financial liabilities	8,765	8,394	-	-	**17,159**
	24,644	**8,394**	**4,071**	**6,765**	**43,874**
As at December 31, 2010					
Finance lease obligations	1,837	5,433	22,508	-	**29,778**
Accounts payable	20,532	-	-	-	**20,532**
Provisions and other financial liabilities	10,688	8,495	-	-	**19,183**
	33,057	**13,928**	**22,508**	**-**	**69,493**

36. Capital management

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

PIF and its subsidiaries manage their capital structure and make adjustments in light of changes in business conditions. On May 16, 2011, the General Assembly approved the increase of PIF's capital to U.S. $ 625 million through capitalization of U.S. $ 51 million from retained earnings.

Capital includes paid-in share capital, advances on capital increase, retained earnings, shareholder's current account, statutory and special reserve, proposed dividends, foreign currency translation and cumulative changes in fair value and non controlling interest totalling of U.S. $ 747,092,000 and U.S. $ 782,972,000 as of December 31, 2011 and December 31, 2010, respectively.

37. Segment information

PIF's reporting format is business segments as PIF's risks and rates of return are affected predominantly by differences in the products and services provided. Business segments are 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:

For the year ended December 31, 2011:

	Investment sector	Cement operations	Real Estate Investment	Tourism	Media	Eliminations	Total
				U.S. $ 000's			
Revenues							
External revenues	17,654	141,491	19,944	749	2,055		**181,893**
Inter-segment	-	-	-	-	-	-	-
Total revenues	**17,654**	**141,491**	**19,944**	**749**	**2,055**	**-**	**181,893**
Profit (loss) for the year	11,828	24,688	2,299	(1,839)	350	- 1,623	**38,949**
Other information							
Depreciation	6,927	570	510	185	63		**8,255**
Impairment loss	5,087	-	-	1,190	-	-	**6,277**
Capital expenditure	623	966	10,762	195	57	-	**12,603**

The following table presents segments' assets and liabilities as of December 31, 2011:

	Investment sector	Cement operations	Real Estate Investment	Tourism	Media	Eliminations	Total
Assets and liabilities							
Operating assets	769,849	63,890	134,541	21,786	1,637	(173,581)	**818,122**
Operating liabilities	37,085	18,465	26,044	5,531	841	(16,936)	**71,030**

For the year ended December 31, 2010:

	Investment sector	Cement operations	Real Estate Investment	Tourism	Media	Eliminations	Consolidated
				U.S. $ 000's			
Revenues							
External revenues	18,043	138,000	2,714	2,429	-	-	**161,186**
Inter-segment	-	-	-	-	-	-	**-**
Total revenues	**18,043**	**138,000**	**2,714**	**2,429**	**-**	**-**	**161,186**
Profit for the year	34,705	23,104	5,906	(26)	-	220	**63,909**
Other information							
Depreciation	7,726	422	423	334	-	-	**8,905**
Impairment loss	-	-	647	-	-	-	**647**
Capital expenditure	899	415	6,550	139			**8,003**

The following table presents segments' assets and liabilities as of December 31, 2010:

	Investment sector	Cement operations	Real Estate Investment	Tourism	Media	Eliminations	Consolidated
Assets and liabilities							
Operating assets	838,256	45,036	112,511	10,492	1,622	(140,218)	**867,699**
Operating liabilities	53,966	18,722	12,839	947	1,192	(2,939)	**84,727**

38. Commitments

- PIF may be liable for obligations associated with liquidating some non-operating companies whose ownerships were transferred by the shareholder to PIF.

- PIF may be liable for obligations associated with liquidating some non-operating companies whose ownerships were transferred by the shareholder to PIF.

- On July 25, 2007, PIF entered into partnership with the Overseas Private Investment Corporation (OPIC) and the Middle East Investment Initiative (MEII) to create its Loan Guarantee Facility (LGF), that aims to support the Palestinian private sector by providing guarantees for loans to small- and medium-size enterprises (SME's) throughout Palestine. PIF may be obligated to pay the guaranteed amount in case of default of the loans. As of December 31, 2011, total loans granted under this agreement by local banks amounted to U.S. $ 41.1 million. PIF's share of the total guarantee provided against these loans was U.S. $ 9 million.

- During 2006, PIF signed a memorandum of understanding with the Palestinian Authority, represented by Palestinian Land Authority, to allow PIF to develop and establish its investment projects on the Saraya Gaza land – 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 land has not been recorded in PIF's accounting records, since the terms of the agreements were not yet executed.

- According to PIF legal counsel, the Palestinian Authority reached a settlement for the lawsuit raised against it in the USA, therefore PIF management believes that no contingent liabilities related to this case are probable.

39. Concentration of risk in geographic area

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