ANNUAL REPORT

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> As Palestine placed its mark on the world's political map through the United Nations General Assembly vote of 29 November 2012 upgrading its status to a non-member observer State, Palestine Investment Fund continues to set the foundations for an independent Palestinian economy, as a major step towards building an independent Palestinian State.
>
> Despite the challenges facing the Palestinian economy, PIF presents a bright picture of our ability to work towards achieving sustainable economic development. I am proud of PIF as a leading Palestinian institution, proud of its employees, and of the level of professionalism and integrity that drive PIF towards developing our economy, and building a Palestinian State.

Mahmoud Abbas

President of Palestine

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Chairman's Message

Ladies and Gentlemen,

On behalf of the Board of Directors, it is my pleasure to present you with Palestine Investment Fund's (PIF) Annual Report for the year 2012. The report highlights PIF's key achievements throughout 2012 and their financial and economic impacts.

I will focus my discussion on the following four topics:

- The Palestinian economy in light of the recognition of Palestine as an independent State
- PIF's new strategic projects
- Financial performance
- Governance and institutional building

Despite the various financial and economic challenges faced by the Palestinian people during 2012, new hope was instilled on the political front following the United Nations General Assembly vote of 29 November 2012, upgrading the status of Palestine to a non-member observer State. While representing a positive step, this international recognition calls for an immediate national dialogue among the various key players including; the Palestinian government, the private sector and other economic institutions in order to fully utilize this opportunity.

To that end, PIF has its vision aimed at reviving the Palestinian economy, taking into account various structural distortions resulting from the Israeli occupation which has been and remains to be the single largest obstacle inhibiting sustained economic growth in Palestine. These structural distortions include; persistent fiscal and trade deficits, heavy dependence on Israeli markets, limited exports, a decline in investment activities, and chronic underperformance in the contribution of productive sectors to GDP and employment. It is therefore imperative for the Palestinian government to fully utilize this resolution towards freeing Israel's grip on the Palestinian economy, developing a new economic system based on the capabilities of the Palestinian people, restoring investors' confidence in the Palestinian economy, and achieving sustainable economic growth. The realization of these objectives necessitates the design of an all-inclusive national strategy, which calls on the participation of the public and private sectors, civil society, and the Palestinian people as a whole.

Ladies and Gentlemen,

Stemming from our belief in the significance of the micro, small and medium size enterprises (MSMEs) segment to the development of the Palestinian economy, PIF made the development of this sector a strategic priority. In order to expand its presence in this space, PIF launched "Sharakat" Fund, dedicated for investment in the MSMEs sector. This Fund became an integral part of PIF's investment portfolio in the various sectors of the Palestinian economy including; real estate, hospitality, infrastructure (energy and telecommunications in particular) and the financial sectors.

Sharakat aims to develop Palestinian MSMEs in promising, high value-added sectors, such as manufacturing, agriculture, and information technology, across all Palestinian cities and governorates, with special emphasis on the Jordan Valley region and Jerusalem. By providing growth capital and technical assistance, "Sharakat" will improve MSMEs' much needed managerial, financial, and marketing capacities.

Since its inception, "Sharakat" has gained tremendous interest from MSMEs in the various sectors, and completed two deals; a loan agreement with "Faten for Microfinance" to provide micro-finance loans to projects in the agriculture sector and to projects in areas that are negatively impacted by the Israeli separation Wall. The second deal was an equity investment through the Palestine Growth Capital Fund (PGCF). In addition, the program has a number of deals in the pipeline, some of which have passed the initial screening and received initial approval.

In addition to "Sharakat" , PIF developed a comprehensive investment program targeting the Jordan Valley and Dead Sea Region. This program will have a significant economic and developmental impact and is expected to play an important role in emphasizing Palestinian sovereignty in that area. PIF strategic vision to develop the Jordan Valley and the Dead Sea Region include launching a number of developmental projects across vital economic sectors including agriculture, manufacturing, real estate, and hospitality. This program will have both political and economic dimensions. The program develops the region's economy, creates job opportunities for its residents, and strengthens the Palestinian presence in the area in addition to improving the living standards of its residents.

PIF is currently implementing a number of projects in the region, including; agricultural and agro-business projects, and a number of real estate and hospitality projects in Jericho and the surrounding region including Jericho Agro-Industrial Park which is implemented by the Amaar Real Estate Group in partnership with other investors.

Despite the difficult situation that the Palestinian economy passed through, PIF's results during 2012 were better than budgeted. PIF has succeeded in attaining reasonable return on the investment, in a manner consistent with PIF's strategy of keeping the balance between financial return and economic and development growth while following a conservative approach aimed at minimizing investment risks, and focusing on low-risk investments. Achieving a profit before taxes of US$43.3 million. On the dividends side, PIF transferred US$ 30 million as an advance payment on 2012 profit bringing total dividend distribution to US$ 683 million. In addition, PIF provided US$ 40 million in assets as collateral for a US$ 100 million loan, from a local bank to the Ministry of Finance. On the other hand, PIF assets dropped due to the aforementioned transfer of dividends and the settling of the Ministry of Finance's current account against tax liabilities and part of the dividends, Over the past five years, PIF's projects have created more than 10,000 job opportunities, and I promise to continue our contribution to job creation in the future.

On the institutional level, PIF continued its efforts towards promoting and enhancing its corporate governance practices. It remains committed to adopting strict corporate governance and transparency principles in line with international best practices. The accountability undertaken by its Board of Directors and General Assembly. Along with 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, emphasized the culture of good governance and transparency at PIF.

In order to further strengthen PIF's governance principles, PIF has developed a governance code based on the international best practices. The governance code covers the Board of Directors and its committees, conflict of interests, transparency and disclosure. In addition, PIF has undertaken a comprehensive process to update its policies and procedures for its various functions and operations and is currently in the process of establishing a risk management unit.

Ladies and Gentlemen,

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. Driven by the common goal of improving the living conditions of the Palestinian people, I would also like to express my gratitude to the Palestinian Government and the public institutions of the Palestinian National Authority. Furthermore, I would like to thank all of our partners, within Palestine and abroad, for their contribution towards building an independent Palestinian State and an independent economy. Our deepest gratitude is also expressed to the General Assembly, the Board of Directors, and the staff of PIF and its subsidiaries for their continued efforts.

Sincerely,
Dr. Mohammad Mustafa
Chairman & CEO

Chapter One

About PIF

PIF was established as 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 aims at fostering economic development. 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

PIF's mission is to promote a strong, sustainable and 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 using the local resources in delivering its investment program. On the other hand, PIF has been focusing 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's Vision

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.

These investments 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 stimulating the growth of a strong, cohesive, efficient and highly experienced private sector that is competitive locally and worldwide to lead the Palestinian economy 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.

Transparency and Governance

PIF's believes strongly that good corporate governance is critical to its long-term success. The values we share at PIF form the foundation of our corporate governance practices.

Since inception, PIF has implemented a number of policies and procedures that formed the key elements of its strong corporate governance structure. These elements include:

- Independent General Assembly and Board of Directors.
- Subjecting it operation to internal audit by one of the leading international auditing firms.
- Adopting a corporate governance manual based on international best practices and standards.
- Subjecting its operations to state audit by the Government's Audit and Administration Bureau.
- Implementing financial and administrative policies and procedures based on international best practices and standards.
- Adhering to transparency and disclosure principles.
- Auditing its annual accounts by one of the leading international auditing firms.

PIF's Financial, Economic, and Institutional Performance

Last year witnessed several major economic, financial, and political developments. Most significant was the recognition of Palestine as a non-member observer State by the United Nations General Assembly on 29 November 2012. At the same time, Palestine has been experiencing serious financial and economic challenges, predominantly caused by Israeli occupation that has been and remains to be the single largest obstacle inhibiting sustained economic growth, and forcing its reliance on foreign aid.

Despite of these challenges, PIF has achieved positive results at the three levels: financial, economic, and institutional building. Thus presenting a model of a Palestinian institutions ability to sustain and deliver in an unstable economic environment.

Financial

PIF has succeeded in attaining reasonable return on the investment, where profit before taxes for 2012 reached US$43.3 million. On the dividends side, PIF transferred US$ 30 million to the Palestinian Ministry of Finance as an advance payment on 2012 profit bringing total dividend distribution since inception to US$ 683 million.

PIF's assets has reached US$ 782.8 million by the end of 2012, while owner's equity reached US$ 709.4 million.

Economic

Despite the challenges faced the Palestinian economy in 2012, PIF has made a significant contributions to the national economy. These contributions were multidimensional and involves supporting the private sector through launching a number of programs and projects in partnership with the private sector in vital sectors of the Palestinian Economy including; MSMEs, real estate and these partnerships brought additional capital, knowledge, expertise, infrastructure and other sources of value to the Palestinian private sector and increased its competitiveness.

PIF programs and projects created nearly 1,300 direct job opportunities and contributed to the GDP through creating economic value added of more than US$ 70 million to Palestinian economy. In addition, PIF's projects contribution in terms of taxes paid to the Palestinian Authority, amounted US$ 76 million in 2012.

In addition, during 2012 PIF transferred US$ 30 million in the form of dividends to the Palestinian treasury, bringing total dividend distribution since inception to approximately US$ 683.3 million. This contribution has been critical to the stainability of the Palestinian government finances, especially in periods of donor aid disruptions.

PIF has worked during the past few years to transfer much of its assets into Palestine. The goal of this strategic shift is to optimize the developmental impact of PIF's overall activities. During 2012 continued this shift where by end of 2012, Palestinian investments accounted for 84% of PIF's total investments.

Institutional

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. These practices also made PIF's more attractive to business partners, locally and internationally.

PIF adopted a number of measures and standards to promote transparency and corporate governance.

General Assembly

The general assembly is 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.

The Board of Directors

PIF operations are overseen by an independent eleven members 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.

Governance Manual

PIF adopts 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 international consulting firm based on best practices.

This manual forms the basis for all the policies and procedures that govern PIF.

Policies and Procedures

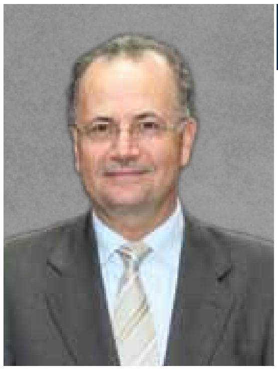
PIF adopts detailed policies and procedures that are in line with best practices. These policies and procedures regulate managerial and investment decision making process. It is also subject to a strict authority matrix for investment decision making. According to this authority matrix all investment 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 principles of transparency, which is manifested in the commitment to disclose its mission, corporate structure, investment programs, and its managerial and financial performance. This is done using several outlets, including PIF's website, the annual report, press conferences and press releases. PIF's website includes details on its projects and programs, and electronic copies of all press releases and printed material distributed by PIF.

PIF also issues annual reports highlighting PIF's annual activities, audited financial statements approved by the Board of Directors, PIF's financial position, and transactions with related parties.

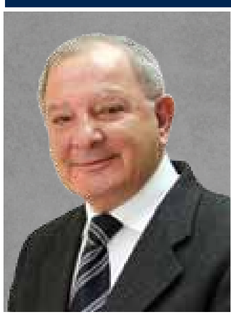
Board of Directors



Dr. Mohammad Mustafa

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 the Chairman of PIF's Board of Directors and its Chief Executive Officer. He also serves as the chairman and board member of several subsidiary and affiliated companies in which PIF invests. Dr. Mustafa previously held senior positions at the World Bank and a number of regional and local companies and funds.

Mr. Maher Al-Masri



Mr. Al-Masri holds Master's degree in Economics. Mr. Al-Masri has worked as an economist at the Associated Consulting Engineers in Beirut and London during the 1970s. He returned to the West Bank to run the Vegetable Oil Company. Mr. Al-Masri is a farmer member of the Palestinian Legislative Council and Minister of Economy & Trade. He served as the Chairman of the Palestine Investment Promotion Agency. Mr. Al-Masri sits on the Board of Directors of the Palestine Economic Policy Research Institute (MAS), and the Chairman of the Board of Directors of the Palestine Capital Market Authority (PCMA).

Dr. Jihad Al-Wazir

Dr. Al-Wazir holds a Doctorate degree in Business Administration. In 2008, he was appointed as the Governor and Chairman of the Board of Directors of the Palestine Monetary Authority, a position he continues to hold. Dr. Al-Wazir is the Deputy Chairman of the Board of Trustees of the Arab American University in Jenin.

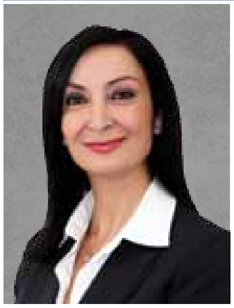
Eng. Nabil Al-Sarraf

Mr. Al-Sarraf 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). Mr. Al-Sarraf is a board member in a number of leading Arab and Palestinian companies including the united Arab investors and AMTEC. Mr. Al-Sarraf holds a Master's degree in Civil Engineering from Aachen University in Germany.

His Excellency Mr. Mohammad Abu Ramadan

Mr. Abo-Ramadan is the Minister of State for Planning Affairs. He previously served as the Chairman of Abu-Ramadan Investment Group, the Chairman and CEO of the Gaza Bus Company, Deputy Chairman of Palestine Insurance Company and PalTrade. He also served as member of the Board of Directors of the Palestine Monetary Mr. Abo-Ramadan holds a Bachelor's degree in Business Administration from Syracuse University in the United States.

Mrs. Lana Jamal Abu-Hejleh

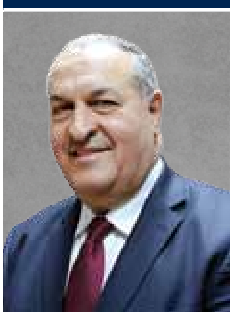


Mrs. Abu-Hejleh is an expert in Palestinian development. She holds a Bachelor's degree in Civil and Environmental Engineering and has worked with various international development and humanitarian agencies in Palestine. Mrs. Abu Hijleh is currently the General Director of CHF International in Palestine. She is an active volunteer in a number of Palestinian and international non-governmental organizations and private sector institutions.

Mr. Tareq Al-Aggad

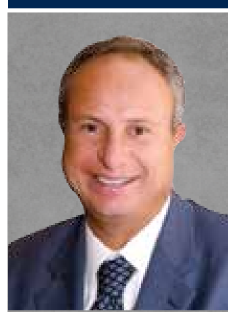
Mr. Al-Aggad holds the position of Chairman and CEO of the Arab Palestinian Investment Company (APIC). He is also an Executive Director of Al-Aggad investment Company (AICO). He holds board memberships in several manufacturing, distribution and services companies in Palestine, Jordan and Saudi Arabia.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

Mr. Mazen Sinokrot



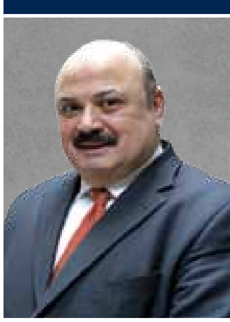
Mr. Sinokrot is the founder of Sinokrot International Group. He led national efforts to establish a number of private sector institutions Palestinian Food Industries Association, Palestine Trade Center he is also is the founder and Chairman of the first Jerusalem-based Holding Company "Al-Quds Holding". Mr. Sinokrot served as the Minister of Economy between 2005 and 2006. He received a Bachelor's degree with honors in Production Management and Industrial Engineering from Nottingham University in the UK in 1980.

Mr. Samer Khoury



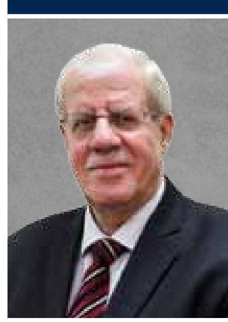
Mr. Khoury is the Deputy Executive Chairman of the Consolidated Contractors Company (CCC), which is one of the major engineering and construction companies in the Middle East. Mr. Khoury is active in many economic institutions around the world and is a member of the Board of Directors in more than 28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

Mr. Azzam Shawwa



Mr. Shawwa served as the Minister of Energy in 2003. Mr. Shawwa is the current General Manager of Palestine Commercial Bank and the pervious of Al-Quds Bank. He was the Chairman of the Association of Banks in Palestine for the year 2012 and he is a board member of a number of leading Palestinian companies and economic and social institutions. He holds a Bachelor's degree in mathematics from Memphis University in the United States.

Dr. Mohammad Nasr



Dr. Nasr is the current Dean of the Commerce and Economics Faculty at Birzeit University. He is also the Chairman of the Board of Directors of the Palestine Governance Institute. He holds a Doctorate degree in Economics from Ohio University in the United States and a Master's degree in Business Administration from Wayne University in the United States.

General Assembly

The General Assembly is composed of 30 independent reputable members representing the business community, civil society organizations, academics, and the public sector in Palestine. The General Assembly is appointed by president Abbas for three years term.

Members of the General Assembly

1. Dr. Mohammad Mustafa
2. Governor of the Palestine Monetary Authority
3. Chairman of the Board of Directors, Palestine Stock Exchange
4. Chairman of the Federation of the Palestinian Chambers of Commerce
5. Chairman of the Board, Capital Markets Authority
6. President of the Private Sector Coordination Council
7. Presidential Court Director
8. Representative of Palestinian Business Women Forum Board of Directors

9. Mr. Samer Khoury
10. Mr. Nabil Al-Sarraf
11. Mr. Mazen Sinokrot
12. Mr. Mohammad Abu Ramadan
13. Mr. Tareq Al-Aggad
14. Mr. Azzam Shawa
15. Mrs. Lana Abu Hijleh
16. Dr. Mohammad Nasr
17. Dr. Khalil Hindi
18. Dr. Mohammad Shtayyeh
19. Dr. Khaled Al-Qawasmeh
20. Mr. Kamal Hassouneh
21. Mr. Waleed Salman
22. Mr. Jawdat Al-Khudari
23. Dr. Hani Nijem
24. Mr. Sam Bahour
25. Mr. Abdulkader Al-Husseini
26. Mrs .Deena Al-Masri
27. Mr. Hashim Shawa
28. Mr. 'Ahed Bseiso
29. Mr. Nassar Nassar
30. Mr. Eyad Joudeh

Chapter Two: Investment Portfolios

Micro, Small and Medium sized Enterprises Portfolios

Due to its critical role in the social and economic development of Palestine, the Micro, Small and Medium sized Enterprises (MSMEs) sector has long been of interest to PIF. MSMEs employ 85% of the private sector labor force and contribute more than 55% to the country's GDP. As such, the sector has proved to be the most important sector of the Palestinian economy.

As part of its support to the sector, PIF runs several projects in the MSME space through a number of investment and financing vehicles. Recently, PIF has consolidated all of its projects in the MSME sector under one umbrella, namely "Sharakat" Fund, which will serve as PIF's investment and financing platform in the MSME sector.

Sharakat

“Sharakat” is a unified investment and financing platform that was established in 2012. It is responsible for structuring, managing and monitoring the various PIF-investments in the MSME space, in addition to monitoring a number of existing and new MSME financing and guarantee facilities and investment vehicles that are managed by PIF partners.

“Sharakat” Investment Fund targets specific vital economic sectors, such as industry, agro-business, IT, microfinance, in addition to certain geographic areas, including Jerusalem and Dead Sea and Jordan Valley region. PIF’s commitment to “Sharakat” consists of US$ 90 million, over the next five years. “Sharakat” plans to secure additional financing through local, regional and international investors and partners of PIF.

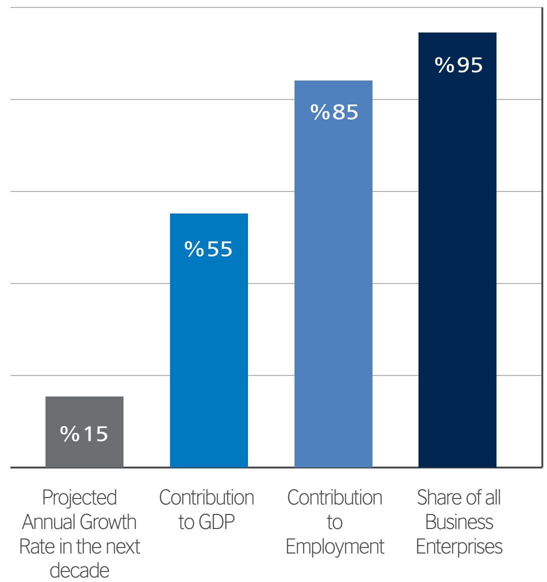
Despite the initial focus on certain sectors and geographic areas, “Sharakat” Fund will be open to considering opportunities in various other sectors and geographic areas.

“Sharakat” Fund consists of allocations that are directly managed by PIF’s investment team, and other allocations that are managed by partners.

Economic Overview of (MSMEs) Sector

- MSMEs in Palestine are typically family owned and characterized by low capitalization, operational flexibility as well as low start-up and operating costs.
- MSMEs are also home to some of Palestine's best entrepreneurs and innovators.
- Palestinian MSMEs are mainly concentrated in the services and retail sectors with large number of enities operating in agriculture and industry.
- Over the years, Palestinian MSMEs have managed to build significant resilience in the face of political uncertainty and volatile market conditions.
- MSMEs in Palestine are significant contributors to economic growth and job creation, in addition to their contribution to entrepreneurship and innovation.
- However, like any other economic sector in Palestine, the MSMEs sector faces a number of challenges that are hindering its growth. The main challenges include limited access to investment capital, managerial expertise, technology and know-how, corporate governance support, and business and government networks.

Statistics about (MSMEs) in Palestine



Sharakat Fund's Mandate

"Sharakat" Fund's mandate is to facilitate the channeling of equity and debt capital in a sustainable and commercially sound manner into the MSMEs space in Palestine, aimed at promoting the MSMEs sector's development and growth. To achieve this goal, "Sharakat" can engage in a diverse set of investment activities that range between direct and indirect equity investments to direct and indirect loan provisions and loan guarantee schemes.

Generally speaking, "Sharakat" fund aims to benefit enterprises that share the following characteristics:

- Existing MSMEs (fair value less than US$ 20 million) based in Palestine, with a small allocation (10% to 20% of total funds) to greenfield projects that have compelling and complete business plans, clear growth potential, and competent and capable management.
- Competent, experienced, credible and open minded management teams.
- Profitability track record (or potential) and healthy financial position (or potential for turnaround).
- Acceptable legal structure and clean legal and tax status.
- Strong potential for growth and development.
- Strong potential for developmental impact.
- Possibility and clarity of exit after no more than five years of disbursement (for both investments and loans.)

Sharakat Workshop

Sharakat Investment Fund

“Sharakat” Investment Fund targets a number of vital economic sectors that are crucial to the development of the Palestinian economy, including the agriculture, industry, tourism, IT, and microfinance sectors. Furthermore, “Sharakat” Fund focuses on certain geographic areas in Palestine including the Jerusalem, and the Dead Sea and Jordan Valley region.

Economic Sectors Targeted by “Sharakat” Fund

Agriculture Sector

The agriculture sector in Palestine accounts for 8% and 16% of the Palestinian GDP and employment, respectively. It is estimated that the average Palestinian family spends 42% of its income on food, which demonstrates the significant potential of the local market to absorb the sector’s output.

In terms of export potential, the Palestinian agricultural and agro-business sector has significant potential, especially considering Palestine’s year-round crop production capacity in the Jordan Valley, due to its unique and favorable climate. Moreover, there are attractive opportunities in the agribusiness space in Palestine, including crop processing, transportation and storage, and marketing.

Industry Sector

There is significant potential for high value activities in the industry sector in Palestine, especially in mining, food processing, and basic manufacturing. Access to capital and technology as well as easing of various Israeli restrictions could induce a qualitative transformation in this sector.

Tourism Sector

500,000 tourists visiting Palestine annually generate an income for Palestine of US$ 250 million every year. The tourism sector in Palestine has tremendous potential for future growth, especially if political and security conditions improve.

IT Sector

The IT sector in Palestine has experienced a 20% annual growth rate since 2000. The sector includes ISPs, software development and other IT service companies. Although currently nascent, with the help of “Sharakat” and similar funds, the IT sector is projected to grow rapidly over the next few years.

Microfinance Sector

Currently, there are 13 Micro Finance Institutions (MFIs) affiliated with the Palestinian Network for Small and Micro Finance. The 13 MFIs operate under various legal structures, such as non-governmental organizations (NGOs), co-operatives, non-profit companies, and donor programs. While all MFIs are active in Palestine, the industry is dominated by 3 institutions with strong foreign links: UNRWA, FATEN and CHF/Ryada.

Recently conducted studies on the microfinance space in Palestine suggest that the expected demand for financing in two years will be approximately US$ 155 million. It has further been suggested that the current MFI loan capacity is only between US$ 60 million and US$ 80 million, which demonstrates a serious need for additional financing.

On a regulatory level, the microfinance sector has undergone shifts that require MFIs to transform into company structures, which provides a window of opportunity for investors interested in potential value in the space.

Geographic Areas Targeted by "Sharakat"Fund

Through its investments, "Sharakat" Fund targets all geographic areas in Palestine. However, due to their significance to the Palestinian people and economy, special focus is placed on key geographic areas such as the city of Jerusalem, the Dead Sea and Jordan Valley region. Dedicated investment funds and financing facilities were established to invest, finance and aid in the development of said areas. Additionally, a dedicated financing facility was established to support Palestinian refugees residing in Palestinian refugee camps in Lebanon.

2012 Progress

- By the end of 2012, approximately US$ 80 million in loans were granted and guaranteed through the various financing programs and the loan guarantee program under Sharakat Fund.
- During 2012, Sharakat's directly managed investment fund reviewed several potential deals, of which four were approved and another four are expected to be approved in the first half of 2013.
- One of Sharakat's investment funds, Palestine Growth Capital Fund (PGCF), which is being managed by Abraaj Capital, has reviewed over 60 deals and has invested in few up to the end of 2012.
- Sharakat fund has held a number of outreach events in the West Bank to develop its deals pipeline and to introduce the Fund to potential interested companies.

Chapter Two: Investment Portfolios

Real Estate and Hospitality

PIF's real estate and hospitality portfolio includes of a number of housing, commercial, and hospitality projects and is managed by, Amaar Real Estate Group, PIF's real estate investment arm. Amaar Real Estate Group oversees the development and implementation of a series of key projects in Palestine. Some of the most important projects are Al-Reehan and Al-Jinan residential neighborhoods in Ramallah and Al-Bireh and Jenin governorates respectively, the Ersal Center Project in Ramallah and Al-Bireh governorate, and several other hospitality projects including the Grand Park Hotel in Ramallah and Bethlehem, and Al-Bazar Project and the Golden Gate Hotel in Jerusalem.

Amaar Real Estate Group

National Projects to Revive Vital Economic Sectors

Amaar manages a number of real estate and hospitaltiy projects across Palestine. Amaar residential real estate projects include Al-Reehan neighborhood in Ramallah and Al-Bireh governorate, and Al-Jinan neighborhood is located in Jenin. Planning for a third residential neighborhood is currently underway.

In addition to the residential neighborhoods, Amaar is developing the Ersal Center. Located in the Ramallah and Al-Bireh governorate, Ersal Center is a multi-use commercial project and represents a significant rise in the standards of Palestinian commercial real estate in Palestine. It consists of a number of commercial, financial, and services facilities, in addition to a number of recreation facilities. A number of leading Palestinian institutions are choosing Ersal Center as their future headquarters.

In the hospitality sector, Amaar owns the Grand Park Hotel, as well as being a major shareholder in a number of hotels in Palestine, including the Intercontinental Hotel in Jericho and Jacir Palace in Bethlehem.

Amaar Real Estate Group also oversees PIF's real estate development project in the Jordan Valley and Dead Sea region, which includes the Jericho Agro-Industrial Park (JAIP), and "Madinat Al Qamar" project.

Residential Projects

Al-Reehan Residential Neighborhood

Al-Reehan residential neighborhood is part of PIF's affordable housing national program. This program's target is to build some 10,000 affordable residential units across the country. Al-Reehan residential neighborhood is an investment program of US$ 250 million and is located just minutes away from the city of Ramallah. The first phase of the project has been completed and several units have been delivered to the residents. Upon completion, the neighborhood will have 1,600 residential units, which can house up to 8,000 residents.

An Integrated Residential Community and a First Class Project

The neighborhood contains housing units of various sizes aimed at meeting the different needs and financial constraints of all segments of the Palestinian population. PIF has further ensured that the residents of the neighborhood have access to the required facilities, including a shopping mall and 55 commercial stores. A specialized hospital "Arab Consulting Hospital" will also be build in the neighborhood. The hospital will consist of 14 floors with a total area of 25,000 square meters and will have a capacity of 250 beds. The investment will be around US$ 30 million. The first phase of the hospital was concluded in 2012. Once operational, the hospital will provide several medical services and specializations beneficial not only to the residents of Al-Reehan, but also to those residing in the neighboring areas.

The project infrastructure is virtually complete, including the main road connecting Al-Reehan to the Ramallah–Birzeit road network. Water, electricity, telephone and sewage networks are also completed, in addition to a purification station that operates with a closed container system (environmentally friendly) and a processing power of 500 cubic meters of wastewater per day. The construction of Al-Reehan neighborhood second phase has commenced, which was entirely sold to "JAWWAL" employees provident fund.

Al-Reehan Residential Neighborhood

Al-Reehan has positive impact on the national economy

Al-Reehan's positive impact has extended beyond its residents. The economic advantage of the project included provision of 440,000 working days to hundreds of Palestinian laborers, engineers, technicians, and contractors. Approximately 80 local contracting companies, engineering firms participated in the implementation of this project. Thus far, the development of this project's first phase alone has injected more than US$ 34 million into the Palestinian economy, not including the various taxes and fees.

PIF's Al-Reehan project has a great impact on the various economic sectors and sub-sectors of the Palestinian economy, such as real estate and construction, construction material production, banking and insurance, marble and stone production, electricity and telecommunication, and engineering offices. Neighboring areas of land benefit from the constructed and upgraded infrastructure, which has increased their investment opportunities. PIF has been eager to prioritize domestic products, and as a result Al-Reehan has so far been built with Palestinian products.

The Arab Consulting Hospital – Al Reehan

Al-Reehan Residential Neighborhood

Residential Projects

Al-Jinan Residential Neighborhood

Al-Jinan represents an integrated community composed of residential buildings and semi-independent units, in addition to a group of 1000 housing units including social, health and commercial facilities. The neighborhood is located on the eastern hills of Jenin, surrounded by trees and scenic views on all sides.

During 2012, construction of two residential packages of 100 units, with an area of 14,000 square meters, was completed, in addition to the commercial center.

Modern Infrastructure and Economic Benefits to Jenin

Amaar was keen on implementing a high quality infrastructure across its residential projects. A state of the art infrastructure was completed during the year including roads, telecommunication, electricity, water and sewage network. Residents started moving into their new homes by the end of 2012. Al-Jinan Project was beneficial to the governorate of Jenin. Surrounding areas benefited from the project's infrastructure and a number of Palestinian contracting companies and engineering firms participated in the project. In addition, the project contributed more than 54,000 working days to the people of Jenin.

Al-Jinan Residential Neighborhood

Hospitality Projects

The Grand Park Hotel

The Grand Park Hotel has left its mark on the Palestinian hospitality sector. Its distinct location in the city of Ramallah and the upgrading of its facilities and services has made it the top choice for experiencing the original Palestinian hospitality. After the recent of renovations, the hotel was reopened in 2012 with a new design and upgrades to its services and facilities.

The hotel offers 83 single and double rooms, renovated and decorated with new furniture. In addition, the hotel franchises a number of renowned Arab and international restaurants, a swimming pools and a fitness center.

The hotel provides top services for business people traveling to the region. The Grand Park is equipped with a modern business center with access to computers, a high-speed Internet connection and office equipment. The conference facilities and spacious banquet halls offer a great venue for companies and institutions to conduct training courses, workshops, conferences, and social events.

The Grand Park Hotel: Development and Modernization

Following the comprehensive renovation process, for all facilities and hotel services, the modern design of the hotel starts at the main gate and extends through the rest of the hotel. The Grand Park Hotel is perfectly situated on top of a medium hill with abundant greenery in Al-Masyoon neighborhood in the city of Ramallah, giving its guests and visitors a great panoramic view of the city of Jerusalem.

The “Grand Park Company”, a subsidiary of the Amaar Real Estate Group, had made the decision to renovate and rebuild the hotel’s facilities and to modernize its halls, restaurants, offices and suites to better meet the needs of guests, in addition to maintaining the hotel’s status.

Despite the very recent reopening, the quality of services and technology, comfortable setting, and local and international cuisine, the hotel has attracted guests and delegations from various sectors. The hotel is currently planning to expand to other cities in Palestine, including Jericho and Bethlehem. Furthermore, the Grand Park Hotel aspires to expand not only domestically, but internationally, becoming an international Palestinian brand of hospitality.

Grand Park Hotel

Jacir Palace Hotel

Jacir Palace is an outstanding landmark in the city of Bethlehem and it is part of the Intercontinental International Group with a five-star ranking. Amaar Real Estate Group is the second largest shareholder in the Palestine Tourism Investment Company, which owns Jacir Palace. The hotel hosted several activities and events throughout 2012.

Jacir Palace Hotel

Jericho Intercontinental Hotel and Resort

The Jericho Intercontinental Hotel and Resort stands as a landmark for tourism in the historical city of Jericho. The hotel was established in the year 2000 and is frequented by domestic and international tourists and business guests. A part of the worldwide Intercontinental Group, this five-star hotel boasts a haven of leisure with 181 rooms, 15 luxurious suites as well as a number of banquets and conference facilities. The hotel also offers a host of amenities including a swimming pool, a dead-sea water pool and a tennis court.

Intercontinental Hotel – Jericho

Commercial 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, on an area of 50 thousand sqm in Ramallah and Al-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 from 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, the Consolidated Contractors Company (CCC), and Jerusalem district electricity company.

The infrastructure of Ersal Center is almost complete, including telecommunication, electricity, water, and the main roads connecting this project.

In addition, the construction process of Amaar Real Estate Group tower has started. The tower will host in addition to Amaar, PIF and its subsidiaries.

Commercial towers promoting a modern Palestine

Step by step, Ersal Center will be occupied by office towers that will serve as headquarters for financial institutions, banks, insurance companies, and information technology. Meanwhile, the final touches are being done on the designs of a new shopping mall in "Ersal Center" to fulfill the needs of the residents. Last but not least, the Ersal Center will also include plans for residential towers and a hotel.

Ersal Center

Chapter Two: Investment Portfolios

Infrastucture Program

As part of PIF's ongoing efforts to lay the foundations of an independent and modern Palestinian State, the Palestine infrastructure portfolio stands at the forefront of PIF's investment focus. PIF's infrastructure portfolio is geared toward building infrastructure companies and projects capable of contributing to fostering growth of the Palestinian economy and propelling long-term growth in multiple sectors, particularly energy and telecommunications.

Wataniya Mobile

2012 was a successful year for Wataniya Mobile. The company proudly realized a number of achievements, continuing to fulfill its promise to offer advanced telecommunication services and to enhance competitiveness in the Palestinian telecommunications market. The company's positive performance during the past year is reflected in its growing subscriber base, whereby the company surpassed the half a million subscriber threshold in 2012. Reaching 610,000 subscriber by the end of 2012, showing a growth of 31% compared to 2011. In addition Wataniya Mobile market share increased from 24% at the end of 2011 to 28% * by the end of 2012. The confidence accorded to Wataniya Mobile further transcended to its investors, banks and financial institutions.

The company ranked as the third largest company on the Palestine Exchange in terms of market capitalization; representing 13.8% of Al-Quds Index.

Furthermore, Wataniya Mobile has successfully secured a new syndicated loan of US$ 125 million to finance the establishment of the Gaza Strip network and the expansion of its West Bank network. A number of local and regional banks participated, as well as the International Finance Corporation (IFC), which contributed US$ 50 million of the loan. The signed loan agreement highlights the considerable level of confidence in Wataniya Mobile from prestigious financial institutions such as the IFC and the participating local and regional banks.

In its continued efforts to provide services nationwide, Wataniya Mobile has been working diligently to ensure the launch of its services in the Gaza Strip. The Company has bought the network equipment and set up transmission towers, hired professional staff and completed leasing a number of sites in preparation for the launch. However, the company is still awaiting required Israeli approvals for its equipment to enter Gaza strip in order to commence its operations there. The launch of operations in the Gaza Strip is expected to increase Wataniya Mobile's market share.

In terms of financial performance, Wataniya Mobile has managed to increase its revenues to US$ 84.1 million during 2012, compared to US$ 75 million at the in 2011.

Wataniya Mobile has proved itself as a leading telecommunications company during 2012 and is looking forward to a new year full of achievements.

* Market share accounts for West Bank mobile users only. Year 2011 market share is based on Wataniya's disclosures in PEX, year 2012 market share is mathematically estimated.

Gaza Gas Project

Project Background

Gaza Gas is considered one of PIF's most strategic projects in Palestine. The project was launched after the discovery of natural gas reserves off the Gaza shore by BG, CCC, and PIF in 2000. The group was subsequently granted full rights for the exploration of natural gas in that region.

The natural gas reserves, which are estimated at 30 billion cubic meters, were discovered in two fields, "Gaza Marine" and "Border Field". "Gaza Marine", the larger of the two fields with over 28 billion cubic meters of natural gas, lies completely within Palestinian waters. "Border Field" which contains roughly 3 billion cubic meters of natural gas, is located partly within the Palestinian waters with the remainder located within Israeli waters. The "Border Field" is an extension of the "Noa South Field", which lies entirely within Israeli waters.

While the fields' exact value depends largely upon global gas prices, the total value is expected to be worth several billion dollars. Thus far, approximately US$ 100 million has been invested in the project, with the total amount of exploration and development costs projected to reach US$ 800 million over the next three years.

Project Development

Israeli policies have prevented the monetization of the gas reserves thus far. PIF and its partners continue to put forth significant efforts to secure the necessary Israeli approvals to commence the project. PIF hopes that the needed approvals will be granted in the near future.

PIF foresees the development of the Gaza Gas project as a critical component of its overall energy strategy. The development of the Gaza Gas project will go hand in hand with the development of the Palestinian Power Generation Company in the West Bank and modification of the Power Generation Company in Gaza. Both facilities will be equipped with gas-fired electricity generators to utilize the newly explored natural gas.

Project Benefits

Successful monetization of the Gaza Gas project will yield the Palestinian economy wide-spread benefits in several key areas:

- Tremendous savings on the energy bill of the Palestinian Authority. According to preliminary studies, the replacement of the highly expensive imported energy in the form of electricity and fuel by locally explored natural gas will result in annual savings of over US$ 560 million.
- Creation of a new revenue stream to the Palestinian Authority. Direct revenues to the Palestinian Authority are estimated at 45-50% of the total project revenues, which translates into US$ 2.5 billion over the life of the project.
- Opening the door for massive investment opportunities in the energy sector by independent private sector power generation companies, which will contribute to the development of the energy sector in Palestine.
- Higher overall energy independence. The existence of a more reliable source of energy will replace the highly expensive energy imports, and will go a long way in lowering the dependence on Israeli.

Gaza Gas Project

Palestine Power Generation Company – West Bank

Project Background

PIF is one of the founding shareholders, with a 10% share, of the Palestine Power Generation Company (PPGC). PPGC is currently in the process of developing Palestine's second (and the West Bank's first) power generation plant, which will be located in the northern West Bank region of Jenin. The plant will utilize natural gas for power generation and will have a maximum power generation capacity of 300 million watt. The project's total development cost, which is estimated to reach US$ 300 million, will be secured through equity investment and project financing.

Project Development

Pursuant to the establishment of the company in 2010, efforts were launched to secure the key components necessary to the commencement of the project. This has included acquiring the land on which the project will be constructed, securing sustainable resources needed for the operation of the project, acquiring the remaining regulatory approvals, and outsourcing the project's design and construction contracts. When all necessary components are secured, the development of the project is expected to take 18 months. Project construction is expected to commence in 2014.

Project Benefits

PPGC is an integral component of PIF's overall energy strategy in Palestine. The company is expected to play a major role in the development of the Palestinian power generation capacity, in addition to the reduction in the country's energy costs and energy dependency on neighboring countries. Furthermore, PPGC will fuel economic development in the northern part of the West Bank by improving the current energy infrastructure, while at the same time creating hundreds of employment and business opportunities in different economic sectors during the construction phase of the project and thereafter.

Palestine Electric Company – Gaza Strip

With a 6% stake, PIF is one of the co-founders and shareholders of the Palestine Electric Company (PEC). PEC is the owner and operator of Palestine's first power generation plant in Gaza. The plant has a generation capacity of 140 million watt, but currently generates about 110 -120 million watt, which covers approximately 23% of the Gaza Strip's total demand. The inadequate infrastructure in the Gaza Strip, including the weak transmission lines, combined with the high cost of fuel, prevent the plant from operating at full capacity.

The Gaza Power plant has dual turbines, which allow it to run on either natural gas or oil. A recent study conducted by the World Bank estimates that the modification of the plant to make it run entirely on natural gas requires an investment of US$ 5 million, and would achieve over US$ 45 million in annual savings for the PA at the current production levels. However, as it is the case with the Gaza Gas Project, Israeli restrictions have prevented the modification of the plant until now.

Palestine Electric Company

Chapter Two: Investment Portfolios

Large Caps

PIF defines its large caps portfolio to include strategic investments in companies with high capitalization that are typically in the mature stage and have stable earnings. PIF's strategy in this segment is to acquire significant stakes in these companies that allow for some control over their operations. The goal is to extract value from improving operations and efficiency in these companies and secure stable ongoing returns. Currently, PIF has four main holdings in this domain: the Arab Palestinian Investment Company (APIC), the Palestinian Commercial Services Company (PCSC), the Palestinian Islamic Bank (ISBK), and the Arab Islamic Bank (AIB).

The Arab Palestinian Investment Company

About The Arab Palestinian Investment Company

The Arab Palestinian Investment Company (APIC) is a leading private shareholding corporation, formed and established in 1995 by a group of Palestinian investors to be a prominent name in the manufacturing, retail & wholesale trade sectors. PIF is a major shareholder in APIC with a stake of 20.2%. APIC holds a diversified portfolio of investments, including automobile distribution, advertisement, aluminum manufacturing, medical services, food processing, and commercial shopping centers.

APIC's authorized capital is US$ 70 million, while the paid-in-capital is around US$ 50 million. APIC's revenues amounted to US$ 380.5 million in 2012.

Mandate

APIC was established with the goal of developing and providing superior products and services in Palestine, either through direct and/or indirect investments in the Palestinian market, to impact the local economy and raise the living standards. APIC runs its operations through its subsidiaries specialized in various economic sectors.

Subsidiary	Location	Ownership %
Siniora Food Industries	Palestine / Jordan	58 %
National Aluminum & Profile Company	Palestine	71 %
Unipal General Trading Company	Palestine	83.7 %
Central and West Africa for Commercial Agencies Company	Africa	50 %
Medical Supplies and Services	Palestine	50 %
Arab Palestinian Shopping Centers Company	Palestine	68.95 %
Palestine Automobile Company	Palestine	100 %
Sky Advertising Company	Palestine	100 %

Palestinian Commercial Services Company

About the Company

Palestinian Commercial Services Company PCSC, wholly owned subsidiary of PIF, was established in 1994 to meet the demand of the Palestinian market for cement. PCSC is a majority shareholder in "Bulk Express", the largest cement transport company in the West Bank.

Mandate

PCSC aims to facilitate the stable and continuous provision of affordable cement to the Palestinian market.

Sector Outlook

Cement trading is one of the major business opportunities in Palestine. There is significant demand for cement, needed for real estate developments and infrastructure projects. The construction sector is estimated to constitute around 12% of the GDP and to be responsible for creating 14% of the employment opportunities in Palestine in the coming years.

PCSC's customers, such as cement distributers, concrete and brick plants, are spread out across the Palestinian market.

Palestine Islamic Bank

About Palestine Islamic Bank

Palestine Islamic Bank (ISBK) was incorporated as a public shareholding company in 1995 and commenced its operations in early 1997. The Bank is licensed as an Islamic Bank and operates in accordance with Sharia rules. The Bank has an authorized capital of US$ 100 million and a paid-in-capital of US$ 48 million.

ISBK expanded its operations through two acquisitions. In 2005, the Bank acquired the Islamic arm of the Cairo Amman Bank in Palestine and in 2010, it acquired Al Aqsa Islamic Bank. ISBK currently conducts its activities through 14 branches, including 6 in the Gaza Strip, and employs 360 staff members.

In 2012, PIF completed the acquisition of a strategic share of 34.18% in the Bank, which allows PIF to contribute to the developing of the Bank's operations and stimulate an increase in services.

ISBK's performance witnessed a notable improvement in 2012. Its profits increased by 44% amounting to US$ 5.8 million compared to US$ 4 million in 2011. Assets, on the other hand, grew by 8% to amount to US$ 423 million, while deposits witnessed a 12% increase, amounting to US$ 336 million compared to US$ 301 million in 2011.

The Bank also repositioned itself in the Palestinian banking sector. Through aquisition of new headquarters, and to bringing in necessary professional expertise, launching a branding campaign with a new logo and completed new expansion plans including opening new branches in the West Bank and the Gaza Strip.

PIF views the Islamic banking sector as an underserved and underdeveloped sector with high growth potential. Currently, Islamic banking accounts for less than 10% of the total banking market in Palestine, while demand for Islamic banking is estimated at 20%.

Arab Islamic Bank

About Arab Islamic Bank

The Arab Islamic Bank (AIB) is the second Islamic bank in Palestine and has a 45% share of the Islamic banking market. The bank has 10 branches and employs around 240 employees. AIB's assets are amounted at US$ 339 million and its outstanding credit facilities are valued at US$ 148 million.

Currently, PIF holds around 13.3% of AIB's shares, as PIF's desires to promote and strengthen Islamic banking in Palestine.

Chapter Two: Investment Portfolios

Capital Markets Portfolio

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 2012, PIF's capital market investments amounted to US$250 million, with around 77% invested in the Palestine Exchange.

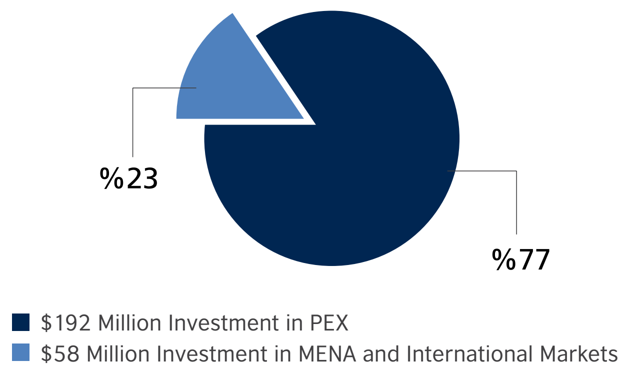
PIF invests in low risk equity securities and fixed income securities to optimize the use of its asset base and achieve growth and profitability, while maintaining sufficient liquidity to finance its strategic investment program. PIF's portfolios are diversified and cover various economic sectors including;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

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

Khazanah Asset Management Company

Khazanah Asset Management Company is the capital markets investment arm of PIF, managing investment portfolios across three main geographies that include domestic (Palestine), regional (MENA region) and global markets. The main objective of Khazanah is to generate sustainable income through investments that fall within the investment mandate. Khazanah manages the investment portfolios in accordance with the best asset management practices and relies on a team of highly capable managers to oversee the different asset classes, including equities and fixed income.

Geographic Distribution of Khazanah Investment Portfolio 31/12/2012



PIF's Investments in the Palestine Exchange

In line with its mission of fostering growth in the Palestinian private sector, PIF focuses the majority of its capital market investments in the Palestinian market. PIF's investment in the Palestine Exchange (PEX) amounts to over US$ 192 million and represents over 77% of Khazanah's US$ 250 million portfolio. PIF contributes to the depth and efficiency of the Palestinian capital market, as well as boosting foreign direct investments by attracting regional and international institutional investors.

PIF investments in the PEX focus on a set of vital economic sectors, including telecommunication, banking, and industrial sectors – all of which play a crucial role in the economic growth and creating jobs in Palestine.

Rasmala Palestine Equity Fund

In early 2011, PIF partnered with the UAE-based Rasmala Investment Bank (RIB) to launch the Rasmala Palestine Equity Fund (RPEF) with the goal of encouraging and facilitating institutional investment in PEX. Drawing upon PIF's commitment to investing in the national economy and RIB's management expertise, the fund was launched with an initial investment of US$ 15 million.

RPEF aims to achieve high returns through medium- and long-term capital appreciation and constant dividends from the investment in a number of leading existing stocks, as well as securities at their initial public offering in the PEX. During 2012, the fund announced its first dividend distribution.

Leveraging PIF's local expertise, reach and know-how, the fund also aims to stimulate the Palestinian capital market by introducing new investment tools. The goal is to provide unique investment opportunities for regional and international investors, in addition to improving market liquidity by facilitating institutional investments in the Palestinian market.

By the end of 2012, the fund was increase from US$ 15 to US$ 52 million as a result of the success in attracting a number of leading institutional investors. These include the Arab Bank Group, the Palestine Telecommunications Group, and Palestine Development and Investment Company (PADICO).

Chapter Two: Investment Portfolios

The Aghwar and Dead Sea Development Initiatives

The Jordan Vally and Dead Sea region is considered the most resource rich area of the West Bank, due to the combination of abundant natural resources, unique climate and rich historic and cultural offerings. The region also represents Palestine's gateway to the world as it lies on Palestine's borders with neighboring Jordan. As a result of these factors, the region possesses a tremendous growth potential and could evolve into a key stimulant for the Palestinian economy.

PIF developed a comprehensive investment program targeting the Aghwar and Dead Sea Region. This program will have a significant economic and developmental impact and is expected to play an important role in emphasizing Palestinian sovereignty in that area. PIF strategic vision to develop the Aghwar and the Dead Sea Region include launching a number of developmental projects across vital economic sectors including agriculture, manufacturing, real estate, and hospitality. This program will have both political and economic dimensions. The program will develop the region's economy, create job opportunities for its residents, and strengthen the Palestinian presence in the area and improve the living standards of its residents.

Real Estate Program

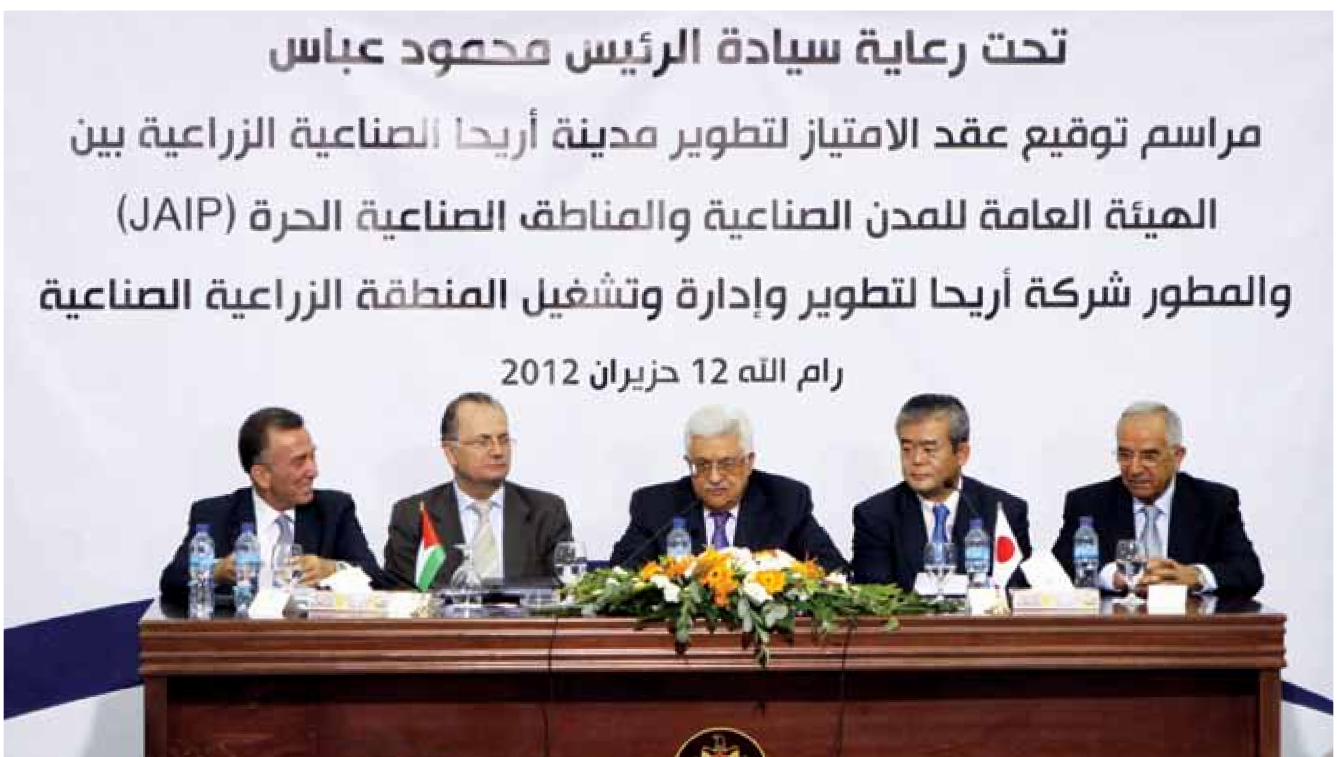
Jericho Agro-Industrial Park

A unique partnership between Amaar Real Estate Group (PIF's real estate investment arm) and the Palestine Real Estate Investment Company (PRICO) was formed in 2012 to launch the Jericho Agro-Industrial Park (JAIP). A state of the art industrial park in Jericho region. JAIP will provide land and factory space, distribution, storage and infrastructure facilities, and office building for businesses and factories in the agro-industrial sector. Recently, Al-Sanabel Company for Agricultural & Veterinary Investment joined as a third partner in the project.

JAIP will be developed in multiple phases, with the first phase covering an area of 115 dunums with an estimated cost of US$ 2.16 million.

The park will play a significant role in promoting the industrial and agribusiness sectors in the region, as it will lay the infrastructure to facilitate the growth of high value agricultural and food processing industries. Moreover, the park's location will promote regional exports, given its close proximity to export-routes via Jordan.

It is worth noting that the project is supported by the Japanese government, which has funded a number of detailed, technical and financial feasibility studies for the project and has committed funding for part of the project's necessary infrastructure.



Signing Ceremony of (JAIP)

Future Projects (Strategic Initiatives in the Aghwar Region)

Moonlight Tourism City

PIF has also embarked on a strategic plan for developing the Palestinian side of the Dead Sea. The plan includes developing large mixed-use tourism facilities that will include a number of hotels, health spas, convention facilities, open spaces, beach front cabins, and private and public beaches.

The projected investment outlay for this project is US$1.4 billion and is expected to create over 10,000 job opportunities. The development will follow the commercially successful developments of tourism facilities on the Jordanian side of the Dead Sea.

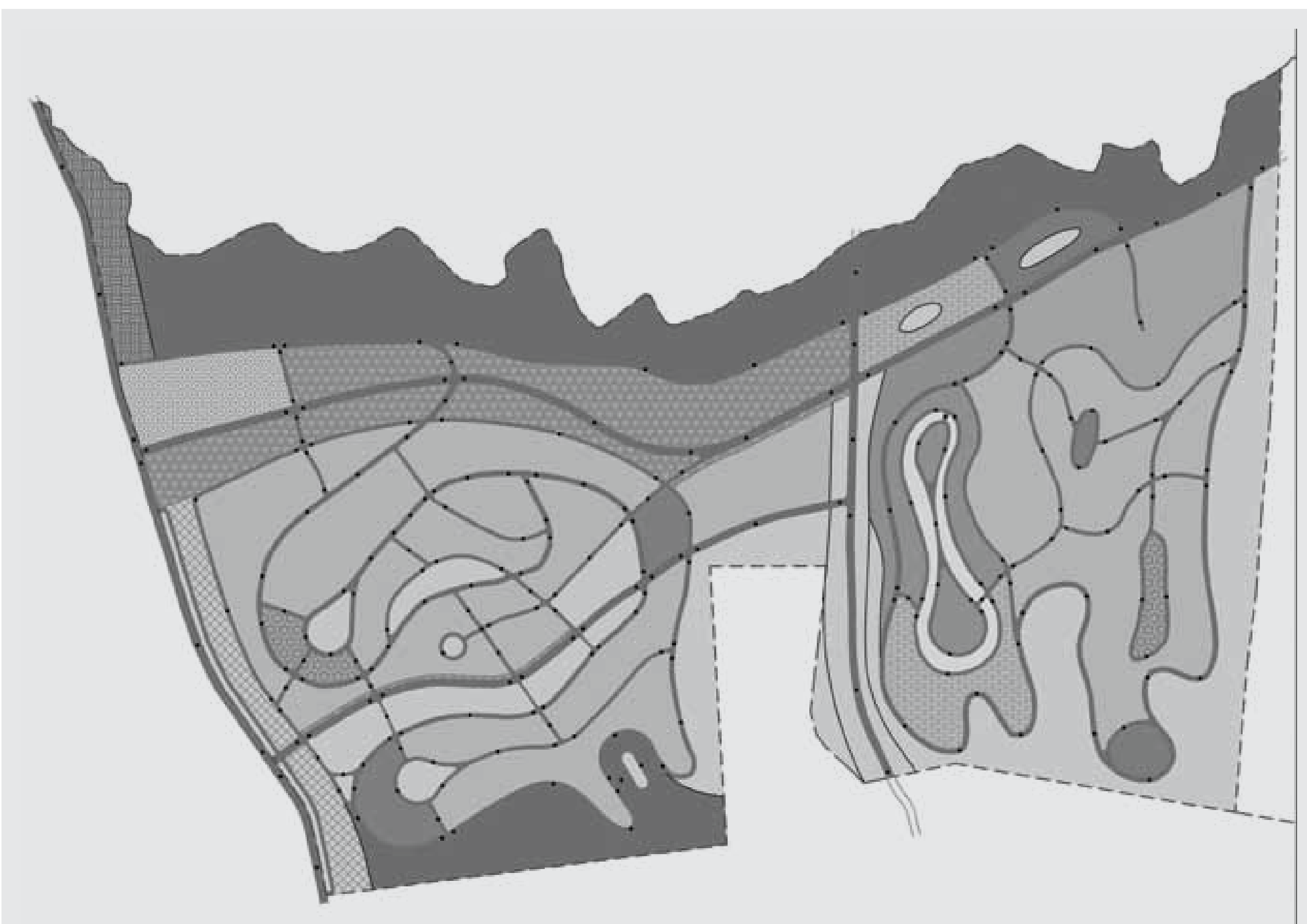
Development of the project is contingent upon Israeli relinquishment of control over Dead Sea area and transfer of control to the PA.

Moonlight Master Plan

Madinat AL Qamar

Madinat Al-Qamar is a real estate development initiative, which PIF is planning to launch in the Aghwar region. The project will be located on a 2,500 dunum plot in the Nouaimeh area in northern Jericho. This project will host a number of residential and commercial areas, resorts and recreational facilities, as well as agricultural areas. The project will be developed in phases and Amaar has already started developing the first phase, consisting on 500 dunums of land.

The first phase's structural scheme has been completed in anticipation of being adopted by the Ministry of Local Government. Plans for streets and land division to developmental plots, along the lines of their intended usage and construction conditions, have also been completed. These schemes are in line with the strategic vision of selling the land development rights to facilitate construction. The project targets diversified segments of Palestinian society that includes developers from the private sector and pension funds and local housing.



Madinat Al Qamar Master Plan

Chapter Three: Corporate Social Responsibility Program

A Systematic Vision Towards Development and Sustainability

PIF has developed an ambitious plan to launch and develop programs for the benefit of Palestinian society. Over the past few years, PIF has worked diligently to launch and support various initiatives, and programs that have a direct impact on the lives of certain sectors of our community.

In 2012, PIF started implementing its three year corporate social plan which focus on supporting specific initiatives and programs with clear developmental impact and potential for sustainability.

Programs to develop the Palestinian youth and to prepare them for the job market are in the core of PIF CSR strategy.

My Project Starts with an Idea

While acknowledging the importance of developing Palestinian youth and equipping them with the necessary skills to be competitive in the job market, PIF launched an extensive nine-months training program for university students in partnership with six Palestinian universities. The program aims to refine the professional and managerial skills of university students, which will enable them to start their own businesses. The program targets students of different backgrounds including business, engineering, agriculture, and IT.

Why "My Project Starts with an Idea"

PIF understands the importance of maintaining a competitive young generation, both by education and by profession, to the development of a strong, growing, and sustainable economy. As part of this vision, PIF has been working hand-in-hand with Palestinian universities on several programs that target both students and universities faculty to provide them with the necessary skill set to turn their ideas into reality. Through workshops across a wide variety of areas, such as management and innovation, students are trained and prepared to establish and run their own businesses.

Program Stages

- Training of university faculty members (Train the Trainer).
- Building of students' entrepreneurial capabilities.
- Training on commercial and technical aspects of small businesses.
- Coaching and supervising students' work and discussion of proposed projects.
- Business plan presentations and competition.

Anticipated Results

- Development of the capabilities of university faculty members.
- Provision of training to more than 420 students, with different backgrounds and specialties, in the theoritical and practical aspects of starting new business.
- Development of a promising generation of young Palestinians, capable of contributing to the building of a strong and sustainable Palestinian economy.
- Providing students with the required skills by the job market in Palestine.
- Improvement of students' entrepreneurial capabilities and encouragement of innovation and creativity.

Graduate students in "My Project Starts with an Idea"

Economic Empowerment Program for Palestinian Refugees Camps in Lebanon

With President Mahmoud Abbas' guidance, and in partnership with the "Mahmoud Abbas Foundation", PIF launched the Empowerment program, which aims to benefit Palestinian refugees in Lebanon. The program endeavors to improve the standard of living of Palestinian refugees by improving their economic and social conditions and by decreasing unemployment rates.

The program grants loans to finance small income-generating projects for Palestinians in refugee camps. The goal is to improve their ever-deteriorating economic conditions, creating job opportunities, and supporting their steadfastness until their return to their home country, Palestine, is realized.

Program Goals

- Improving the living conditions of Palestinian refugees in Lebanon.
- Establishing projects that are owned by Palestinian refugees.
- Creating new job opportunities to decrease unemployment rates.
- Securing economic independence for refugees and reducing reliance on donor aid.

Program Mandate

- The program will grant microfinance loans and technical assistance to about 2,000 projects in its initial stage.
- The amounts of the loan offered will range between US$ 500 and US$ 5,000.
- A loan repayment mechanism will be used to guarantee the repayment of the loan. Charged interest rates will be reasonable compared to other microfinance facilities to ensure the sustainability of the program.
- The program will target projects in different economic sectors including: industry, agriculture, trade, services, IT, health, and education, as well as other productive sectors, in compliance with proper laws and regulations in Lebanon.
- The program will offer its services to all Palestinians in Lebanon whether living in refugee camps or outside, as long as they are operating legally in Lebanon.

Support of National and Cultural Initiatives

In addition to CSR initiatives and programs, PIF has allocated part of its CSR budget to support and activities. preserving Palestinian heritage and culture was given priority in our CSR funding.

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.

Culture and Art

Over the past year, PIF has supported many cultural events, including the Palestine International Festival and the Yaboos Festival in Jerusalem, aimed at revitalizing Jerusalem's cultural life.

Support of Various Initiatives and Activities

In addition to the abovementioned initiatives, a number of other programs were supported by PIF across different economic sectors, including tourism, sports and job matching. The Ministry of Labor Employment Fund is supported by PIF. The fund aims at matching university graduates with potential employers.

"Al-Khair" Initiative: The Holy Month of Ramadan Initiative

PIF launched "Al-Khair Initiative" during the Holy Month of Ramadan. The initiatives aim is to support organizations and charities across the country that provide services to disadvantaged Palestinians.

The initiative identified a number of charities and organizations located and active in different parts of the country and worked with them to develop a comprehensive program that supports disadvantaged Palestinians by providing them with access to healthcare and rehabilitation services.

A large number of these organizations are specialized in offering assistance to handicapped children, as well as children diagnosed with autism, and orphans. Assistance provided by the initiative came in the form of food, shelter, special educational programs, and other living necessities. Approximately 140 handicapped children and 70 orphans benefitted from "Al-Khair Initiative".

Chapter Four:

Financial Statements

Palestine Investment Fund Company

Consolidated Financial Statements

December 31st 2012

ERNST & YOUNG

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

We have audited the accompanying consolidated financial statements of Palestine Investment Fund Company (PIF), which comprise the consolidated statement of financial position as of December 31, 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PIF as of December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young - Middle East

Ernst & Young

April 29, 2013
Ramallah, Palestine

Palestine Investment Fund Company

Consolidated Statement of Financial Position

December 31, 2012

(U.S $ 000's)

		U.S. $ 000's		
	Notes	2012	2011	As at January 1, 2011
			Restated (Note 40)	Restated (Note 40)
Assets				
Non-current assets				
Property, plant and equipment	4	71,198	30,195	75,335
Goodwill	5	26,521	26,521	26,505
Investment properties	6	63,874	108,632	98,730
Projects in progress	7	66,266	63,933	58,281
Investments in associates	8	74,899	56,328	66,023
Joint ventures	9	5,664	6,773	7,633
Held- to–maturity financial assets	10	6,506	-	-
Available-for-sale investments	11	234,791	237,330	251,766
Other financial assets	12	51,659	50,456	49,024
		601,378	580,168	633,297
Current assets				
Accounts receivable	13	25,767	52,725	80,042
Other current assets	14	26,800	20,945	29,624
Cash and deposits at banks	15	70,677	168,882	125,789
		123,244	242,552	235,455
Financial assets held for sale	6	58,162	-	-
		181,406	242,552	235,455
Total assets		782,784	822,720	868,752
Equity and liabilities				
Equity				
Paid-in share capital	16	625,000	625,000	574,000
Shareholder's current account	17	(72,657)	(20,000)	-
Statutory reserve	18	83,623	80,004	76,510
Voluntary reserve	18	19,201	15,582	12,088
Foreign currency translation		234	-	10,881
Available-for-sale reserve	11	12,564	14,239	38,623
Retained earnings		40,188	31,071	67,918
Total equity attributable to shareholder		708,153	745,896	780,020
Non-controlling interests		1,204	4,875	3,924
Total equity		709,357	750,771	783,944
Non-current liabilities				
Long-term finance lease obligations		-	-	21,094
Long-term loans	21	21,056	8,600	-
Deferred tax liabilities	22	2,415	919	81
		23,471	9,519	21,175
Current liabilities				
Current portion of long-term loans	21	350	-	-
Accounts payable	23	28,058	25,385	26,621
Provisions and other current liabilities	24	19,850	26,625	23,276
Provision for Income tax	25	1,698	10,420	7,409
Finance lease obligations maturing within one year		-	-	6,327
		49,956	62,430	63,633
Total liabilities		73,427	71,949	84,808
Total equity and liabilities		782,784	822,720	868,752

The attached notes 1 to 42 form part of these consolidated financial statements

Palestine Investment Fund Company

Consolidated Income Statement

For the Year Ended December 31, 2012

(U.S $ 000's)

	Notes	U.S. $ 000's 2012	2011 Restated (Note 40)
Operating income	26	151,656	181,893
Cost of goods sold	26	(108,562)	(125,495)
Operating expenses	26	(13,653)	(21,285)
		29,441	**35,113**
Gain from investment portfolio	27	12,397	13,991
Interest revenues	28	2,388	3,134
Change in fair value of investment properties	6	10,344	4,192
Share of associates results of operations	8	(7,015)	(9,695)
Share of joint ventures results of operations	9	(1,248)	(860)
Investment expenses	29	(3,811)	(3,420)
Gain from sale and acquisition of associates	30	11,919	-
Other revenues	31	4,801	17,611
		59,216	**60,066**
General and administrative expenses	32	(13,408)	(13,374)
Finance costs		(186)	(957)
Donations		(1,548)	(2,354)
Depreciation of property, plant and equipment		(1,390)	(1,431)
Assets impairment loss	33	(743)	(6,277)
Currency exchange gain		337	126
Gain from sale of property, plant and equipment		-	5,835
Provision of doubtful loans , receivables and advances	34	981	860
Profit before income tax		**43,259**	**42,494**
Income tax expense		(6,742)	(6,754)
Profit for the year		**36,517**	**35,740**
Attributable to:			
Shareholder		36,191	34,937
Non-controlling interests		326	803
		36,517	35,740

The attached notes 1 to 42 form part of these consolidated financial statements

Palestine Investment Fund Company

Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2012

(U.S $ 000's)

	Notes	U.S. $ 000's 2012	U.S. $ 000's 2011 Restated (Note 40)
Profit for the year		36,517	35,740
Other comprehensive income:			
Change in fair value of available for sale investments	11	(1,099)	(21,425)
Gain from sale of available for sale investments recognized in the consolidated income statement	11	(4,125)	(6,055)
Impairment of available-for-sale investments recognized in the consolidated income statement	11	3,549	3,096
Foreign currency translation		234	323
Total other comprehensive income		(1,441)	(24,061)
Total comprehensive income for the year		35,076	11,679
Attributable to:			
Shareholder		34,750	10,876
Non-controlling interests		326	803
		35,076	11,679

The attached notes 1 to 42 form part of these consolidated financial statements

Palestine Investment Fund Company

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2012

(U.S $ 000's)

	Attributable to Shareholder									
2012	Paid-in share capital	Shareholder's current account	Statutory reserve	Voluntary reserve	Foreign currency translation	Available-for-sale reserve	Retained Earnings	Total	Non-controlling interests	Total equity
At January 1, 2012	625,000	(20,000)	80,004	15,582	-	14,239	31,071	745,896	4,875	750,771
Profit for the year	-	-	-	-	-	-	36,191	36,191	326	36,517
Other comprehensive income	-	-	-	-	234	(1,675)	-	(1,441)	-	(1,441)
Total comprehensive income for the year	-	-	-	-	234	(1,675)	36,191	34,750	326	35,076
Shareholder's current account (Note 17)	-	(42,657)	-	-	-	-	-	(42,657)	-	(42,657)
Distributed dividends (Note 19)	-	20,000	-	-	-	-	(20,000)	-	(933)	(933)
Interim dividends (Note 19)	-	(30,000)	-	-	-	-	-	(30,000)	-	(30,000)
Transfers	-	-	3,619	3,619	-	-	(7,238)	-	-	-
Acquisition of non-controlling interest in a subsidiary (Note 20)	-	-	-	-	-	-	164	164	(3,064)	(2,900)
At December 31, 2012	625,000	(72,657)	83,623	19,201	234	12,564	40,188	708,153	1,204	709,357

	Attributable to Shareholder									
2011	Paid-in share capital	Shareholder's current account	Statutory reserve	Voluntary reserve	Foreign currency translation	Available-for-sale reserve	Retained Earnings	Total	Non-controlling interests	Total equity
At January 1, 2011 – before restatement	574,000	-	76,413	11,991	10,881	38,623	67,140	779,048	3,924	782,972
Restatement (Note 40)	-	-	97	97	-	-	778	972	-	972
At January 1, 2011 – restated	574,000	-	76,510	12,088	10,881	38,623	67,918	780,020	3,924	783,944
Profit for the year	-	-	-	-	-	-	34,937	34,937	803	35,740
Other comprehensive income	-	-	-	-	323	(24,384)	-	(24,061)	-	(24,061)
Total comprehensive income for the year	-	-	-	-	323	(24,384)	34,937	10,876	803	11,679
Paid-in share capital (Note 16)	51,000	-	-	-	-	-	(51,000)	-	-	-
Distributed dividends (Note 19)	-	-	-	-	-	-	(25,000)	(25,000)	-	(25,000)
Interim dividends (Note 19)	-	(20,000)	-	-	-	-	-	(20,000)	-	(20,000)
Transfers	-	-	3,494	3,494	(11,204)	-	4,216	-	-	-
Change in non-controlling interest	-	-	-	-	-	-	-	-	148	148
At December 31, 2011	625,000	(20,000)	80,004	15,582	-	14,239	31,071	745,896	4,875	750,771

The attached notes 1 to 42 form part of these consolidated financial statements

Palestine Investment Fund Company

Consolidated Statement of Cash Flows

For the Year Ended December 31, 2012

(U.S $ 000's)

	Notes	U.S. $ 000's 2012	2011 Restated (Note 40)
Operating activities			
Profit before tax		43,259	42,494
Adjustments:			
Net interest		(2,202)	(2,177)
Share of associates results of operations		7,015	9,695
Share of joint ventures result of operations		1,248	860
Change in fair value of investment properties		(10,344)	(4,192)
Gain from investment portfolio		(12,397)	(13,991)
Gain from sale of property, plant and equipment		-	(5,835)
Gain from sale and acquisition of associates		(11,919)	-
Assets impairment loss		743	6,277
Recovery of provision of doubtful receivables and advances		(981)	(860)
Other non cash items		6,314	(1,316)
		20,736	30,955
Working capital adjustments:			
(Increase) decrease in accounts receivable		(12,905)	28,412
(Increase) decrease in other current assets		(5,942)	8,049
Increase (decrease) in accounts payable		2,673	(1,236)
(Decrease) increase in provisions and other current liabilities		(6,775)	3,349
Income tax paid		(12,250)	(2,764)
Change in restricted cash		3,565	(5,269)
Change in term deposits maturing after three months		10,826	(17,514)
Net cash flows (used in) from operating activities		**(72)**	**43,982**
Investing activities			
Purchase of available-for-sale investments		(64,231)	(223,074)
Sale of available-for-sale investments		51,598	224,288
Purchase of held-to-maturity financial assets		(6,506)	-
Purchase of property, plant and equipment		(39,008)	(2,088)
Sale of property, plant and equipment		29	44,265
Investment properties		(4,902)	(4,504)
Joint ventures		(139)	-
Purchase of investment in associates		(8,003)	-
Sale of investment in associates		8,409	-
Projects in progress		(12,761)	(10,515)
Loans granted		(1,542)	(1,080)
Collections from granted loans		150	100
Dividends and interest received		14,143	13,714
Net cash flows (used in) from investing activities_		**(62,763)**	**41,106**
Financing activities			
Cash dividends paid		(30,000)	(45,000)
Payments of finance lease obligations		-	(27,421)
Proceeds from term loans		12,806	8,600
Acquisition of non-controlling interests		(2,900)	-
Dividends to non-controlling interests		(933)	-
Finance costs paid		(186)	(957)
Net cash flows used in financing activities		**(21,213)**	**(64,778)**
(Decrease) increase in cash and cash equivalents		**(84,048)**	**20,310**
Cash and cash equivalents, beginning of year		**146,099**	**125,789**
Foreign currency translations difference		**234**	**-**
Cash and cash equivalents, end of year	15	**62,285**	**146,099**

Notes to the Consolidated Financial Statements

December 31, 2012

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, 2012 were authorized for issuance in accordance with a resolution of the Board of Directors on April 29, 2013.

2. Consolidated financial statements

The consolidated financial statements are composed of the financial statements of PIF and its subsidiaries as of December 31, 2012. PIF's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

			Ownership %	
	Activity	Country of incorporation	2012	2011
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	100	90
Red Sea International Investment Company	Financial investment	Palestine	100	100
Khazaneh Financial Investments Company	Financial investment	Palestine	100	100
Dead 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 of PIF have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of PIF and its subsidiaries as of December 31, 2012.

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 as of December 31, 2012:

IAS 12 - Income Taxes – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. IAS 12 will be effective for annual periods beginning or after January 1, 2012.The adoption will not have an effect on the financial position or performance of PIF.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of PIF's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The adoption will not have an effect on the financial position or performance of PIF.

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. PIF intends to adopt these standards when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income

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. This amendment is effective for annual periods beginning on or after July 1, 2012

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation.

The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact PIF's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

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 the 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. This new standard is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. 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 PIF. This new standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC13 Jointlycontrolled Entities — Nonmonetary Contributions by Venturers. This new standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. A number of new disclosures are also required, but has no impact on PIF's financial position or performance. This new standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

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. This new standard is effective for annual periods beginning on or after January 1, 2013.

IAS 28 Investment in associates and Joint Ventures

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures. The revised standard is effective for annual periods beginning on or after January 1, 2013.

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 it, if applicable, at each financial year end.

Provision for income tax

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

Fair value of financial instruments

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

Impairment of goodwill

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

Provision for litigation

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

Investment properties

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

3.4 Summary of significant accounting policies

Revenue recognition

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

Real estate sale revenue

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

Sale of goods

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

Hotel services revenue

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

Interest income

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

Investment 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 Palestinian Income Tax Law (or in accordance with the applicable tax regulations where the entity operates and generates taxable income) and IAS 12, which requires recognising the 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 nontaxable income or nondeductible 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 initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement in the period in which they arise.

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, and projects in progress the deemed cost for subsequent accounting is the carrying value at the date of change in use.

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.

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

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 availableforsale 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.

Held-to-maturity financial assets

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which PIF has the intention and ability to hold-to-maturity.

Held-to-maturity financial investments are initially recognized at cost plus acquisition costs. Subsequently, such investments are re-measured at amortized cost, less any impairment losses, using the effective interest rate method.

Amortized cost is calculated taking into account any discount or premium on acquisition. Amortization is recognized in the consolidated income statement.

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.

Impairment of financial assets

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

- For assets carried at amortized cost: impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate;
- Equity investments classified as availableforsale: 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 availableforsale: 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 shortterm deposits with an original maturity of three months or less, net of restricted bank deposits and outstanding bank overdrafts.

Assets held for sale

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets are not depreciated once classified as held for sale.

Accounts payable and accrual

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

Loans and borrowings

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

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

Offsetting of financial instruments

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

Provisions

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

Leases

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

PIF as a lessee

Finance leases, which transfer to PIF substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the consolidated income statement.

Leased assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that PIF obtains ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

PIF as a lessor

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

Foreign currency translation

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

Transactions and balances

Transactions in foreign currencies are initially recorded by PIF's subsidiaries at their respective functional currency rates prevailing according to the Palestinian Monetary Authority 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 according to the Palestinian Monetary Authority. All differences are taken to the consolidated 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 according to the Palestinian Monetary Authority 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, 2012	9,155	23,934	24,558	3,427	3,143	64,217
Additions	-	239	37,615	986	168	39,008
Transferred from projects in progress	-	6,350	-	1,334	1,306	8,990
Disposals	-	(20)	(136)	(53)	(19)	(228)
At December 31, 2012	9,155	30,503	62,037	5,694	4,598	111,987
Accumulated depreciation						
At January 1, 2012	526	9,612	20,486	2,362	1,036	34,022
Depreciation charge for the year	-	794	4,778	444	207	6,223
Impairment loss (note 33)	-	743	-	-	-	743
Disposals	-	(20)	(117)	(51)	(11)	(199)
At December 31, 2012	526	11,129	25,147	2,755	1,232	40,789
Net carrying amount						
At December 31, 2012	8,629	19,374	36,890	2,939	3,366	71,198

- Property, plant and equipment include U.S. $ 22,977,000 of fully depreciated assets owned by PIF and its subsidiaries that are still operational as at 2012.
- Part of the depreciation expense in the amount of U.S. $ 4,833,000 was reclassified as operating expenses for 2012.
- During the year, a subsidiary purchased transportation means in the amount of U.S. $ 37,059,000 to be used in the company's operations.
- Property, plant and equipment include an amount of U.S. $ 3,554,000 of properties mortgaged to a local bank against credit facilities (note 21).

U.S. $ 000's

	Land	Buildings	Transportation means, equipment and spare parts	Computers and systems	Furniture and decoration	Total
Cost						
At January 1, 2011	9,084	18,697	76,118	3,903	3,834	111,636
Additions	-	5,386	664	503	398	6,951
Disposals	-	(136)	(52,224)	(1,333)	(1,119)	(54,812)
Foreign currency translation	71	(13)	-	354	30	442
At December 31, 2011	**9,155**	**23,934**	**24,558**	**3,427**	**3,143**	**64,217**
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 33)	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	**8,629**	**14,322**	**4,072**	**1,065**	**2,107**	**30,195**
At January 1, 2011	**9,084**	**14,720**	**48,285**	**1,102**	**2,144**	**75,335**

- 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 of December 31, 2011 and January 1, 2011, respectively.
- Part of the depreciation expense in the amount of U.S. $ 6,824,000 was reclassified as operating expenses for 2011.
- 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 to a local bank 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, the goodwill carried in the statement of financial position is as follows:

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Cement trade	25,244	25,244	25,244
Cement transportation	360	360	360
Tourism	917	917	901
	26,521	**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 five-year period. The pre-tax discount rate applied to cash flow projections is 14%, and cash flows beyond the five-year period are extrapolated using a 3% 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 five-year period. The pre-tax discount rate applied to cash flow projections is 17.3%, and cash flows beyond the five-year period are extrapolated using a 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%.

Key assumptions used in the calculation of the value in use

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

- Discount rate: Discount rate reflects management's estimate of the risks specific to each business segment. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates for each business segment, regard has been given to each segment's weighted average cost of capital using the Capital Asset Pricing Model to determine cost of equity and an estimated borrowing rate to determine cost of debt.

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

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

6. Investment properties

Following is the movement on investment properties:

	U.S. $ 000's	
	2012	2011
Balance, beginning of year – before restatement	108,632	97,677
Restatements (note 40)	-	1,053
Balance, beginning of the year – restated	108,632	98,730
Additions	4,902	5,710
Transferred to projects in progress	(1,842)	-
Change in fair value of investment properties	10,344	4,192
Balance, end of year	122,036	108,632
Transferred to assets held for sale	(58,162)	-
	63,874	**108,632**

Investment properties include land lots in Al-New'emeh near the city of Jericho with a total book value of U.S. $ 79 million as of December 31, 2011. 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. Subsequent to the date of the financial statements PIF returned part of these land lots to the Palestinian National Authority. For the purposes of preparation the consolidated financial statements of 2012 the returned land lots were classified as assets held for sale in the amount of U.S. $ 58,162,000.

PIF and its subsidiaries changed the accounting policy related to the investment properties, to be measured at fair value as of the date of the consolidated financial statements, which reflects more clearly PIF's financial position. The impact of the change of the accounting policy associated with the measurement of investment properties of fair value as of December 31, 2011 and January 1, 2011 is summarized in note 40.

Investment properties include land lots in the amount of U.S. $ 8.8 million mortgaged to local bank against loans and credit facilities granted to the Palestinian National Authority.

7. Projects in progress

	U.S. $ 000's	
	2012	2011
Balance, beginning of year	63,933	58,281
Additions	18,341	25,553
Transferred from investment properties	1,842	-
Land sold out from projects in progress	(8,743)	(15,038)
Transferred to property, plant and equipment	(8,990)	(4,863)
Other	(117)	-
Balance, end of year	**66,266**	**63,933**

Following are details of the projects in progress:

		U.S. $ 000's	
	2012	2011	As at January 1, 2011
Al Reehan Project	28,931	28,255	19,214
Ersal Center Project	17,865	16,105	27,029
Amaar tower project	9,411	4,579	-
Al Jenan Project	5,934	5,967	2,228
Tourism projects	3,780	3,884	8,841
Grand park development project	-	4,770	718
Other projects	345	373	251
	66,266	**63,933**	**58,281**

Projects in progress include land lots with a carrying value of U.S. $ 8,607,000 mortgaged against long-term loans (note 21). Costs to complete the projects are estimated at U.S. $ 82 million and expected to be completed within 1 to 5 years.

8. Investments in associates

This item represents investments in associates operating in Palestine:

	Ownership			Carrying Amount		
	2012	2011	As at January 1, 2011	2012	2011	As at January 1, 2011
	%	%	%	U.S. $ 000's		
Palestine Tourism Investment Company	28.25	25.72	25.72	6,503	6,431	6,557
Wataniya Palestine Mobile Telecommunications Company	34.03	36.55	36.55	38,348	49,897	59,466
Palestinian Islamic Bank	34.18	17.99	12.75	17,824	-	-
Arab Palestinian Investment Company (APIC)	20.20	18.32	18.32	12,123	-	-
Jericho Company for Development, Management and Operating the Agricultural Industrial zone	30	-	-	101	-	-
				74,899	56,328	66,023

- The fair value of PIF investment in Wataniya Palestine Mobile Telecommunication Company and the Palestinian Islamic Bank which are listed in Palestine Exchange amounted to U.S. $ 127,944,000 as of December 31, 2012.

PIF investment in Wataniya Palestine Mobile Telecommunication Company includes 77,658,000 shares with a total fair value of U.S. $ 98,626,000 mortgaged against a syndicated loan granted from banks to Wataniya Palestine Mobile Telecommunication Company.

During the year, PIF sold part of its shares in Wataniya Palestine Mobile Telecommunication Company in the amount of U.S. $ 8,455,000, which resulted in a gain of U.S. $ 5,554,000 recognized in the consolidated income statement.

- During 2012, Amaar Company (subsidiary) invested an amount of U.S. $ 125,000 in a newly established associate “Jericho Company for Development, Management and Operating the Agricultural Industrial Zone”, with a total subscribed capital of U.S. $ 1,000,000.

- During 2012, Aswaq for Investment Portfolios Company (subsidiary) gradually acquired additional shares in the Palestinian Islamic Bank (the bank) which increased its ownership in the bank’s capital as of December 31, 2012 to 34.18%. The company re-evaluated its previously owed equity in the bank as of the date of changing the investment to investment in an associate and recognized an amount of U.S. $ 2,069,000 as a gain in the consolidated income statement. Additionally, during the year PIF acquired additional shares in the Arab Palestinian Investment Company (APIC) which increased its ownership in APIC’s capital to 20.20 %. PIF re-evaluated its previously owed equity in APIC as of the date of changing the investment to investment in an associate and recognized an amount of U.S. $ 4,296,000 as a gain in the consolidated income statement. The total gain from acquisition of significant influence in associate companies amounted to U.S. $ 6,365,000.

- PIF’s investment in the Palestinian Islamic Bank includes shares with a total fair value of U.S. $ 11,589,000 mortgaged to a local bank against loans and credit facilities granted to the Palestinian National Authority.

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

U.S. $ 000's

	2012	2011	As at January 1, 2011
Non-current assets	134,740	97,207	98,294
Current assets	161,958	17,565	40,153
Non-current Liabilities	(67,138)	(42,400)	(47,903)
Current liabilities	(148,968)	(16,044)	(24,521)
PIF's share of associates' results of operations			
Revenues	39,642	28,654	15,234
Results of operations	**(7,015)**	**(9,695)**	**(14,396)**

9. Joint ventures

U.S. $ 000's

	2012	2011	As at January 1, 2011
Convention Palace Company	5,664	6,773	7,633
	5,664	**6,773**	**7,633**

U.S. $ 000's

	2012	2011	As at January 1, 2011
Following is PIF's share in the joint ventures' assets and liabilities:			
Non-current assets	7,853	8,080	9,913
Current assets	310	75	1,616
Non-current liabilities	(1,041)	(508)	(1,563)
Current liabilities	(1,458)	(874)	(2,333)
PIF's share of joint ventures results of operations:			
Revenues	203	232	475
Results of operations	**(1,248)**	**(860)**	**(862)**

10. Held-to-maturity financial assets

U.S. $ 000's

	2012	2011	As of January 1, 2011
Bonds quoted in regional markets	2,606	-	-
Unquoted local bonds	3,900	-	-
	6,506	-	-

Average interest rates on held to maturity investment ranges between 2.5% to 5.5% and there maturity dates range between 5 to 7 years.

11. Available-for-Sale investments

U.S. $ 000's

	2012	2011	As at January 1, 2011
Quoted shares	166,689	192,232	190,816
Quoted portfolios	53,551	25,270	45,561
Quoted bonds	5,405	5,314	973
Unquoted shares *	9,146	14,514	14,416
	234,791	**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.

Financial assets available for sale includes shares with a total fair value of U.S. $ 19,611,000 mortgaged to a local bank against loans and credit facilities granted to the Palestinian National Authority.

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

U.S. $ 000's

	2012	2011	As at January 1, 2011
Balance, beginning of year	14,239	38,623	44,260
Net change in fair value	(1,099)	(21,425)	4,945
Realized gains transferred to the consolidated income statement	(4,125)	(6,055)	(14,357)
Impairment loss recognized in the consolidated income statement	3,549	3,096	3,775
Balance, end of year	**12,564**	**14,239**	**38,623**

12. Other financial assets

	U.S. $ 000's		
	2012	2011	As of January 1, 2011
Prepayment on investment*	45,800	45,800	45,800
Loans granted**	5,859	4,656	3,224
	51,659	**50,456**	**49,024**

* 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.

** This item includes the following:

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Wataniya Palestine Mobile Telecommunications Company *	2,150	2,150	2,150
Latin Patriarchate Jerusalem	1,750	1,900	1,000
Palestine Development Fund	607	-	-
AlMashtal Company	406	-	-
Other	609	80	-
Accrued interest on loans	337	526	74
	5,859	**4,656**	**3,224**

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

Other granted loans bear interest rates from 1% to 5% and due within 1 to 10 years.

13. Accounts receivable

U.S. $ 000's

	2012	2011	As at January 1, 2011
Aviation receivable*	-	30,444	15,998
Cap Holding Company**	11,305	11,305	11,305
Trade receivables	16,908	10,475	7,176
Checks under collection	8,389	5,866	10,704
First Trading Center	1,100	1,100	1,100
Due from Ministry of Finance*	-	3,964	-
Orascom Telecommunications Holdings	-	-	45,000
Other	1,698	2,390	2,771
	39,400	65,544	94,054
Provision for doubtful accounts	(13,633)	(12,819)	(14,012)
	25,767	**52,725**	**80,042**

* PIF's Board of Directors decided to settle the amount due from the Ministry of Finance through offsetting tax obligations and part of the dividends distributions. The remaining amount of U.S. $ 39,443,000 is classified in the shareholder's current account (note 17).

** This item represents accounts receivable from Cap Holding Company which is fully provided for.

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

U.S. $ 000's

	2012	2011
Balance, beginning of year	12,819	14,012
Additions	807	154
Recoveries	(26)	(1,132)
Written off	-	(98)
Foreign currency translation	33	(117)
Balance, end of year	**13,633**	**12,819**

Nominal value of doubtful accounts receivable which are fully provided for, as of December 31, 2012 and 2011 and January 1, 2011 amounted to U.S. $ U.S. $ 13,633,000 and U.S. $ 12,819,000 and U.S. $ 14,012,000, respectively. As of December 31, 2012 and 2011 and January 1, 2011, the aging analysis of the unimpaired accounts receivables is as follows:

U.S. $ 000's

	Total	Neither past due nor impaired	Past due but not impaired		
			< 90 days	91-180 days	> 181 days
2012	25,717	8,674	6,756	5,738	4,549
2011	52,725	6,571	6,743	18,648	20,763
As at January 1, 2011	**80,042**	**13,167**	**64,140**	**1,278**	**1,457**

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

14. Other current assets

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Due from brokers	7,315	7,750	19,054
Value added tax	7,334	6,146	3,975
Arab Fund for Economic and Social Development*	3,609	3,693	-
Advances to suppliers	6,059	3,042	4,488
Cash margins	2,964	2,970	5,486
Employees' receivables	516	533	489
Accrued interest	309	382	258
Prepaid expenses	214	226	168
Others	1,075	808	359
	29,395	25,550	34,277
Provision for uncollectible current assets	(2,595)	(4,605)	(4,653)
	26,800	**20,945**	**29,624**

* During 2011 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 2011 the first payment of KD 450,000 (equivalent to U.S. $ 1,508,000) was received. During 2012 the project implementation was started and an amount of U.S. $ 219,000 was recognized as revenues released from restricted contributions.

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

	U.S. $ 000's	
	2012	2011
Balance, beginning of year	4,605	4,653
Additions	-	118
Recoveries	(1,762)	-
Written off	(262)	-
Foreign currency translation	14	(166)
Balance, end of year	**2,595**	**4,605**

15. Cash and deposits at banks

	U.S. $ 000's		
	2012	2011	As of January 1, 2011
Cash in hand and current accounts at banks	22,481	21,193	23,428
Term deposits at banks	48,196	147,689	102,361
	70,677	**168,882**	**125,789**

The average interest rate during 2012 and 2011 was 1.39% and 1.17% on U.S. Dollar deposits, 4.33% and 3.42% on Jordanian Dinar deposits and 0.51% and 1.25% on Euro deposits respectively.

Cash and deposits at banks include restricted cash of U.S. $ 1,704,000 as of December 31, 2012 as a security against certain facilities and U.S. $ 5,269,000 as of December 31, 2011.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following at December 31, 2012 and 2011 and January 1, 2011:

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Cash on hand and current accounts at banks	22,481	21,193	23,428
Term deposits at banks	48,196	147,689	102,361
	70,677	168,882	125,789
Deposits maturing after 3 months	(6,688)	(17,514)	-
Restricted cash	(1,704)	(5,269)	-
	62,285	**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. Shareholder's current account

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Interim dividends (note 19)	30,000	20,000	-
Aviation receivable (note 13)	39,443	-	-
Other	3,214	-	-
	72,657	**20,000**	-

18. Reserves

Statutory Reserve

Statutory reserve represents accumulation of profits transferred at 10% of annual net profit in accordance with the Companies' Law. This 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.

19. Paid and proposed dividends

The General Assembly approved in its meeting held on May 9, 2012, the declaration of U.S. $ 20 million interim dividends based on Board of Director's decision dated September 11, 2011.

The Board of Directors decided in its meeting held on July 8, 2012, to distribute U.S. $ 30 million as interim dividends to be approved in the next meeting of the General Assembly. Also, the Board of Directors will propose to the General Assembly in its annual meeting to be held during 2013 the approval of an additional cash dividend of U.S. $ 10 million to the shareholder to be deducted from the shareholder's current account. Thus, total proposed dividends will be U.S. $ 40 million.

During 2012, Bulk Express Company and Arduna for Real Estate Development (subsidiaries) distributed cash dividends, non-controlling interest share of these distributions amounted to U.S. $ 933,000.

The General Assembly decided on May 16, 2011 to distribute cash dividends of U.S. $ 25 million. The General Assembly also decided to increase the capital to U.S. $ 625 million through capitalization of U.S. $ 51 million from retained earnings.

20. Acquisition of non-controlling interest in a subsidiary

On April 21, 2012 Amaar (a subsidiary) acquired additional 10% of the shares of Arduna for Real Estate Development Company (a subsidiary) for an amount of U.S.$ 2,900,000 increasing its ownership percentage to 100%. As a result a gain of U.S.$ 164,000 has been recognised directly in equity.

21. Long- term loans

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Long-term loans	21,406	8,600	-
Current portion of long-term loans	(350)	-	-
	21,056	**8,600**	-

During 2012 and 2011 some of PIF's subsidiaries signed long-term loan agreements with local and regional banks to finance these companies' operations. Total loans agreements are U.S. $ 32,650,000 and bear interest rate between 1.75% to 3.5% in addition to three to six months LIBOR with a ceiling of 7%. The loans are to be settled within a period between 2 to 12 years. The utilized loan balances as of December 31, 2012 and 2011 amounted to U.S. $ 21,406,000 and U.S. $ 8,600,000 respectively. The loans were granted with the mortgage of part of these companies' properties (note 4 and 7).

The maturities of interestbearing loans and borrowings are as follows:

	U.S. $ 000's
2013	350
2014	1,683
2015	2,192
2016	2,601
2017	2,601
Thereafter	11,979
	21,406

22. Deferred tax liabilities

Movement on deferred tax liabilities resulting from re-evaluating investment properties at fair value was as follows:

	U.S. $ 000's	
	2012	2011
Balance, beginning of year – before restatement	919	-
Restatement (note 40)	-	81
Balance, beginning of year – restated	919	81
Additions	1,496	838
Balance, end of year	**2,415**	**919**

23. Accounts payable

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Trade payables	13,676	11,780	12,788
Apartments sales advances	9,756	9,506	6,089
Contractors payables	2,938	2,031	766
Brokerage firms payable	1,574	1,154	-
Other	114	914	6,978
	28,058	**25,385**	**26,621**

24. Provisions and other current liabilities

	U.S. $ 000's		
	2012	2011	As at January 1, 2011
Liabilities related to the development of the National Park *	4,000	6,000	9,000
Accrued expenses	2,499	6,259	3,572
Temporarily restricted contribution (note 14)	4,937	5,201	-
Provision for employees indemnity	3,787	4,265	4,093
Property improvement taxes	2,102	2,394	2,580
Employees' income tax payable	222	711	786
Postponed checks	134	181	25
Due to Palestinian National Authority	-	-	1,975
Other	2,169	1,614	1,245
	19,850	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. $ 11,000,000 .

25. Provision for income tax

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

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

	U.S. $ 000's	
	2012	2011
Balance, beginning of year	10,420	7,409
Additions during the year	6,758	5,916
Recovered during the year*	(1,512)	-
Advances paid during the year	(14,012)	(2,764)
Currency variance	44	(141)
Balance, end of year	**1,698**	**10,420**

* During the year, PIF and some of its subsidiaries reached final settlements with the Income Tax Department for its taxable income up to December 31, 2011. These settlements resulted in a net recovery of an amount of U.S. $ 1,512,000 recognized in the consolidated income statement.

Taxes shown in the consolidated income statement represent the following:

	U.S. $ 000's	
	2012	2011
Additions during the year	6,758	5,916
Recovered during the year	(1,512)	-
Deferred tax liabilities	1,496	838
	6,742	**6,754**

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	
	2012	2011
Accounting profit before income tax	43,143	38,949
Non-taxable income	(20,860)	(22,191)
Non-deductible expenses	11,507	22,682
Taxable income	33,790	39,440
Tax expense at statutory income tax rate	6,758	5,916
Effective income tax rate	**15.66%**	**15.19%**

26. Operating income

	U.S. $ 000's			
	2012			
	Operating revenues	Cost of goods sold	Operating expenses	Operating Income
Lease of transportation means	9,347	-	(9,144)	203
Cement trading	125,417	(97,247)	(3,350)	24,820
Real estate	13,787	(8,743)	-	5,044
Tourism	1,659	(759)	(1,159)	(259)
Media	1,446	(1,813)	-	(367)
	151,656	**(108,562)**	**(13,653)**	**29,441**

	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**

27. Gain from investment portfolio

U.S. $ 000's

	2012	2011
Gain from sale of available-for-sale investments	4,125	6,055
Dividends income	11,341	10,813
Impairment of available-for-sale investments	(3,549)	(3,096)
Interest on bonds	480	219
	12,397	13,991

28. Interest revenues

U.S. $ 000's

	2012	2011
Interest on deposits with banks	2,225	2,657
Interest on granted loans	163	477
	2,388	3,134

29. Investment expenses

U.S. $ 000's

	2012	2011
Employees salaries, wages and benefits	1,698	1,467
Professional fees	1,706	1,608
Travel and transportation	166	237
Other	241	108
	3,811	3,420

30. Gain from sale and acquisition of associate companies

U.S. $ 000's

	2012	2011
Gain from sale of investments in associates (note 8)	5,554	-
Gain from acquisition of associates (note 8)	6,365	-
	11,919	-

31. Other revenues

	U.S. $ 000's	
	2012	2011
Assets recovery *	2,964	13,888
Other	1,837	3,723
	4,801	17,611

* During 2012, PIF reached a final settlement to recover part of its assets located in the United States of America. The settlement resulted in a gain of U.S. $ 2,964,000 recognized in the consolidated income statement.

32. General and administrative expenses

	U.S. $ 000's	
	2012	2011
Employees salaries, wages and benefits	9,249	8,949
Professional fees	1,132	958
Marketing	532	491
Travel and transportation	340	437
Rents	446	404
Telephones and courier	278	198
Fees and subscriptions	244	153
Maintenance	191	148
Insurance	184	137
Printings and stationery	68	102
Board of Directors compensations	167	100
Hospitality	79	70
Others	498	1,227
	13,408	13,374

33. Assets impairment loss

	U.S. $ 000's	
	2012	2011
Impairment loss on PIF assets in Gaza *		
Property, plant and equipment	743	4,409
Other assets	-	678
Impairment of property, plant and equipment	-	1,190
	743	6,277

* During the years of 2012 and 2011, PIF recognized impairment losses amounted to U.S. $ 743,000 and U.S. $ 5,087,000 respectively, as a result of the loss of control on these assets in the Gaza Strip.

34. Recovery of provision for doubtful accounts and advances

U.S. $ 000's

	2012	2011
Recovery of provision for uncollectible current assets (note 14)	1,762	-
Recovery for doubtful accounts (note 13)	26	1,132
Provision for accounts and other receivable	(807)	(272)
	981	**860**

35. 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, 2012 and 2011 and January 1, 2011:

U.S. $ 000's

	Carrying amount			Fair value		
	2012	2011	As at January 1, 2011	2012	2011	As at January 1, 2011
Financial assets						
Loans granted	5,859	4,656	3,224	5,859	4,656	3,224
Available-for-sale investments:						
quoted	225,645	222,816	237,350	225,645	222,816	237,350
unquoted	9,146	14,514	14,416	9,146	14,514	14,416
Held-to-maturity financial assets:						
quoted bonds	2,606	-	-	2,634	-	-
unquoted bonds	3,900			3,900		
Accounts receivable	25,767	52,725	80,042	25,767	52,725	80,042
Other financial assets	26,499	20,569	27,860	26,499	20,569	27,860
Cash and deposits at banks	70,677	168,882	125,789	70,677	168,882	125,789
	370,099	**484,162**	**488,681**	**370,127**	**484,162**	**488,681**
Financial liabilities						
Finance lease obligation	-	-	27,421	-	-	27,421
Accounts payable	18,302	15,879	20,532	18,302	15,879	20,532
Loans	21,406	8,600	-	21,406	8,600	-
Other current liabilities	11,126	17,159	19,183	11,126	17,159	19,183
	50,834	**41,638**	**67,136**	**50,834**	**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, 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, 2012 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.
- The fair values of unquoted available-for-sale investments were determined using appropriate valuation techniques.
- The fair values of quoted bonds are based on price quotations at the reporting date.
- The fair values of unquoted bonds were determined using appropriate valuation techniques.

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 Levels 1 and 3 to determine and disclose the fair value of its quoted available-for-sale investments and held-to-maturity financial assets. Level 2 was not used.

36. 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	
	2012	2011
Shareholder's current account	72,657	-
Aviation receivables	-	30,444
Loans granted to associates	2,482	2,351
Account receivable from a joint venture	-	2,032
Due from Palestinian National Authority	-	3,964

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

	U.S. $ 000's	
	2012	2011
Leasing of transportation means to the shareholder	8,999	14,446
Interest revenue on loans to associates and sister companies	131	131

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

	U.S. $ 000's	
	2012	2011
Board of Directors compensations	167	100
Key management share of salaries and related benefits	2,565	4,582
Key management share of end of service indemnity	156	372

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 associate company is mortgaged against that loan. PIF is also considered as grantor for some loans granted to the Palestinian National Authority through mortgaging some of its assets for a local bank.

37. Risk management

PIF's financial liabilities comprise loans, accounts payable and some other financial liabilities. The main purpose of these financial liabilities is to raise finance for PIF's operations. PIF has various financial assets such as 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, 2012 and 2011 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, 2012. The effect of decreases in interest rate is expected to be equal and opposite to the effect of the increases shown below:

2012	Increase in interest Rate	Effect on profit for the year
	(basis points)	U.S. $ 000's
U.S. Dollar	+10	9
Jordanian Dinar	+10	15
Other currencies	+10	14

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

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:

2012	Increase in currency rate to U.S. $	Effect on profit before tax	Effect on equity
	%	U.S. $ 000's	
Israeli Shekel	+10	(876)	-
European Monetary Unit (EURO)	+10	(61)	-
Other currency	+10	(595)	-

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)	-

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:

2012	Change in equity price	Effect on equity
	(%)	U.S. $ 000's
Shares listed in Palestine Securities Exchange	+10	13,534
Shares listed in Amman Stock Exchange	+10	6
Shares listed in other markets	+10	9,025
Shares not listed	+5	457

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

Credit risk

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

PIF is currently managing its credit risks by setting credit limits for customers and continuously monitoring the accounts receivable in coordination with legal consultants. The maximum exposure of the loans and accounts receivable to the credit risk is the carrying amount of the loans granted and accounts receivable explained in notes (12) and (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, 2012 and December 31, 2011, 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 31,2012					
Long-term loans	-	357	11,956	13,177	25,490
Accounts payable	18,302	-	-	-	18,302
Provisions and other financial liabilities	5,754	5,372	-	-	11,126
	24,056	5,729	11,956	13,177	54,918
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

38. 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. No changes were made in the objectives, policies or processes during 2012.

Capital includes paid-in share capital, advances on capital increase, retained earnings, shareholder's current account, statutory and special reserve, available-for-sale reserve and non controlling interest totalling of U.S. $ 709,357,000 and U.S. $ 750,771,000 as of December 31, 2012 and December 31, 2011, respectively.

39. 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, media, 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, 2012:

U.S. $ 000's

	Investment sector	Cement operations	Real Estate Investment	Tourism	Media	Eliminations	Total
Revenues							
External revenues	9,347	125,417	13,787	1,659	1,446	-	151,656
Intersegment	-	-	-	-	-	-	-
Total revenues	9,347	125,417	13,787	1,659	1,446	-	151,656
Profit (loss) for the year	14,497	21,555	8,503	(984)	(89)	(223)	43,259
Other information							
Depreciation of property, plant and equipment	4,729	633	615	211	35	-	6,223
Impairment loss	-	743	-	-	-	-	743
Capital expenditure	37,494	417	20,513	571	207	-	59,202
Investments in associates	68,295	-	6,604	-	-	-	74,899
Share of associates results of operations	(6,991)	-	(24)	-	-	-	(7,015)
Share of joint ventures results of operations	(1,248)	-	-	-	-	-	(1,248)

The following table presents segments› assets and liabilities as of December 31, 2012:

Assets and liabilities							
Operating assets	713,109	46,453	155,878	15,484	1,648	(149,788)	782,784
Operating liabilities	39,615	11,492	33,633	10,114	941	(22,368)	73,427

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:

U.S. $ 000's

	Investment sector	Cement operations	Real Estate Investment	Tourism	Media	Eliminations	Total
Revenues							
External revenues	17,654	141,491	19,944	749	2,055	-	181,893
Intersegment	-	-	-	-	-	-	-
Total revenues	**17,654**	**141,491**	**19,944**	**749**	**2,055**	**-**	**181,893**
Profit (loss) for the year	12,338	24,688	5,334	(1,839)	350	1,623	42,494
Other information							
Depreciation of property, plant and equipment	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
Investments in associates	49,897	-	6,431	-	-	-	56,328
Share of associates results of operations	(9,695)	-	-	-	-	-	(9,695)
Share of joint ventures results of operations	(860)	-	-	-	-	-	(860)

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	770,181	63,890	138,807	21,786	1,637	(173,581)	822,720
Operating liabilities	37,133	18,653	26,727	5,531	841	(16,936)	71,949

40. Comparative figures

PIF changed the accounting policy related to the investment properties to be measured at fair value as of the date of the consolidated financial statements, which better reflects PIF's financial position. According to the fair value method gains and losses resulting from change in investment properties' fair value are recognized in the consolidated income statement as of the period of the change.

Change of the accounting policy requires a retroactive restatement of the investment properties value carried in the statement of financial position, in addition to recognizing the change in fair value of the investment property and its related deferred tax liabilities in the income statement of the current year and the previous years.

Following is the impact of the restatements on the statement of financial position as of January 1, 2011:

	U.S. $ 000's		
	Before restatement	Restatement	After restatement
Investment properties	97,677	1,053	98,730
Deferred tax liabilities	-	81	81
Retained earnings	67,140	778	67,918
Statutory reserve	76,413	97	76,510
Voluntary reserve	11,991	97	12,088

Following is the impact of the restatements on the statement of financial position as of December 31, 2011:

	U.S. $ 000's		
	Before restatement	Restatement	After restatement
Investment properties	105,087	3,545	108,632
Deferred tax liabilities	81	838	919
Retained earnings	28,906	2,165	31,071
Statutory reserve	79,733	271	80,004
Voluntary reserve	15,311	271	15,582

Following is the impact of the restatements on the profit for the year ended December 31, 2011:

	U.S. $ 000's		
	Before restatement	Restatement	After restatement
Profit for the year	33,033	2,707	35,740
Attributable to:			
Shareholder	32,230	2,707	34,937
Non-controlling interests	803	-	803

41. Commitments

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, 2012, total loans granted under this agreement by local banks amounted to U.S. $ 24.85 million. PIF's share of the total guarantee provided against these loans was U.S. $ 5.44 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.

42. 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.